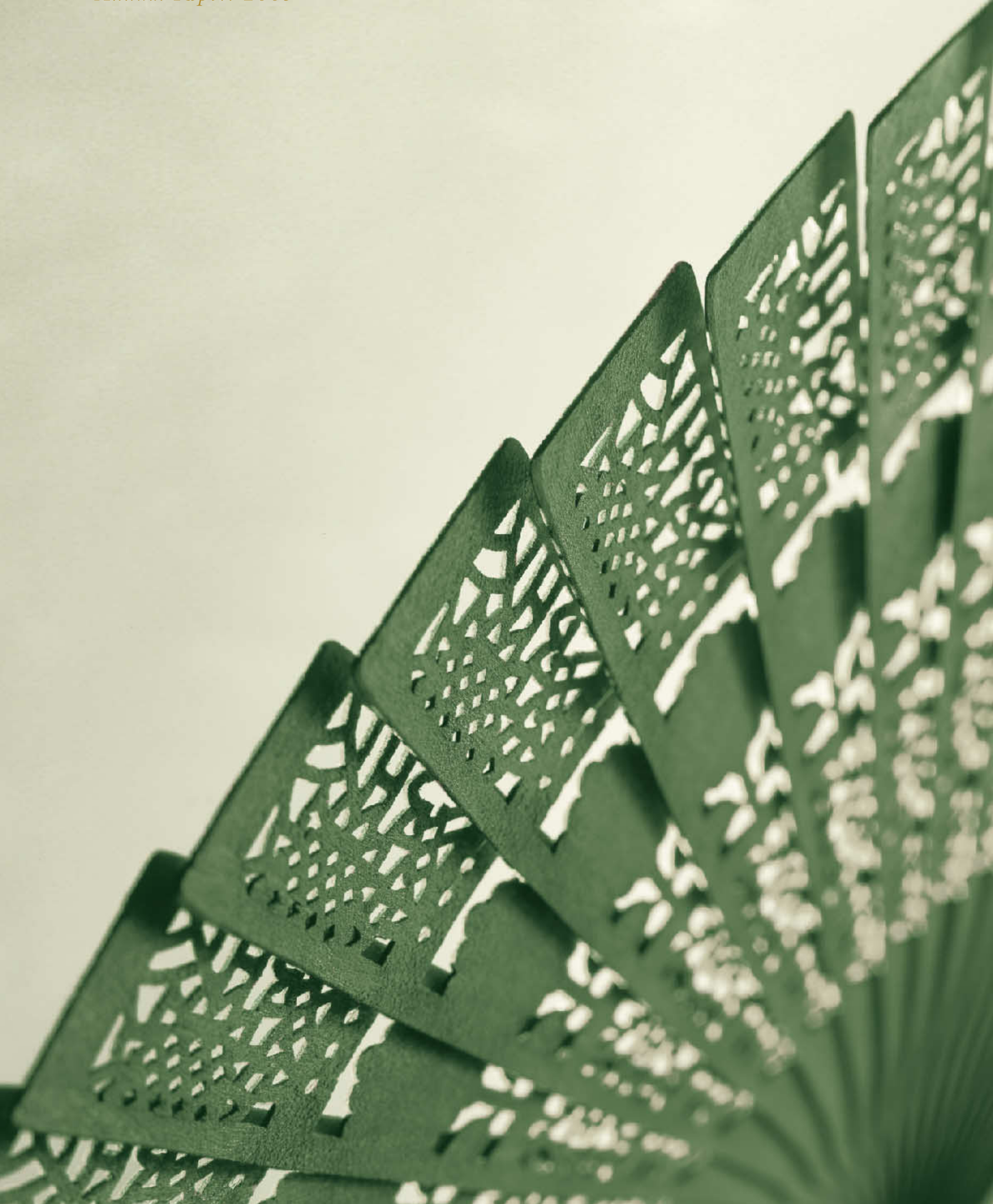
Mandarin Oriental International Limited

Annual Report 2005



MANDARIN ORIENTAL HOTEL GROUP is an international hotel investment and management group operating 29 deluxe and first class hotels and resorts worldwide including eight under development in Prague, Hainan Island, China, Riviera Maya, Mexico, Boston, Grand Cayman, Chicago, Las Vegas and Macau. The Group has equity interests in many of its properties and net assets of approximately US$1.4 billion at 31st December 2005. Mandarin Oriental now operates, or has under development, approximately 8,500 rooms in 17 countries with 14 hotels in Asia, 11 in The Americas and four in Europe. The growth strategy of the Group is to progress towards operating 10,000 rooms in major business centres and key leisure destinations around the world.

Mandarin Oriental's aim is to be recognized as one of the best global luxury hotel groups, providing exceptional customer satisfaction in each of its hotels. This will be achieved through a strategy of investing in facilities and people, while maximizing profitability and long-term shareholder value. The Group regularly receives recognition and awards for outstanding service and quality management.

The parent company, Mandarin Oriental International Limited, is incorporated in Bermuda and has its primary listing in London, and further 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

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Simon Keswick *Chairman*
A J L Nightingale *Managing Director*
Edouard Ettedgui *Group Chief Executive*
Jonathan Gould
Julian Hui
Henry Keswick
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Mandarin Oriental Hotel Group International Limited

Directors

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N Clayton
Jonathan Gould
M H Hobson
W Hültner
James Riley
T L Stinson
John R Witt *Finance Director*

Corporate Secretary

N M McNamara

MANDARIN ORIENTAL INTERNATIONAL LIMITED

- Increasing room rates drive earnings growth
- Gains from sale of ownership
  - Hawaii hotel in 2005
  - The Mark, New York in 2006
- Eight new hotels under development

Results

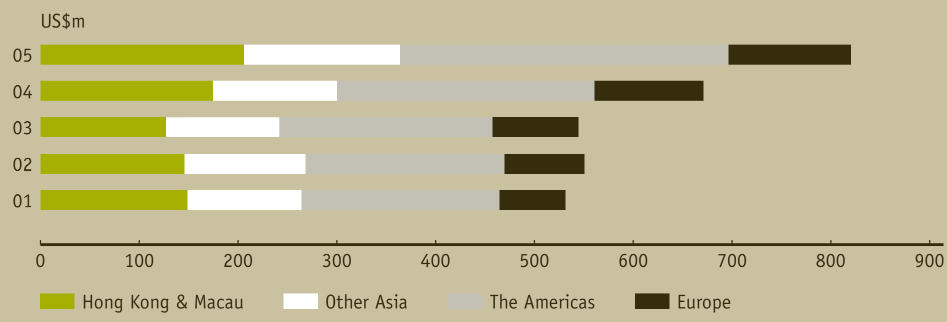
	2005 US$m	Restated 2004 US$m	Change %
Combined total revenue of hotels under management	**815.4**	667.3	22
Earnings before interest, tax, depreciation and amortization[1]	**124.0**	99.0	25
Profit attributable to shareholders – excluding gain on Hawaii disposal	**41.1**	28.5	44
Profit attributable to shareholders	**77.2**	28.5	171
Funds from operations[2]	**90.4**	40.6	123
	US¢	US¢	%
Earnings per share – excluding gain on Hawaii disposal	**4.33**	3.35	29
Earnings per share	**8.14**	3.35	143
Funds from operations per share[2]	**9.53**	4.77	100
Dividend per share	**1.50**	1.00	50
	US$	US$	%
Net asset value per share	**0.87**	0.80	9
Net asset value per share with leasehold properties at valuation[3]	**1.50**	1.37	9

[1] EBITDA does not include gains on disposal and the impact of property revaluations.

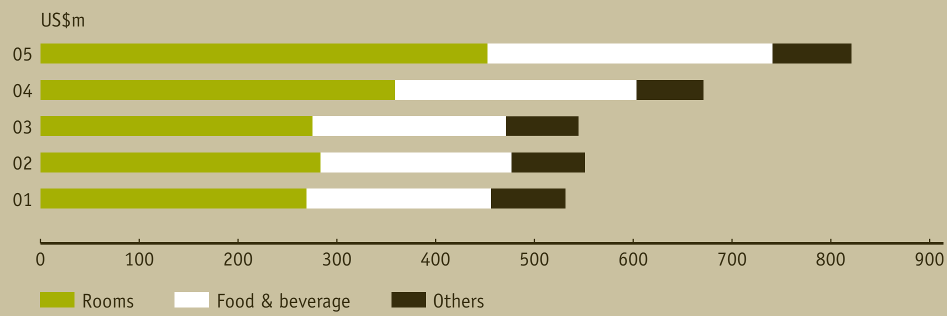
[2] Funds from operations ('FFO') figures have been presented to provide additional information to investors to facilitate comparison with other hotel companies with substantial real estate interests. FFO is defined as profit attributable to shareholders excluding depreciation of hotel buildings, net of relevant deferred tax and minority interests.

[3] The net asset value per share with leasehold properties at valuation has been presented after adjusting for the market value of the Group's leasehold interests. International Financial Reporting Standards ('IFRS') do not permit leasehold interests of owner-occupied land to be carried at valuation. The Group considers that the IFRS treatment does not reflect the economic substance of its underlying property investments. Therefore, the Group has presented the net asset value per share taking into account the fair market value of leasehold interests as supplementary financial information in addition to the net asset value per share in accordance with IFRS.

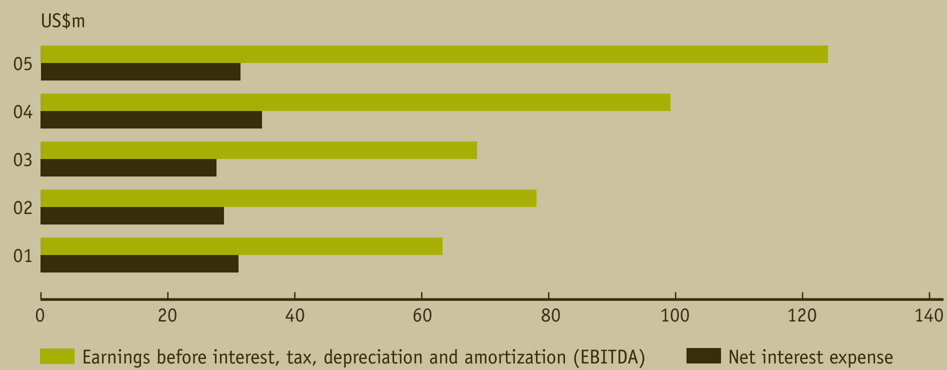
Combined total revenue by geographical area



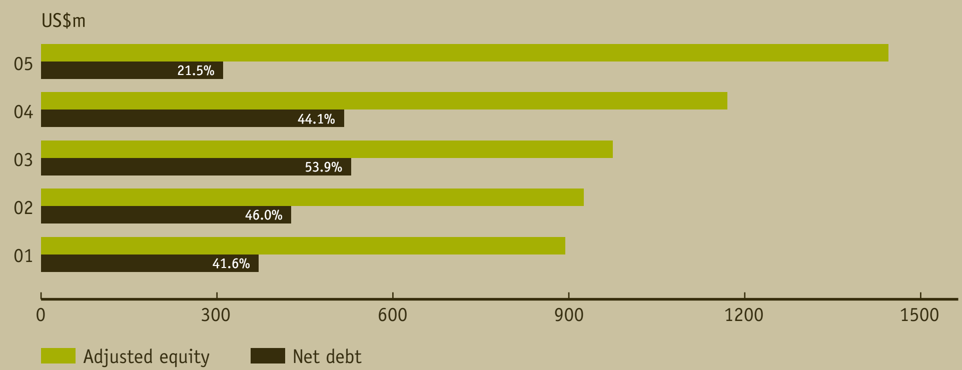
Combined total revenue by type of business



EBITDA and net interest expense



Net debt/ adjusted equity



OVERVIEW

Mandarin Oriental made good progress in its development strategy in 2005 with the opening of two additional hotels and the announcement of a number of new management contracts. Operationally, the Group's results benefited from increasing room rates as demand in many cities strengthened, particularly in Hong Kong.

PERFORMANCE

Earnings before interest, tax, depreciation and amortization for 2005 were US$124 million, after some US$11 million of pre-opening costs related to Tokyo, compared with US$99 million in 2004.

Profit attributable to shareholders in 2005 was US$77 million, including a post-tax gain of US$36 million arising from the disposal of the Group's property interest in Hawaii. Excluding the gain from this disposal, profit attributable to shareholders was US$41 million. This compares with US$29 million in the previous year, which had benefited from a US$10 million investment writeback.

Earnings per share for the year were US¢8.14 including the Hawaii gain. Excluding the gain, earnings were US¢4.33, compared with US¢3.35 in 2004.

The Group's net financing charges were reduced following the conversion of the Group's 6.75% convertible bonds into shares in the early part of the year. Net debt was also reduced significantly with the US$97 million proceeds from the Hawaii sale.

The Directors are recommending an increased dividend of US¢1.50 per share compared with US¢1.00 paid in 2004.

The net asset value per share, with leasehold land adjusted to fair market value, was US$1.50 at 31st December 2005, compared with US$1.37 at the prior year end.

GROUP REVIEW

Significant profit increases were achieved at the Group's wholly-owned Hong Kong hotels as they benefited from increasing demand and higher room rates. The Group's other subsidiary hotels also produced better results in the improved trading environment, including the recently opened property in Washington D.C., which continued to establish its market position. Operating results from associates and joint ventures rose with stronger performances at Mandarin Oriental, New York, and at the Group's hotels in Singapore, Macau and Miami.

The sale of the Group's 40% ownership interest in Kahala Mandarin Oriental, Hawaii was completed in June 2005, as a consequence of which the Group's management of the hotel has come to an end. The sale of The Mark hotel in New York was completed in February 2006, and a gain of some US$35 million arising from the disposal will be recognized in the results of 2006.

The international visibility of the Mandarin Oriental brand has been strengthened considerably in recent years with the opening of select properties in key destinations and the renovation of existing flagships.

DEVELOPMENTS

Progress continued on the Group's development strategy to operate at least 10,000 rooms in key city centre and resort destinations worldwide. The Group operates 21 hotels around the world with a further eight hotels under development, representing a total of some 8,500 rooms.

In December 2005, Mandarin Oriental, Tokyo opened and was well received in the market place. This followed the successful opening of the Group's new hotel at The Landmark in Hong Kong in August. In late 2005, the Group ceased to manage the Hotel Royal Monceau in Paris, but its developments in Prague and Riviera Maya, Mexico are due to open this year, with Boston following in 2007.

Four new management contracts were announced in 2005 for luxury hotels currently being developed in Chicago, Grand Cayman, Macau and Las Vegas. The Group has also recently announced that it will manage a luxury resort on Hainan Island in China opening later this year.

The Group's original flagship hotel, Mandarin Oriental, Hong Kong, closed at the end of December 2005 for a US$140 million renovation programme. The hotel will re-open all the public areas and 200 of the guestrooms in late August 2006, while the full complement of 503 rooms will be completed by year end.

PEOPLE

Mr Brian Keelan, who died unexpectedly in August 2005, contributed significantly to the Board during his tenure as a Director and is greatly missed.

The Group's performance and growth prospects depend on its employees. On behalf of the Board and shareholders, I would like to thank them for their dedication in providing service excellence to our guests.

OUTLOOK

Markets are expected to remain favourable in 2006 with room rates benefiting further from growing demand and limited new supply. While the temporary closure of Mandarin Oriental, Hong Kong will inevitably affect the Group's results, the effect will be partially offset by increasing contributions from new properties.

With its sound financial footing, significant hotel ownership interests and increasing brand awareness, Mandarin Oriental is well positioned to continue its successful expansion.

