Mandarin Oriental International Limited

Annual Report 2007

Mandarin Oriental Hotel Group is an international hotel investment and management group with deluxe and first class hotels and resorts in sought-after destinations around the world. The Group now operates, or has under development, over 10,000 rooms in 23 countries with 16 hotels in Asia, 14 in The Americas and nine in Europe and North Africa. The Group has equity interests in many of its properties and net assets of approximately US$2.3 billion as at 31st December 2007.

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

The parent company, Mandarin Oriental International Limited, is incorporated in Bermuda and has 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

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Directors

Simon Keswick *Chairman*
A J L Nightingale *Managing Director*
Edouard Ettedgui *Group Chief Executive*
Jonathan Gould
Mark Greenberg
Julian Hui
Henry Keswick
R C Kwok
Lord Leach of Fairford
Dr Richard Lee
Robert Léon
Sydney S W Leong
Lord Powell of Bayswater *KCMG*
James Watkins
Percy Weatherall
John R Witt

Company Secretary and Registered Office

C H Wilken
Jardine House
33–35 Reid Street
Hamilton, Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

A J L Nightingale *Chairman*
Edouard Ettedgui *Group Chief Executive*
Jonathan Gould
Mark Greenberg
A R R Hirst
M H Hobson
W Hültner
L R Lambert
James Riley
T L Stinson
John R Witt *Chief Financial Officer*

Corporate Secretary

N M McNamara

Highlights

Mandarin Oriental International Limited

- Strong contribution from Hong Kong hotels
- Eight new hotel projects announced, including Beijing and Paris
- Full-year dividend per share increased by 100% to US¢6.00

Results

	2007 US$m	2006 US$m	Change %
Combined total revenue of hotels under management[1]	**1,007.7**	850.3	19
Earnings before interest, tax, depreciation and amortization[2]	**190.2**	116.4	63
Profit attributable to shareholders	**108.2**	80.0	35
Profit attributable to shareholders – excluding gains on disposal and writeback of impairment of an associate	**87.1**	45.0	94
	US¢	US¢	%
Earnings per share	**11.16**	8.28	35
Earnings per share – excluding gains on disposal and writeback of impairment of an associate	**8.98**	4.66	93
Dividends per share	**6.00**	3.00	100
	US$	US$	%
Net asset value per share	**1.18**	1.03	15
Net asset value per share with leasehold properties at valuation[3]	**2.34**	1.78	31

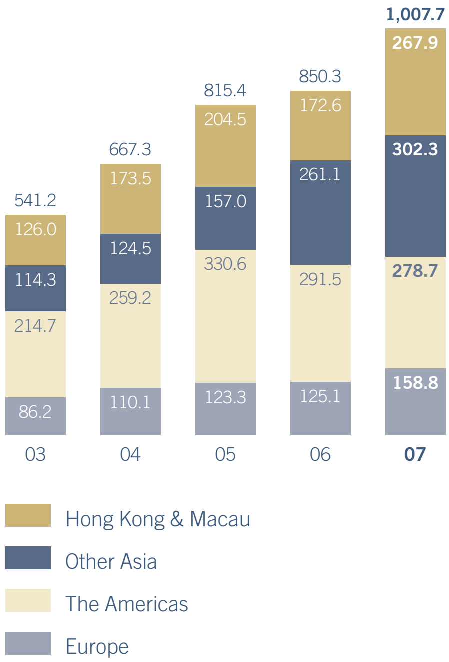
[1] Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate, joint venture and managed hotels.

[2] EBITDA does not include gains on disposal and writeback of impairment of an associate.

[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.

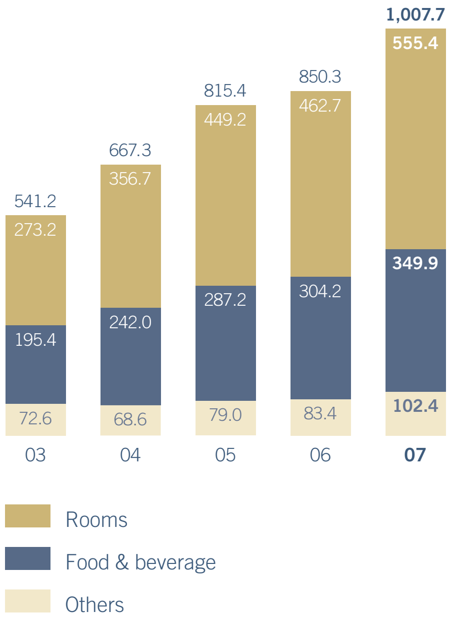
Combined total revenue
by geographical area

US$m



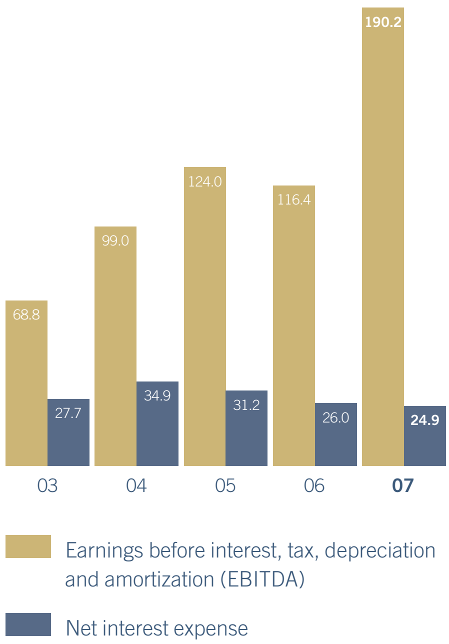
Combined total revenue
by type of business

US$m



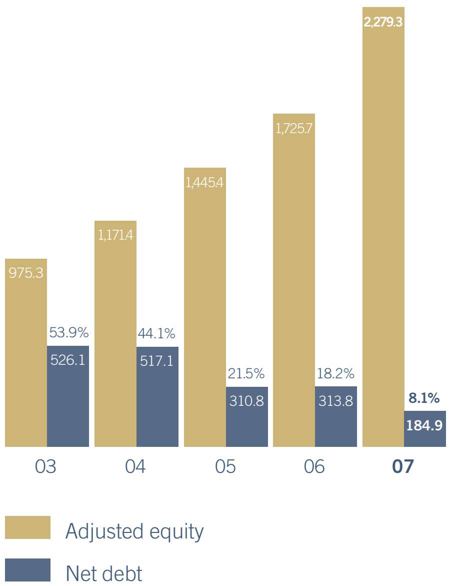
EBITDA and net interest expense

US$m



Net debt/adjusted equity

US$m



Chairman's Statement

Overview

Favourable conditions in most markets and a limited new supply of hotel rooms in key city centre locations enabled Mandarin Oriental to achieve higher average rates and record earnings in 2007. In particular, the Group's two wholly-owned Hong Kong hotels performed well, including its original flagship, Mandarin Oriental, Hong Kong, which was reopened in late September 2006 after completion of a major renovation programme.

The Group's development programme continued apace in 2007 and, with a record number of new hotel projects announced, Mandarin Oriental now has 10,000 rooms in operation or under development.

Performance

Earnings before interest, tax, depreciation and amortization for 2007 were US$190 million compared with US$116 million in 2006 when Mandarin Oriental, Hong Kong was closed for nine months.

Profit attributable to shareholders in 2007 was US$108 million, which includes a US$16 million gain arising from the sale of half the Group's 50% equity interest in Mandarin Oriental, New York and a US$5 million investment writeback in respect of the value of the Group's 25% interest in its Kuala Lumpur hotel. This compares with US$80 million in the previous year, which included a post-tax gain of US$35 million arising from the sale of The Mark hotel in New York. Excluding the non-trading items, profit attributable to shareholders was US$87 million in 2007 compared with US$45 million in 2006.

Earnings per share for the year were US¢11.16 compared with US¢8.28 in 2006. Excluding non-trading items, earnings per share in 2007 were US¢8.98 compared with US¢4.66 per share in 2006.

The Directors recommend a final dividend of US¢5.00 per share. This, together with the interim dividend of US¢1.00 per share, will make a total annual dividend of US¢6.00, an increase of 100% compared with the US¢3.00 paid in respect of 2006.

The Group remains in a strong financial position. The net asset value per share with leasehold properties adjusted for fair market value was US$2.34 at 31st December 2007, an increase of 31% compared with US$1.78 at the end of 2006.

Developments

The Group announced eight new projects in 2007, comprising hotels in Beijing, Guangzhou, Taipei, Milan and Paris and three in resort destinations. All of the 18 hotels the Group now has under development will be managed on behalf of third-party owners, with the exception of Paris which is a long-term lease. Ten of the projects incorporate a *Residences at Mandarin Oriental* component, in addition to the residences being built next to the Group's existing hotel in London.

Mandarin Oriental Riviera Maya, Mexico opened in February 2008, bringing the total number of the Group's operating hotels to 21. The opportunity for future growth is significant as the Group is now well-recognized as a pre-eminent international luxury brand, with a reputation for exceptional service.

People

The provision of service at the level we demand in our hotels, combined with meeting the challenges of growth, depends on the initiative, dedication and hard work of each of the 10,000 people that work throughout our Group. On behalf of the Board, I would like to express my appreciation to all of them.

Outlook

While demand was stable in the first two months of the year, economic conditions in 2008 may become more difficult in some of the Group's markets. The outlook for Mandarin Oriental, however, remains encouraging due to both the strength of the brand and the limited new supply of luxury hotels. This is particularly true in Asia and Europe where the Group has significant hotel ownership interests.

Simon Keswick
Chairman
6th March 2008

Group Chief Executive's Review

Business strategy

Mandarin Oriental aims to be widely recognized as the best international luxury hotel group offering 21st century luxury with oriental charm in sought-after destinations around the world. An award-winning owner and operator of some of the world's most prestigious hotels and resorts, our Group will continue to grow profitably its global presence. Mandarin Oriental now operates 21 hotels with a further 18 under development, bringing the total number of rooms to 10,000 in 23 countries, reflecting the increasing strength of the brand.

Progress achieved

A number of significant accomplishments resulted in 2007 being another milestone year for Mandarin Oriental.

Firstly, the Group achieved its highest ever financial performance. This resulted from the enhanced contributions of our growing and diversified global portfolio which benefited from strong market conditions in our key locations. The increasing demand for luxury travel experiences, the continued limited new supply in our sector and the impact of the global growth of the Group is clearly demonstrated by comparing our performance over the past four years, since the end of the Asian downturn in 2003:

	2004 US$m	2005 US$m	2006 US$m	**2007 US$m**	07 vs. 04 %
Combined total revenue of hotels under management	667	815	850	**1,008**	51
EBITDA	99	124	116	**190**	92
Profit attributable to shareholders excluding non-trading items	19	41	45	**87**	358

Secondly, Mandarin Oriental's international expansion continued to accelerate. In 2007, the Group ended the year with a record of eight new management contracts announced, including luxury hotels in the strategically important cities of Beijing and Paris. Further progress has been made in the development of Mandarin Oriental's hideaway concepts, with the recent opening of Mandarin Oriental Riviera Maya, Mexico. During the year, the Group also announced a further three *Residences at Mandarin Oriental* that will accompany hotel projects, bringing the total number of branded Residences to 12. The Group continues to review additional opportunities for luxurious urban hotels, resorts, hideaways and residences in important locations around the world.

Finally Mandarin Oriental increased its global recognition. The Group and its hotels were highly successful in achieving significant awards from respected travel associations and publications, with more Mandarin Oriental hotels featured than ever before. Highlights include the 2007 *Condé Nast Traveler US 'Readers Choice Awards'* which featured ten Mandarin Oriental hotels and *'The World's Best' from Travel & Leisure*, with nine hotels appearing. Mandarin Oriental, New York remains one of only a few hotels to achieve both the prestigious *'Mobil Five Star'* and the *American Automobile Association's 'Five Diamond Lodgings Award'*. The Group's expertise in holistic spa operations was also recognized with Mandarin Oriental achieving more spa awards than in any other year, including *'Best Wellness and Spa Company'* by *Spa Asia* and the most *'Outstanding Brand'* in *Spa Finders 2007 Readers Choice Awards*, with six individual hotel spas winning in a variety of categories. Finally Mandarin Oriental Hotel Group was voted Best Overseas Hotel Group by readers of The Observer and The Guardian newspapers in the UK in October 2007.

Performance in 2007

Set out below is a review of the Group's performance in 2007, with reference to the following strategic objectives:

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

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

Mandarin Oriental is enjoying increasing recognition for creating many of the world's most desirable luxury hotels. From our roots in the heart of Asia, where most of our original properties remain market leaders having benefited from renovations in recent years, Mandarin Oriental has expanded into the global arena, with award-winning properties in many of the world's leading destinations. The visibility of our brand will increase further as the number of hotels we operate around the world continues to grow.

The Group remains focused, as always, on delivering the brand attributes which define our own style of luxury. This includes creative hotel design and architecture, innovative dining experiences, expertise in holistic spa operations, guest-orientated technology and, of course, the legendary service which remains the foundation of everything we do. The investment behind our brand and our people over the past few years has led to the Group becoming well respected as a management company amongst the owners and developers of luxury hotels around the world.

Such strong brand recognition allows our properties to achieve premium rates and compete effectively.

2) Strengthening our competitive position

To be the market leader within their local environment is a key goal for each of our hotels, and we continued to improve our competitive positioning in 2007. Demand for luxury travel grew, as did our ability to increase average rates. This led to higher Revenue Per Available Room (RevPAR) across all regions, with Asia up 12%, Europe up 26% and The Americas up 14% over 2006. Consequently, operating profits at most of the individual hotels have shown significant improvement over the previous year.

The highlights of each region are as follows:

Asia

The Group's results benefited from the full contribution of Mandarin Oriental, Hong Kong which reopened as one of the world's legendary hotels in late September 2006 following a nine-month closure and a US$150 million renovation. In its first full year of operation since the renovation, the hotel achieved an occupancy of 74% and an average rate of US$399, 50% above the rate in 2005. While the hotel's occupancy was affected by the tail end of the renovation work in the earlier part of the year, occupancy was 84% in the fourth quarter. The re-designed hotel has been acclaimed locally and internationally and is quickly re-establishing its top position in readership surveys of prestigious publications around the world. It was voted *'Best Renovated Hotel'* in *Business Traveller UK's* annual readership survey in 2007.

The Excelsior, Hong Kong, the Group's second wholly-owned property in the city with 885 rooms, also had an excellent year, achieving an 8% increase in RevPAR over 2006 results, with the average rate up to US$179 from US$163.

In Macau, Mandarin Oriental maintained its competitive position despite a significant increase in the city's hotel supply which led to a RevPAR decrease of 5% year-on-year.

As a result of further improvements in the local economies, RevPAR increased by 22% in Manila and 17% in Kuala Lumpur. In September 2007, the Group's 50% owned hotel in Singapore was re-named Mandarin Oriental, Singapore to align the property better with the Group's brand, following the successful renovation in 2005. The hotel capitalized on strong market conditions throughout the year, achieving a 28% increase in RevPAR with the average rate up to US$209 from US$163 in 2006. In December 2007, Mandarin Oriental, Jakarta closed its doors for two years to embark on a far-reaching, US$50 million renovation programme designed to re-position the property as one of the city's most luxurious and contemporary hotels.

Despite the political uncertainties in Thailand, The Oriental, Bangkok maintained its strong competitive position and once again appeared at the top of the most important world-wide travel awards.

Mandarin Oriental, Tokyo performed well in its second full year of operation, achieving a 19% increase in RevPAR over 2006 with an average rate of US$475. The hotel continues to enhance its reputation as one of the top luxury hotels in the city. Recently, it was voted the top-rated hotel in Japan in *Zagat's* 2007–2008 *World's Top Hotels, Resorts & Spas Survey,* and its fine-dining restaurant *Signature* was awarded a Michelin Star.

Europe

In Europe, strong demand for luxury accommodation, particularly from the leisure market, and a limited new supply of hotel rooms, drove increases in room rates in all of our hotels. In particular, Mandarin Oriental Hyde Park, London had an excellent year, increasing its average rate from US$731 in 2006 to US$886 in 2007, a 12% increase in local currency terms. Occupancy also increased from 85% to 88%. Following the completion of a full scale rooms renovation programme in the first half of the year, Mandarin Oriental, Munich maintained its position as the undisputed market leader in the city, and increased its average rate to US$585 from US$503 in 2006, a 7% increase in local currency terms. In Geneva, Mandarin Oriental improved both its occupancy and average room rate, resulting in a 23% increase in RevPAR in local currency terms, despite having commenced a renovation to the public areas of the hotel in October 2007. The work will be completed in June 2008 and will include new restaurants and bars as well as seven additional roof-top suites which will be particularly appealing to the leisure traveller.

The Americas

All of the Group's hotels in The Americas benefited from strong demand and limited new supply, resulting in rate increases in each location. Mandarin Oriental, Washington D.C. did well to increase its contribution to the Group's results, with a 14% increase in RevPAR mainly due to higher average rates. The hotel has established itself as one of the city's most luxurious properties, and over the longer term, there is potential for further achievement as the local neighbourhood develops along the Potomac River.

Once again, the Group's flagship New York property received many accolades from its guests and the world's media. Mandarin Oriental, New York achieved an average rate of US$937 with an occupancy of 76%, resulting in a 15% increase in RevPAR over the previous year. Our Miami property also increased its RevPAR performance by 14% over the previous year.

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

With the record number of new projects announced in 2007, Mandarin Oriental will successfully achieve its mid-term goal of operating 10,000 rooms in key global locations within the next few years. During the year, we announced eight new Mandarin Oriental hotels, resorts or hideaways in Beijing, Guangzhou, Taipei, Marbella, Milan, Paris, Costa Rica and St Kitts. Mandarin Oriental Riviera Maya, Mexico is the Group's most recent hotel to open in February 2008, while Mandarin Oriental, Sanya, a resort destination on China's Hainan Island, should open by the mid-year. Both hotels had been planned to open in 2007, but were affected by construction delays. Beijing and Boston should also open later this year. Going forward, the timing of new hotel openings will be subject to change as developers find it more difficult to access new financing.

The number of hotels operated by the Group will increase from 21 currently to 39 in the coming years. Critical mass and strong geographic diversification will then have been achieved with 16 properties in Asia, 14 in The Americas and nine in Europe and North Africa.

The brand has been enhanced further by the increasing number of *Residences at Mandarin Oriental* which are generally integrated with the new hotel developments. The Group receives one-off branding fees from these residential projects, as well as ongoing revenues resulting from the use of hotel facilities by the owners of the villas or apartments.

The potential for future growth remains significant. The Group constantly reviews opportunities for additional luxury properties, each of which must meet exacting criteria aimed at providing exceptional experiences to Mandarin Oriental guests. Most new opportunities are in the form of management contracts which require limited capital from the Group but generate significant branding and management fees. With the exception of Paris which is a long-term lease, all 18 current projects under development are management contracts, highlighting the strength of the brand. At the same time, the Group will remain a significant owner of hotel properties, particularly in major cities, and we are well positioned to take advantage of future investment opportunities that may arise in strategic locations. Ownership provides potential long-term capital appreciation, ensures the continuing control of our brand heritage and gives us increased credibility with third-party hotel owners and developers. Our hotel investments can also provide the Group with significant profits and cash flow as it benefits fully from favourable market conditions, as demonstrated by our portfolio in 2007. Overall, the intent of operating both owned and managed hotels remains fundamental to the strategy of the Group.

4) Achieving a strong financial performance

Mandarin Oriental achieved a record performance in 2007, with improved results from the Group's growing international portfolio as well as the return of the contribution from the fully renovated, 100%-owned Mandarin Oriental, Hong Kong. Excluding gains from disposals and other non-trading items, profit attributable to shareholders in 2007 was US$87 million compared to US$45 million in 2006.

The completed sale of half of its 50% interest in Mandarin Oriental, New York in March 2007, resulted in a post-tax gain of US$16 million. The Group continues to own 25% of this strategically important property with improved terms for our long-term management contract.

In 2007, the Group carried out a full review of its hotel investments by independent, third-party valuers. This has been reflected in the adjusted net asset value per share which was US$2.34 at 31st December 2007, an increase of 31% from 2006 as the Group continued to benefit from capital appreciation on its hotel investments.

Reflecting the Group's growth in earnings and strong financial position, Mandarin Oriental has recommended a 100% increase in the full year dividend to US¢6.00.

The future

Mandarin Oriental is well positioned to benefit from its global portfolio, as new hotels come on stream in the coming few years and the Group doubles in size. The demand for luxury travel and the limited new supply in most of the destinations in which we operate should also provide support, notwithstanding possible future uncertainties.

As we open new and exciting projects in the world's most sought-after destinations, the recognition of Mandarin Oriental as a global luxury brand grows stronger. The Group is therefore in an excellent position to deliver our long-term vision of being widely recognized as the best luxury hotel group in the world.

Edouard Ettedgui
Group Chief Executive
6th March 2008

Operating Summary

There are 21 hotels in operation, but the operating summary includes only hotels in which the Group has a significant equity interest.

ASIA

Mandarin Oriental, Hong Kong 100% ownership (closed from 28th December 2005 to 27th September 2006 for renovation)

	2007	2005†	% Change
Available rooms	**487**	524	(7)
Average occupancy (%)	**74**	81	(9)
Average room rate (US$)	**399**	266	50
RevPAR (US$)	**294**	215	37

† 2005 numbers have been provided for comparison purposes, as on re-opening in late September 2006, only a limited number of rooms were available.

The Excelsior, Hong Kong 100% ownership

	2007	2006*	% Change
Available rooms	**885**	884	0
Average occupancy (%)	**88**	89	(1)
Average room rate (US$)	**179**	163	10
RevPAR (US$)	**157**	145	8

Mandarin Oriental, Tokyo 100% leasehold

	2007	2006*	% Change
Available rooms	**179**	179	0
Average occupancy (%)	**77**	66	17
Average room rate (US$)	**475**	471	1
RevPAR (US$)	**367**	309	19

Mandarin Oriental, Manila 96.2% ownership

	2007	2006*	% Change
Available rooms	**443**	443	0
Average occupancy (%)	**80**	81	(1)
Average room rate (US$)	**97**	79	23
RevPAR (US$)	**78**	64	22

Mandarin Oriental, Jakarta 88.3% ownership (closed from 23rd December 2007 for renovation)

	2007	2006*	% Change
Available rooms	**404**	404	0
Average occupancy (%)	**37**	49	(24)
Average room rate (US$)	**68**	65	5
RevPAR (US$)	**25**	32	(22)

Mandarin Oriental, Macau 50% ownership

	2007	2006*	% Change
Available rooms	**416**	416	0
Average occupancy (%)	**66**	68	(3)
Average room rate (US$)	**168**	173	(3)
RevPAR (US$)	**111**	117	(5)

Mandarin Oriental, Singapore 50% ownership

	2007	2006*	% Change
Available rooms	**527**	527	0
Average occupancy (%)	**75**	75	0
Average room rate (US$)	**209**	163	28
RevPAR (US$)	**157**	123	28

The Oriental, Bangkok 44.9% ownership

	2007	2006*	% Change
Available rooms	**393**	393	0
Average occupancy (%)	**66**	70	(6)
Average room rate (US$)	**269**	240	12
RevPAR (US$)	**178**	168	6

Mandarin Oriental, Kuala Lumpur 25% ownership

	2007	2006*	% Change
Available rooms	**632**	632	0
Average occupancy (%)	**77**	79	(3)
Average room rate (US$)	**168**	139	21
RevPAR (US$)	**129**	110	17

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2007	2006*	% Change
Available rooms	**198**	198	0
Average occupancy (%)	**88**	85	4
Average room rate (US$)	**886**	731	21
RevPAR (US$)	**776**	620	25

Mandarin Oriental, Munich 100% ownership
(impacted by 3-month room renovation in 2007)

	2007	2006*	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**72**	83	(13)
Average room rate (US$)	**585**	503	16
RevPAR (US$)	**420**	416	1

Mandarin Oriental Hotel du Rhône, Geneva
92.6% ownership

	2007	2006*	% Change
Available rooms	**190**	190	0
Average occupancy (%)	**72**	65	11
Average room rate (US$)	**550**	480	15
RevPAR (US$)	**398**	310	28

THE AMERICAS

Mandarin Oriental, Washington D.C.
80% ownership

	2007	2006*	% Change
Available rooms	**400**	400	0
Average occupancy (%)	**61**	58	5
Average room rate (US$)	**331**	304	9
RevPAR (US$)	**201**	177	14

Mandarin Oriental, New York 25% ownership
(2006: 50%; 2007: half of 50% ownership sold on 1st March 2007)

	2007	2006*	% Change
Available rooms	**248**	248	0
Average occupancy (%)	**76**	75	1
Average room rate (US$)	**937**	832	13
RevPAR (US$)	**715**	624	15

Mandarin Oriental, Miami 25% ownership

	2007	2006*	% Change
Available rooms	**326**	327	0
Average occupancy (%)	**72**	70	3
Average room rate (US$)	**399**	359	11
RevPAR (US$)	**288**	252	14

*Comparative average room rates for prior years have been restated to include other minor rooms revenue to conform to the current year's presentation and industry practice.

Development Portfolio

Mandarin Oriental Hotel Group currently has 18 hotels and 11 *Residences at Mandarin Oriental* under development. Opening dates are planned as follows:

2008

Mandarin Oriental, Beijing
A 241-room hotel in the central business district of Beijing, which will be a key component of the landmark headquarters of the China Central Television (CCTV) project.

Mandarin Oriental, Sanya
An exclusive 296-room luxury resort on Hainan Island in the South China Sea.

Mandarin Oriental, Boston
A 148-room hotel which will be housed within a mixed-use complex in the heart of the city including 50 *Residences at Mandarin Oriental*.

2009

Mandarin Oriental Lago Nam Van, Macau
A second property in Macau which will be part of a prestigious mixed-use complex on the waterfront, featuring 216 rooms.

Mandarin Oriental, Barcelona
A 97-room hotel, housed in the re-development of an elegant mid-20th century building, located on the prestigious Paseo de Gracia.

Mandarin Oriental Jnan Rahma, Marrakech
A 161-room intimate hideaway in the exclusive Palmeraie region with 44 *Residences at Mandarin Oriental*.

Mandarin Oriental, Las Vegas
A 392-room hotel in the urban development 'Project CityCenter', including 227 *Residences at Mandarin Oriental*.

2010 and beyond

Mandarin Oriental, Guangzhou
A 401-room hotel will be part of the prestigious TaiKoo Hui mixed-use complex, currently under construction in the Tianhe central business district.

Mandarin Oriental, Taipei
A 300-room hotel which will be a key component of a mixed-use luxury lifestyle and entertainment complex in the heart of the central business district.

The Residences at Mandarin Oriental, London
An iconic development adjacent to the Group's London hotel, comprising 80 luxurious *Residences at Mandarin Oriental*.

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

2010 and beyond *continued*

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

Mandarin Oriental, Paris
A 142-room luxurious palace hotel planned to open on rue Saint Honoré.

Mandarin Oriental, Chicago
A 252-room hotel which will be part of an exclusive mixed-use development in Chicago's growing Millennium Park neighbourhood, including 103 *Residences at Mandarin Oriental*.

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

Mandarin Oriental, Dallas
A 139-room hotel in the city's dynamic new mixed-use Victory Park development with 91 *Residences at Mandarin Oriental*.

Mandarin Oriental, Grand Cayman
An intimate 114-room hideaway, set on an unspoiled 10-acre beachfront site including 32 *Residences at Mandarin Oriental*.

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

Mandarin Oriental Dellis Cay, Turks & Caicos
A secluded 197-room hideaway featuring a variety of *Residences at Mandarin Oriental* housed in 18 stand-alone villas and 79 multi-roomed apartments, all located on an unspoiled 35-acre beachfront site.

Opening dates are subject to change as determined by each project's owner/developer.

International Recognition

Mandarin Oriental Hotel Group is consistently featured by influential global publications as an outstanding hotel company. Below are quotes from a selection of these publications that highlight individual properties and the Group.