Simon Keswick
Chairman
23rd February 2006

PROGRESS ACHIEVED

Mandarin Oriental experienced a strong growth in earnings in 2005 as a result of improved room rates. The Group reached a level of profitability from operations last achieved in the mid 1990's, prior to the Asian economic downturn. Overall results were further enhanced by the contribution from the recently opened hotels in the Group's growing portfolio as well as the contribution from the sale of the Group's ownership interest in the Hawaii hotel. In February 2006, exceptional market conditions led to the Group's successful sale of The Mark, New York, the gain of which will be recognized in the 2006 results. Both of these transactions have significantly strengthened the Group's balance sheet.

Our expansion accelerated in 2005 and we are well on our way to achieving Mandarin Oriental's objective of operating 10,000 rooms in key global destinations. During the year, two new properties opened in Hong Kong and Tokyo, and four new management contracts were announced. In February 2006, we announced another management contract for a luxury resort on Hainan Island in China. The Group comprises a portfolio of 21 hotels in operation with eight hotels under development, giving a total of approximately 8,500 rooms around the globe.

PERFORMANCE IN 2005

Set out below is a review of the Group's performance in 2005, with reference to the following strategic objectives:

- Consolidating our position as one of the best global luxury hotel groups
- Improving our competitive position
- Increasing the number of rooms under operation to 10,000
- Investing in our brand
- Ensuring a strong cash flow and balance sheet

1) Consolidating our position as one of the best global luxury hotel groups

Mandarin Oriental is enjoying global recognition as one of the world's most sought-after luxury hotel groups. Our hotels and resorts are committed to providing our guests with delightful experiences in luxurious surroundings, enhanced by unique oriental characteristics. As a consequence, the Group has garnered an impressive array of awards from respected publications and associations, and has achieved widespread media coverage around the world.

Significantly, while individual hotels continue to be recognized amongst the world's favourites, Mandarin Oriental is increasingly being given recognition as a pre-eminent luxury brand. Amongst the many accolades, the New York based *Luxury Institute's 2006 Customer Experience Survey* positioned Mandarin Oriental as the number one luxury hotel group that delivers the 'Best Customer Experience'. Similarly, *Condé Nast Traveler, US* readers voted Mandarin Oriental the 'Best Business Hotel Group' in The Americas in their annual *Business Awards Survey* in October 2005 and eight Mandarin Oriental hotels were featured in the annual *Readers Choice Awards* in the November edition.

The Group's spas in London, Bangkok, New York, Miami and Washington D.C. were awarded 'Best Urban Hotel Spa' in their locations in *Spa Finder's Readers Choice Awards* in November, while The Oriental, Bangkok's spa was voted 'Top Overseas Hotel Spa' by readers of *Condé Nast Traveller, UK*. The same readers voted Mandarin Oriental, Miami as 'Best Overseas Leisure Hotel' in The Americas, and Mandarin Oriental Hyde Park London as 'Best Leisure Hotel' in the UK in the annual *Readers Travel Awards, October 2005*.

2) Improving our competitive position

As demand for luxury strengthened in most travel destinations, our hotels remained focussed on delivering to our guests the legendary service that sustains our strong competitive position. The year saw increases in revenue per available room (RevPAR) across all regions, excluding new hotels, with Asia up 21%, Europe up 7% and The Americas up 26% over the previous year. As a result, gross operating margins across the Group have improved significantly from 2004.

The highlights of each region are as follows:

Asia

Hong Kong led the region with strong demand resulting in a significant improvement in rate. Mandarin Oriental's occupancy, at 81%, remained at a similar level to 2004, however the hotel's average room rate climbed by 22% to US$256. Food and beverage revenues were also buoyant, in line with the increased occupancy and the strengthening local economy.

In late December 2005, Mandarin Oriental closed its doors to commence a US$140 million renovation designed to secure its position as one of the world's legendary hotels when it re-opens in late August 2006. Current average rates for luxury hotels in Hong Kong are still below the levels achieved in other major cities, and Mandarin Oriental should attain higher rates following renovation. In line with the importance the Group places upon personalized service, the vast majority of hotel staff will remain employed during the closure period and have been offered opportunities for training and personal development or seconded to work at sister companies within the Jardine Matheson Group in Hong Kong.

At The Excelsior, occupancy remained steady year-on-year at 88%, but the hotel achieved a 22% increase in the average room rate with sustained demand from all market segments. The Excelsior's food and beverage revenues were also up 10% above 2004 levels.

The Landmark Mandarin Oriental, which the Group operates under a management contract, opened to great acclaim in August and quickly established itself as an intimate, luxury lifestyle hotel achieving average rates in excess of US$400, a benchmark in the city. In less than six months after opening, the hotel was named 'City Hotel of the Year' in the *UK Tatler Travel Awards 2006* as well as 'Best New City Hotel' in *Andrew Harpers Hideaway Awards 2006*.

In Macau, the RevPAR increased by 22% with strong increases in the average room rate, offset by a decline in occupancy.

In Southeast Asia, hotel results showed slight improvement but the market remained soft, particularly in Jakarta and Manila. In Singapore, The Oriental completed its full-scale renovation in May and has been repositioned as one of the city's top hotels, with a subsequent 52% increase in rates over the previous year.

The Oriental, Bangkok remains one of the world's favourite legendary hotels and will celebrate its 130th anniversary this year. It continues to outperform the market, enjoying a strong financial performance and a commanding share of the high-end leisure business into Thailand.

In December, Mandarin Oriental opened its 179-room hotel in Tokyo, and, while pre-opening costs of US$11 million impacted the Group's results in 2005, the property has quickly established itself within the top hotels in the city, commanding an average room rate of over US$500.

Europe

In London, Mandarin Oriental Hyde Park continued to be one of the city's best performing luxury hotels with an average room rate of US$643, a 4% improvement in local currency terms compared with 2004. Despite the impact of the terrorist attacks in the summer, the market showed great resilience and occupancy at the hotel remained virtually unchanged from the previous year. Mandarin Oriental, Munich, as the leading hotel in the city, achieved a solid performance with a 7% improvement in the average room rate. In Geneva, Mandarin Oriental was ahead of its competitive set with the market showing some recovery leading to a 15% increase in RevPAR over 2004.

Mandarin Oriental no longer manages the Hotel Royal Monceau in Paris. The Group had intended to brand the property on completion of a full renovation which did not take place.

The Americas

Mandarin Oriental, Washington D.C., which opened in March 2004, performed well in its first full year of operation and is now well-established in the city. Occupancy was 60% compared with 44% in 2004 and the average room rate was US$290, up from US$249 in the previous year.

Mandarin Oriental, New York's strong performance had a positive impact on the Group's results. This award-winning property achieved an occupancy of 72% at an average room rate of US$695, giving an overall increase in RevPAR of 48% over the previous year.

The sale of The Mark hotel was completed in February 2006 for a gross consideration of US$150 million. The property, which was originally acquired in 2000 as part of the US$143 million acquisition of The Rafael Group, continues to be managed under a short-term management contract.

The Group's other US-based hotels performed well as a result of the general improvement in market conditions, with RevPAR increases of 19% in Miami and 15% in San Francisco. Following the sale of its ownership interest in Hawaii, Mandarin Oriental's management of the property has come to an end.

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

Mandarin Oriental is now well on its way to reaching its goal of operating at least 10,000 rooms in major cities and resort destinations around the world, with approximately 8,500 rooms currently in operation or under development. As a consequence of the strength of our brand worldwide, the Group has a significant pipeline of development opportunities under review and we remain confident of reaching our goal within the next few years.

Over the past 12 months, we have announced five management contracts for new Mandarin Oriental hotels in Chicago, Grand Cayman, Las Vegas, Macau and Hainan Island in China. This continued trend towards securing management contracts, which requires limited capital from the Group, is a clear indication of the growing strength of our brand. Noticeably, a number of these new projects will include a residential component: *The Residences at Mandarin Oriental*.

The following new properties are planned to open over the next four years:

2006

- Mandarin Oriental Riviera Maya, Mexico: a unique hideaway resort featuring 128 villas on the secluded Riviera Maya coastline, south of Cancun.
- Mandarin Oriental, Prague: a 98-room hotel located in the heart of this historic city in the Czech Republic.
- Mandarin Oriental, Sanya: an exclusive 292-room luxury resort on Hainan Island in the South China Sea.

2007

- Mandarin Oriental, Boston: a 149-room hotel which will be housed within a mixed-use complex in the heart of the city.

2008

- Mandarin Oriental, Grand Cayman: an intimate 114-room hideaway, set on an unspoiled 10-acre beachfront site.

2009

- Mandarin Oriental, Chicago: a 250-room hotel occupying the top 15 floors of a new 90-storey tower which will be an exclusive mixed-use development in Chicago's growing Millennium Park neighbourhood.
- Mandarin Oriental, Las Vegas: a 400-room hotel in the multi-billion dollar urban development 'Project CityCenter' created by MGM MIRAGE.
- Mandarin Oriental in Macau: a second property in Macau which will be part of a prestigious mixed-use complex on the waterfront, featuring 210 rooms.

While all of the above management contracts will provide an additional source of revenue for the Group, Mandarin Oriental intends to remain a significant owner of hotel assets, particularly in strategic city centre destinations. Such properties are often unique in their markets and provide the Group with an important source of capital appreciation over the long term. Ownership also gives us increased credibility with third party hotel developers, and ensures our long-term ability to shape our brand, creating legendary hotels that have the right mix of tradition, quality and innovation, under the umbrella of our oriental heritage.

4) Investing in our brand

The investment behind our brand over the past few years has led to the Group becoming highly respected as a management company amongst our guests and the owners of luxury hotel developments around the world.

Mandarin Oriental remains focused on delivering the brand attributes which define our own style of luxury. This includes our expertise in holistic spa operations, innovative dining experiences, guest-orientated technology and creative hotel design and architecture. Most importantly, our increasingly visible brand and strong company culture motivates our employees to excel in delighting our guests. Investing in our 10,000 colleagues around the world remains essential to our success.

Looking forward, our corporate resources provide us with a solid foundation on which to add further management opportunities.

5) Ensuring a strong cash flow and balance sheet

A strong cash flow and balance sheet remains fundamental to our success. In 2005, the Group returned to performance levels last achieved in the mid 1990's, with a profit from operations of US$52 million, excluding the one-off US$11 million pre-opening expenses in Tokyo.

As a result of the improved operating performance and the proceeds on sale of the Hawaii investment, cash flow grew to US$116 million before financing activities, which included US$24 million of funding, primarily in respect of the Tokyo and Boston projects. This compares with a cash flow of US$19 million before financing activities in 2004, which included US$30 million of investment in the Washington D.C. hotel.

In early 2005, the Group's US$75 million, 6.75% convertible bonds were converted to equity resulting in the issue of 113 million ordinary shares which further strengthened our balance sheet.

The Group's financial position is strong with gearing at 22% at 31st December 2005, down from 44% at the end of 2004 (based on adjusted shareholders' funds). Net debt has now been reduced by a further US$100 million, following completion of the sale of The Mark with an accounting gain of approximately US$35 million to be recognized in 2006.

THE FUTURE

In 2005, the Group performed well and the demand which drove these results should continue in all key segments of the luxury market, barring unforeseen events.

The closure of Mandarin Oriental, Hong Kong for eight months will impact earnings in the short term, but the renovation will significantly enhance its contribution to the Group's results.

Looking forward, the Group is in a strong position to continue building its brand equity and translating this into profitable growth opportunities. We are firmly on target to reach our ultimate goal of being recognized as the best global luxury hotel group.

Edouard Ettedgui
Group Chief Executive
23rd February 2006

OPERATING SUMMARY

The operating summary includes hotels in which the Group has a significant equity interest and which were operating throughout 2005.

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms*	**524**	541	(3)	Rooms	**44.1**	37.3	18
Average occupancy (%)	**81**	80	1	Food & beverage	**36.6**	35.6	3
Average room rate (US$)	**256**	209	22	Other	**10.1**	10.0	1
RevPAR (US$)	**207**	168	23	Total	**90.8**	82.9	10
				Average exchange rate/US$	*7.8*	*7.8*	

* excluding those used for renovation works

The Excelsior, Hong Kong 100% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**883**	883	–	Rooms	**42.2**	35.1	20
Average occupancy (%)	**88**	89	(1)	Food & beverage	**22.9**	20.9	10
Average room rate (US$)	**133**	109	22	Other	**3.8**	3.7	3
RevPAR (US$)	**117**	97	21	Total	**68.9**	59.7	15
				Average exchange rate/US$	*7.8*	*7.8*	

Mandarin Oriental, Manila 96.2% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**443**	443	–	Rooms	**8.6**	7.2	19
Average occupancy (%)	**78**	77	1	Food & beverage	**7.3**	7.3	–
Average room rate (US$)	**63**	53	19	Other	**1.2**	1.2	–
RevPAR (US$)	**49**	41	20	Total	**17.1**	15.7	9
				Average exchange rate/US$	*55.0*	*56.1*	

Mandarin Oriental, Jakarta 88.3% ownership (2004: 65.5%)

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**404**	404	–	Rooms	**4.4**	3.8	16
Average occupancy (%)	**46**	39	18	Food & beverage	**3.3**	3.4	(3)
Average room rate (US$)	**62**	65	(5)	Other	**0.6**	0.6	–
RevPAR (US$)	**29**	25	16	Total	**8.3**	7.8	6
				Average exchange rate/US$	*9,787*	*8,984*	

ASIA continued

Mandarin Oriental, Macau 50% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**416**	416	–	Rooms	**18.6**	15.6	19
Average occupancy (%)	**73**	77	(5)	Food & beverage	**9.2**	7.9	16
Average room rate (US$)	**153**	118	30	Other	**8.6**	7.3	18
RevPAR (US$)	**111**	91	22	Total	**36.4**	30.8	18
				Average exchange rate/US$	*8.0*	*8.0*	

The Oriental, Singapore 50% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**527**	527	–	Rooms	**15.0**	6.7	124
Average occupancy (%)	**61**	42	45	Food & beverage	**10.1**	5.2	94
Average room rate (US$)	**126**	83	52	Other	**1.6**	1.2	33
RevPAR (US$)	**76**	35	117	Total	**26.7**	13.1	104
				Average exchange rate/US$	*1.7*	*1.7*	

The Oriental, Bangkok 44.9% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**393**	393	–	Rooms	**20.9**	20.1	4
Average occupancy (%)	**65**	66	(2)	Food & beverage	**21.3**	20.5	4
Average room rate (US$)	**218**	205	6	Other	**9.2**	9.1	1
RevPAR (US$)	**142**	136	4	Total	**51.4**	49.7	3
				Average exchange rate/US$	*40.4*	*40.3*	

Mandarin Oriental, Kuala Lumpur 25% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**632**	632	–	Rooms	**21.0**	19.1	10
Average occupancy (%)	**82**	82	–	Food & beverage	**14.4**	13.7	5
Average room rate (US$)	**110**	100	10	Other	**3.1**	3.3	(6)
RevPAR (US$)	**91**	82	11	Total	**38.5**	36.1	7
				Average exchange rate/US$	*3.8*	*3.8*	

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**200**	200	–	Rooms	**37.1**	36.4	2
Average occupancy (%)	**77**	77	–	Food & beverage	**18.6**	17.8	4
Average room rate (US$)	**643**	628	2	Other	**4.7**	4.5	4
RevPAR (US$)	**497**	483	3	Total	**60.4**	58.7	3
				Average exchange rate/US$	*0.55*	*0.55*	

Mandarin Oriental, Munich 100% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**73**	73	–	Rooms	**9.2**	8.6	7
Average occupancy (%)	**83**	82	1	Food & beverage	**3.7**	3.3	12
Average room rate (US$)	**417**	388	7	Other	**0.8**	0.7	14
RevPAR (US$)	**344**	320	8	Total	**13.7**	12.6	9
				Average exchange rate/US$	*0.81*	*0.80*	