Mandarin Oriental Hotel Group

A "truly top-of-the-line" collection of "fashionable, upscale hotels", the five U.S. outposts of this Asia-based chain combine "amazing locations, gorgeous rooms", "outstanding service catering to your every whim", world-class, cutting-edge spas and some of the best dining in their respective cities; "exceptional attention to detail" includes high-tech electronics, "swanky" bath amenities and plush terry robes…*Zagat, US, 2007*

The Oriental, Bangkok

One of Asia's grande dame hotels, this 131-year-old favorite along the river is known for its impeccable service and connections to literary greats. *National Geographic Traveller, 2007*

Mandarin Oriental Dhara Dhevi, Chiang Mai

It was heavenly, dreamy,…a glorious full blown fantasy. *The Independent Traveller, UK, 2007*

Mandarin Oriental, Hong Kong

The revamp of the Mandarin left it looking similar but beautifully spruced-up, a huge relief for its regulars. *Tatler, UK, 2007*

A triumphant return for one of the most famous hotels in the world. It has been brought into the 21st century without losing its very distinctive character. *Business Traveller, UK, 2007*

The Landmark Mandarin Oriental, Hong Kong

The Landmark Mandarin Oriental, Hong Kong is modern and classic, and it's worth checking in just for the OTT bathrooms. Amber restaurant is top-notch, as are drinks at the sexy MO bar downstairs. *High life, UK, 2007*

Mandarin Oriental, Kuala Lumpur

Every amenity for business travelers, plus a prime location in the Kuala Lumpur city centre. *Travel+Leisure, US, 2007*

Mandarin Oriental, Singapore

Every room of this tower in a very peaceful, and yet central, Marina Bay location, has floor-to-ceiling windows that overlook the harbour or city. Staff are genuinely warm and seem proud to be here. *Condé Nast Traveler, US, 2007*

Mandarin Oriental, Tokyo

This is Tokyo Central…A hotel plugged into the 21st century. *Tatler Travel Guide, UK, 2007*

One of the most lavishly appointed spaces in the city, it has the best views. *FT: Weekend, UK, 2007*

Mandarin Oriental Hyde Park, London

A prime location and the city's most innovative hotel spa. Don't miss the tai chi classes in Hyde Park. *Travel+Leisure, US, 2007*

Mandarin Oriental, Munich

Mandarin Oriental is the cream of the five-star crop, with superb city and Alpine views from the rooftop terrace and pool. This haven of calm in the centre, just behind Hofbrauhaus, packs in 73 luxurious rooms and suites. *Business life, UK, 2007*

Mandarin Oriental, Prague

The opulent Mandarin Oriental Prague, located in a 14th century monastery in Mala Strana, the city's Left Bank, is leading the pack among luxury hotels in the Czech capital. *Gourmet, US, 2007*

Mandarin Oriental, Miami

Mandarin Oriental is an oasis of Asian calm and order. Invoking the attention to detail for which the Mandarin Oriental brand is renowned, service is at a level of precision rarely found in more laissez-faire Miami. *forbestraveler.com, US, 2007*

Mandarin Oriental, New York

State-of-the-art facilities, including an exceptional spa and a pool with Hudson River views. *Travel+Leisure, US, 2007*

The "gorgeous" rooms offer the "best technology and home entertainment", "exceptional amenities" and "panoramic" vistas, the service is "incomparable" and the "top-notch spa and fitness facilities." *Zagat, US, 2007*

Mandarin Oriental, San Francisco

Top-of-the-line rooms with stunning views…The glass walled halls on floors 40-48 have head-spinning vistas. *Travel+Leisure, US, 2007*

Mandarin Oriental, Washington D.C.

If you want to be in the heart of the most powerful place in the world, look no further than Mandarin Oriental, Washington D.C. *forbestraveler.com, US, 2007*

Financial Review

Accounting policies

The Directors continue to review the appropriateness of the accounting policies adopted by the Group having regard to developments in International Financial Reporting Standards ('IFRS'). The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted new standards, amendments and interpretation to IFRS effective on 1st January 2007, as more fully detailed in the 'basis of preparation' note in the financial statements.

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:

	2007 US$m	2006 US$m
Subsidiaries	**146.2**	73.8
Associates and joint ventures	**44.0**	42.6
Total EBITDA	**190.2**	116.4

Subsidiaries

	2007 US$m	2006 US$m
EBITDA	**146.2**	73.8
Less depreciation and amortization expenses	**(38.5)**	(28.7)
Gain on disposal of The Mark	**–**	76.8
Operating profit	**107.7**	121.9

EBITDA from subsidiaries in 2007 benefited significantly from the performance at Mandarin Oriental, Hong Kong which had EBITDA of US$40.3 million in 2007 compared to a negative contribution of US$10.9 million in 2006 when the hotel was closed for nine months of the year. The Excelsior, Hong Kong had another strong year improving its EBITDA by 9%. Elsewhere in Asia, Tokyo continued to make a positive contribution in its second full year of operation. Manila increased its EBITDA by over 50% due to improving local market conditions. Jakarta, which closed at the end of December for a two-year renovation, made a negative contribution to the Group's results including US$3.1 million of costs incurred in anticipation of the closure. The hotel will embark on a full scale renovation costing approximately US$50 million and designed to reposition the hotel as one of the leading luxury hotels in the city.

In Europe, the London hotel's results benefited from strong market conditions together with the continuing strengthening of Sterling against the US dollar leading to a 34% increase in EBITDA. In 2007, the contribution from Europe also benefited from a US$8.3 million exchange gain on repatriation of capital from the London hotel following a refinancing exercise in July which increased external debt at the property. The contribution from Munich was down 28% year on year due to the fact that the hotel underwent a significant renovation in the year which impacted occupancy levels. Geneva had an EBITDA increase of 33% as a result of higher room revenue.

In The Americas, the Washington D.C. hotel doubled its EBITDA contribution from the previous year. However, this was offset by lower mezzanine interest income in 2007 following repayment of mezzanine loans previously provided to the New York hotel and the Boston hotel project and higher US corporate costs. In addition, 2006 also included EBITDA from The Mark hotel which was sold in February 2006.

In 2007, the contribution from management activities before depreciation was US$16.2 million compared to US$14.2 million in 2006. The contribution in 2006 has been restated to reflect the reallocation of Group management costs related to hotel ownership and the corporate function from hotel management activities where they were previously reported. While management fees increased, these were offset by higher corporate costs as specialists, particularly in technical services and human resources, were selectively added to meet the needs of the Group's hotels under development.

Depreciation and amortization expenses were US$38.5 million for 2007 up from US$28.7 million in 2006, primarily as a result of a full year's depreciation charge for the Mandarin Oriental, Hong Kong and increased depreciation at the Munich hotel, following renovations.

The pre-tax gain on disposal for 2006 of US$76.8 million relates to the Group's sale of its 100% interest in The Mark hotel which was completed on 16th February 2006 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. The post-tax gain on the disposal was US$35 million.

Associates and Joint Ventures

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

	2007 US$m	2006 US$m
EBITDA	**44.0**	42.6
Writeback of an impairment in respect of Kuala Lumpur	**5.1**	–
Less depreciation and amortization expenses	**(11.9)**	(13.1)
Operating profit	**37.2**	29.5
Less net financing charges	**(8.5)**	(10.8)
Less tax	**(5.8)**	(5.7)
Share of results of associates and joint ventures	**22.9**	13.0

The Group's share of EBITDA from associates and joint ventures increased slightly year on year, notwithstanding the disposal of half of the Group's 50% interest in Mandarin Oriental, New York on 1st March 2007.

While the Macau hotel marginally improved its EBITDA with higher rental income offsetting a reduction in room revenue, elsewhere in Asia, Singapore and Kuala Lumpur increased their EBITDA by 33% and 27% respectively due to strong market conditions. The Bangkok hotel also did well in a challenging environment, increasing its EBITDA contribution by 15% as a result of the stronger Thai Baht.

The share of results of associates and joint ventures also benefited in 2007 from a US$5.1 million writeback of the remaining balance on the US$16.9 million impairment provision made against the value of the Group's interest in the Kuala Lumpur hotel in 1998.

Depreciation and amortization expenses from associates and joint ventures were US$11.9 million for 2007, down from US$13.1 million in 2006, primarily as a result of the partial disposal of Mandarin Oriental, New York.

The Group's share of net financing charges from associates and joint ventures was US$8.5 million in 2007, a decrease from US$10.8 million in 2006 again primarily due to the partial disposal of Mandarin Oriental, New York.

Gain on partial disposal related to an associate

The sale of half of the Group's 50% investment in Mandarin Oriental, New York was completed on 1st March 2007, reducing the Group's interest to 25%. The hotel was valued at US$340 million for the purpose of the sale. On disposal of the 25% interest, the Group recorded a pre-tax gain of US$25 million, with a post-tax gain of US$16 million after a tax charge of US$9 million arising on the disposal. The Group continues to manage the hotel under a long-term agreement.

Net financing charges

Net financing charges for the Group and its subsidiaries increased to US$16.4 million in 2007 from US$15.2 million in 2006. Although interest rates on Group borrowings generally increased, the Group benefited from interest income on higher cash balances arising from recent disposals. In addition, the Group continued to benefit from its hedging arrangements in respect of interest rates.

Interest cover in 2007, which is calculated as operating profit (excluding gains on disposals and the write back of impairment) before interest and tax (including the Group's share of operating profit from associates and joint ventures) over net financing charges (including the Group's share of net financing charges from associates and joint ventures), was 5.6 times compared with 2.9 times in 2006. EBITDA is also used as an indicator of the Group's ability to service debt and finance its future capital expenditure. Interest cover on this basis (including the Group's share of EBITDA from associates and joint ventures) was 7.7 times in 2007, up from 4.5 times in 2006.

Tax

The tax charge for 2007 was US$22.8 million compared to US$39.5 million in 2006 which included tax charges arising on the sale of The Mark. The underlying effective tax rate for the year was 25% largely unchanged from 2006.

Cash flow

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

	2007 US$m	2006 US$m
Operating activities	**130**	62
Investing activities:		
• Capital expenditure on existing properties	**(29)**	(14)
• Capital expenditure on Mandarin Oriental, Hong Kong	**(21)**	(112)
• Investment in Tokyo	**–**	(10)
• Net proceeds on disposals	**71**	98
• Capital distribution from associates	**14**	1
• Hotel mezzanine funding – net repayment	**9**	–
• Other	**(5)**	(1)
Financing activities:		
• Issue of shares	**3**	2
• Drawdown of borrowings	**536**	114
• Repayment of borrowings	**(464)**	(9)
• Dividend paid	**(39)**	(14)
• Other	**–**	1
Net increase in cash and cash equivalents	**205**	118
Cash and cash equivalents at 1st January	**287**	169
Cash and cash equivalents at 31st December	**492**	287

The cash flows from operating activities increased significantly due to the full year contribution from Mandarin Oriental, Hong Kong as well as the general improvement in performance at the Group's subsidiary hotels.

Capital expenditure on existing properties totalled US$29 million, compared with US$14 million in 2006. The increase was partly due to a US$10 million renovation programme at the Munich property.

Of the total US$150 million renovation cost for Mandarin Oriental, Hong Kong, US$119 million was spent in 2006 and before, with US$21 million being spent in 2007. The remaining US$10 million will be paid in 2008.

On 1st March 2007, the Group completed the sale of half of its 50% investment in Mandarin Oriental, New York receiving gross proceeds of US$39 million. At the same time the Group received repayment of its mezzanine loan including accrued interest, amounting to US$41 million, to give total proceeds of US$80 million. After transaction expenses and tax charges arising on the disposal, net proceeds were US$71 million with a post tax gain of US$16 million.

Included in the 2007 capital distribution from associates is a US$13 million distribution from Mandarin Oriental, New York arising from a refinancing of the property following the restructuring of the ownership.

On 16th February 2006, the Group completed the sale of its 100% leasehold interest in The Mark hotel for a gross consideration of US$150 million. After transaction expenses and tax charges arising on the disposal, net proceeds were US$98 million with a post-tax gain of US$35 million.

In 2007, the Group received repayment of its US$12 million mezzanine loan from the owners of the Boston hotel and made additional mezzanine loans totaling US$3 million to other owners of Group managed hotels for a net repayment of US$9 million.

Dividends

The Board is recommending a final dividend of US¢5.00 per share for a full year dividend of US¢6.00 per share (2006: US¢3.00 per share). No scrip alternative is being offered in respect of the dividend.

Property valuation

In accordance with the Group's accounting policy whereby independent valuations of the Group's hotel property interests are carried out at intervals not exceeding three years, valuations were carried out at 31st December 2007 by independent, professionally qualified appraisers on an open market basis.

The revaluation of the Group's assets has given rise to a revaluation surplus of US$44 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$402 million, with the increase primarily attributable to the Group's two long leaseholds in Hong Kong. This US$402 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.

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 49% 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 2007, the Group's net assets were denominated in the following currencies:

	Net assets		Adjusted net assets*	
	US$m	%	US$m	%
Hong Kong Dollar	86	7	1,125	49
United States Dollar	537	47	537	24
United Kingdom Sterling	195	17	195	8
Thai Baht	86	7	86	4
Euro	70	6	70	3
Swiss Franc	67	6	67	3
Others	111	10	199	9
	1,152	100	2,279	100

* see supplementary information section on page 25

Investment of the Group's cash resources, which totalled US$492 million at 31st December 2007, 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 and joint ventures, had committed borrowing facilities totaling US$848 million, of which US$677 million was drawn at 31st December 2007. The principal amounts are due for repayment as follows:

	Facilities committed US$m	Facilities drawn US$m
Within one year	13	13
Between one and two years	12	7
Between two and three years	116	116
Between three and four years	40	3
Between four and five years	3	3
Beyond five years	664	535
	848	677

At 31st December 2007, the Group had US$171 million of committed, undrawn facilities in addition to its cash balances of US$492 million. The average tenor of the Group's borrowings was 5.9 years (2006: 3.4 years), following the successful completion of refinancing initiatives amounting to approximately US$650 million, principally in relation to the Group's wholly owned hotels in Hong Kong, London and Geneva. No major refinancing is required in the next two years.

Supplementary 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 all its 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:

	2007		2006	
	US$m	**Per share US$**	US$m	Per share US$
Shareholders' funds/ net assets	**1,152**	**1.18**	1,001	1.03
Add revaluation surplus relating to leasehold land	**1,127**	**1.16**	725	0.75
Adjusted shareholders' funds/net assets	**2,279**	**2.34**	1,726	1.78

Net debt of US$185 million at 31st December 2007 was 8% of adjusted shareholders' funds, compared with net debt of US$314 million at 31st December 2006 which was 18% of adjusted shareholders' funds. On an IFRS basis, gearing was 16 % at 31st December 2007 (2006: 31%).

John R Witt
Chief Financial Officer
6th March 2008

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, and a director of Jardine Lloyd Thompson, Jardine Matheson and Jardine Strategic.

A J L Nightingale* *Managing Director*
Mr Nightingale joined the Board and was appointed as Managing Director in 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, Jardine Matheson and Jardine Strategic. Mr Nightingale is 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* *Chief Financial Officer*
Mr Witt was appointed as Chief Financial Officer 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 the Jardine Matheson group general counsel. Having qualified as an English solicitor in 1976 and as a Hong Kong solicitor in 1988, he was previously a senior corporate partner of Allen & Overy based in Hong Kong and London. Mr Gould is also a director of Jardine Matheson Limited and Dairy Farm.

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

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

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 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, Jardine Matheson and Jardine Strategic.

* Executive Director

Lord Leach of Fairford

Lord Leach joined the Board in 1987. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Hongkong Land, Jardine Matheson, 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.

Robert Léon

Mr Léon joined the Board in 1994. He is a manager of Qualis and a director of Anzon Energy, Anzon Australia and Magna Holdings International.

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, Textron Corporation, Schindler Holdings, Northern Trust Global Services, Yell Group and Magna Holdings. He was formerly president of the China-Britain Business Council and chairman of the Singapore-British Business Council.

James Watkins

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

Percy Weatherall

Mr Weatherall joined the Board in 2000 and was Managing Director from 2000 to 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, Jardine Matheson and Jardine Strategic.

Consolidated Profit and Loss Account

for the year ended 31st December 2007

	Note	2007 US$m	2006 US$m
Revenue	1	**529.5**	404.6
Cost of sales		**(318.8)**	(267.2)
Gross profit		**210.7**	137.4
Selling & distribution costs		**(32.6)**	(27.7)
Administration expenses		**(70.4)**	(64.6)
Gain on disposal of The Mark	5	**–**	76.8
Operating profit	2	**107.7**	121.9
Interest income		**18.9**	11.0
Financing charges		**(35.3)**	(26.2)
Net financing charges	3	**(16.4)**	(15.2)
Share of results of associates and joint ventures excluding writeback of impairment of an associate		**17.8**	13.0
Writeback of impairment of an associate	4	**5.1**	–
Share of results of associates and joint ventures	4	**22.9**	13.0
Gain on disposal related to an associate	6	**16.0**	–
Profit before tax		**130.2**	119.7
Tax	7	**(22.8)**	(39.5)
Profit for the year		**107.4**	80.2
Attributable to:			
Shareholders of the Company		**108.2**	80.0
Minority interests		**(0.8)**	0.2
		107.4	80.2
		US¢	US¢
Earnings per share	8		
– basic		**11.16**	8.28
– diluted		**10.96**	8.17

Consolidated Balance Sheet

as at 31st December 2007

	Note	2007 US$m	2006 US$m
Net assets			
Intangible assets	9	**216.2**	216.0
Tangible assets	10	**995.0**	882.5
Associates and joint ventures	11	**204.6**	190.0
Other investments		**10.3**	6.4
Loan receivables	12	**3.4**	12.0
Pension assets	13	**34.0**	27.1
Deferred tax assets	14	**27.5**	27.4
Other non-current assets	28	**0.2**	2.9
Non-current assets		**1,491.2**	1,364.3
Stocks		**4.7**	4.3
Debtors and prepayments	15	**69.3**	65.7
Current tax assets		**3.4**	–
Cash at bank	27f	**492.4**	286.7
		569.8	356.7
Non-current asset classified as held for sale	24	**–**	53.9
Current assets		**569.8**	410.6
Creditors and accruals	16	**(105.5)**	(91.0)
Current borrowings	17	**(13.4)**	(25.4)
Current tax liabilities		**(7.2)**	(4.4)
Current liabilities		**(126.1)**	(120.8)
Net current assets		**443.7**	289.8
Long-term borrowings	17	**(663.9)**	(575.1)
Deferred tax liabilities	14	**(107.7)**	(72.9)
Pension liabilities	13	**(0.1)**	(1.5)
Other non-current liabilities	28	**(2.9)**	(0.2)
		1,160.3	1,004.4
Total equity			
Share capital	20	**48.7**	48.4
Share premium	21	**163.5**	160.3
Revenue and other reserves	23	**940.1**	792.0
Shareholders' funds		**1,152.3**	1,000.7
Minority interests	25	**8.0**	3.7
		1,160.3	1,004.4

Approved by the Board of Directors

A J L Nightingale
Edouard Ettedgui
Directors
6th March 2008

Consolidated Statement of Recognized Income and Expense

for the year ended 31st December 2007

	2007 US$m	2006 US$m
Surplus on revaluation of properties	**78.4**	74.1
Actuarial gains on defined benefit pension plans	**7.6**	5.6
Net exchange translation differences	**38.3**	45.1
Gain on other investments	**0.1**	–
Loss on cash flow hedges	**(5.5)**	(2.9)
Tax on items taken directly to equity	**(29.6)**	(25.3)
Net income recognized directly in equity	**89.3**	96.6
Transfer to profit and loss on realization of exchange reserves	**(8.3)**	–
Profit for the year	**107.4**	80.2
Total recognized income and expense for the year	**188.4**	176.8
Attributable to:		
Shareholders of the Company	**184.1**	176.8
Minority interests	**4.3**	–
	188.4	176.8

Consolidated Cash Flow Statement

for the year ended 31st December 2007

	Note	2007 US$m	2006 US$m
Operating activities			
Operating profit		**107.7**	121.9
Depreciation	10	**37.6**	28.4
Amortization of intangible assets	9	**0.9**	0.3
Non-cash items	27a	**(3.9)**	(74.7)
Movements in working capital	27b	**5.3**	(1.4)
Interest received		**18.5**	10.5
Interest and other financing charges paid		**(34.9)**	(26.5)
Tax paid		**(14.0)**	(8.2)
		117.2	50.3
Dividends and interest from associates and joint ventures		**12.3**	12.1
Cash flows from operating activities		**129.5**	62.4
Investing activities			
Purchase of tangible assets		**(50.1)**	(135.5)
Purchase of intangible assets		**(1.6)**	(0.8)
Investments in and loans to associates and joint ventures		**–**	(0.2)
Advance of mezzanine loans		**(3.4)**	–
Repayment of mezzanine loan		**12.0**	–
Increase in other investments		**(3.6)**	(1.2)
Proceeds on disposal of The Mark	27c	**–**	98.5
Proceeds on disposal related to an associate	27d	**70.7**	–
Capital distribution from associates	27e	**14.4**	1.2
Cash flows from investing activities		**38.4**	(38.0)
Financing activities			
Issue of shares		**3.5**	1.6
Drawdown of borrowings		**535.9**	113.6
Repayment of borrowings		**(464.4)**	(8.9)
Dividends paid by the Company	26	**(38.7)**	(14.5)
Cash flows from financing activities		**36.3**	91.8
Effect of exchange rate changes		**1.3**	1.6
Net increase in cash and cash equivalents		**205.5**	117.8
Cash and cash equivalents at 1st January		**286.6**	168.8
Cash and cash equivalents at 31st December	27f	**492.1**	286.6

Principal Accounting Policies

A Basis of preparation

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

In 2007, the Group adopted the following standards and interpretations to existing standards which are relevant to its operations:

IFRS 7	Financial Instruments: Disclosures
Amendment to IAS 1	Capital Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

IFRS 7, Financial Instruments: Disclosures introduces new disclosures relating to financial instruments. The complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures introduces disclosures about the level of an entity's capital and how it manages capital. These standards do not have any impact on the classification and valuation of the Group's financial instruments.

IFRIC 8, Scope of IFRS 2 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. Application of this interpretation is not expected to have significant impact to the Group.

IFRIC 9, Reassessment of Embedded Derivatives prohibits reassessment of any embedded derivatives contained in a contract since becoming a party to the contract unless there is a change in the terms of the host contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Application of this interpretation is not expected to have significant impact to the Group.

IFRIC 10, Interim Financial Reporting and Impairment prohibits the impairment losses recognized in an interim period in respect of goodwill, investments in equity instruments and investments in financial assets carried at cost from being reversed at a subsequent balance sheet date. Application of this interpretation is not expected to have significant impact to the Group.

There have been no changes to the accounting policies as a result of adoption of the above standards and interpretations.

Certain comparative figures in the segmental disclosure have been reclassified to conform with current year presentation.

The following standards and interpretations to existing standards, which are relevant to the Group's operations, were published but are not yet effective in 2007:

IFRS 3, Business Combinations (effective for annual periods beginning on or after 1st July 2009), which replaces IFRS 3 (as issued in 2004), and the related amendment to IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1st July 2009) provide guidance for applying the acquisition method for business combinations. The Group will apply IFRS 3 and IAS 27 (as amended in 2008) from 1st January 2010 and will revise its accounting policy on business combinations accordingly.

A Basis of preparation continued

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1st January 2009) supersedes IAS 14, Segment Reporting and requires the reporting of financial and descriptive information about an entity's reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group assessed the impact of IFRS 8 and concluded that the main additional disclosures will be an analysis of the Group's non current assets by geographical area. The Group will apply IFRS 8 from 1st January 2009.

IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1st January 2009) replaces IAS 1 (revised in 2003) as amended in 2005 and sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group will apply IAS 1 from 1st January 2009.

IAS 23, Borrowing Costs (effective for annual periods beginning on or after 1st January 2009) supersedes IAS 23 (revised 1993) and requires the capitalization of borrowing costs relating to qualifying assets. The Group will apply IAS 23 from 1st January 2009 but there will be no impact on the results of the Group, as the Group was already following a policy of capitalizing borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset.

Amendments to IFRS 2, Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1st January 2008) clarify the definition of vesting conditions and provide guidance on the accounting treatment of cancellations by parties other than the entity. The Group will apply the amendments to IFRS 2 from 1st January 2008 but it is not expected to have any significant impact on the results of the Group.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st March 2007) addresses the accounting for share-based payment transactions involving two or more entities within a group. The Group will apply IFRIC 11 from 1st January 2008, but it is not expected to have any significant impact on the results of the Group.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1st July 2008) addresses the accounting by entities that grant loyalty award credits to customers who buy goods or services. Specifically it explains how such entities should account for their obligation to provide free or discounted goods to customers who redeem award credits. The Group will apply IFRIC 13 from 1st January 2009, but it is not expected to have any significant impact on the results of the Group.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1st January 2008) provides general guidance on how to assess the limit in IAS 19 on the amount of surplus in a pension plan that can be recognized as an asset by the employer under a defined benefit plan. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1st January 2008, but it is not expected to have any significant impact on the results of the Group.

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

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

B Basis of consolidation

i) The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings and, on the basis set out in (ii) below, its associates and joint ventures. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies. The results of subsidiary undertakings, 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. The cost of and related income arising from shares held in the Company by subsidiary undertakings are eliminated from shareholders' funds and minority interests, and profit respectively.

ii) Associates are entities, not being subsidiary undertakings 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 subsidiary undertakings and their associates and joint ventures not attributable to the Group.

iv) The results of entities other than subsidiary undertakings, 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 subsidiary undertakings, 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.

Exchange differences arising from the retranslation of the net investment in foreign subsidiary undertakings, associates and joint ventures, and of financial instruments which are designated as hedges of such investments, 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 for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the units may be impaired. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. 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 undertakings, associate or joint venture at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary undertakings, 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 interests 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 allocated to cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment loss.

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

ii) Land use rights are payments to third parties 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.

iii) Computer software represents acquired computer software licences which are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

F Tangible fixed assets and depreciation

Freehold land and buildings, and the building component of owner-occupied 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 values 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 fixed assets are stated at cost less amounts provided for depreciation.

Depreciation is calculated on the straight-line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The estimated useful lives and 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	20 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.

F Tangible fixed assets and depreciation continued

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

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

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

L Debtors

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

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 interest method.

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

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

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 subsidiary undertakings 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 the consolidated profit and loss account, in the consolidated statement of recognized income and expense.

The Group's total contributions relating 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 options granted after 7th November 2002 is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognized in 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 recognition

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

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

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.

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

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.

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.

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

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, profit attributable to shareholders is adjusted for the effects of the conversion of dilutive potential ordinary shares, and the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes based on the average share price during the year.

W 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 continuing use.

X Financial guarantee contracts

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

Financial Risk Management

A Financial risk factors

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

The Group's treasury function co-ordinates, under the directions of the Board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2007 are disclosed in note 28.

i) Market risk

Foreign exchange risk

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

Group companies are required to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions, entities in the Group use forward foreign exchange contracts and foreign currency options in a consistent manner to hedge firm and anticipated foreign exchange commitments. Forward foreign exchange contracts may also be used to hedge net investments in foreign operations where the currency concerned is anticipated to be volatile, the exposure of the Group is material and the hedging is cost effective. Foreign currency borrowings are required to be swapped into the entity's functional currency using cross-currency swaps except where the foreign currency borrowings are repaid with cash flows generated in the same foreign currency. The purpose of these hedges is to mitigate the impact of movements in foreign exchange rates on assets and liabilities and the profit and loss account of the Group.

At 31st December 2007, if the United States dollar had strengthened/weakened by 10% against the Pound Sterling with all other variables held constant, the Group's profit after tax and total equity would have been US$0.3 million (2006: US$0.2 million) lower/higher, arising from foreign exchange losses/gains taken to the profit and loss account on translation. The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and all other variables, in particular interest rates, had remained constant. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2007 that are denominated in a non-functional currency. Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

A Financial risk factors continued

i) *Market risk* continued

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through the use of derivative financial instruments such as interest rate swaps, caps and collars. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% – 60% of its borrowings, in fixed rate instruments with an average tenor of less than 1 to 7 years. At 31st December 2007 the Group's interest rate hedge was 49% (2006: 46%), with an average tenor of 2.9 years (2006: 2.4 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 17.

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

At 31st December 2007, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$0.1 million (2006: US0.5 million) lower/higher and hedging reserves would have been US$3.8 million (2006: US$3.6 million) lower/higher, as a result of a decrease/increase in interest expense on variable rate borrowings and movements in the hedging reserves caused by fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonable possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong and UK rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in fair value caused by interest rate movements balance out in the profit and loss account against changes in the fair value of the hedged item. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities.

A Financial risk factors *continued*

ii) Credit risk

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

The Group manages its cash balances with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2007 cash balances with banks and financial institutions amounted to US$492 million (2006: US$287 million), of which over 99% (2006: 99%) were made to financial institutions with credit ratings of no less than A- (Fitch). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings. At 31st December 2007 the fair value of derivative financial instruments receivable amounted to US$0.2 million (2006: US$2.9 million). Management does not expect any counterparty to fail to meet its obligations.

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group's exposure to credit risk arising from debtors is set out in note 15 and totals US$69.3 million (2006: US$65.7 million). The Group's exposure to credit risk arising from exposure to derivative financial instruments with a positive fair value is disclosed in note 15 as a component of other debtors and totals US$0.1 million (2006: nil). The Group's exposure to credit risk arising from bank balances totals US$492 million (2006: US$287 million).

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders.

At 31st December 2007, total available borrowing facilities amounted to US$848 million (2006: US$754 million) of which US$677 million (2006: US$601 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totaled US$171 million (2006: US$153 million) in addition to its cash balances of US$492 million (2006: US$287 million).

An ageing analysis of the Group's financial liabilities based on the remaining period at the balance sheet to the contractual maturity dates is included in notes 16, 17 and 28.

B Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst seeking to maximize benefits to shareholders and other stakeholders.

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

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less bank balances and other liquid funds. Interest cover is calculated as operating profit (excluding gains on disposal and the writeback of impairment) before interest and tax (including the Group's share of operating profit from associates and joint ventures) divided by net financing charges (including the Group's share of net financing charges from associates and joint ventures). The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2007 and 2006 based on IFRS balance sheets are as follows:

	2007	2006
Gearing ratio	**16%**	31%
Interest cover	**5.6**	2.9

The increase in interest cover for the year ended 2007 compared with 2006 was primarily due to strong cash flows generated by Group companies. This has also contributed to the decrease in the gearing ratio for the year then ended which was also positively impacted by other changes in reserves including the revaluation surplus.

C Fair value estimation

The fair value of listed investments is based on quoted market prices. The quoted market price used for listed investments held by the Group is the current bid price.

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

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

The fair value of interest rate swaps and caps is calculated by reference to the present value of the estimated future cash flows, taking into account current interest rates as observed from the market.

Critical Accounting Estimates and Judgements

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

i) Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives 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 the higher of its fair value less cost to sell and value in use, calculated on the basis of management's assumptions and estimates. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value-in-use calculations.

In determining when an investment is other-than-temporarily impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

ii) Property valuation

In arriving at the fair value of the properties, which is determined by using the income capitalization approach for existing use basis, the independent valuers have to make assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalization rates. 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 numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

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.