Mandarin Oriental Hotel du Rhône, Geneva 92.6% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**192**	192	–	Rooms	**19.7**	17.3	14
Average occupancy (%)	**62**	57	9	Food & beverage	**10.7**	9.9	8
Average room rate (US$)	**440**	418	5	Other	**1.9**	1.7	12
RevPAR (US$)	**272**	236	15	Total	**32.3**	28.9	12
				Average exchange rate/US$	*1.3*	*1.2*	

THE AMERICAS

The Mark, New York 100% ownership (ownership interest sold on 16th February 2006)

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**176**	176	–	Rooms	**20.7**	17.3	20
Average occupancy (%)	**75**	71	6	Food & beverage	**7.1**	7.2	(1)
Average room rate (US$)	**422**	377	12	Other	**4.0**	4.3	(7)
RevPAR (US$)	**318**	266	20	Total	**31.8**	28.8	10

Mandarin Oriental, Washington D.C. (opening date: March 2004) 80% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**400**	400	n/a	Rooms	**25.6**	12.6	n/a
Average occupancy (%)	**60**	44	n/a	Food & beverage	**21.8**	11.6	n/a
Average room rate (US$)	**290**	249	n/a	Other	**4.5**	2.0	n/a
RevPAR (US$)	**174**	109	n/a	Total	**51.9**	26.2	n/a

Mandarin Oriental, New York 50% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**251**	251	–	Rooms	**46.6**	31.6	47
Average occupancy (%)	**72**	55	31	Food & beverage	**28.0**	25.5	10
Average room rate (US$)	**695**	614	13	Other	**5.9**	5.2	13
RevPAR (US$)	**503**	339	48	Total	**80.5**	62.3	29

Mandarin Oriental, Miami 25% ownership

	2005	2004	% Change	Revenue (US$m)	2005	2004	% Change
Available rooms	**327**	327	–	Rooms	**27.9**	23.5	19
Average occupancy (%)	**70**	65	8	Food & beverage	**19.8**	17.5	13
Average room rate (US$)	**329**	297	11	Other	**7.0**	6.4	9
RevPAR (US$)	**231**	194	19	Total	**54.7**	47.4	15

INTERNATIONAL RECOGNITION

Mandarin Oriental Hotel Group continues to receive global recognition for the luxury services and amenities provided at each hotel. In 2005, the Group collected over 200 international awards of distinction from industry sources and readers of influential publications. Such prestigious titles include *Zagat Travel Guide; Condé Nast Traveller, UK; Condé Nast Traveler, US; Travel + Leisure US; Institutional Investor, Spa Finder* and *The Robb Report*.

Mandarin Oriental, Miami and Mandarin Oriental, New York are both proud recipients of the industry's most prestigious Five Diamond status given by the American Automobile Association, and the all-encompassing Spas at Mandarin Oriental continue to receive high acclaim globally within notable publications.

Mandarin Oriental Hotel Group also garnered top honours in the United States and the Americas in the *Condé Nast Traveler, US 2005* 'Business Travel Awards' survey.

The following highlights a selection of these reviews.

Mandarin Oriental Hotel Group

"Style, grace, modern beauty" and a "sleek Asian feel" make staying at any Mandarin "a treat." If you like to be pampered in "idyllic surroundings" with "impeccable service" that "exceeds high expectations," "luxe accommodations" with "lovely linens," "fabulous spas" and "excellent views," it's the "ultimate hotel" experience, plus it fills the bill as an "expense-account favourite" and "romantic getaway." – *Zagat, 2005*

"The small and stylish Mandarin Oriental Hotel Group takes top honours among hotel chains in both the United States and the Americas, earning the highest rating for Front Desk Service, Overall Design and Value for Cost among all hotel chains in North America."– *Condé Nast Traveler, US, 2005 Business Travel Awards*

"Mandarin Oriental Hotel Group's Asian service ethic is like no other."– *Forbes, 2005*

Mandarin Oriental, New York

A "stupendous" hotel befitting a "world-class city," this shining Columbus Circle newcomer in the Time Warner Center has all the makings of a "power paragon." Most agree it's already become a "must-see" stop for the ultra chic. – *Zagat, 2005*

"Three nights at Mandarin Oriental, New York and you'll know you've made it. And if you can make it here…" – *Money Magazine, US 2005*

Mandarin Oriental, Washington D.C.

The Chinese marble "bathrooms are like palaces" at this "polished jewel" that may just force everyone to "rediscover southwest D.C." Guests "gush gush" over the 16 types of "lush rooms" and "superb suites."– *Zagat, 2005*

"Mandarin Oriental, Washington D.C. offers a respite from the wheeling and dealing of the country's political machine." – *Trump World, US 2005*

"The arrival of *CityZen* at Mandarin Oriental, Washington D.C. brings a certain dramatic sensuality to a town not known for its dining glamour." – *Esquire, US 2005*

Mandarin Oriental, Miami

"For a real treat you will have to head to *The Spa* at Mandarin Oriental, Miami – the best day spa overseas." – *Condé Nast Traveller, World's Best Spas 2005*

Azul at Mandarin Oriental, Miami – Continues to elicit "bravas" with "tremendous views," a "sleek, elegant" room, "accomplished service," a "serious" wine list and of course "haunting dishes" in exquisite presentations. – *Zagat, 2005*

Mandarin Oriental Hyde Park, London

The Spa at Mandarin Oriental Hyde Park, London – "Nowhere could make you feel more thoroughly pampered." – *The Economist, Summer 2005*

Foliage at Mandarin Oriental Hyde Park, London – "Altogether unmissable." – *Time Out, UK, 2005*

Foliage at Mandarin Oriental Hyde Park, London – "Perfection with every bite" swoon acolytes of the "outstanding foodie experience" on offer from Chris Staines' "palate-dazzling" menu in the "serene setting of Mandarin Oriental's first class dining room. The attached bar is a definite plus, attracting a "hip, noisy crowd." – *Zagat, 2005 London Restaurants*

The Oriental, Bangkok

"Repeatedly voted 'best hotel in the world' The Oriental, Bangkok lives up to expectations." – *The Observer, UK 2005*

"The 129-year-old Oriental, Bangkok is a true dowager empress of the Far East and has appeared in the Best Hotels list for 25 years straight." – *Institutional Investor, 25 Years of The Best Hotels, 2005*

"When you sit in the steam room at The Spa at The Oriental, Bangkok you realize you sometimes have to travel 10,000 miles to reach nirvana." – *Departures, US 2005*

Mandarin Oriental Dhara Dhevi, Chiang Mai

"Mandarin Oriental levels of service and pampering prevail, including complimentary yoga classes, a spectacular spa, a cooking school, and a superb range of restaurants serving Chinese, French, Thai and international cuisines." – *Condé Nast Traveler, Hot List, 2005*

"A fantastical Asian village of palaces and temples come to life, with all the expected Mandarin pampering." – *Travel + Leisure, 2005*

The Landmark Mandarin Oriental, Hong Kong

"The Landmark Mandarin Oriental, Hong Kong with its incredibly well designed rooms and sumptuous bathrooms, will set a new benchmark for the city." – *The Observer, UK, 2005*

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.

The Directors believe it is appropriate to provide supplementary information in addition to the financial statements prepared under IFRS, and this is presented separately in this review.

RESULTS

Overall

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

	2005 US$m	2004 US$m
Subsidiaries	91.0	74.6
Associates and joint ventures	33.0	24.4
Total EBITDA	124.0	99.0

Subsidiaries

	2005 US$m	2004 US$m
EBITDA	91.0	74.6
Property revaluation movement	–	0.2
Less: depreciation and amortization	(30.6)	(31.4)
Operating profit	60.4	43.4

EBITDA from subsidiaries increased by 22% to US$91.0 million in 2005 from US$74.6 million in 2004.

In Asia, results of both Mandarin Oriental, Hong Kong and The Excelsior benefited from increases in the average room rate of over 20%. Mandarin Oriental, Tokyo opened in December 2005, with pre-opening expenses charged to the consolidated profit and loss account of US$10.7 million. Results at the Manila and Jakarta hotels remained depressed.

In Europe, London continued to perform strongly and achieved the same occupancy as the previous year and a slightly improved rate despite the negative impact of the terrorist attacks in July. The performance of the Munich hotel was steady, remaining ahead of the competition in the city. In Geneva, there was some recovery in the market and improvements in occupancy and rate produced an increased Revenue Per Available Room ('RevPAR') of 15%.

In The Americas, the Washington D.C. hotel, which opened in March 2004, contributed a positive EBITDA to the Group in 2005, compared with the previous year in which the hotel had significant pre-opening expenses and start-up losses.

In 2005, the contribution from management activities was US$3.7 million (2004: US$4.7 million) as an increase in management fees was offset by higher corporate costs as the Group put into place additional resources to support its future growth.

Depreciation and amortization was US$30.6 million for 2005 and was broadly in line with the 2004 charge of US$31.4 million.

Associates and Joint Ventures

The Group's share of results from associates and joint venture hotels was as follows:

	2005 US$m	2004 US$m
EBITDA	**33.0**	24.4
Partial writeback of an impairment in respect of Kuala Lumpur	**–**	9.6
Less: depreciation and amortization	**(13.9)**	(13.5)
Operating profit	**19.1**	20.5
Less: net financing charges	**(8.8)**	(7.4)
Less: tax	**(1.6)**	(0.5)
Share of results of associates and joint ventures	**8.7**	12.6

The Group's share of EBITDA increased by 35% to US$33.0 million in 2005. Most of the increase from associates was due to the stronger performance from Mandarin Oriental, New York as it built its market position. The hotel's RevPAR increased by 48% with an average room rate for the year at US$695.

The Macau hotel increased its contribution as it achieved similar average room rate increases to the two Hong Kong hotels of over 20%. Results of the Singapore hotel also improved following an extensive renovation in 2004.

In 2004, the share of results of associates and joint ventures benefited from a US$9.6 million partial writeback of an impairment previously made against the value of the Group's 25% interest in the Kuala Lumpur hotel.

Depreciation and amortization for associates at US$13.9 million was broadly in line with the previous year's charge of US$13.5 million.

Net financing charges for associates and joint ventures increased from US$7.4 million to US$8.8 million due to higher interest rates in the territories in which the Group's associates operate.

Net financing charges

Net financing charges reduced to US$22.4 million from US$27.5 million in 2004. Although interest rates generally increased, the Group's net debt decreased from US$517 million in 2004 to US$311 million primarily due to the conversion of the Group's US$75 million of convertible bonds into equity in early 2005 and the receipt of US$97 million from the Hawaii sale.

Interest cover in 2005, which is calculated as operating profit before interest and tax (including associates) over net financing charges (including associates), was 2.4 times compared with 1.6 times in 2004. The Company also uses EBITDA as an indicator of its ability to service debt and finance its future capital expenditure. Interest cover on this basis (including EBITDA from associates) was 3.8 times in 2005, up from 2.8 times in 2004.

Tax

The effective tax rate for the year was 28% compared with 30% in 2004. Excluding the impact of the Hawaii disposal, the effective tax rate for the year would have been 27%.

Cash flow

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

	2005 US$m	2004 US$m
Operating activities	**73**	47
Investing activities:		
• Capital expenditure on existing properties	**(28)**	(11)
• Mezzanine loan to Boston hotel	**(12)**	–
• Investment in Tokyo	**(12)**	–
• Proceeds on disposal of associates	**95**	–
• Washington D.C. investment	**–**	(30)
• Other	**–**	13
Financing activities:		
• Drawdown of borrowings	**115**	29
• Repayment of borrowings	**(117)**	(52)
• Dividend paid	**(10)**	–
• Other	**(1)**	4
Net movement in cash in the year	**103**	–

The cash flows from operating activities increased as performance improved from 2004 levels.

Capital expenditure on existing properties totalled US$28 million as compared with US$11 million in 2004. In 2005, US$7 million was included in relation to initial works for the renovation at Mandarin Oriental, Hong Kong.

During the year, the Group advanced its US$12 million mezzanine loan commitment to the owners of the Boston hotel to assist in financing of the construction of the hotel. The Group also spent US$12 million in respect of its investment in furniture and equipment for the new Tokyo hotel, which it was required to fund under the terms of the 30-year lease for the hotel.

In June 2005, the Group completed the sale of its 40% investment in the partnership that leases the Kahala Mandarin Oriental hotel in Hawaii to its 60% partner, Kahala Royal Corporation. On completion, the Group received a gross consideration of US$97 million, which included the repayment of loans to associates of US$4 million. The post-tax gain on this disposal was US$36 million.

Proceeds on disposal of associates of US$95 million primarily relate to the Hawaii sale together with US$2 million in relation to the Group's July 2005 disposal of its investment in Reid Street Properties.

Under financing activities, the Group refinanced the Washington D.C. hotel on favourable terms with a new US$100 million five-year syndicated loan facility. The Group also drew down US$10 million in respect of a loan facility established to finance the investment in the Tokyo hotel.

During the year the Group repaid US$117 million of bank borrowings, and paid a final dividend of US$10 million in respect of 2004.

The total cash inflow for the year was US$103 million.

Dividends

The Board is recommending a final dividend of US¢1.50 per share (2004: US¢1.00 per share). No scrip alternative is being offered in respect of the dividend.

Property Valuation

The Group's accounting policy requires independent valuations of the Group's hotel property interests to be carried out at intervals not exceeding three years, with the exception of hotels within the first three years of operations which have not yet stabilized. The last full independent valuation was carried out at 31st December 2004. In the intervening years, the Directors review the carrying values of the underlying properties in consultation with the Group's independent appraisers and adjustment is made where there has been a material change.

As a result of the 2005 review, the Directors have concluded that there were significant movements in the valuations of certain underlying properties giving rise to a revaluation surplus of US$26 million (net of deferred tax), which has been credited to the Group's property revaluation reserves.

In addition, the Group's leasehold land has been revalued upwards by US$122 million, with the increase primarily attributable to the Group's two long leaseholds in Hong Kong. This US$122 million uplift, however, is not recognized in the financial statements as, under IFRS, interests in land held under long-term leases must be stated at cost and amortized over the period of the lease.

POST BALANCE SHEET EVENT

On 16th February 2006, the Group completed the sale of its 100% leasehold interest in The Mark, New York for a gross consideration of US$150 million. The hotel was originally acquired in 2000 as part of the US$142.5 million acquisition of The Rafael Group.

After transaction costs and tax, the post-tax gain arising on the disposal is approximately US$35 million, which will be recognized in the 2006 results. The consideration was paid in cash and will be applied towards the Group's general corporate purposes, including pursuing its development strategy. Had the proceeds been received on 31st December 2005, the Group's gearing based on adjusted shareholders' funds would have been further reduced to 14% from 22%.

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 69% 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 2005, the Group's net assets were denominated in the following currencies:

	Net assets
Hong Kong Dollar	11%
United States Dollar	40%
United Kingdom Sterling	20%
Other	29%
	100%

Investment of the Group's cash resources, which totalled US$169 million at 31st December 2005, is managed so as to minimize risk while seeking to enhance yield. The treasury function is not permitted to undertake speculative transactions unrelated to underlying financial exposures.

The Group, excluding associates, had committed banking facilities totalling US$783 million, of which US$478 million were drawn at 31st December 2005. The facilities are due for repayment as follows:

	Facilities committed US$m	Facilities drawn US$m
Within one year	47	8
Between one and two years	37	24
Between two and three years	181	181
Between three and four years	15	10
Between four and five years	417	244
Beyond five years	86	11
	783	478

The average tenor of the Group's bank borrowings is approximately four years (2004: approximately five years).

6.75% convertible bonds

The Group's US$75 million, 6.75% convertible bonds had been fully converted into ordinary shares by early 2005 in accordance with their terms, resulting in the issue of a total of 113,062,580 ordinary shares of the Company.