1 Revenue

	2007 US$m	2006 US$m
Analysis by geographical area		
– Hong Kong and Macau	**200.8**	106.3
– Other Asia	**119.3**	111.0
– Europe	**146.4**	123.3
– The Americas	**63.0**	64.0
	529.5	404.6
Analysis by activity		
– Hotel ownership	**509.5**	383.8
– Hotel management	**48.1**	38.7
– Less: Intra-Group revenue	**(28.1)**	(17.9)
	529.5	404.6

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. The Group's segmental information is more fully described in note 19.

2 Operating profit

	2007 US$m	Restated 2006 US$m
Analysis by geographical area		
– Hong Kong and Macau	**54.2**	(1.8)
– Other Asia	**3.6**	9.0
– Europe	**47.0**	28.4
– The Americas	**2.9**	9.5
	107.7	45.1
– Gain on disposal of The Mark (refer note 5)	**–**	76.8
	107.7	121.9
Analysis by activity		
– Hotel ownership	**92.4**	33.7
– Hotel management	**15.3**	11.4
	107.7	45.1
– Gain on disposal of The Mark (refer note 5)	**–**	76.8
	107.7	121.9

The operating profit from hotel management in 2006 has been restated to reflect the reallocation of Group management costs related to hotel ownership and the corporate function from hotel management activities where they were previously reported.

2 Operating profit continued

	2007 US$m	2006 US$m
The following items have been (credited)/charged in arriving at operating profit:		
Rental income	(9.4)	(4.7)
Interest income from mezzanine loans	(1.7)	(4.5)
Depreciation of tangible assets (refer note 10)		
– Owned assets	37.6	28.4
Amortization of intangible assets (refer note 9)	0.9	0.3
Repairs and maintenance	19.8	17.0
Operating lease payments	11.4	8.5
Development costs	1.7	0.7
Directors' remuneration	4.8	4.2
Employee benefit expense		
– Salaries and benefits in kind	180.4	156.4
– Defined benefit pension costs (refer note 13)	1.2	2.0
– Defined contribution pension costs	0.5	0.6
– Share-based payments	2.7	1.7
	184.8	160.7
Termination costs on hotel closure	3.1	–
Realization of exchange gain arising on repatriation of capital from a foreign subsidiary undertaking	(8.3)	–
Net foreign exchange loss/(gains)	1.4	(1.9)

3 Net financing charges

	2007 US$m	2006 US$m
Company and subsidiaries		
Interest income	18.9	11.0
Interest expense		
– Bank loans	(33.9)	(25.1)
– Finance leases	–	(0.2)
	(33.9)	(25.3)
Commitment and other fees	(1.4)	(0.9)
Financing charges	(35.3)	(26.2)
Net financing charges	(16.4)	(15.2)

4 Share of results of associates and joint ventures

	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/(loss) US$m
2007				
Analysis by geographical area				
– Hong Kong and Macau	5.9	(0.4)	(1.0)	**4.5**
– Other Asia	25.3	(3.1)	(3.9)	**18.3**
– The Americas	6.0	(5.0)	(0.9)	**0.1**
	37.2	**(8.5)**	**(5.8)**	**22.9**
Analysis by activity				
– Hotel ownership	35.6	(8.6)	(5.2)	**21.8**
– Other	1.6	0.1	(0.6)	**1.1**
	37.2	**(8.5)**	**(5.8)**	**22.9**
2006				
Analysis by geographical area				
– Hong Kong and Macau	5.7	(0.4)	(0.3)	5.0
– Other Asia	16.0	(3.4)	(3.3)	9.3
– The Americas	7.8	(7.0)	(2.1)	(1.3)
	29.5	(10.8)	(5.7)	13.0
Analysis by activity				
– Hotel ownership	28.3	(10.8)	(5.3)	12.2
– Other	1.2	–	(0.4)	0.8
	29.5	(10.8)	(5.7)	13.0

Share of results of associates and joint ventures is stated after charging depreciation and amortization of US$11.9 million (2006: US$13.1 million). It includes a US$5.1 million (2006: nil) writeback of an impairment previously made against the value of the Group's interest in Mandarin Oriental, Kuala Lumpur.

5 Gain on disposal of The Mark

The sale of the Group's 100% interest in The Mark, New York was completed on 16th February 2006 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. The pre-tax gain on this disposal was US$76.8 million, and the post-tax gain on the disposal was US$35 million.

6 Gain on disposal related to an associate

The sale of half of the Group's 50% investment in Mandarin Oriental, New York was completed on 1st March 2007. This sale has reduced the Group's interest in the hotel from 50% to 25%. The hotel was valued at US$340 million for the purpose of the sale. On disposal of the 25% interest, the Group recorded a pre-tax gain of US$25 million, with a post-tax gain of US$16 million after a tax charge of US$9 million arising on the disposal. The Group will continue to manage the hotel under a long-term agreement.

7 Tax

	2007 US$m	2006 US$m
Company and subsidiaries		
– Current tax	**13.3**	50.6
– Deferred tax (refer note 14)	**9.5**	(11.1)
	22.8	39.5
Analysis by geographical area		
– Hong Kong and Macau	**8.8**	0.9
– Other Asia	**4.6**	(0.4)
– Europe	**6.3**	5.8
– The Americas	**3.1**	33.2
	22.8	39.5
Analysis by activity		
– Hotel ownership	**17.4**	37.6
– Hotel management	**5.4**	1.9
	22.8	39.5
Reconciliation between tax expense and tax at the applicable tax rate:		
Tax at applicable tax rate	**18.0**	37.5
(Income) expenses not (taxable) deductible for tax purposes	**(0.7)**	2.3
Tax losses not recognized	**4.8**	3.1
Temporary differences not recognized	**0.4**	(0.3)
Utilization of previously unrecognized tax losses	**(0.2)**	(0.9)
Utilization of previously unrecognized temporary differences	**(2.4)**	(0.6)
Recognition of previously unrecognized deferred tax assets	**(2.1)**	(1.3)
Recognition of previously unrecognized temporary differences	**1.8**	(2.5)
Deferred tax assets written off	**0.3**	0.5
Withholding tax	**2.0**	1.4
Under provision in prior years	**1.5**	0.3
Other	**(0.6)**	–
	22.8	39.5

The applicable tax rate for the year was 17% (2006: 37%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The decrease in the applicable tax rate is caused by a change in the profitability of the Group's subsidiary undertakings in the respective territories.

The 2006 tax on profits included a tax charge of US$41.8 million arising on the disposal of the Group's 100% interest in The Mark, New York (refer note 5).

8 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$108.2 million (2006: US$80 million) and on the weighted average number of 969.8 million (2006: 966.6 million) shares in issue during the year (refer principal accounting policy (v)).

Diluted earnings per share are calculated on profit attributable to shareholders of US$108.2 million (2006: US$80 million), which is after adjusting for the effects of the conversion of dilutive potential ordinary shares of subsidiary undertakings, associates or joint ventures, and on the weighted average number of 987.1 million (2006: 979.3 million) shares in issue during the year (refer principal accounting policy (v)).

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

	Ordinary shares in millions	
	2007	2006
Weighted average number of shares in issue	**987.0**	989.4
Shares held by the Trustee under the Senior Executive Share Incentive Schemes	**(17.2)**	(22.8)
Weighted average number of shares for basic earnings per share calculation	**969.8**	966.6
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	**17.3**	12.7
Weighted average number of shares for diluted earnings per share calculation	**987.1**	979.3

Basic and diluted earnings per share are also presented based on the profit before gains on disposal and writeback of impairment. A reconciliation of earnings is set out below:

	2007			2006		
	US$m	Basic earnings per share US¢	Diluted earnings per share US¢	US$m	Basic earnings per share US¢	Diluted earnings per share US¢
Profit before gains on disposal and writeback of impairment	**87.1**	**8.98**	**8.82**	45.0	4.66	4.60
Gains on disposal	**16.0**			35.0		
Writeback of impairment	**5.1**			–		
Profit attributable to shareholders	**108.2**	**11.16**	**10.96**	80.0	8.28	8.17

9 Intangible assets

	Goodwill US$m	Land use rights US$m	Computer software US$m	Total US$m
2007				
Cost	23.3	195.0	0.8	219.1
Amortization	–	(3.0)	(0.1)	(3.1)
Net book value at 1st January	23.3	192.0	0.7	216.0
Translation differences	–	(0.7)	0.1	(0.6)
Additions	–	–	1.7	1.7
Amortization	–	(0.5)	(0.4)	(0.9)
Net book value at 31st December	**23.3**	**190.8**	**2.1**	**216.2**
Cost	23.3	194.3	2.6	220.2
Accumulated amortization	–	(3.5)	(0.5)	(4.0)
	23.3	**190.8**	**2.1**	**216.2**
2006				
Cost	23.3	195.0	–	218.3
Amortization	–	(2.8)	–	(2.8)
Net book value at 1st January	23.3	192.2	–	215.5
Translation differences	–	(0.1)	–	(0.1)
Additions	–	–	0.8	0.8
Transfer-in	–	0.1	–	0.1
Amortization	–	(0.2)	(0.1)	(0.3)
Net book value at 31st December	23.3	192.0	0.7	216.0
Cost	23.3	195.0	0.8	219.1
Accumulated amortization	–	(3.0)	(0.1)	(3.1)
	23.3	192.0	0.7	216.0

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2007 and has concluded that no impairment is required. For the purpose of impairment testing, goodwill acquired has been allocated to the respective hotels and is reviewed for impairment based on individual hotel forecast operating performance and cash flows. Cash flow projections for impairment reviews are based on individual hotel budgets prepared on the basis of assumptions reflective of the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of between 2 to 12% to extrapolate cash flows, which may vary across the Group's geographical locations, and are based on management expectations of the market development; and pre-tax discount rates of between 10% to 13% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the business life-cycle and geographical location.

The amortization charges are included in cost of sales in the consolidated profit and loss account.

In 2006, the transfer-in represented leasehold land use rights reclassified from tangible assets (refer note 10).

Land use rights represent the upfront payments to acquire long-term interests in property leased by the principal subsidiaries listed on pages 74 and 75.

10 Tangible assets

	Freehold land & buildings US$m	Leasehold buildings & improvements US$m	Plant & machinery US$m	Furniture & equipment US$m	Total US$m
2007					
Costs or valuation	496.3	359.4	87.1	178.3	1,121.1
Depreciation	(12.9)	(73.8)	(45.1)	(106.8)	(238.6)
Net book value at 1st January	483.4	285.6	42.0	71.5	882.5
Translation differences	10.4	12.0	1.2	2.4	26.0
Additions	1.4	26.6	8.4	17.2	53.6
Disposals	–	–	–	(0.1)	(0.1)
Depreciation charge	(3.2)	(11.3)	(4.5)	(18.6)	(37.6)
Revaluation surplus	71.0	(0.4)	–	–	70.6
Net book value at 31st December	**563.0**	**312.5**	**47.1**	**72.4**	**995.0**
Cost or valuation	579.1	397.6	96.7	195.5	1,268.9
Accumulated depreciation	(16.1)	(85.1)	(49.6)	(123.1)	(273.9)
	563.0	**312.5**	**47.1**	**72.4**	**995.0**
2006					
Costs or valuation	415.0	247.5	71.0	161.3	894.8
Depreciation	(10.2)	(65.9)	(42.5)	(92.2)	(210.8)
Net book value at 1st January	404.8	181.6	28.5	69.1	684.0
Translation differences	31.1	18.2	1.5	1.6	52.4
Additions	0.1	98.6	14.6	16.1	129.4
Disposals	–	(0.1)	–	(0.1)	(0.2)
Transfer-out	–	(0.1)	–	–	(0.1)
Depreciation charge	(2.7)	(7.9)	(2.6)	(15.2)	(28.4)
Revaluation surplus	50.1	(4.7)	–	–	45.4
Net book value at 31st December	483.4	285.6	42.0	71.5	882.5
Cost or valuation	496.3	359.4	87.1	178.3	1,121.1
Accumulated depreciation	(12.9)	(73.8)	(45.1)	(106.8)	(238.6)
	483.4	285.6	42.0	71.5	882.5

The Group's freehold properties and the building component of leasehold properties were revalued at 31st December 2007 by independent, professionally qualified valuers on an open market basis. As a result, there was an increase in the fair value of properties of US$70.6 million. After providing for deferred tax liabilities of US$23.6 million on the revalued amounts, US$47 million has been taken to capital reserves. In 2006, there was an increase in the fair value of properties of US$45.4 million. After providing for deferred tax liabilities of US$11.7 million on the revalued amounts, US$33.7 million was taken to capital reserves.

Freehold land & buildings include a property valued at US$148.2 million (2006: US$110.9 million), which is stated net of tax incremental financing of US$29.8 million (2006: US$30.6 million) (refer note 18).

If the freehold properties and the building component of leasehold properties had been included in the financial statements at cost less depreciation, the carrying value would have been US$646.5 million (2006: US$607.5 million).

10 Tangible assets *continued*

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

The transfer-out in 2006 represented leasehold land use rights reclassified to intangible asset (refer note 9).

	2007 US$m	2006 US$m
Analysis of additions (including transfer in/(out)) by geographical area		
– Hong Kong and Macau	**27.4**	113.1
– Other Asia	**5.6**	7.6
– Europe	**18.2**	7.5
– The Americas	**2.4**	1.1
	53.6	129.3
Analysis of additions (including transfer in/(out)) by activity		
– Hotel ownership	**51.6**	128.1
– Hotel management	**2.0**	1.2
	53.6	129.3
Analysis of depreciation by geographical area		
– Hong Kong and Macau	**(14.2)**	(8.8)
– Other Asia	**(8.2)**	(6.8)
– Europe	**(9.9)**	(8.8)
– The Americas	**(5.3)**	(4.0)
	(37.6)	(28.4)
Analysis of depreciation by activity		
– Hotel ownership	**(36.4)**	(27.2)
– Hotel management	**(1.2)**	(1.2)
	(37.6)	(28.4)

11 Associates and joint ventures

Listed investment in The Oriental Hotel (Thailand) PCL	**75.6**	69.2
Unlisted investments in other associates	**113.3**	77.3
Group share of attributable net assets of associates	**188.9**	146.5
Joint ventures	**15.7**	43.5
	204.6	190.0
Market value of listed investment in The Oriental Hotel (Thailand) PCL	**81.8**	66.6

The operating properties owned by associates and joint ventures were revalued at 31st December 2007 by independent, professionally qualified valuers on an open market basis. As a result, the consolidated profit and loss account includes a US$5.1 million (2006: nil) writeback of an impairment previously made against the value of the Group's 25% interest in Mandarin Oriental, Kuala Lumpur. In addition, the Group's share of the underlying revaluation surplus net of deferred tax, of US$1.6 million has been dealt with in capital reserves. In 2006, the Group's share of the underlying revaluation surplus net of deferred tax, of US$16.6 million was dealt with in capital reserves.