The Group's weighted average interest rate on its borrowings was 4.7% in 2005 compared to 4.7% in 2004. Excluding the convertible bonds, the weighted average interest rate in 2004 would have been 4.2%.

SUPPLEMENTARY INFORMATION

There are two areas where the Directors believe it is appropriate to present additional information:

Valuation of hotel properties held on leasehold

The Group's policy is to revalue all hotel properties regularly as it considers these properties to be long-term investments. Prior to 2003, all property investments, whether freehold or leasehold, were revalued and carried at fair market value. However, IFRS no longer permits the carrying of leasehold owner-occupied land at fair market valuation. The Group considers that the IFRS treatment does not reflect the economic substance of the underlying investments, particularly the Group's 999 year leases in respect of Mandarin Oriental, Hong Kong and The Excelsior.

In its financial statements, the Group has presented leasehold land payments at cost less accumulated amortization over the period of the lease, which is the recommended IFRS treatment. However, as there is a significant difference between the fair market value of the Group's two Hong Kong properties and their value as presented in the financial statements, the Group has also presented supplementary financial information which takes into account the fair market value of these leasehold interests.

The two key measurements affected by the recognition of the fair market value of these leasehold interests are net asset value per share and gearing. The necessary adjustment to shareholders' funds/net assets is set out below:

	2005		2004	
	US$m	Per share US$	US$m	Per share US$
Shareholders' funds/net assets	**835**	**0.87**	684	0.80
Add: revaluation surplus relating to hotel properties held on leasehold	**610**	**0.63**	487	0.57
Adjusted shareholders' funds/net assets	**1,445**	**1.50**	1,171	1.37

Net debt of US$311 million was 22% of adjusted shareholders' funds at the end of 2005, compared with net debt of US$517 million which was 44% of adjusted shareholders' funds at 31st December 2004. On an IFRS basis, gearing was 37% at 31st December 2005 and 76% at the end of 2004.

Depreciation of hotel buildings

The Directors have presented funds from operations ('FFO') figures to enable comparison with other hotel companies with substantial real estate interests. FFO is defined as profit attributable to shareholders excluding depreciation of hotel buildings, net of relevant deferred tax and minority interests. FFO for the year ended 31st December 2005 was US$90.4 million compared with US$40.6 million in 2004. A reconciliation of profit attributable to shareholders to FFO is as follows:

	2005		2004	
	US$m	Per share US¢	US$m	Per share US¢
Profit attributable to shareholders	**77.2**	**8.14**	28.5	3.35
Depreciation of buildings, net of deferred tax and minority interests	**13.2**	**1.39**	12.1	1.42
Funds from operations	**90.4**	**9.53**	40.6	4.77

John R Witt
Finance Director
23rd February 2006

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, Hongkong Land Holdings, and a director of Jardine Lloyd Thompson, Jardine Matheson and Jardine Strategic. He is also a director of The Fleming Mercantile Investment Trust.

A J L Nightingale* *Managing Director*
Mr Nightingale joined the Board and was appointed as Managing Director in April 2006. He has served in a number of executive positions since joining the Jardine Matheson group in 1969. He is chairman of Jardine Cycle & Carriage, Jardine Matheson Limited, Jardine Motors Group and Jardine Pacific; and a commissioner of Astra. He is also managing director of Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic. Mr Nightingale is a past chairman of the Hong Kong General Chamber of Commerce, chairman of the Business Facilitation Advisory Committee established by the Financial Secretary in Hong Kong, a council member of the Hong Kong Trade Development Council, a Hong Kong representative to the APEC Business Advisory Council and a member of the Greater Pearl River Delta Business Council.

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.

John R Witt* *Finance Director*
Mr Witt was appointed as Finance Director in 2000, having first joined the Group in 1998. He is a Chartered Accountant and has an MBA from INSEAD. He has extensive international experience in financial planning, treasury control and business development in a variety of consumer industries.

Jonathan Gould
Mr Gould joined the Board in 2004. He is group general counsel of Jardine Matheson. He was previously a senior corporate partner of Allen & Overy, and was based in Hong Kong between 1988 and 1996. Mr Gould is also a director of Jardine Matheson Limited and Dairy Farm.

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

Henry Keswick
Mr Henry Keswick 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, Hongkong Land Holdings and Rothschilds Continuation Holdings. He is also vice chairman of the Hong Kong Association.

R C Kwok
Mr Kwok is a Chartered Accountant and joined the Board in 1987. He joined the Jardine Matheson group in 1964 and is a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic.

C G R Leach
Mr Leach joined the Board in 1987. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Hongkong Land Holdings, Jardine Matheson, Jardine Strategic and Rothschilds Continuation Holdings. He joined the Jardine Matheson group in 1983 after a career in banking and merchant banking.

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 chairman of TAL Apparel. He is also a director of Jardine Matheson and Hongkong Land Holdings.

Robert Léon
Mr Léon joined the Board in 1994. He is a manager of Qualis and a director of Anzon Energy Ltd.

Sydney S W Leong
Mr Leong, a Solicitor of both the Supreme Courts of Hong Kong and England and Wales, joined the Board in 1989. He is chairman and a director of a number of companies, including chairman of Henry G Leong Estates.

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, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Safinvest, British Mediterranean Airways, Textron Corporation, Schindler Holdings and Yell Group. He is also president of the China-Britain Business Council and former chairman of the Singapore-British Business Council.

James Watkins
Mr Watkins joined the Board in 1997. He is a partner and general counsel of Asia Mezzanine Capital Group, Hong Kong. He was general counsel of the Jardine Matheson group from 1997 to 2003. Mr Watkins qualified as a solicitor in 1969 and was formerly a partner of the English law firm, Linklaters & Paines. He is also a director of Advanced Semiconductor Manufacturing, Global Sources, Jardine Cycle & Carriage and MCL Land.

Percy Weatherall
Mr Weatherall joined the Board in 2000 and was Managing Director from February 2000 to March 2006. He held a number of senior positions since first joining the Jardine Matheson group in 1976 until his retirement from executive office in 2006. He is also a director of Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic.

* Executive Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2005

	Note	2005 US$m	Restated 2004 US$m
Revenue	1	**399.2**	336.8
Cost of sales		**(254.3)**	(224.7)
Gross profit		**144.9**	112.1
Selling & distribution costs		**(23.7)**	(22.4)
Administration expenses		**(60.8)**	(46.3)
Operating profit	2	**60.4**	43.4
Net financing charges	3	**(22.4)**	(27.5)
Share of results of associates and joint ventures excluding writeback of impairment		**8.7**	3.0
Writeback of impairment of an associate		**–**	9.6
Share of results of associates and joint ventures	4	**8.7**	12.6
Gains on disposal of associates	5	**52.3**	–
Profit before tax		**99.0**	28.5
Tax	6	**(24.8)**	(4.8)
Profit for the year		**74.2**	23.7
Profit attributable to shareholders	22	**77.2**	28.5
Loss attributable to minority interests	24	**(3.0)**	(4.8)
		74.2	23.7

		US¢	US¢
Earnings per share	7		
– basic		**8.14**	3.35
– diluted		**8.07**	3.35

CONSOLIDATED BALANCE SHEET

as at 31st December 2005

	Note	2005 US$m	Restated 2004 US$m
Net assets			
Intangible assets	8	**215.5**	219.4
Tangible assets	9	**684.0**	752.1
Associates and joint ventures	10	**205.0**	258.6
Other investments		**5.1**	6.4
Loan receivable	11	**12.0**	–
Pension assets	12	**22.8**	22.9
Deferred tax assets	13	**9.9**	7.8
Other non-current assets	27	**5.5**	–
Non-current assets		**1,159.8**	1,267.2
Stocks		**3.1**	2.9
Debtors and prepayments	14	**59.0**	57.9
Cash at bank	26e	**169.1**	65.7
		231.2	126.5
Non-current asset classified as held for sale	23	**80.3**	–
Current assets		**311.5**	126.5
Creditors and accruals	15	**(80.3)**	(65.1)
Current borrowings	16	**(8.3)**	(85.7)
Current tax liabilities		**(6.8)**	(8.0)
		(95.4)	(158.8)
Liabilities directly associated with non-current asset classified as held for sale	23	**(14.0)**	–
Current liabilities		**(109.4)**	(158.8)
Net current assets/(liabilities)		**202.1**	(32.3)
Long-term borrowings	16	**(471.6)**	(497.1)
Deferred tax liabilities	13	**(49.8)**	(38.2)
Pension liabilities	12	**(1.7)**	(1.7)
Other non-current liabilities	27	**–**	(6.0)
		838.8	691.9
Total equity			
Share capital	19	**48.3**	42.6
Share premium	20	**158.8**	89.0
Revenue and other reserves	22	**628.0**	552.1
Shareholders' funds		**835.1**	683.7
Minority interests	24	**3.7**	8.2
		838.8	691.9

Approved by the Board of Directors

Percy Weatherall
Edouard Ettedgui
Directors
23rd February 2006

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

for the year ended 31st December 2005

	2005 US$m	Restated 2004 US$m
Surplus on revaluation of properties	**35.6**	51.1
Actuarial gains on defined benefit pension plans	**0.6**	4.4
Net exchange translation differences	**(31.4)**	20.0
Loss on financial assets	**–**	(1.3)
Gain/(Loss) on cash flow hedges	**11.7**	(1.9)
Tax on items taken directly to equity	**(9.8)**	(18.2)
Net income recognized directly in equity	**6.7**	54.1
Profit for the year	**74.2**	23.7
Total recognized income and expense for the year	**80.9**	77.8
Attributable to:		
Shareholders of the Company	**84.6**	82.8
Minority interests	**(3.7)**	(5.0)
	80.9	77.8
Effect of prior period adjustments:		
Shareholders of the Company		(1.0)
Minority interests		(0.1)
		(1.1)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2005

	Note	2005 US$m	2004 US$m
Operating activities			
Operating profit		**60.4**	43.4
Depreciation	9	**30.0**	30.7
Amortization of land use rights	8	**0.6**	0.6
Non-cash items	26a	**3.0**	0.4
Movements in working capital	26b	**(0.3)**	(1.8)
Interest received		**2.8**	0.6
Interest and other financing charges paid		**(26.3)**	(27.4)
Tax paid		**(13.8)**	(8.0)
		56.4	38.5
Dividends and interest from associates and joint ventures		**16.2**	8.6
Cash flows from operating activities		**72.6**	47.1
Investing activities			
Purchase of tangible assets		**(40.0)**	(41.2)
Investments in and loans to associates and joint ventures	26c	**(1.0)**	(5.7)
Advance of loan receivable	11	**(12.0)**	–
Increase in other investments		**(0.9)**	(1.4)
Purchase of minority interests		**(2.7)**	(0.5)
Proceeds on disposal of other investments		**–**	13.2
Proceeds on disposal of associates	26d	**95.3**	–
Repayment of loans to an associate		**4.1**	7.2
Capital distribution from an associate		**0.5**	–
Cash flows from investing activities		**43.3**	(28.4)
Financing activities			
Issue of shares		**0.3**	0.1
Drawdown of borrowings		**115.0**	28.6
Repayment of borrowings		**(116.5)**	(51.6)
Dividends paid by the Company	22	**(9.6)**	–
Capital contribution from minority interests	24	**–**	2.2
Cash flows from financing activities		**(10.8)**	(20.7)
Effect of exchange rate changes		**(2.0)**	1.7
Net increase/(decrease) in cash and cash equivalents		**103.1**	(0.3)
Cash and cash equivalents at 1st January		**65.7**	66.0
Cash and cash equivalents at 31st December	26e	**168.8**	65.7

A Basis of preparation

These 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.

The accounting policies adopted are consistent with those of the previous financial year.

In view of the international nature of the Group's operations, the amounts shown in the financial statements are presented in United States Dollars, which represents the Company's functional currency.

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, on the basis set out in (ii) below, its associates and joint ventures. Subsidiaries are companies over which the Group has the power to govern the financial and operating policies. The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal respectively. All material intercompany transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated.

ii) Associates are companies, 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.

iii) Minority interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.

iv) The results of companies other than subsidiaries, associates and joint ventures are included only to the extent of dividends received.

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.

C Foreign currencies (continued)

Net exchange differences arising from the translation of the financial statements of subsidiaries, associates and joint ventures expressed in foreign currencies are taken directly to exchange reserves. On the disposal of these investments, such exchange differences are recognized in the consolidated profit and loss account as part of the profit or loss on disposal. Exchange differences on other non-current investments are dealt with in reserves as part of the gains and losses arising from changes in their fair value. All other exchange differences are dealt with in the consolidated profit and loss account.

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

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment. 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. 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. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

E Intangible assets

i) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary undertaking, the excess of the cost of acquisition over the carrying amount of the proportion of the minority interests acquired. If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interest acquired, the difference is recognized directly in the consolidated profit and loss account. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investment in associates and joint ventures.

   Goodwill is tested annually for impairment and carried at cost, after netting off accumulated amortization at 31st December 2003, less accumulated impairment losses.

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

ii) Land use rights are payments to acquire long-term interests in owner-occupied 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 without significant cost.

F Tangible assets and depreciation

Freehold land and buildings, and the building component of leasehold properties are stated at valuation. Independent valuations are performed every three years on an open market basis and, in the case of the building component of leasehold properties, on the basis of depreciated replacement cost. Depreciated replacement cost is used as the most reliable basis of allocating open market value to the building component. In the intervening years, the Directors review the carrying value of properties and adjustment is made where there has been a material change. Revaluation surpluses and deficits are dealt with in property revaluation reserves except for movements on individual properties below depreciated cost which are dealt with in the consolidated profit and loss account. Grants related to tangible fixed assets are deducted in arriving at the carrying amount of the assets.

Other tangible assets are stated at cost less amounts provided for depreciation.

Depreciation is calculated on the straight-line basis at annual rates estimated to write down the cost or valuation of each asset over its estimated useful life. The residual value and the useful lives are reviewed at each balance sheet date. The principal rates in use are as follows:

Freehold land	–
Freehold and long leasehold buildings	21 years to 150 years
Properties on leases with less than 20 years	over unexpired period of lease
Surface finishes and services	4 years to 30 years
Leasehold improvements	10%
Plant and machinery	6.7% – 10%
Furniture and equipment	10 – 33.3%

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

Where the carrying amount of a tangible 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.

The cost of maintenance and repairs of the buildings is charged to the consolidated profit and loss account as incurred.

G 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.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account 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.

H Loan receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loan receivables are carried at amortized cost using the effective interest method.

I Other investments

Other investments are non-financial assets and are stated at cost less provision for impairment.

J Development costs

Costs directly attributable to development projects, including borrowing costs, 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.

K Stocks

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

L Debtors

Debtors are carried at anticipated realizable value. An estimate is made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

M 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.

N 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.

O 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 yield method.

Borrowings are classified under non-current liabilities unless their maturities are within twelve months after the balance sheet date.

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.

P 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.

Q Deferred tax

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.

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 values of the net assets acquired and their tax base. Provision for withholding tax which could arise on the remittance of retained earnings relating to subsidiaries is only made where there is a current intention to remit such earnings.

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.

R 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 the consolidated profit and loss account 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 full in the year in which they occur, outside profit or loss, in the consolidated statement of recognized income and expense.

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

ii) Share-based compensation

The Group has a 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 shares in the Company 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. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account.

S Dividends

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

T Revenue

Revenue consists of gross inflow of economic benefits associated with a transaction and is recognized when services are performed, provided that the amount can be measured reliably.

Revenue from hotel ownership comprises amounts earned in respect of services, facilities and goods supplied by the subsidiary hotels.

T Revenue (continued)

Revenue from hotel management comprises gross fees earned from the management of all the hotels operated by the Group.