11 Associates and joint ventures continued

	2007 US$m	2006 US$m
The Group's share of assets and liabilities and results of associates and joint ventures are summarized below:		
Associates		
Non-current assets	**373.4**	247.4
Current assets	**30.6**	21.7
Current liabilities	**(33.1)**	(19.7)
Non-current liabilities	**(182.0)**	(102.9)
Attributable net assets	**188.9**	146.5
Revenue	**116.3**	76.0
Profit before tax	**23.2**	13.1
Net profit	**18.4**	9.9
Capital commitments	**5.6**	2.9
Contingent liabilities	**–**	–
Joint ventures		
Non-current assets	**24.6**	111.9
Current assets	**5.6**	8.0
Current liabilities	**(6.8)**	(42.4)
Non-current liabilities	**(7.7)**	(34.0)
Attributable net assets	**15.7**	43.5
Revenue	**20.5**	66.7
Profit before tax	**5.5**	5.6
Net profit	**4.5**	3.1
Capital commitments	**1.1**	0.8
Contingent liabilities	**–**	–
Movements of share of attributable net assets for the year:		
At 1st January	**190.0**	174.0
Net exchange translation differences	**17.4**	13.5
Share of results	**17.8**	13.0
Writeback of impairment of an associate	**5.1**	–
Dividends received	**(12.8)**	(12.2)
Share of property revaluation net of tax	**1.6**	16.6
Fair value loss on cash flow hedges net of tax	**(0.1)**	–
Classified as held for sale (refer note 24)	**–**	(13.7)
Capital distribution (refer note 27e)	**(14.4)**	(1.2)
At 31st December	**204.6**	190.0

12 Loan receivables

	2007 US$m	2006 US$m
At 1st January	**12.0**	43.0
Addition	**3.4**	0.2
Repayment	**(12.0)**	–
Classified as held for sale (refer note 24)	**–**	(31.2)
At 31st December	**3.4**	12.0

The balance as at 31st December 2007 principally consists of a mezzanine loan which is interest-bearing at LIBOR+5.6% per annum with repayment on or before 22nd February 2010. The carrying amount of the loan receivable approximates its fair value.

In 2006, the mezzanine loan of US$31.2 million to Mandarin Oriental, New York, which was interest-bearing at 13.5% per annum as from the opening of the hotel with no fixed terms of repayment had been classified as a non-current asset held for sale as at 31st December 2006 and has been fully repaid during 2007 pursuant to the Group's sale of 25% interest in the hotel.

13 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:

	2007 Weighted average %	2006 Weighted average %
Discount rate applied to pension obligations	**4.9**	4.6
Expected return on plan assets	**7.5**	6.0
Future salary increases	**5.0**	5.0

The expected return on plan assets is determined on the basis of long-term average returns on global equities of 7% to 10% 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.

13 Pension plans *continued*

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

	2007 US$m	2006 US$m
Fair value of plan assets	**80.3**	71.6
Present value of funded obligations	**(46.4)**	(45.7)
	33.9	25.9
Unrecognized past service cost	**–**	(0.3)
Net pension assets	**33.9**	25.6
Analysis of net pension assets		
Pension assets	**34.0**	27.1
Pension liabilities	**(0.1)**	(1.5)
	33.9	25.6
Movements in the fair value of plan assets		
At 1st January	**71.6**	62.2
Expected return on plan assets	**5.3**	3.7
Actuarial gains	**5.2**	7.1
Contributions from company	**0.4**	0.9
Contributions from plan members	**0.9**	0.9
Exchange difference	**(0.1)**	0.4
Benefits paid	**(3.2)**	(3.8)
Transfer-in of assets	**0.2**	0.2
At 31st December	**80.3**	71.6
Movements in the present value of defined benefit obligations		
At 1st January	**(45.7)**	(40.8)
Current service cost	**(4.1)**	(3.4)
Interest cost	**(2.2)**	(2.3)
Contributions from plan members	**(0.9)**	(0.9)
Actuarial gains and losses	**2.4**	(1.5)
Curtailment and settlement	**(0.4)**	–
Exchange difference	**(0.1)**	(0.4)
Benefits paid – funded	**3.2**	3.8
Benefits paid – unfunded	**1.6**	–
Transfer-in of liabilities	**(0.2)**	(0.2)
At 31st December	**(46.4)**	(45.7)

13 Pension plans continued

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

	2007 US$m	2006 US$m
Equity instruments	**48.5**	51.0
Debt instruments	**16.2**	16.9
Other assets	**15.6**	3.7
	80.3	71.6

The five year history of experience adjustments is as follows:

	2007 US$m	2006 US$m	2005 US$m	2004 US$m	2003 US$m
Fair value of plan assets	**80.3**	71.6	62.2	58.4	52.8
Present value of funded obligations	**(46.4)**	(45.7)	(40.8)	(36.9)	(34.9)
Plan surplus	**33.9**	25.9	21.4	21.5	17.9
Experience adjustments on plan assets	**5.1**	7.1	1.9	3.8	9.1
Percentage of plan assets (%)	**6.4**	9.9	3.1	6.6	17.2
Experience adjustments on plan obligations	**1.4**	1.7	(1.2)	0.4	3.4
Percentage of plan obligations (%)	**3.0**	3.7	3.0	1.2	9.8

The net cumulative actuarial gains recorded in the Statement of Recognized Income and Expense is US$32 million (2006: US$24.4 million).

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

	2007 US$m	2006 US$m
Current service cost	**4.1**	3.4
Interest cost	**2.2**	2.3
Loss on curtailment and settlement	**0.2**	–
Expected return on plan assets	**(5.3)**	(3.7)
	1.2	2.0
Actual return on plan assets in the year	**10.5**	10.8

It is estimated that the Group will make contributions of up to 10% of pensionable salaries into the pension plans in 2008.

14 Deferred tax

	Accelerated tax depreciation US$m	Asset revaluation US$m	Pension plans US$m	Unremitted earnings in associates & joint ventures US$m	Provisions and other temporary differences US$m	Losses US$m	Total US$m
2007							
At 1st January (restated)	25.6	37.3	4.3	1.6	(11.8)	(11.5)	45.5
Exchange differences	0.9	0.7	(0.1)	0.3	0.2	(0.2)	1.8
Charged/(credited) to consolidated profit and loss account	11.0	–	–	–	0.6	(2.1)	9.5
Charged to equity	–	22.0	1.4	–	–	–	23.4
At 31st December	**37.5**	**60.0**	**5.6**	**1.9**	**(11.0)**	**(13.8)**	**80.2**
2006							
At 1st January	22.0	21.8	3.5	1.3	(1.2)	(7.5)	39.9
Exchange differences	0.7	3.1	–	0.2	(0.1)	(0.6)	3.3
Charged/(credited) to consolidated profit and loss account	2.9	–	(0.2)	0.1	(10.5)	(3.4)	(11.1)
Charged to equity	–	12.4	1.0	–	–	–	13.4
At 31st December (restated)	25.6	37.3	4.3	1.6	(11.8)	(11.5)	45.5

	2007 US$m	2006 US$m
Deferred tax assets	**(27.5)**	(27.4)
Deferred tax liabilities	**107.7**	72.9
	80.2	45.5

Deferred tax assets of US$29.7 million (2006: US$25.4 million) have not been recognized in relation to tax losses in subsidiaries as it is uncertain when these losses will be utilized.

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

Within one year	**0.1**	0.1
Between two and five years	**0.3**	0.3
Over five years	**5.7**	2.5
With no expiry dates	**23.6**	22.5
	29.7	25.4

Deferred tax balances predominantly comprise non-current items.

Deferred tax assets of US$4.6 million (2006: US$2.7 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.

15 Debtors and prepayments

	2007 US$m	2006 US$m
Trade debtors		
– third parties	**38.9**	38.8
– associates and joint ventures	**3.8**	3.2
	42.7	42.0
– provision for impairment	**(0.6)**	(1.2)
	42.1	40.8
Other debtors		
– third parties	**24.8**	23.3
– associates and joint ventures	**2.4**	1.6
	27.2	24.9
– provision for impairment	**–**	–
	27.2	24.9
	69.3	65.7

Other debtors are further analyzed as follows:

Other debtors	**12.5**	11.6
Prepayments	**10.4**	10.2
Amounts due from associates and joint ventures	**2.4**	1.6
Rental and other deposits	**1.8**	1.5
Interest rate swaps	**0.1**	–
	27.2	24.9
Analysis by geographical area of operation:		
Hong Kong and Macau	**20.6**	17.9
Other Asia	**11.5**	12.9
Europe	**21.7**	16.8
The Americas	**15.5**	18.1
	69.3	65.7

The fair value of debtors and prepayments approximate their carrying amounts.

15 Debtors and prepayments continued

Trade debtors, net of provision for impairment, at 31st December 2007 amounted to US$42.1 million. The average credit period on provision of services varies among Group businesses and is not more than 30 days. Before accepting any new customer, an individual Group business assesses the potential customer's credit quality and sets credit limits by customer, using internal credit scoring systems. These limits and scoring are reviewed periodically.

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

At 31st December 2007, trade debtors of US$1 million (2006: US$1.4 million) were impaired. The amount of the provision was US$0.6 million (2006: US$1.2 million). The impaired debtors mainly related to a few individual travel agents and corporate companies and do not present significant credit risk to the Group. It was assessed that a portion of the debtors is expected to be recovered. The ageing analysis of these trade debtors is as follows:

	2007 US$m	2006 US$m
Below 30 days	**0.2**	–
Between 31 and 60 days	**0.1**	–
Between 61 and 90 days	**0.1**	0.4
Over 90 days	**0.6**	1.0
	1.0	1.4

At 31st December 2007, trade debtors and other debtors of US$12.4 million (2006: US$12.5 million) were past due but not impaired. The ageing analysis of these trade debtors and other debtors is as follows:

Below 30 days	**6.7**	6.9
Between 31 and 60 days	**3.0**	1.9
Between 61 and 90 days	**1.3**	3.0
Over 90 days	**1.4**	0.7
	12.4	12.5

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2007 becoming impaired is low as most of the balances have been settled subsequent to year end.

Movements on the provision for impairment are as follows:

	Trade debtors	
	2007 US$m	2006 US$m
At 1st January	**(1.2)**	(1.2)
Unused amounts reversed	**0.5**	–
Bad debts written off	**0.1**	–
At 31st December	**(0.6)**	(1.2)

16 Creditors and accruals

	2007 US$m	2006 US$m
Trade creditors	**36.7**	33.1
Accruals	**55.7**	46.7
Deposits accepted	**10.7**	9.4
Other creditors	**2.4**	1.8
	105.5	91.0
Currency:		
Hong Kong Dollar	**48.1**	41.6
Japanese Yen	**10.2**	11.4
Swiss Franc	**7.1**	4.5
United Kingdom Sterling	**15.3**	10.2
United States Dollar	**17.2**	15.7
Other	**7.6**	7.6
	105.5	91.0

The fair value of creditors approximate their carrying amounts.

17 Borrowings

	2007 Carrying amount US$m	2007 Fair value US$m	2006 Carrying amount US$m	2006 Fair value US$m
Current				
– Bank overdrafts	**0.3**	**0.3**	0.1	0.1
Current portion of long-term borrowings				
– Bank loans	**6.9**	**6.9**	25.1	25.8
– Other borrowings	**6.2**	**6.2**	0.2	0.2
	13.1	**13.1**	25.3	26.0
Current borrowings	**13.4**	**13.4**	25.4	26.1
Long-term borrowings				
– Bank loans	**660.1**	**660.1**	565.8	565.3
– Other borrowings	**2.1**	**2.1**	7.6	7.7
– Tax increment financing (refer note 18)	**1.7**	**1.7**	1.7	1.7
Long-term borrowings	**663.9**	**663.9**	575.1	574.7
	677.3	**677.3**	600.5	600.8

The fair values are based on the expected future payments discounted at a market interest rate of 4.7% (2006: 4.1%). The fair values of current and long-term borrowings approximate their carrying amount, as the impact of discounting is not significant.

17 Borrowings continued

Borrowings are further summarized as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period Years	US$m	Floating rate borrowings US$m	Total US$m
2007					
Euro	5.8	0.7	14.8	–	14.8
Hong Kong Dollar	3.9	1.2	146.2	203.4	349.6
Swiss Franc	4.4	24.0	2.2	18.6	20.8
United Kingdom Sterling	6.8	6.5	42.4	127.3	169.7
United States Dollar	5.3	2.6	49.7	53.0	102.7
Japanese Yen	1.2	–	–	19.7	19.7
			255.3	**422.0**	**677.3**
2006					
Euro	5.8	1.7	14.2	–	14.2
Hong Kong Dollar	4.4	2.2	146.7	181.9	328.6
Swiss Franc	3.7	25.0	2.0	21.0	23.0
United Kingdom Sterling	6.2	–	–	111.8	111.8
United States Dollar	5.5	3.6	51.2	53.2	104.4
Japanese Yen	0.8	–	–	18.5	18.5
			214.1	386.4	600.5

The weighted average interest rates and period are stated after taking into account of hedging transactions (refer note 28).

The remaining contractual maturities of the borrowings, including the contractual interest payments, are analyzed as follows:

	2007 US$m	2006 US$m
Within one year	**45.3**	54.7
Between one and two years	**38.3**	207.1
Between two and three years	**143.4**	31.1
Between three and four years	**28.7**	382.5
Between four and five years	**28.7**	2.1
Beyond five years	**577.3**	15.7
	861.7	693.2
Secured	**649.5**	574.4
Unsecured	**27.8**	26.1
	677.3	600.5

Borrowings of US$649.5 million (2006: US$574.4 million) are secured against the fixed assets of certain subsidiaries. The book value of these fixed assets as at 31st December 2007 was US$951 million (2006: US$1,024.7 million).

18 Tax increment financing

	2007 US$m	2006 US$m
Netted off against the net book value of the property (refer note 10)	**29.8**	30.6
Loan (refer note 17)	**1.7**	1.7
	31.5	32.3

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

The District agreed to contribute to the subsidiary US$33 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 10). The loan of US$1.7 million (2006: US$1.7 million) is included in long-term borrowings (refer note 17).

19 Segment information

Analysis by geographical area

	Capital expenditure US$m	Segment assets US$m	Associates and joint ventures US$m	Segment liabilities US$m
2007				
Hong Kong and Macau	27.7	488.3	15.8	(48.0)
Other Asia	6.4	60.4	156.4	(15.5)
Europe	18.8	590.9	–	(27.3)
The Americas	2.4	183.2	32.4	(17.7)
Segment	55.3	1,322.8	204.6	(108.5)
Unallocated	–	533.6	–	(792.2)
	55.3	**1,856.4**	**204.6**	**(900.7)**
2006				
Hong Kong and Macau	113.9	467.2	15.4	(41.6)
Other Asia	7.7	59.0	130.6	(18.5)
Europe	7.6	525.5	–	(16.8)
The Americas	1.1	212.7	44.0	(15.8)
Segment	130.3	1,264.4	190.0	(92.7)
Unallocated	–	320.5	–	(677.8)
	130.3	1,584.9	190.0	(770.5)

Capital expenditure comprises additions of intangible assets, 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.

20 Share capital

	Ordinary shares in millions			
	2007	2006	**2007 US$m**	2006 US$m
Authorized				
Shares of US¢5 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid				
At 1st January	**990.8**	992.6	**49.6**	49.7
Repurchase of shares under share incentive schemes	**–**	(1.8)	**–**	(0.1)
At 31st December	**990.8**	990.8	**49.6**	49.6
Outstanding under share incentive schemes	**(17.2)**	(22.8)	**(0.9)**	(1.2)
At 31st December	**973.6**	968.0	**48.7**	48.4

21 Share premium

	2007 US$m	2006 US$m
At 1st January	**173.0**	174.8
Repurchase of shares under share incentive schemes	**–**	(1.8)
	173.0	173.0
Outstanding under share incentive schemes	**(9.5)**	(12.7)
At 31st December	**163.5**	160.3

22 Senior Executive Share Incentive Schemes

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

The exercise price of the granted options is based on the average market price for the five trading days immediately preceding the date of grant of the options. Options are vested in tranches over a period of up to five years and are exercisable for up to ten years following the date of grant. Prior to the adoption of the 2005 Plan on 4th May 2005, ordinary shares were issued on the date of grant of the options to the Trustee of the Schemes, Mandarin Oriental 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 20) and the premium attached to them is netted off the share premium account (refer note 21).

22 Senior Executive Share Incentive Schemes continued

Movements for the year:

	2007 Weighted average exercise price US$	2007 Options in millions	2006 Weighted average exercise price US$	2006 Options in millions
At 1st January	0.72	31.2	0.64	27.7
Granted	1.88	5.6	1.02	8.3
Exercised	0.62	(5.6)	0.62	(2.6)
Repurchased and cancelled	0.99	(0.1)	1.05	(2.2)
At 31st December	0.94	**31.1**	0.72	31.2

The average share price during the year was US$2.13 (2006: US$1.21) per share.

Outstanding at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price US$	2007	2006
2007	1.2	–	0.2
2008	0.5–0.9	2.9	6.5
2009	0.7–0.8	1.9	11.1
2010	0.5–0.7	4.6	5.6
2011	0.6	1.2	1.2
2012	0.4	1.7	1.7
2013	0.3–0.4	1.0	1.0
2014	0.6	0.8	0.8
2015	0.8–1.0	3.6	3.1
2016	1.0–1.4	7.8	–
2017	1.9	5.6	–
Total outstanding		**31.1**	31.2
of which exercisable		**15.9**	20.3

The fair value of options granted during the year, determined using the Trinomial valuation model, was US$5 million (2006: US$4 million). The significant inputs into the model, based on the weighted average number of options issued, were share price at the grant date of US$1.98 (2006: US$1.05), exercise price shown above, expected volatility based on the last three years of 33% (2006: 34%), dividend yield of 1.4% (2006: 1.3%), option life disclosed above, and annual risk-free interest rate of 4.5% (2006: 4.7%).

23 Revenue and other reserves

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
2007					
At 1st January	364.2	480.3	1.7	(54.2)	792.0
Revaluation of properties					
– net revaluation surplus	–	70.3	–	–	70.3
– deferred tax	–	(26.1)	–	–	(26.1)
Revaluation of other investments					
– fair value gain	0.1	–	–	–	0.1
Defined benefit pension plans					
– actuarial gain	7.6	–	–	–	7.6
– deferred tax	(1.4)	–	–	–	(1.4)
Net exchange translation differences					
– amount arising in year	–	–	–	37.4	37.4
– transfer to profit and loss (note 2)	–	–	–	(8.3)	(8.3)
Fair value loss on cash flow hedges	–	–	(5.2)	–	(5.2)
Deferred tax on fair value loss	–	–	1.5	–	1.5
Share-based payments	–	2.7	–	–	2.7
Profit attributable to shareholders	108.2	–	–	–	108.2
Dividends (refer note 26)	(38.7)	–	–	–	(38.7)
At 31st December 2007	**440.0**	**527.2**	**(2.0)**	**(25.1)**	**940.1**
Of which:					
– Company	**91.9**	**10.3**	**–**	**–**	**102.2**
– Associates and joint ventures	**(10.1)**	**114.4**	**–**	**(44.7)**	**59.6**

23 Revenue and other reserves *continued*

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
2006					
At 1st January	294.1	427.8	5.5	(99.4)	628.0
Revaluation of properties					
– net revaluation surplus	–	74.7	–	–	74.7
– deferred tax	–	(23.9)	–	–	(23.9)
Defined benefit pension plans					
– actuarial gain	5.6	–	–	–	5.6
– deferred tax	(1.0)	–	–	–	(1.0)
Net exchange translation differences	–	–	–	44.8	44.8
Fair value loss on cash flow hedges	–	–	(2.8)	–	(2.8)
Deferred tax on fair value gain	–	–	(0.6)	–	(0.6)
Share-based payments	–	1.7	–	–	1.7
Profit attributable to shareholders	80.0	–	–	–	80.0
Transfer between reserves	–	–	(0.4)	0.4	–
Dividends (refer note 26)	(14.5)	–	–	–	(14.5)
At 31st December 2006	364.2	480.3	1.7	(54.2)	792.0
Of which:					
– Company	91.7	7.6	–	–	99.3
– Associates and joint ventures	(20.2)	112.8	–	(62.1)	30.5

Capital reserves include property revaluation reserves of US$262.8 million net of attributable deferred tax of US$93.7 million (2006: US$218.6 million net of attributable deferred tax of US$67.6 million) which are not distributable in certain territories in which the Group operates.

24 Non-current asset classified as held for sale

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

	2007 US$m	2006 US$m
Associates and joint ventures (refer note 11)	–	13.7
Loan receivable (refer note 12)	–	31.2
Current assets	–	9.0
Total assets	–	53.9

The Group's 25% interest in Mandarin Oriental, New York was classified as held for sale as at 31st December 2006. The sale was completed on 1st March 2007 (refer note 6).

25 Minority interests

At 1st January	**3.7**	3.7
Net exchange translation differences	**0.9**	0.3
Revaluation of properties		
– net revaluation surplus/(deficit)	**8.1**	(0.6)
– deferred tax	**(3.7)**	0.2
Fair value loss on financial instruments	**(0.3)**	(0.1)
Deferred tax on fair value loss	**0.1**	–
Attributable profit/(loss)	**(0.8)**	0.2
At 31st December	**8.0**	3.7

26 Dividends

Final dividend in respect of 2006 of US¢3.00 (2005: US¢1.50) per share	**29.0**	14.5
Interim dividend in respect of 2007 of US¢1.00 (2006: nil) per share	**9.7**	–
	38.7	14.5

A final dividend in respect of 2007 of US¢5.00 (2006: US¢3.00) per share amounting to a total of US$48.5 million (2006: US$29 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2008.

27 Notes to consolidated cash flow statement

a) Non-cash items

	2007 US$m	2006 US$m
Gain on disposal (refer note 5)	–	(76.8)
Pension expenses	**0.3**	1.0
Other	**(4.2)**	1.1
	(3.9)	(74.7)

b) Movements in working capital

Increase in stocks	**(0.4)**	(1.2)
Increase/(decrease) in debtors and prepayments	**0.5**	(13.8)
Increase in creditors and accruals	**5.2**	13.6
	5.3	(1.4)

c) Proceeds on disposal of The Mark

Net assets disposed of (refer note 24)	–	66.3
Direct transaction costs	–	6.9
Gain on disposal (refer note 5)	–	76.8
Sales proceeds	–	150.0
Tax and other expenses paid	–	(51.5)
Net cash flow	–	98.5

d) Proceeds on disposal related to an associate

Net assets disposed of (refer note 11)	**13.7**	–
Gain on disposal (refer note 6)	**25.0**	–
	38.7	–
Repayment of mezzanine loan and interest	**41.0**	–
Tax	**(9.0)**	–
Net cash flow	**70.7**	–

e) Capital distribution from associates

Concurrent with the partial sale of the Group's interest in Mandarin Oriental, New York, the hotel increased its external borrowings resulting in a return of capital of approximately US$13.2 million on the Group's continuing 25% interest in the hotel. The Group also received repayment of US$1.2 million from its interest in shareholder loans previously provided to Mandarin Oriental, Miami.

f) Analysis of balances of cash and cash equivalents

Cash at bank	**492.4**	286.7
Bank overdrafts	**(0.3)**	(0.1)
	492.1	286.6

The weighted average effective interest rate on short-term bank deposits included in cash at bank was 4.8% (2006: 4.4%).

28 Derivative financial instruments

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

	2007		2006	
	Positive fair value US$m	Negative fair value US$m	Positive fair value US$m	Negative fair value US$m
Designated as cash flow hedges				
– interest rate swaps and caps	**0.2**	**2.9**	2.9	0.2
At 31st December	**0.2**	**2.9**	2.9	0.2

The remaining contractual maturities of derivative financial instruments, based on their undiscounted cash outflows, are analyzed as follows:

	Within one year US$m	Between one and two years US$m	Between two and five years US$m	Over five years US$m
2007				
Net settled				
– interest rate swaps	**0.4**	**1.1**	**1.5**	**0.7**
2006				
Net settled				
– interest rate swaps	–	–	0.2	–

The notional principal amounts of the outstanding derivative financial instruments at 31st December 2007 were US$312.9 million (2006: US$262.3 million).

At 31st December 2007, the fixed interest rates relating to interest rate swaps and caps ranged from 1.5% to 7.0% (2006: 1.5% to 6.0%).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 3.7% to 6.4% (2006: 4.0% to 5.4%) per annum.

29 Financial guarantee

	2007 US$m	2006 US$m
Guarantees in respect of facilities made available to associates and joint ventures	**12.5**	70.5

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.

30 Commitments

	2007 US$m	2006 US$m
Capital commitments:		
Authorized not contracted	**48.0**	15.1
Contracted not provided	**14.6**	22.6
	62.6	37.7
Operating lease commitments:		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**6.3**	5.5
Between two and five years	**24.8**	22.9
Over five years	**133.8**	132.6
	164.9	161.0

Total future sublease payments receivable relating to the above operating leases amounted to US$0.1 million (2006: US$0.2 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.

31 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$0.5 million (2006: US$0.4 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group has no outstanding balance with JML as at 31st December 2007 (2006: nil).

During 2007, the Group managed seven associate and joint venture hotels and received management fees of US$15.7 million (2006: US$16.8 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 prepayments in note 15.

The Group engages Gammon Construction Limited ('Gammon'), a joint venture of JMH, as contractor for certain of the Group hotel renovation projects. Management fees paid by the Group to Gammon in 2007 were US$0.4 million (2006: US$4.1 million). The Group has no outstanding balance with Gammon as at 31st December 2007 (2006: nil).

The Group uses Jardine Lloyd Thompson ('JLT'), an associate of JMH, to place certain of its insurance. Brokerage fees and commissions, net of rebates, paid by the Group in 2007 to JLT amounted to US$0.5 million (2006: US$0.6 million). The Group has no outstanding balance with JLT as at 31st December 2007 (2006: nil).

31 Related party transactions continued

During 2006, the Group rented an office space from Hongkong Land ('HKL'), an associate of JMH. Gross rental paid by the Group to HKL in 2006 was US$0.3 million. The Group also provides hotel management services to HKL and received management fees of US$0.5 million in 2007 (2006: US$0.4 million) based on long-term management agreements on normal commercial terms. The Group has no outstanding balance with HKL as at 31st December 2007 (2006: US$0.1 million).

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 79 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

32 Summarized balance sheet of the Company

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

	2007 US$m	2006 US$m
Subsidiaries at cost	**325.6**	322.7
Net current liabilities	**(0.8)**	(0.8)
Net operating assets	**324.8**	321.9
Share capital (refer note 20)	**49.6**	49.6
Share premium (refer note 21)	**173.0**	173.0
Revenue reserves (refer note 23)	**91.9**	91.7
Other reserves (refer note 23)	**10.3**	7.6
Shareholders' funds	**324.8**	321.9

Principal Subsidiaries, Associates, Joint Ventures and Managed Hotels

as at 31st December 2007

Principal country	Company 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
Philippines	Manila Mandarin Hotel Incorporated	Owner: Mandarin Oriental, Manila
Switzerland	Société Immobilère de Mandarin Oriental Hôtel du Rhône SA	Owner: Mandarin Oriental Hotel du Rhône, Geneva
	Société pour l'Exploitation de Mandarin Oriental Hôtel du Rhône	
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: Mandarin Oriental, Singapore
Thailand	The Oriental Hotel (Thailand) PCL	Owner: The Oriental, Bangkok
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur
United States	Istithmar Columbus Centre LLC	Owner: Mandarin Oriental, New York
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
Managed Hotels		
Hong Kong	The Landmark Mandarin Oriental, Hong Kong	
United States	Mandarin Oriental, San Francisco	
Bermuda	Elbow Beach, Bermuda	
Thailand	Mandarin Oriental Dhara Dhevi, Chiang Mai	
Czech Republic	Mandarin Oriental, Prague	

Note
1. Preference shares

Attributable interest %			
2007	2006	Issued share capital	Hotel profile
100	100	US$12,000	–
100	100	HK$60,000,000	–
100	100	HK$33,000,000	502 rooms. Lease expiry 2895
100	100	US$100	884 rooms. Lease expiry 2842
100	100	GBP 4,493,484 GBP 1,578,791 (*note 1*)	198 rooms. Freehold
100	100	Euro 3,632,000	73 rooms. Freehold
96.2	96.2	Peso 288,918,400	443 rooms. Lease expiry 2026
85.3	85.3	CHF 6,800,000	190 rooms. Lease expiry 2040
100	100	CHF 10,800,000	–
80	80	–	400 rooms. Freehold
88.3	88.3	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
25	25	RM 130,000,000	632 rooms. Freehold
25	50	–	248 rooms. Freehold
25	25	–	327 rooms. Freehold
49	49	Baht 120,000,000	–
50	50	Ptc 20,000,000	416 rooms. Lease expiry 2032
–	–	–	113 rooms
–	–	–	158 rooms
–	–	–	235 rooms
–	–	–	123 rooms
–	–	–	99 rooms

Independent Auditor's Report

To the members of Mandarin Oriental International Limited

We have audited the accompanying consolidated financial statements of Mandarin Oriental International Limited and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31st December 2007 and the consolidated profit and loss account, consolidated statement of recognized income and expense and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31st December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Bermuda Companies Act.