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

U 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 either a hedge of the fair value of a recognized asset or liability (fair value hedge), or 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.

The fair value of derivative financial instruments is classified as a non-current asset or liability if the remaining maturities of the derivative financial instruments are greater than twelve months.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the consolidated profit and loss account, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. When a hedging instrument expires or sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated profit and loss account over the residual period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in hedging reserves. 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 the consolidated profit and loss account and classified as income or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the consolidated profit and loss account. 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 the consolidated profit and loss account. 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 the consolidated profit and loss account.

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

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 exchange reserves; the gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

V 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 shares held by the Trustee under the Senior Executive Share Incentive Schemes. For the purpose of calculating diluted earnings per share, the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes based on the average share price during the year.

W Critical accounting estimates and assumptions

Estimates and judgements used in preparing the financial statements of the Company 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 amount of assets and liabilities are discussed below:

i) Impairment of assets

The Group tests annually whether goodwill or other assets that have indefinite useful lives have suffered any impairment. Other assets 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 value-in-use calculations prepared on the basis of management's assumptions and estimates.

ii) Property valuation

In arriving at the fair value of the properties, the independent valuers have to make assumptions and economic estimates. Should these assumptions and estimates change, or not be met, the valuation as adopted in the financial statements will be affected.

iii) Tangible fixed assets and depreciation

Freehold land and buildings, and the building component of owner-occupied leasehold properties are valued every three years by independent valuers. In the intervening years the Group reviews the carrying values and adjustment is made where there has been a material change. In arriving at the valuation of land and buildings, assumptions and economic estimates have to be made.

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 previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

iv) Income taxes

The Group is subject to income taxes in several 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.

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 tax losses can be utilized. The outcome of their actual utilization may be different.

W Critical accounting estimates and assumptions (continued)

v) 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 liability.

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

X Non-current assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Y Financial guarantee contracts

Financial guarantee contracts are regarded as insurance contracts under which the Group accepts significant insurance risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event. Provisions are recognized when it is probable that the guarantee will be called upon and an outflow of resources embodying economic benefits will be required to settle the obligations.

1 Revenue

	2005 US$m	2004 US$m
Analysis by geographical area		
– Hong Kong and Macau	**161.5**	143.9
– Other Asia	**38.3**	28.9
– Europe	**106.8**	100.6
– The Americas	**92.6**	63.4
	399.2	336.8
Analysis by activity		
– Hotel ownership	**381.4**	320.7
– Hotel management	**37.3**	32.1
– Less: Intra-Group revenue	**(19.5)**	(16.0)
	399.2	336.8

The Group considers its primary reporting segment to be geographic. The Group is operated on a worldwide basis in four regions: Hong Kong and Macau, Other Asia, Europe and The Americas. In addition, the Group has two distinct business segments: hotel ownership and hotel management.

2 Operating profit

	2005 US$m	2004 US$m
Analysis by geographical area		
– Hong Kong and Macau	**37.3**	33.7
– Other Asia	**(6.4)**	1.7
– Europe	**20.5**	15.6
– The Americas	**9.0**	(7.6)
	60.4	43.4
Analysis by activity		
– Hotel ownership	**56.7**	38.7
– Hotel management	**3.7**	4.7
	60.4	43.4

2 Operating profit continued

	2005 US$m	2004 US$m
The following items have been (credited)/charged in arriving at operating profit:		
Loss/(Gain) on disposal of other investments	**0.2**	(0.4)
Rental income	**(8.8)**	(8.9)
Depreciation of tangible assets (refer note 9)		
– Owned assets	**29.0**	29.9
– Leased assets	**1.0**	0.8
Revaluation surplus of tangible assets	**–**	(0.2)
Amortization of land use rights (refer note 8)	**0.6**	0.6
Directors' remuneration	**3.3**	2.8
Operating lease payments	**4.3**	2.3
Development costs	**0.8**	0.3
Repairs and maintenance	**15.3**	13.6
Exchange differences	**0.3**	0.1
Staff costs		
– Salaries and benefits in kind	**147.4**	136.1
– Defined benefit pension costs (refer note 12)	**2.0**	2.1
– Defined contribution pension costs	**0.6**	0.6
– Share-based payments	**0.9**	0.3
	150.9	139.1

Average number of persons employed by the Company and its subsidiaries during the year:

	2005 Number	2004 Number
Full time	**4,367**	3,784
Part time	**122**	166
	4,489	3,950

3 Net financing charges

	2005 US$m	2004 US$m
Company and subsidiaries		
Interest income	**3.0**	0.6
Interest expense		
– Bank loans	**(22.6)**	(19.2)
– Convertible bonds (refer note 16a)	**–**	(6.5)
– Finance leases	**(1.5)**	(1.6)
	(24.1)	(27.3)
Commitment and other fees	**(1.3)**	(0.8)
	(22.4)	(27.5)

4 Share of results of associates and joint ventures

	Operating profit/(loss) US$m	Net financing charges US$m	Tax US$m	Net profit/(loss) US$m
2005				
Analysis by geographical area				
– Hong Kong and Macau	4.2	(0.3)	(0.3)	**3.6**
– Other Asia	10.1	(2.6)	(1.3)	**6.2**
– The Americas	4.8	(5.9)	–	**(1.1)**
	19.1	**(8.8)**	**(1.6)**	**8.7**
Analysis by activity				
– Hotel ownership	18.0	(8.8)	(1.2)	**8.0**
– Other	1.1	–	(0.4)	**0.7**
	19.1	**(8.8)**	**(1.6)**	**8.7**
2004				
Analysis by geographical area				
– Hong Kong and Macau	2.7	(0.1)	–	2.6
– Other Asia	18.4	(2.3)	(0.5)	15.6
– The Americas	(0.6)	(5.0)	–	(5.6)
	20.5	(7.4)	(0.5)	12.6
Analysis by activity				
– Hotel ownership	17.3	(7.5)	(0.1)	9.7
– Other	3.2	0.1	(0.4)	2.9
	20.5	(7.4)	(0.5)	12.6

4 Share of results of associates and joint ventures continued

Share of results of associates and joint ventures is stated after charging depreciation and amortization of US$13.9 million (2004: US$13.5 million).

In 2004, the share of results of associates and joint ventures included a US$9.6 million partial writeback of an impairment previously made against the Group's interest in Mandarin Oriental, Kuala Lumpur.

5 Gains on disposal of associates

On 8th June 2005, the Group completed the sale of its 40% investment in the partnership that leases the Kahala Mandarin Oriental hotel in Hawaii to its 60% partner, Kahala Royal Corporation ('KRC'). The Group had exercised its put option in January 2005 pursuant to its rights under its partnership agreement with KRC. On completion, the Group received a gross consideration of US$97.1 million, which included the repayment of loans to an associate of US$4.1 million. The pre-tax gain on this disposal was US$50.3 million. After utilization of brought forward US tax losses, the post-tax gain on this disposal was US$36.1 million.

In July 2005, the Group disposed of its investment in Reid Street Properties for a cash consideration of US$2.3 million. The post-tax gain on this disposal was US$2.0 million.

6 Tax

	2005 US$m	Restated 2004 US$m
Company and subsidiaries		
– Current tax	**12.7**	9.1
– Deferred tax (refer note 13)	**12.1**	(4.3)
	24.8	4.8
Analysis by geographical area		
– Hong Kong and Macau	**8.0**	6.7
– Other Asia	**1.7**	0.6
– Europe	**1.3**	(2.1)
– The Americas	**13.8**	(0.4)
	24.8	4.8
Analysis by activity		
– Hotel ownership	**22.4**	3.1
– Hotel management	**2.4**	1.7
	24.8	4.8
Reconciliation between tax expense and tax at the applicable tax rate:		
Tax at applicable tax rate	**19.3**	(4.1)
Expenses not deductible for tax purposes	**3.5**	1.7
Tax losses not recognized	**4.0**	8.3
Temporary differences not recognized	**4.1**	3.2
Utilization of previously unrecognized tax losses	**(16.9)**	(0.4)
Utilization of previously unrecognized temporary differences	**(2.6)**	(2.2)
Recognition of previously unrecognized deferred tax assets	**(0.8)**	(2.4)
Recognition of previously unrecognized temporary differences	**12.1**	(1.3)
Deferred tax assets written off	**0.6**	0.5
Withholding tax	**1.4**	1.4
Under provision for prior years	**0.1**	0.1
	24.8	4.8

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

Included in the 2005 taxation is a tax charge of US$14.2 million (2004: nil) arising on the disposal of the Group's 40% investment in Kahala Mandarin Oriental, Hawaii. This tax charge is calculated after utilizing brought forward tax losses in the United States of approximately US$65.1 million and comprises current tax of US$2.5 million and deferred tax of US$11.7 million arising on temporary differences (refer note 5).

7 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$77.2 million (2004: US$28.5 million) and on the weighted average number of 948.9 million shares (2004: 851.6 million shares) in issue during the year. The weighted average number excludes shares held by the Trustee of the Senior Executive Share Incentive Schemes (refer note 21).

Diluted earnings per share are calculated on the weighted average number of 956.5 million shares (2004: 854.1 million shares) after adjusting 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. The convertible bonds were anti-dilutive and therefore ignored in calculating diluted earnings per share. The number of shares for basic and diluted earnings per share is reconciled as follows:

	Ordinary shares in millions	
	2005	2004
Weighted average number of shares in issue	**948.9**	851.6
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	**7.6**	2.5
Weighted average number of shares for diluted earnings per share	**956.5**	854.1

Excluding the gain on Hawaii disposal (refer note 5), the 2005 basic and diluted earning per share would be US¢4.33 and US¢4.30 respectively.

The Group made certain prior period adjustments (refer note 22), the impact of which increased the 2004 basic and diluted earnings per share by US¢0.09.

8 Intangible assets

	Goodwill US$m	Land use rights US$m	Total US$m
2005			
Net book value at 1st January			
– as previously reported	21.0	192.8	213.8
– prior period adjustments (refer note 22)	5.6	–	5.6
– as restated	26.6	192.8	219.4
Addition	1.9	–	1.9
Classified as non-current asset held for sale (refer note 23)	(5.2)	–	(5.2)
Amortization	–	(0.6)	(0.6)
Net book value at 31st December	**23.3**	**192.2**	**215.5**
2004			
Net book value at 1st January			
– as previously reported	20.7	193.4	214.1
– prior period adjustments (refer note 22)	5.6	–	5.6
– as restated	26.3	193.4	219.7
Addition	0.3	–	0.3
Amortization	–	(0.6)	(0.6)
Net book value at 31st December	26.6	192.8	219.4

The Directors have performed an impairment review of the carrying amount of goodwill at 31st December 2005 and have concluded that there is no impairment. For the purpose of impairment testing, goodwill acquired has been allocated to the respective hotels which is reviewed for impairment based on forecast individual hotel operating performance and cash flows. Cash flow projections 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 6% to extrapolate cash flows which may vary across the Group's geographical location, and are based on management expectations of the market development; and pre-tax discounted rates of between 8% to 13% applied to the cash flow projections. The discounted rates used reflect risks relating to the business cycle and geographical location.

The addition in 2005 represented goodwill arising on the acquisition of a further 22.76% interest in Mandarin Oriental, Jakarta.

Land use rights represent the upfront payments to acquire long-term interests in property leased by the principal subsidiaries listed on pages 70 and 71.

9 Tangible assets

	Freehold land & buildings US$m	Leasehold buildings & improvements US$m	Plant & machinery US$m	Furniture & equipment US$m	Total US$m
2005					
Net book value at 1st January	386.3	273.1	46.5	46.2	752.1
Translation differences	(25.3)	(19.6)	(1.7)	(2.5)	(49.1)
Additions	3.2	4.7	4.1	36.6	48.6
Disposals	–	–	–	(0.1)	(0.1)
Transfer-in	–	–	–	1.9	1.9
Reclassification	16.4	–	(16.4)	–	–
Depreciation charge (refer note 2)	(3.6)	(10.4)	(3.3)	(12.7)	(30.0)
Revaluation surplus	27.8	–	–	–	27.8
Classified as non-current asset held for sale (refer note 23)	–	(66.2)	(0.7)	(0.3)	(67.2)
Net book value at 31st December	**404.8**	**181.6**	**28.5**	**69.1**	**684.0**
Cost or valuation	**415.0**	**247.5**	**71.0**	**161.3**	**894.8**
Accumulated depreciation	**(10.2)**	**(65.9)**	**(42.5)**	**(92.2)**	**(210.8)**
	404.8	**181.6**	**28.5**	**69.1**	**684.0**
2004					
Net book value at 1st January	322.1	276.5	43.3	45.2	687.1
Translation differences	20.7	5.7	1.2	0.8	28.4
Additions	9.9	2.6	6.9	12.6	32.0
Depreciation charge (refer note 2)	(4.2)	(9.2)	(4.9)	(12.4)	(30.7)
Revaluation surplus/(deficit)	37.8	(2.5)	–	–	35.3
Net book value at 31st December	386.3	273.1	46.5	46.2	752.1
Cost or valuation	392.9	395.9	93.4	151.8	1,034.0
Accumulated depreciation	(6.6)	(122.8)	(46.9)	(105.6)	(281.9)
	386.3	273.1	46.5	46.2	752.1

The Directors have reviewed the carrying values of all properties at 31st December 2005 in consultation with the Group's independent valuers. The Directors are of the opinion that there is an increase in the fair value of all properties of US$21.3 million net of deferred tax of US$6.5 million which has been taken to the capital reserves. In 2004, a surplus of US$0.2 million was taken to the profit and loss account and a surplus of US$23.1 million net of deferred tax of US$12.2 million was taken to the capital reserves.

The Group's freehold properties and the building component of leasehold properties were revalued at 31st December 2004 by independent professionally qualified valuers. Fair value was determined using the income capitalization approach and having reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

9 Tangible assets continued

Freehold land & buildings include a property of US$114.2 million (2004: US$115.6 million), which is stated net of tax incremental financing of US$31.5 million (2004: US$32.4 million) (refer note 17). No interest was capitalized during the year (2004: interest of US$1.3 million was capitalized based on rates ranging from 4.3% to 6.0%).

If the freehold properties and the building component of leasehold properties had been included in the financial statements at cost, the carrying value would have been US$503.3 million (2004: US$595.6 million).

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

The transfer-in during the year represents development costs of US$1.9 million in respect of Mandarin Oriental, Tokyo.

	2005 US$m	2004 US$m
Leasehold land and buildings include a hotel property held under a finance lease as follows:		
Cost or valuation	–	70.2
Accumulated depreciation	–	(1.6)
Net book value	–	68.6
Analysis of additions (including transfer in) by geographical area		
– Hong Kong and Macau	**17.8**	6.1
– Other Asia	**20.6**	0.9
– Europe	**7.4**	5.0
– The Americas	**4.7**	20.0
	50.5	32.0
Analysis of additions (including transfer in) by activity		
– Hotel ownership	**49.7**	31.4
– Hotel management	**0.8**	0.6
	50.5	32.0
Analysis of depreciation by geographical area		
– Hong Kong and Macau	**10.3**	9.1
– Other Asia	**3.6**	3.1
– Europe	**8.4**	9.7
– The Americas	**7.7**	8.8
	30.0	30.7
Analysis of depreciation by activity		
– Hotel ownership	**29.2**	29.8
– Hotel management	**0.8**	0.9
	30.0	30.7

10 Associates and joint ventures

	2005 US$m	Restated 2004 US$m
Listed investment in The Oriental Hotel (Thailand) PCL	**60.1**	59.8
Unlisted investments in other associates	**67.4**	115.2
Group share of attributable net assets of associates	**127.5**	175.0
Joint ventures	**46.5**	53.6
	174.0	228.6
Amount due from a joint venture	**31.0**	30.0
	205.0	258.6
Market value of listed investment in The Oriental Hotel (Thailand) PCL	**55.6**	56.1

The Directors have reviewed the carrying values of all operating properties owned by associates and joint ventures at 31st December 2005 in consultation with the Group's independent valuers. The Group's share of the underlying net revaluation surplus of US$4.6 million has been dealt with in the capital reserves (2004: net revaluation surplus of US$10.7 million to capital reserves, and net credit of US$9.6 million to the consolidated profit and loss account). The land and buildings owned by associates and joint ventures were revalued at 31st December 2004 by independent professionally qualified valuers on an open market basis.