Other Matters

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

PricewaterhouseCoopers LLP
London
United Kingdom

6th March 2008

Five Year Summary

Consolidated Profit and Loss Account

	2003 US$m	2004 US$m	2005 US$m	2006 US$m	**2007 US$m**
Revenue	218.1	336.8	399.2	404.6	**529.5**
Operating profit	29.8	43.4	60.4	121.9	**107.7**
Net financing charges	(23.8)	(27.5)	(22.4)	(15.2)	**(16.4)**
Share of results of associates and joint ventures	(0.9)	12.6	8.7	13.0	**22.9**
Gains on disposal of associates	–	–	52.3	–	**16.0**
Profit before tax	5.1	28.5	99.0	119.7	**130.2**
Tax	(8.0)	(4.8)	(24.8)	(39.5)	**(22.8)**
Profit/(Loss) for the year	(2.9)	23.7	74.2	80.2	**107.4**
Profit/(Loss) attributable to shareholders	(1.8)	28.5	77.2	80.0	**108.2**
Profit/(Loss) attributable to minority interests	(1.1)	(4.8)	(3.0)	0.2	**(0.8)**
	(2.9)	23.7	74.2	80.2	**107.4**
Earnings per share (US¢)	(0.21)	3.35	8.14	8.28	**11.16**
Dividends per share (US¢)	–	1.00	1.50	3.00	**6.00**

Consolidated Balance Sheet

	2003 US$m	2004 US$m	2005 US$m	2006 US$m	**2007 US$m**
Intangible assets	219.7	219.4	215.5	216.0	**216.2**
Tangible assets	687.1	752.1	684.0	882.5	**995.0**
Associates and joint ventures	243.3	258.6	174.0	190.0	**204.6**
Other investments	18.2	6.4	5.1	6.4	**10.3**
Loan receivables	–	–	43.0	12.0	**3.4**
Pension assets	19.2	22.9	22.8	27.1	**34.0**
Deferred tax assets	4.9	7.8	9.9	27.4	**27.5**
Other non-current assets	–	–	5.5	2.9	**0.2**
Net current assets/(liabilities)	35.8	(32.3)	202.1	289.8	**443.7**
Long-term borrowings	(584.9)	(497.1)	(471.6)	(575.1)	**(663.9)**
Deferred tax liabilities	(26.0)	(38.2)	(49.8)	(72.9)	**(107.7)**
Pension liabilities	(1.7)	(1.7)	(1.7)	(1.5)	**(0.1)**
Other non-current liabilities	(4.1)	(6.0)	–	(0.2)	**(2.9)**
Net operating assets	611.5	691.9	838.8	1,004.4	**1,160.3**
Share capital	42.6	42.6	48.3	48.4	**48.7**
Share premium	88.7	89.0	158.8	160.3	**163.5**
Revenue and other reserves	469.0	552.1	628.0	792.0	**940.1**
Shareholders' funds	600.3	683.7	835.1	1,000.7	**1,152.3**
Minority interests	11.2	8.2	3.7	3.7	**8.0**
Capital employed	611.5	691.9	838.8	1,004.4	**1,160.3**
Net asset value per share (US$)	0.70	0.80	0.87	1.03	**1.18**

Consolidated Cash Flow Statement

	2003 US$m	2004 US$m	2005 US$m	2006 US$m	**2007 US$m**
Cash flows from operating activities	28.3	47.1	72.6	62.4	**129.5**
Cash flows from investing activities	(84.7)	(28.4)	43.3	(38.0)	**38.4**
Net cash flow before financing activities	(56.4)	18.7	115.9	24.4	**167.9**
Cash flow per share from operating activities (US¢)	3.32	5.53	7.65	6.46	**13.35**

Corporate Governance

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

The Board

The Company currently has a Board of 16 directors: the Group Chief Executive and Chief Financial Officer; six 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 reflect 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 four executives of Jardine Matheson on the board of MOHG, being A J L Nightingale, Jonathan Gould, Mark Greenberg 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 continued

The Board is scheduled to hold four meetings in 2008, 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 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 executive 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.

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

In accordance with Bye-law 85, Dr Richard Lee, Robert Léon, James Watkins and John R Witt retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. John R Witt has a service contract with Mandarin Oriental Hotel Group Limited that provides for termination with a notice period of six months. None of the other Directors proposed for re-election has a service contract with the Company or its subsidiaries.

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 Chief Financial Officer, 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. A motion to increase the Directors' fees to US$30,000 each per annum and the fees for the Chairman and Managing Director to US$40,000 each per annum, save that salaried executives shall not be eligible for such fees, with effect from 1st January 2008 will be proposed at the forthcoming Annual General Meeting.

For the year ended 31st December 2007, the Directors received from the Group US$4.82 million (2006: US$4.24 million) in employee benefits, being US$4.77 million (2006: US$4.19 million) in short-term employee benefits including salary, bonus, accommodation and deemed benefits in kind, US$0.05 million (2006: US$0.05 million) in post-employment benefits and US$1.16 million (2006: US$0.82 million) in share-based payments. The information set out in this paragraph forms part of the audited financial statements.

Senior executive share incentive schemes have also been established to provide longer-term incentives for executive Directors and senior managers. Share options are granted by the scheme trustee after consultation between the Chairman, the Managing Director and the Group Chief Executive and other Directors as they consider appropriate. 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.

Directors' appointment, retirement, remuneration and service contracts continued

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. The code requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. The code prohibits the giving or receiving of illicit payments, and requires all employees to be treated fairly, impartially and with respect. It also requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organizations. The Group has in place procedures by which employees can raise, in confidence, matters of serious concern in areas such as financial reporting or compliance.

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 Chief Financial Officer 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.

Internal control continued

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 for employees to raise any matters of serious concern, and is required to review any reports made under those procedures that are referred to it by the internal audit function.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results 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, Chief Financial Officer and other senior executives.

The audit committee of MOHG keeps under review the nature, scope and results of the external audit and the audits conducted by the internal audit department. The audit committee of MOHG also keeps under review the independence and objectivity of the external auditors.

Directors' share interests

The Directors of the Company in office on 1st April 2008 had interests (within the meaning of the Disclosure and Transparency Rules ('DTRs') of the Financial Services Authority (the 'FSA') of the United Kingdom) set out below in the ordinary share capital of the Company. These interests included those notified to the Company in respect of the Directors' connected persons (as that term is used in the DTRs in relation to companies incorporated outside the United Kingdom).

Simon Keswick	19,858
Edouard Ettedgui	6,250,000
R C Kwok	6,711
Sydney S W Leong	467,577
John R Witt	1,700,000

In addition, Edouard Ettedgui and John R Witt held options in respect of 8,400,000 and 2,950,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.

Substantial shareholders

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

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic and its subsidiary undertakings, which are directly and indirectly interested in 728,990,281 ordinary shares carrying 73.58% of the voting rights. By virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares. Apart from this shareholding, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 1st April 2008.

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 2008 Annual General Meeting will be held on 7th May 2008. 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 9th May 2007, shareholders renewed the approval of a general mandate authorizing the Directors to effect purchases by the Company or its subsidiaries of the Company's own ordinary shares of less than 15% in aggregate of its issued share capital.

Arrangements under which shareholders have agreed to waive dividends

Mandarin Oriental Trustees Limited has waived the interim dividend and has undertaken to waive the recommended final dividend for 2007 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 31 to the financial statements on pages 72 and 73. There were no transactions entered into by the Company during the course of the year to which the related party transaction rules of the FSA in the United Kingdom apply.

Shareholder Information

Financial calendar

2007 full-year results announced	6th March 2008
Share registers closed	24th to 28th March 2008
Annual General Meeting to be held	7th May 2008
2007 final dividend payable	14th May 2008
2008 half-year results to be announced	31st July 2008*
Share registers to be closed	25th to 29th August 2008*
2008 interim dividend payable	15th October 2008*

* *Subject to change*

Dividends

Shareholders will receive their dividends in United States Dollars, unless they are registered on the Jersey branch register where they will have the option to elect for sterling. These shareholders may make new currency elections for the 2007 final dividend by notifying the United Kingdom transfer agent in writing by 25th April 2008. The sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 30th April 2008. 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 Registrars (Jersey) Limited (formerly Capita IRG (Offshore) Limited), PO Box 532, St Helier, Jersey JE4 5UW, 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'.

Mandarin Oriental Hotel Group Contact Addresses

Hong Kong Corporate Office

281 Gloucester Road, Causeway Bay, Hong Kong
Telephone +852 2895 9288
Facsimile +852 2837 3500
www.mandarinoriental.com

Asia-Pacific

The Oriental, Bangkok
48 Oriental Avenue, Bangkok 10500, Thailand
Telephone +66(2) 659 9000
Facsimile +66(2) 659 0000
Email: orbkk-reservations@mohg.com

Mandarin Oriental Dhara Dhevi, Chiang Mai
51/4 Chiang Mai-Sankampaeng Road
Moo 1 T.Tasala A. Muang, Chiang Mai 50000, Thailand
Telephone +66(53) 888 888
Facsimile +66(53) 888 999
Email: mocnx-reservations@mohg.com

Mandarin Oriental, Hong Kong
5 Connaught Road, Central, Hong Kong
Telephone +852 2522 0111
Facsimile +852 2810 6190
Email: mohkg-reservations@mohg.com

The Landmark Mandarin Oriental, Hong Kong
15 Queen's Road Central, The Landmark
Central, Hong Kong
Telephone +852 2132 0188
Facsimile +852 2132 0199
Email: lmhkg-reservations@mohg.com

Mandarin Oriental, Jakarta
Jalan M H Thamrin, PO Box 3392
Jakarta 10310, Indonesia
Telephone +62(21) 3983 8888
Facsimile +62(21) 3983 8889
Email: mojkt-reservations@mohg.com

Mandarin Oriental, Kuala Lumpur
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia
Telephone +60(3) 2380 8888
Facsimile +60(3) 2380 8833
Email: mokul-reservations@mohg.com

Mandarin Oriental, Macau
956-1110 Avenida da Amizade PO Box 3016, Macau
Telephone +853 2856 7888
Facsimile +853 2859 4589
Email: momfm-reservations@mohg.com

Mandarin Oriental, Manila
Makati Avenue, Makati City 1226
Metro Manila, Philippines
Telephone +63(2) 750 8888
Facsimile +63(2) 815 0555
Email: momnl-reservations@mohg.com

Mandarin Oriental, Singapore
5 Raffles Avenue, Marina Square Singapore 039797
Telephone +65 6338 0066
Facsimile +65 6339 9537
Email: morsin-reservations@mohg.com

Mandarin Oriental, Tokyo
2-1-1 Nihonbashi Muromachi, Chuo-ku
Tokyo 103-8328, Japan
Telephone +81 3 3270 8800
Facsimile +81 3 3270 8828
Email: motyo-reservations@mohg.com

The Excelsior, Hong Kong
281 Gloucester Road, Causeway Bay, Hong Kong
Telephone +852 2894 8888
Facsimile +852 2895 6459
Email: exhkg-reservations@mohg.com

Mandarin Oriental, Beijing (2008)
No.32 East Dong San Huan Road
Chaoyang District, Beijing, China
Telephone +86(10) 5906 1888
Facsimile +86(10) 5906 1800

Mandarin Oriental, Sanya (2008)
12 Yuhai Road, Sanya City 572000
Hainan Province, China
Telephone +86(898) 8868 9828
Facsimile +86(898) 8868 9686

Europe

Mandarin Oriental Hotel du Rhône, Geneva
Quai Turrettini 1, 1201 Geneva, Switzerland
Telephone +41(22) 909 0000
Facsimile +41(22) 909 0010
Email: mogva-reservations@mohg.com

Mandarin Oriental Hyde Park, London
66 Knightsbridge
London, SW1X 7LA, United Kingdom
Telephone +44(0) 20 7235 2000
Facsimile +44(0) 20 7235 2001
Email: molon-reservations@mohg.com

Mandarin Oriental, Munich
Neuturmstrasse 1, 80331 Munich, Germany
Telephone +49(89) 290 980
Facsimile +49(89) 222 539
Email: momuc-reservations@mohg.com

Mandarin Oriental, Prague
Nebovidska 459/1, 11800 Prague 1
Czech Republic
Telephone +420 233 088 888
Facsimile +420 233 088 668
Email: moprg-reservations@mohg.com

The Americas

Elbow Beach, Bermuda
60 South Shore Road, Paget Parish
Bermuda PG 04
Telephone +1(441) 236 3535
Facsimile +1(441) 236 8043
Email: ebbda-reservations@mohg.com

Mandarin Oriental, Miami
500 Brickell Key Drive, Miami
Florida 33131, USA
Telephone +1(305) 913 8288
Facsimile +1(305) 913 8300
Email: momia-reservations@mohg.com

Mandarin Oriental, New York
80 Columbus Circle at 60th Street
New York, New York 10023, USA
Telephone +1(212) 805 8800
Facsimile +1(212) 805 8888
Email: monyc-reservations@mohg.com

Mandarin Oriental Riviera Maya, Mexico
Km. 298.8 Carretera #307, Playa del Carmen
Quintana Roo, Mexico 77710
Telephone +152(984) 877 3880
Facsimile +152 (984) 877 3288
Email: mocun-reservations@mohg.com

Mandarin Oriental, San Francisco
222 Sansome Street, San Francisco
California 94104-2792, USA
Telephone +1(415) 276 9888
Facsimile +1(415) 433 0289
Email: mosfo-reservations@mohg.com

Mandarin Oriental, Washington D.C.
1330 Maryland Avenue, SW
Washington D.C. 20024, USA
Telephone +1(202) 554 8588
Facsimile +1(202) 554 8999
Email: mowas-reservations@mohg.com

Mandarin Oriental, Boston (2008)
776 Boylston Street, Boston
Massachusetts 02116, USA
Telephone +1(617) 531 0888
Facsimile +1(617) 531 0889
Email: mobos-sales@mohg.com

Sales and Reservations Offices

Mandarin Oriental Hotel Group Sales Offices

Asia-Pacific
5/F, 281 Gloucester Road, Causeway Bay, Hong Kong
Telephone +852 2895 9278
Facsimile +852 2837 3518

China
Room 529, China World Trade Centre, Tower 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004, China
Telephone +86(10) 6505 2806
Facsimile +86(10) 6505 5205

c/o Jardine Matheson (China) Ltd
Room 2406, Block B, Centre Plaza
161 Lin He Xi Road, Tian He District
Guangzhou 510620, China
Telephone +86(20) 3831 0798
Facsimile +86(20) 3831 0789

Room 1109B, Bund Center, 222 Yan An Road East
Huang Pu District, Shanghai 200002, China
Telephone +86(21) 6335 1800
Facsimile +86(21) 6335 2567

Japan
8F, Sengoku Building 2-4-15
Nihonbashi Muromachi
Chuo-ku, Tokyo 103-0022 Japan
Telephone +81(3) 3231 2920
Facsimile +81(3) 3231 2925

Singapore
5 Raffles Avenue
Marina Square, Singapore 039797
Telephone +65 6339 8811
Facsimile +65 6339 0597

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Facsimile +49(69) 610 635

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Facsimile +1(954) 489 9256

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Facsimile +1(703) 997 0655

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Facsimile +1(310) 670 6648

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