The amount due from a joint venture represents a mezzanine loan of US$31.0 million (2004: US$30.0 million) to Mandarin Oriental, New York, which is interest bearing at 13.5% per annum as from the opening of the hotel with no fixed terms of repayment.

10 Associates and joint ventures continued

	2005 US$m	Restated 2004 US$m
The Group's share of assets and liabilities and results of associates and joint ventures is summarized below:		
Non-current assets	**374.8**	433.2
Current assets	**26.8**	30.6
Current liabilities	**(32.7)**	(47.2)
Non-current liabilities	**(194.9)**	(188.0)
	174.0	228.6
Revenue	**130.2**	121.3
Profit before tax	**10.3**	13.1
Net profit	**8.7**	12.6
Capital commitments	**4.7**	3.5
Contingent liabilities	**–**	–
Movements of share of attributable net assets for the year:		
At 1st January		
– as previously reported	**255.5**	240.2
– prior period adjustments	**3.1**	3.1
– as restated	**258.6**	243.3
Net exchange translation differences	**(3.9)**	4.1
Share of results	**8.7**	12.6
Investments in and loans to associates and joint ventures	**1.0**	5.7
Dividends received	**(17.6)**	(9.6)
Share of property revaluation net of tax	**4.6**	10.6
Repayment of loans to an associate	**(4.1)**	(7.2)
Disposal of associates (refer note 26d)	**(35.7)**	–
Others	**(6.6)**	(0.9)
At 31st December	**205.0**	258.6

11 Loan receivable

Balance represents an interest-bearing mezzanine loan of US$12.0 million (2004: nil) provided in respect of the Boston hotel project.

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:

	2005 Weighted average %	2004 Weighted average %
Discount rate applied to pension obligations	**5.5**	5.5
Expected return on plan assets	**6.0**	6.0
Future salary increases	**6.0**	5.0

The expected return on plan assets is determined based on the expected long-term average returns on global equities of 6% to 9% per annum and global bonds of 3.5% to 5.5% 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:

	2005 US$m	2004 US$m
Fair value of plan assets	62.2	58.4
Present value of funded obligations	(40.8)	(36.9)
	21.4	21.5
Unrecognized past service cost	(0.3)	(0.3)
Net pension assets	21.1	21.2
Analysis of net pension assets		
Pension assets	22.8	22.9
Pension liabilities	(1.7)	(1.7)
	21.1	21.2
Movements in the fair value of plan assets for the year		
At 1st January	58.4	52.8
Expected return on plan assets	3.5	3.3
Actuarial gains and losses	1.9	3.8
Contributions from company	1.1	1.3
Contributions from plan members	0.9	1.0
Translation difference	(0.1)	–
Benefits paid	(3.5)	(3.5)
Transfer-out of assets	–	(0.3)
At 31st December	62.2	58.4
Movements in the present value of defined benefit obligations		
At 1st January	(36.9)	(34.9)
Current service cost	(3.3)	(3.3)
Interest cost	(2.2)	(2.0)
Contributions from plan members	(0.9)	(1.0)
Actuarial gains and losses	(1.3)	0.6
Translation difference	0.3	(0.1)
Benefits paid	3.5	3.5
Transfer-in of liabilities	–	0.3
At 31st December	(40.8)	(36.9)

12 Pension plans continued

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

	Fair value of assets	
	2005 US$m	2004 US$m
Equity instruments	**43.4**	44.0
Debt instruments	**18.6**	13.1
Other assets	**0.2**	1.3
	62.2	58.4

The five year history of experience adjustments is as follows:

	2005 US$m	2004 US$m	2003 US$m	2002 US$m	2001 US$m
Fair value of plan assets	**62.2**	58.4	52.8	42.5	46.9
Present value of funded obligations	**(40.8)**	(36.9)	(34.9)	(38.3)	(32.9)
Plan surplus	**21.4**	21.5	17.9	4.2	14.0
Experience adjustments on plan assets	**1.9**	3.8	9.1	(7.0)	(8.5)
Percentage of plan assets (%)	**3.1**	6.6	17.2	(16.4)	(17.9)
Experience adjustments on plan obligations	**(1.2)**	0.4	3.4	2.3	0.4
Percentage of plan obligations (%)	**3.0**	1.2	9.8	6.1	1.1

The amounts recognized in the consolidated profit and loss account are as follows:

	2005 US$m	2004 US$m
Current service cost	**3.3**	3.3
Interest cost	**2.2**	2.0
Expected return on plan assets	**(3.5)**	(3.3)
Past service cost	**–**	0.1
	2.0	2.1
Actual return on plan assets in the year	**5.4**	7.1

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

It is estimated that the Group will make contributions of up to 6% of pensionable salaries into the pension plans in 2006.

13 Deferred tax

	Accelerated tax depreciation US$m	Property revaluation US$m	Unremitted earnings in associates & joint ventures US$m	Other temporary differences US$m	Losses US$m	Total US$m
2005						
At 1st January						
– as previously reported	(2.5)	17.9	1.0	3.4	(7.0)	12.8
– prior period adjustments (refer note 22)	18.2	–	–	(0.6)	–	17.6
– as restated	15.7	17.9	1.0	2.8	(7.0)	30.4
Translation differences	(1.7)	(2.5)	–	–	0.3	(3.9)
Charged/(Credited) to consolidated profit and loss account	15.3	–	0.3	(2.7)	(0.8)	12.1
Debited to reserves	–	6.5	–	0.1	–	6.6
Other movements	(7.3)	(0.1)	–	0.8	–	(6.6)
Classified as non-current asset held for sale (refer note 23)	–	–	–	1.3	–	1.3
At 31st December	**22.0**	**21.8**	**1.3**	**2.3**	**(7.5)**	**39.9**
2004						
At 1st January						
– as previously reported	(1.7)	6.3	1.0	2.9	(4.7)	3.8
– prior period adjustments (refer note 22)	17.3	–	–	–	–	17.3
– as restated	15.6	6.3	1.0	2.9	(4.7)	21.1
Translation differences	1.1	(0.6)	–	0.1	–	0.6
Charged/(Credited) to consolidated profit and loss account	(1.0)	–	–	(1.0)	(2.3)	(4.3)
Debited to reserves	–	12.2	–	0.8	–	13.0
At 31st December	15.7	17.9	1.0	2.8	(7.0)	30.4

	2005 US$m	Restated 2004 US$m
Deferred tax assets	**(9.9)**	(7.8)
Deferred tax liabilities	**49.8**	38.2
	39.9	30.4

Deferred tax assets of US$18.2 million (2004: US$31.2 million) have not been recognized in relation to tax losses in subsidiaries as it is uncertain when these losses will be utilized.

13 Deferred tax continued

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

	2005 US$m	2004 US$m
Within one year	–	0.6
Between two and five years	0.3	1.8
Over five years	2.4	13.1
With no expiry dates	15.5	15.7
	18.2	31.2

Deferred tax assets of US$8.2 million (2004: US$6.3 million) have not been recognized in relation to temporary differences in subsidiaries.

Deferred tax liabilities have not been established for withholding taxes that would be payable on the unremitted earnings of certain subsidiaries as there is no current intention of remitting the retained earnings to the holding companies.

14 Debtors and prepayments

Trade debtors	25.6	20.9
Provision for doubtful debts	(0.4)	(0.5)
Trade debtors – net	25.2	20.4
Other debtors	11.3	12.0
Prepayments	8.2	11.1
Amounts due from associates	2.6	3.2
Amounts due from joint ventures	10.5	10.2
Rental and other deposits	1.2	1.0
	59.0	57.9

15 Creditors and accruals

Trade creditors	28.9	21.6
Accruals	43.2	35.8
Deposits accepted	6.7	6.6
Other creditors	1.5	1.1
	80.3	65.1

16 Borrowings

	2005 Carrying amount US$m	2005 Fair value US$m	2004 Carrying amount US$m	2004 Fair value US$m
Current				
– Bank overdrafts	**0.3**	**0.3**	–	–
Current portion of long-term borrowings				
– Bank loans	**7.8**	**8.5**	10.1	11.2
– Convertible bonds (refer note 16a)	**–**	**–**	75.3	79.1
– Other borrowings	**0.2**	**0.2**	0.3	0.3
	8.0	**8.7**	85.7	90.6
Long-term borrowings				
– Bank loans	**462.6**	**462.6**	478.7	479.7
– Finance lease (refer note 16b)	**–**	**–**	8.0	8.0
– Other borrowings	**7.3**	**7.3**	8.7	8.7
– Tax increment financing (refer note 17)	**1.7**	**1.7**	1.7	1.7
	471.6	**471.6**	497.1	498.1
	479.9	**480.6**	582.8	588.7

	2005 US$m	2004 US$m
Secured	**362.1**	485.1
Unsecured	**117.8**	97.7
	479.9	582.8
Due dates of repayment		
Within one year	**8.3**	85.7
Between one and two years	**23.8**	106.4
Between two and three years	**181.2**	24.3
Between three and four years	**10.3**	178.3
Between four and five years	**244.1**	7.1
Beyond five years	**12.2**	181.0
	479.9	582.8

16 Borrowings continued

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period Years	US$m	Floating rate borrowings US$m	Total US$m
2005					
Euro	5.9	2.7	13.8	–	**13.8**
Hong Kong Dollar	4.3	3.2	147.0	78.3	**225.3**
Swiss Franc	3.3	26.0	1.9	20.8	**22.7**
United Kingdom Sterling	5.9	0.3	29.8	73.7	**103.5**
United States Dollar	5.1	4.7	51.7	52.7	**104.4**
Japanese Yen	0.3	–	–	10.2	**10.2**
			244.2	**235.7**	**479.9**
2004					
Euro	5.9	3.7	16.7	–	16.7
Hong Kong Dollar	2.9	4.2	146.6	84.2	230.8
Swiss Franc	3.0	27.0	2.3	25.6	27.9
United Kingdom Sterling	6.1	1.3	33.2	88.1	121.3
United States Dollar	7.1	12.4	77.1	109.0	186.1
			275.9	306.9	582.8

Borrowings of US$362.1 million (2004: US$485.1 million) are secured against the fixed assets of certain subsidiaries. The book value of these fixed assets as at 31st December 2005 was US$716.0 million (2004: US$847.4 million).

The weighted average interest rates and period are stated after taking account of hedging transactions (refer note 27).

a) Convertible bonds

The 6.75% convertible bonds of the Company were converted into ordinary shares in accordance with their terms resulting in the issue of a total of 113,062,580 ordinary shares of the Company.

The convertible bonds were recognized in the consolidated balance sheet as follows:

	2005 US$m	2004 US$m
At 1st January	**75.3**	74.1
Interest expense (refer note 3)	**–**	6.5
Interest paid	**–**	(5.1)
Conversion of convertible bonds	**(75.3)**	(0.2)
Liability component at 31st December	**–**	75.3

Interest on the bonds were calculated on the effective yield basis by applying the coupon interest rate of 8.25% for an equivalent non-convertible bond to the liability component of the convertible bonds.

16 Borrowings continued

b) Finance lease

	2005 US$m	2004 US$m
Minimum lease payments		
Within one year	–	1.4
Between two and five years	–	6.6
Beyond five years	–	314.4
	–	322.4
Less: Future finance charges on finance lease	–	(314.4)
Present value of finance lease liabilities	–	8.0
The present value of finance lease liabilities may be analysed as follows:		
Within one year	–	0.1
Between two and five years	–	0.3
Beyond five years	–	7.6
	–	8.0

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

17 Tax increment financing

At 1st January	**34.1**	34.7
Amortization in the year	**(0.9)**	(0.6)
At 31st December	**33.2**	34.1
Netted off against the net book value of the property (refer note 9)	**31.5**	32.4
Loan (refer note 16)	**1.7**	1.7
	33.2	34.1

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

The District agreed to contribute to the subsidiary US$33.0 million through the issuance of TIF Bonds in addition to US$1.7 million issued in the form of a loan, bearing simple interest at an annual rate of 6.0%. 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 (refer note 9). The loan of US$1.7 million (2004: US$1.7 million) is included in long-term borrowings (refer note 16).

18 Segment information

Analysis by geographical area

	Capital expenditure US$m	Segment assets US$m	Associates and joint ventures US$m	Segment liabilities US$m
2005				
Hong Kong and Macau	17.8	356.6	14.8	(36.4)
Other Asia	22.5	57.8	113.2	(16.7)
Europe	7.4	418.8	–	(15.3)
The Americas	4.7	235.7	77.0	(16.6)
Segment capital expenditure	52.4	–	–	–
Segment assets/(liabilities)	–	1,068.9	205.0	(85.0)
Unallocated assets/(liabilities)	–	197.4	–	(547.5)
	52.4	**1,266.3**	**205.0**	**(632.5)**
2004 Restated				
Hong Kong and Macau	6.1	344.2	13.5	(30.7)
Other Asia	1.2	31.8	120.9	(6.2)
Europe	5.0	440.7	–	(16.6)
The Americas	20.0	238.5	124.2	(19.3)
Segment capital expenditure	32.3	–	–	–
Segment assets/(liabilities)	–	1,055.2	258.6	(72.8)
Unallocated assets/(liabilities)	–	79.9	–	(629.0)
	32.3	1,135.1	258.6	(701.8)

Capital expenditure comprises of additions of goodwill, tangible assets, and land use rights, including those arising from subsidiary undertakings. Unallocated assets and liabilities comprise other investments, tax assets and liabilities, cash and cash equivalents and borrowings. Associates and joint ventures include the Group's share of attributable net assets.

Analysis by activity

Substantially all of the net assets of the Group are employed in hotel ownership.

19 Share capital

	Ordinary shares in millions			
	2005	2004	**2005 US$m**	2004 US$m
Authorized				
Shares of US¢5 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid				
At 1st January	**878.1**	876.9	**43.9**	43.9
Repurchase of shares under share incentive schemes	**(2.2)**	–	**(0.1)**	–
Issued under share incentive schemes	**3.9**	1.0	**0.2**	–
Conversion of convertible bonds	**112.8**	0.2	**5.7**	–
At 31st December	**992.6**	878.1	**49.7**	43.9
Outstanding under share incentive schemes	**(27.2)**	(26.1)	**(1.4)**	(1.3)
At 31st December	**965.4**	852.0	**48.3**	42.6

20 Share premium

	2005 US$m	2004 US$m
At 1st January	**104.4**	103.7
Repurchase of shares under share incentive schemes	**(2.2)**	–
Issued under share incentive schemes	**3.0**	0.5
Conversion of convertible bonds	**69.6**	0.2
	174.8	104.4
Outstanding under share incentive schemes	**(16.0)**	(15.4)
At 31st December	**158.8**	89.0

21 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 Trustees 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 undertaking are, for presentation purposes, netted off the Company's share capital in the consolidated balance sheet (refer note 19) and the premium attached to them is netted off the share premium account (refer note 20).

21 Senior Executive Share Incentive Schemes continued

Movements for the year:

	2005			2004		
	Weighted average exercise price US$	Ordinary shares in millions	US$m	Weighted average exercise price US$	Ordinary shares in millions	US$m
At 1st January	0.64	26.1	16.7	0.64	25.4	16.3
Granted	0.82	3.9	3.2	0.57	1.0	0.5
Exercised	0.50	(0.6)	(0.3)	0.52	(0.3)	(0.1)
Repurchased and cancelled	1.05	(2.2)	(2.3)	–	–	–
At 31st December	0.64	**27.2**	**17.3**	0.64	26.1	16.7

The weighted average share price during the year was US$0.86 (2004: US$0.60) per share.

Outstanding at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price US$	**2005**	2004
2005	1.2	–	0.7
2006	1.4	0.9	0.9
2007	1.2	0.3	0.3
2008	0.5 – 0.8	6.2	6.3
2009	0.7 – 0.8	3.5	3.7
2010	0.5 – 0.7	5.9	6.2
2011	0.6	2.1	2.1
2012	0.4 – 0.5	2.1	2.1
2013	0.3 – 0.4	1.3	1.3
2014	0.6	1.0	1.0
2015	0.8	3.9	–
Unallocated		–	1.5
		27.2	26.1

The fair value of options granted during the year determined using the trinomial valuation model was US$1.9 million (2004: US$0.3 million). The significant inputs into the model were share price of US$0.87 (2004: US$0.60), at the grant date, exercise price shown above, expected volatility based on the last three years of 36% (2004: 42%), dividend yield of 1.05% (2004: nil), option life disclosed above, and annual risk-free interest rate of 4.3% (2004: 4.2%).

22 Revenue and other reserves

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
2005					
At 1st January					
– as previously reported	222.0	409.8	(6.0)	(66.7)	559.1
– prior period adjustments*	(7.9)	3.1	–	(2.2)	(7.0)
– as restated	214.1	412.9	(6.0)	(68.9)	552.1
Revaluation of properties					
– net revaluation surplus	–	35.6	–	–	35.6
– deferred tax	–	(9.7)	–	–	(9.7)
Defined benefit pension plans					
– actuarial gain	0.6	–	–	–	0.6
– deferred tax	(0.1)	–	–	–	(0.1)
Net exchange translation differences	–	–	–	(30.5)	(30.5)
Fair value gain on cash flow hedges	–	–	11.5	–	11.5
Share-based payments	–	0.9	–	–	0.9
Profit attributable to shareholders	77.2	–	–	–	77.2
Transfer between reserves	11.9	(11.9)	–	–	–
Dividends (refer note 25)	(9.6)	–	–	–	(9.6)
At 31st December 2005	**294.1**	**427.8**	**5.5**	**(99.4)**	**628.0**
Of which:					
– Company	**67.0**	**6.0**	**–**	**–**	**73.0**
– Associates and joint ventures	**(21.0)**	**97.9**	**–**	**(75.6)**	**1.3**

22 Revenue and other reserves *continued*

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
2004					
At 1st January					
– as previously reported	189.0	378.7	(4.1)	(87.9)	475.7
– prior period adjustments *	(8.6)	3.1	–	(1.2)	(6.7)
– as restated	180.4	381.8	(4.1)	(89.1)	469.0
Revaluation of properties					
– net revaluation surplus	–	51.1	–	–	51.1
– deferred tax	–	(17.4)	–	–	(17.4)
Defined benefit pension plans					
– actuarial gain	4.4	–	–	–	4.4
– deferred tax	(0.8)	–	–	–	(0.8)
Net exchange translation differences	–	–	–	20.2	20.2
Fair value loss on financial assets	(1.3)	–	–	–	(1.3)
Fair value loss on cash flow hedges	–	–	(1.9)	–	(1.9)
Share-based payments	–	0.3	–	–	0.3
Profit attributable to shareholders	28.5	–	–	–	28.5
Transfer between reserves	2.9	(2.9)	–	–	–
Dividends (refer note 25)	–	–	–	–	–
At 31st December 2004	214.1	412.9	(6.0)	(68.9)	552.1
Of which:					
– Company	61.2	5.0	–	–	66.2
– Associates and joint ventures	(15.0)	104.0	(0.4)	(71.8)	16.8

* In 2005, the Group conducted a comprehensive review of the deferred taxation across the Group's hotel properties to ensure full compliance with IAS 12 Income Taxes. As a result, certain prior period adjustments have been made to conform more fully to IFRS. These adjustments are primarily to provide for deferred tax arising from fair value adjustments which had not previously been provided. In 2004, these adjustments resulted in an increase to profit attributable to shareholders of US$0.7 million.

Revenue reserves include US$0.1 million of fair value losses in respect of financial assets (2004: loss of US$0.1 million).

Capital reserves include property revaluation reserves of US$167.8 million net of attributable deferred tax of US$43.7 million (2004: US$150.8 million net of attributable deferred tax of US$40.0 million) which are not distributable in certain jurisdictions in which the Group operates.

23 Non-current asset classified as held for sale

An analysis of the non-current asset held for sale is as follows:

	2005 US$m	2004 US$m
Intangible assets (refer note 8)	**5.2**	–
Tangible assets (refer note 9)	**67.2**	–
Deferred tax assets (refer note 13)	**1.3**	–
Current assets	**6.6**	–
Total assets	**80.3**	–
Long-term borrowings	**(11.0)**	–
Current liabilities	**(3.0)**	–
Total liabilities	**(14.0)**	–

The Group's 100% leasehold interest in The Mark, New York was classified as held for sale in 2005. At 31st December 2005, total assets and total liabilities amounted to US$80.3 million and US$14.0 million respectively. The sale was completed on 16th February 2006 for a consideration of US$150.0 million (refer note 32).

24 Minority interests

	2005 US$m	Restated 2004 US$m
At 1st January		
– as previously reported	**10.1**	13.1
– prior period adjustments (refer note 22)	**(1.9)**	(1.9)
– as restated	**8.2**	11.2
Net exchange translation differences	**(0.9)**	(0.2)
Capital contribution	**–**	2.2
Purchase of minority interest	**(0.8)**	(0.2)
Fair value gain on financial instruments	**0.2**	–
Attributable losses	**(3.0)**	(4.8)
At 31st December	**3.7**	8.2

25 Dividends

No interim dividend was paid in respect of 2005. A final dividend of US¢1.50 per share has been proposed in respect of 2005. A final dividend of US¢1.00 per share was paid in respect of 2004.

26 Notes to consolidated cash flow statement

	2005 US$m	2004 US$m
a) Non-cash items		
Pension expenses	**0.8**	0.7
Other	**2.2**	(0.3)
	3.0	0.4

b) Movements in working capital

	2005 US$m	2004 US$m
Increase in stocks	**(0.5)**	(0.7)
Increase in debtors and prepayments	**(12.1)**	(10.7)
Increase in creditors and accruals	**12.3**	9.6
	(0.3)	(1.8)

c) Increase in investments in and loans to associates and joint ventures includes the Group's investment in Mandarin Oriental, New York.

d) Proceeds on disposal of associates

	2005 US$m	2004 US$m
Net assets disposed of (refer note 10)	**35.7**	–
Direct transaction cost	**1.0**	–
Gains on disposal of associates (refer note 5)	**52.3**	–
	89.0	–
Repayment of deficit loan and interest	**6.3**	–
Proceeds on disposal of associates	**95.3**	–

In addition, the Group also received repayment of loans to an associate of US$4.1 million (refer note 5).

e) Analysis of cash and cash equivalents

	2005 US$m	2004 US$m
Cash at bank	**169.1**	65.7
Bank overdrafts	**(0.3)**	–
	168.8	65.7

The weighted average effective interest rate on short-term bank deposits included in cash at bank was 1.9% (2004: 1.7%).

27 Financial instruments

The Group manages its exposure to financial risks using a variety of techniques and instruments. Entering into speculative transactions is specifically prohibited.

Foreign exchange risk
Material foreign currency transaction exposures are covered by forward contracts and options.

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 the use of derivative financial instruments such as interest rate swaps and caps. 69% of Group borrowings (2004: 78%) are either fixed rate or hedged by qualifying interest rate swaps and caps.

Credit risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made principally to travel agents and corporate companies with an appropriate credit history. Sales to other customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

Funding risk
The Group's ability to fund its existing and prospective debt requirements is managed by maintaining adequate cash or adequate committed funding lines from high quality lenders.

Counterparty risk
The Group's ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

Fair values
The fair value of listed investments is based on market prices. Unlisted investments have been valued by reference to the market prices of the underlying investments, or by reference to the current market value of similar investments or by reference to the discounted cash flows of the underlying net assets.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

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

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

27 Financial instruments continued

The positive/(negative) fair values of derivative financial instruments at 31st December are as follows:

	2005 US$m	2004 US$m
Interest rate swaps and caps – designated as cash flow hedges		
At 1st January	**(6.0)**	(4.1)
Changes in fair value in the year	**11.5**	(1.9)
At 31st December	**5.5**	(6.0)

The notional principal amounts of the outstanding derivative financial instruments at 31st December 2005 were US$313.8 million (2004: US$362.3 million).

The due dates of outstanding derivative financial instruments at 31st December were as follows:

– Within one year	**59.5**	117.1
– Between two and five years	**179.3**	195.0
– Over five years	**75.0**	50.2
	313.8	362.3

At 31st December 2005, the fixed interest rates relating to interest rate swaps and caps ranged from 3.2% to 6.0% (2004: 3.2% to 6.0%).

28 Contingent liabilities

Guarantees in respect of facilities made available to associates and joint ventures	**71.1**	68.5

Guarantees in respect of facilities made available to associates and joint ventures are stated at their respective contracted amounts. The Directors are of the opinion that it is not probable that such guarantees will be called upon.

29 Commitments

	2005 US$m	2004 US$m
Capital commitments:		
Authorized not contracted	**63.1**	138.0
Contracted not provided	**89.4**	2.4
	152.5	140.4
Operating lease commitments:		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**4.9**	2.6
Between two and five years	**22.2**	10.7
Over five years	**137.7**	453.4
	164.8	466.7

Total future sublease payments receivable relating to the above operating leases amounted to US$0.2 million (2004: US$0.3 million).

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.

30 Related party transactions

The parent company of the Group is Jardine Strategic Holdings Limited 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 (2004: US$0.1 million) to Jardine Matheson Limited ('JML'), being a fee of 0.5% of the Group's net profit, in consideration for certain management consultancy services provided by JML. The Group has no outstanding balance with JML as at 31st December 2005 (2004: nil).

During 2005, the Group managed seven associate and joint venture hotels and received management fees of US$13.4 million (2004: US$14.1 million) based on long-term management agreements on normal commercial terms. The outstanding balances with associates and joint ventures are set out in debtors and prepayment in note 14.

The Group engages Gammon Construction Limited ('Gammon'), a joint venture of JMH, as contractor for certain of the Group hotel renovation projects. Fees paid by the Group to Gammon in 2005 were US$2.5 million (2004: US$0.7 million). The outstanding balance with Gammon as at 31st December 2005 amounted to US$5.4 million (2004: nil) which is included in creditors and accruals in note 15.

The Group uses Jardine Lloyd Thompson ('JLT') to place certain of its insurance. Brokerage fees and commissions, net of rebates, paid by the Group in 2005 to JLT amounted to US$0.5 million (2004: US$0.5 million). The Group has no outstanding balance with JLT as at 31st December 2005 (2004: nil).

30 Related party transactions continued

In August 2005, the Group disposed of its 17.5% interest in Reid Street Properties to Hongkong Land Holdings Limited, an associate of JMH, on an arm's length basis for US$2.3 million and realized a profit of US$2.0 million.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 75 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

31 Summarized balance sheet of the Company

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

	2005 US$m	2004 US$m
Subsidiaries at cost	**298.1**	291.8
Net current liabilities	**(0.7)**	(1.9)
Long-term borrowings	**–**	(75.4)
Net operating assets	**297.4**	214.5
Share capital (refer note 19)	**49.7**	43.9
Share premium (refer note 20)	**174.7**	104.4
Revenue reserves (refer note 22)	**67.0**	61.2
Other reserves (refer note 22)	**6.0**	5.0
Shareholders' funds	**297.4**	214.5

32 Post balance sheet event

On 30th December 2005, the Group announced that it had entered into an agreement to sell its 100% leasehold interest in The Mark, New York for a gross consideration of US$150.0 million, receivable in cash. The hotel was originally acquired in 2000 as part of the US$142.5 million acquisition of The Rafael Group. The sale was completed on 16th February 2006. After transaction costs and tax, the post-tax gain arising on the disposal is estimated at US$35.0 million.

Under the Group's accounting policies, the earnings before interest, tax and depreciation for The Mark (including management fees) for the year ended 31st December 2005 were US$3.6 million (2004: US$2.5 million). The Group's interest in the leasehold property as at 31st December 2005 was classified as a non-current asset held for sale.

The Group will continue to manage the hotel until further notice.

PRINCIPAL SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND MANAGED HOTELS

as at 31st December 2005

Principal country	Company/hotel name	Main activities
Subsidiaries		
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management
Hong Kong	Mandarin Oriental Hotel Group Limited	Management
Hong Kong	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong
	Excelsior Hotel (BVI) Limited	Owner: The Excelsior, Hong Kong
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich
United States	Mark Hotel Investors, L.P.	Owner: The Mark, New York
Philippines	Manila Mandarin Hotel Incorporated	Owner: Mandarin Oriental, Manila
Switzerland	Sociètè Immobilère de Mandarin Oriental Hotel du Rhône SA	Owner: Mandarin Oriental Hotel du Rhône, Geneva
	Sociètè pour L'Exploitation de Mandarin Oriental Hotel du Rhône SA	
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo
Associates		
Singapore	Marina Bay Hotel Private Limited	Owner: The Oriental, Singapore
Thailand	The Oriental Hotel (Thailand) PCL	Owner: The Oriental, Bangkok
United States	Kahala Hotel Associates Limited Partnership	Owner: Kahala Mandarin Oriental, Hawaii
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur
Indonesia	P.T. Sekman Wisata	Owner: Hotel Majapahit, Surabaya
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex
Joint Ventures		
Macau	Excelsior Hoteis E Investimentos Limitada	Owner: Mandarin Oriental, Macau
United States	Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York
Managed Hotels		
Hong Kong	The Landmark Mandarin Oriental, Hong Kong	
United States	Mandarin Oriental, San Francisco	
Bermuda	Elbow Beach, Bermuda	
France	Royal Monceau Hotel, Paris	
Thailand	Mandarin Oriental Dhara Dhevi, Chiang Mai	

Notes
1. Preference shares
2. Including a renewal option of 25 years exercisable in 2007

Attributable interest % 2005	2004	Issued share capital	Hotel profile
100	100	US$12,000	–
100	100	HK$60,000,000	–
100	100	HK$33,000,000	524 rooms. Lease expiry 2895
100	100	US$100	883 rooms. Lease expiry 2842
100	100	GBP 4,493,484 GBP 1,578,791 *(note 1)*	200 rooms. Freehold
100	100	Euro 3,632,000	73 rooms. Freehold
100	100	–	176 rooms. Lease expiry 2131
96.2	96.2	Peso 288,918,400	443 rooms. Lease expiry 2026
85.3	85.3	CHF 6,800,000	192 rooms. Lease expiry 2040
100	100	CHF10,800,000	–
80	80	–	400 rooms. Freehold
88.3	65.5	Rup 8,196,250,000	404 rooms. Lease expiry 2023
100	100	Yen 10,000,000	179 rooms. Lease expiry 2035
50	50	S$141,500,000	527 rooms. Lease expiry 2079
44.9	44.9	Baht 160,000,000	393 rooms. Various freehold/leasehold
–	40	–	364 rooms. Lease expiry 2043
25	25	RM 130,000,000	632 rooms. Freehold
25	25	Rup 28,252,000,000	143 rooms. Lease expiry 2008
25	25	–	327 rooms. Freehold
49	49	Baht 120,000,000	–
50	50	Ptc 20,000,000	416 rooms. Lease expiry 2032 *(note 2)*
50	50	–	251 rooms. Freehold
–	–	–	113 rooms
–	–	–	158 rooms
–	–	–	235 rooms
–	–	–	180 rooms
–	–	–	144 rooms on completion

To the members of Mandarin Oriental International Limited

We have audited the accompanying consolidated balance sheet of Mandarin Oriental International Limited and its subsidiaries ('the Group') as at 31st December 2005, and the related consolidated profit and loss account, cash flows, statement of recognized income and expense and related notes for the year then ended. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Bermuda Companies Act.

PricewaterhouseCoopers LLP
London
United Kingdom

23rd February 2006

	2001 US$m	2002 US$m	2003 US$m	2004 US$m	**2005 US$m**
Consolidated Profit and Loss Account					
Revenue	227.9	233.7	218.1	336.8	**399.2**
Operating profit	23.7	37.7	29.8	43.4	**60.4**
Net financing charges	(26.4)	(24.9)	(23.8)	(27.5)	**(22.4)**
Share of results of associates and joint ventures	6.6	7.6	(0.9)	12.6	**8.7**
Gains on disposal of associates	–	–	–	–	**52.3**
Profit before tax	3.9	20.4	5.1	28.5	**99.0**
Tax	(3.7)	(5.3)	(8.0)	(4.8)	**(24.8)**
Profit/(Loss) for the year	0.2	15.1	(2.9)	23.7	**74.2**
Profit attributable to shareholders	0.6	15.3	(1.8)	28.5	**77.2**
Loss attributable to minority interests	(0.4)	(0.2)	(1.1)	(4.8)	**(3.0)**
	0.2	15.1	(2.9)	23.7	**74.2**
Earnings per share (US¢)	0.07	1.80	(0.21)	3.35	**8.14**
Dividends per share (US¢)	0.50	–	–	1.00	**1.50**
Consolidated Balance Sheet					
Intangible assets	211.0	209.6	219.7	219.4	**215.5**
Tangible assets	458.4	512.3	687.1	752.1	**684.0**
Associates and joint ventures	219.0	272.9	243.3	258.6	**205.0**
Other investments	23.5	26.3	18.2	6.4	**5.1**
Loan receivable	–	–	–	–	**12.0**
Pension assets	14.6	5.4	19.2	22.9	**22.8**
Deferred tax assets	2.9	4.1	4.9	7.8	**9.9**
Other non-current assets	–	–	–	–	**5.5**
Net current assets/(liabilities)	69.6	37.6	35.8	(32.3)	**202.1**
Long-term borrowings	(448.1)	(483.0)	(584.9)	(497.1)	**(471.6)**
Deferred tax liabilities	(6.9)	(6.8)	(26.0)	(38.2)	**(49.8)**
Pension liabilities	(0.9)	(1.5)	(1.7)	(1.7)	**(1.7)**
Other non-current liabilities	(4.6)	(5.4)	(4.1)	(6.0)	**–**
Net operating assets	538.5	571.5	611.5	691.9	**838.8**
Share capital	42.6	42.6	42.6	42.6	**48.3**
Share premium	88.7	88.7	88.7	89.0	**158.8**
Revenue and other reserves	402.6	430.6	469.0	552.1	**628.0**
Shareholders' fund	533.9	561.9	600.3	683.7	**835.1**
Minority interests	4.6	9.6	11.2	8.2	**3.7**
Capital employed	538.5	571.5	611.5	691.9	**838.8**
Net assets value per share (US$)	0.63	0.66	0.70	0.80	**0.87**
Consolidated Cash Flow Statement					
Cash flows from operating activities	13.7	33.5	28.3	47.1	**72.6**
Cash flows from investing activities	(38.7)	(76.1)	(84.7)	(28.4)	**43.3**
Net cash flow before financing activities	(25.0)	(42.6)	(56.4)	18.7	**115.9**
Cash flow per share from operating activities (US¢)	1.60	3.93	3.32	5.53	**7.65**

Figures prior to 2005 have been restated to reflect certain prior period adjustments made on deferred taxation.

The Group's corporate governance relies on a combination of shareholder, board and management supervision and strict compliance, internal audit and risk control procedures, within the context of the various international regulatory regimes to which the Group is subject.

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 has its primary share listing on the London Stock Exchange and secondary listings in Bermuda and Singapore. The primary corporate governance regime applicable to the Company arises under the laws of Bermuda, including under certain specific statutory provisions that apply to the Company alone. The Company has fully complied with that governance regime. The Company is not subject to the Combined Code (the 'Code') that applies to United Kingdom incorporated companies listed in London, but this report outlines the significant ways in which its corporate governance practices differ from those set out in the Code.

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 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 75% 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 and the chief financial officer and group general counsel of Jardine Matheson.

The Board

The Company currently has a Board of 15 directors: the Group Chief Executive and Finance Director; five executives of Jardine Matheson; and eight non-executive Directors. Their names and brief biographies appear on pages 26 and 27 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 reflects the approach to management described in this report. The Board regards relevant business experience and relationships as more valuable attributes of its non-executive Directors than formal independence criteria. The Company does not have nomination or remuneration committees or a formal Board evaluation process. Decisions on nomination and remuneration result from consultations between the Chairman and the Managing Director and other Directors as they consider appropriate. The three executives of Jardine Matheson on the board of MOHG, being A J L Nightingale, Jonathan Gould and James Riley, also form the MOHG audit committee that has responsibility for the Group. The Board has not designated a 'senior independent director' as set out in the Code.

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, certain Directors of the Company based outside Asia make regular visits to Asia and Bermuda, where they participate in five annual strategic reviews, four of which normally precede the full Board meetings. These Directors' knowledge of the region and the Group's affairs reinforces the process by which business is reviewed by the Board.

The Board is scheduled to hold four meetings in 2006, and ad hoc procedures are adopted to deal with urgent matters. Two meetings each year are held in Bermuda and two in Asia. The Board receives high quality, up to date

The Board (continued)

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.

Directors' appointment, retirement, remuneration and service contracts

Candidates for appointment as executive Directors of the Company, or as directors of MOHG or 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 of the highest calibre in their area of expertise.

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 April 2006, A J L Nightingale succeeded Percy Weatherall as Managing Director. In accordance with Bye-law 85, Henry Keswick, R C Kwok, Sydney S W Leong and Percy Weatherall retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, A J L Nightingale will also retire, and, being eligible, offers himself for re-election. None of the Directors proposed for re-election has a service contract with the Company or its subsidiaries.

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, including the Group Chief Executive and Finance Director, are required to be offered international terms. The nature of the remuneration packages is designed to reflect this, for example by the provision of accommodation. Non-executive Directors' fees are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws.

For the year ended 31st December 2005, the Directors received from the Group US$3.33 million (2004: US$2.80 million) in employee benefits, being US$3.28 million (2004: US$2.76 million) in short-term employee benefits including salary, bonus, accommodation and deemed benefits in kind and US$0.05 million (2004: US$0.04 million) in post-employment benefits. The information set out in this paragraph forms part of the audited financial statements.

A motion to increase the Directors' fees to US$25,000 each per annum and the fees for the Chairman and Managing Director to US$30,000 each per annum, save that salaried executives shall not be eligible for such fees, with effect from 1st January 2006 will be proposed at the forthcoming Annual General Meeting.

Senior executive share incentive schemes have previously been established to provide longer-term incentives for executive Directors and senior managers. The share options are granted by the scheme trustee after consultation between the Chairman, the Managing Director and the Group Chief Executive and other Directors as they consider appropriate. The share options are granted at the then prevailing market prices and the scheme rules now 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.

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, an important set of guidelines to which every employee must adhere. This 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. 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.

Internal control

The Board has overall responsibility for the Group's system of 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 Board has delegated to the audit committee of MOHG responsibility for reviewing the operation and effectiveness of the Group's system of internal control and the procedures by which this is monitored. The audit committee considers the system and procedures on a regular basis, and reports to the Board semi-annually. The Group Chief Executive and Finance Director of MOHG, together with representatives of the internal and external auditors, attend the meetings of the audit committee by invitation.

Executive management is responsible for the implementation of the system of internal control throughout the Group and the internal audit function monitors the effectiveness of the system. The internal audit function is outside the operating businesses and reports its findings, and recommendations for any corrective action required, to the audit committee of MOHG.

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 is also an important part of 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, which are in the process of implementation, for employees to raise, in confidence, any concerns over financial reporting, compliance or other matters, and to review any reports made under those procedures that might be referred to it by the internal audit function.

Internal control (continued)

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 is undertaken by the audit committee of MOHG with the executive management and a report is received from the external auditors. The external auditors also have access to the full Board, in addition to the Group Chief Executive, Finance Director 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 department. The audit committee of MOHG also keeps under review the independence and objectivity of the external auditors.

Directors' share interests

At 31st December 2005, the Directors of the Company had the interests set out below in the ordinary share capitals of the Company and its holding companies, Jardine Strategic Holdings Limited ('Jardine Strategic') and Jardine Matheson Holdings Limited ('Jardine Matheson'), and fellow subsidiary Dairy Farm International Holdings Limited ('Dairy Farm'). These interests were beneficial unless otherwise stated.

	The Company	Jardine Strategic	Jardine Matheson	Dairy Farm
Simon Keswick	19,858	7,290	9,364,343#	66,087
		19,661*	2,722,552*	
Edouard Ettedgui	–	–	–	24,000
Henry Keswick	–	–	11,628,642#	–
			55,366*	
R C Kwok	6,711	1,167	28,315	20,914
C G R Leach	–	53,777	932,814	–
Richard Lee	–	–	90,000	–
Sydney S W Leong	467,577	227,428	557,698	1,025,571
		12,696*		
James Watkins	–	–	100,567	–
Percy Weatherall	–	78,750	33,593,220#	552,081
			355,389*	

* Non-beneficial.

Includes 2,269,585 ordinary shares held by a family trust in which Simon Keswick, Henry Keswick and Percy Weatherall each has a discloseable interest.

In addition:

a) At 31st December 2005, Edouard Ettedgui and John R Witt held options in respect of 7,100,000 and 2,200,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.

b) At 31st December 2005, Jonathan Gould and Percy Weatherall held options in respect of 150,000 and 130,000 ordinary shares, respectively, in Jardine Matheson issued pursuant to that company's senior executive share incentive schemes.

c) At 31st December 2005, Simon Keswick, Jonathan Gould, Henry Keswick, C G R Leach and Percy Weatherall had deemed interests in 35,915,991 ordinary shares in Jardine Matheson as discretionary objects under the 1947 Trust, the income of which is available for distribution to senior executive officers and employees of Jardine Matheson and its wholly-owned subsidiaries.

Directors' share interests (continued)

d) At 31st December 2005, Simon Keswick had a beneficial interest in 350,400 ordinary shares in fellow subsidiary PT Astra Agro Lestari Tbk.

e) At 31st December 2005, Jonathan Gould had a beneficial interest in 400,000 ordinary shares in fellow subsidiary PT Astra International Tbk ('Astra').

f) On 3rd March 2006, Edouard Ettedgui and John R Witt were granted options in respect of a further 2,700,000 and 1,200,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.

g) On 30th March 2006, Percy Weatherall disposed of 152,081 ordinary shares in Dairy Farm and 122,300 ordinary shares in Jardine Matheson.

h) Between 30th March and 3rd April 2006, Percy Weatherall disposed of 78,750 ordinary shares in Jardine Strategic.

i) On 1st April 2006, the effective date of his appointment, A J L Nightingale had a beneficial interest in 16,875 ordinary shares in Jardine Strategic, 1,002,332 ordinary shares in Jardine Matheson, 24,375 ordinary shares in Dairy Farm, 25,000 ordinary shares in fellow subsidiary Jardine Davies Inc, 15,000 ordinary shares in fellow subsidiary Cycle & Carriage Bintang Berhad and 600,000 ordinary shares in Astra. He also had a non-beneficial interest in 5,333 ordinary shares in Jardine Matheson, 9,808 ordinary shares in Dairy Farm and 10,000 ordinary shares in Astra, and a deemed interest in 35,915,991 ordinary shares in Jardine Matheson as a discretionary object under the 1947 Trust.

j) On 3rd April 2006, Percy Weatherall disposed of 130,000 ordinary shares in Jardine Matheson, which he had received upon the exercise on that date of options issued pursuant to the Jardine Matheson senior executive share incentive schemes.

Save as disclosed, there were no changes in the above interests between the end of the financial year and 10th April 2006.

Substantial shareholders

The Company has been informed pursuant to the share interest disclosure obligations incorporated in Part XVII of the statutory Bermuda Takeover Code governing the Company of the following notifiable interests in the ordinary shares of the Company: Jardine Strategic and its subsidiary undertakings were interested directly and indirectly in 745,835,282 ordinary shares representing 75.14% of the Company's current issued ordinary share capital. By virtue of its interest in Jardine Strategic, Jardine Matheson was deemed to be interested in the same number of ordinary shares. Apart from these shareholdings, the Company is not aware of any notifiable interest in 3% or more of the issued ordinary share capital of the Company as at 10th April 2006.

The Bermuda Takeover Code which governs the Company provides for the disclosure of interests in shares of the Company. The obligation to disclose arises if and when a person is interested in 3% (or, in certain circumstances, 10%) or more of the shares of the same class. The higher limit of 10% applies, in broad terms, to a person authorized to manage investments under an investment management agreement or where such person is the operator of an authorized collective investment scheme.

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

Relations with shareholders

The Company maintains a dialogue with major shareholders and holds meetings following the announcement of the annual and interim results with institutional shareholders. A corporate website is maintained containing a wide range of information of interest to investors at www.mandarinoriental.com.

The 2006 Annual General Meeting will be held on 14th June 2006. 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.

Securities purchase arrangements

At the Annual General Meeting held on 4th May 2005, 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.

On 30th December 2005, the Company repurchased and cancelled 2,192,000 ordinary shares representing 0.2% of the Company's issued ordinary share capital for an aggregate consideration of US$2.3 million from Mandarin Oriental Trustees Limited, a subsidiary and the trustee of the Company's Senior Executive Share Incentive Schemes. The repurchase related to options previously granted under the Company's Senior Executive Share Incentive Schemes which had ceased to be exercisable and was carried out in accordance with the Schemes' rules at the respective issue prices.

Arrangements under which shareholders have agreed to waive dividends

Mandarin Oriental Trustees Limited has undertaken to waive the recommended final dividend for 2005 in respect of the ordinary shares in which it is interested as trustee of the Company's Senior Executive Share Incentive Schemes.

Related party transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 30 to the financial statements on pages 68 and 69. There were no transactions entered into by the Company during the course of the year to which the related party transaction rules of the UK Listing Authority apply.

Financial calendar

2005 full-year results announced	23rd February 2006
Share registers closed	20th to 24th March 2006
Annual General Meeting to be held	14th June 2006
2005 final dividend payable	21st June 2006
2006 half-year results to be announced	27th July 2006*
Share registers to be closed	21st to 25th August 2006*
2006 interim dividend payable	22nd November 2006*

* *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 by notifying the United Kingdom transfer agent in writing by 2nd June 2006. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 7th June 2006. 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, PO Box HM 1068, Hamilton HM EX, Bermuda

Jersey Branch Registrar

Capita IRG (Offshore) Limited, PO Box 378, St Helier, Jersey JE4 0FF, Channel Islands

Singapore Branch Registrar

M & C Services Private Limited, 138 Robinson Road #17-00, The Corporate Office, Singapore 068906

United Kingdom Transfer Agent

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

Press releases and other financial information on the Company can be accessed through the Internet at 'www.mandarinoriental.com'.

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