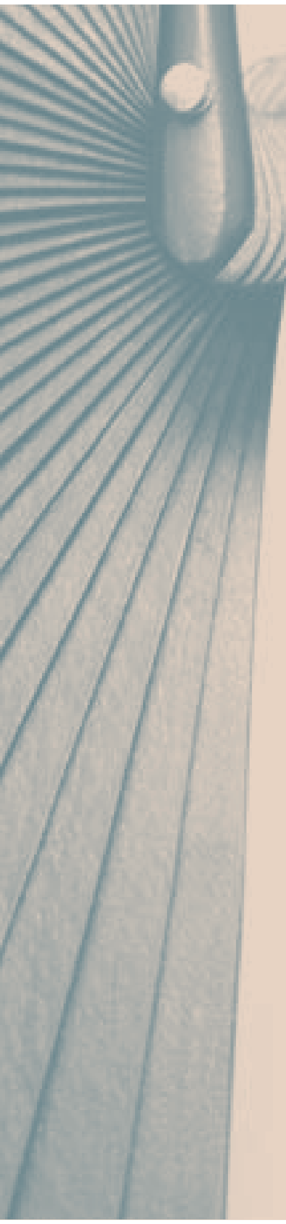
Mandarin Oriental International Limited

Annual Report 2008



Mandarin Oriental Hotel Group is an international hotel investment and management group with deluxe and first class hotels, resorts and residences in sought-after destinations around the world. The Group now operates, or has under development, 41 hotels representing over 10,000 rooms in 25 countries, with 17 hotels in Asia, 14 in The Americas and 10 in Europe and North Africa. In addition, the Group operates, or has under development, 13 *Residences at Mandarin Oriental*, connected to the Group's properties. The Group has equity interests in many of its properties and net assets of approximately US$2.0 billion as at 31st December 2008.

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 share 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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Corporate Information

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
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Sydney S W Leong
Lord Powell of Bayswater KCMG
James Watkins
Percy Weatherall
John R Witt

Company Secretary and Registered Office

C H Wilken
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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
L R Lambert
James Riley
T L Stinson
John R Witt *Chief Financial Officer*

Corporate Secretary

N M McNamara

Highlights

Mandarin Oriental International Limited

- Weakening demand affects second half results
- Earnings per share (before non-trading items) down from US¢8.98 to US¢6.84
- Full-year dividend per share up from US¢6.00 to US¢7.00
- Sale of 50% interest in Macau hotel announced in 2009
- Active development programme continues, but some delays now expected

Results

	2008 US$m	2007 US$m	Change %
Combined total revenue of hotels under management[1]	**1,016.1**	1,007.7	1
Earnings before interest, tax, depreciation and amortization[2]	**163.9**	190.2	(14)
Profit attributable to shareholders	**67.1**	108.2	(38)
Profit attributable to shareholders – excluding gain on disposal and writeback of impairment of an associate	**67.1**	87.1	(23)
	US¢	US¢	%
Earnings per share	**6.84**	11.16	(39)
Earnings per share – excluding gain on disposal and writeback of impairment of an associate	**6.84**	8.98	(24)
Dividends per share	**7.00**	6.00	17
	US$	US$	%
Net asset value per share	**1.02**	1.18	(14)
Net asset value per share with leasehold properties at valuation[3]	**2.08**	2.34	(11)
Net debt/shareholders' funds	**15%**	16%	
Net debt/adjusted shareholders' funds[3]	**7%**	8%	

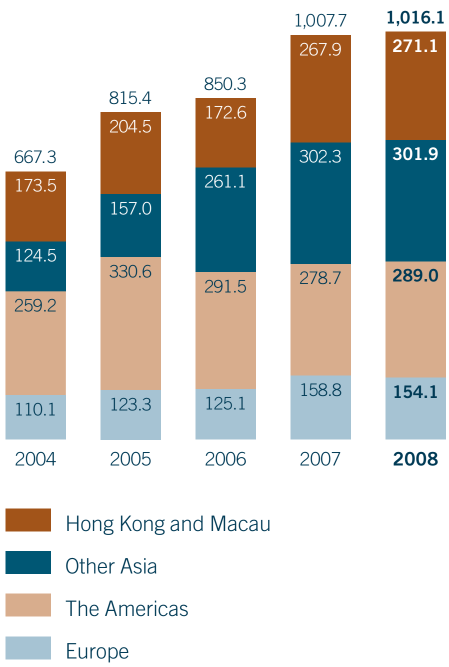
[1] Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate, joint venture and managed hotels.

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

[3] These calculations have 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 and net debt/shareholders' funds taking into account the fair market value of leasehold interests as supplementary financial information in addition to the net asset value per share and net debt/shareholders' funds based on IFRS measures.

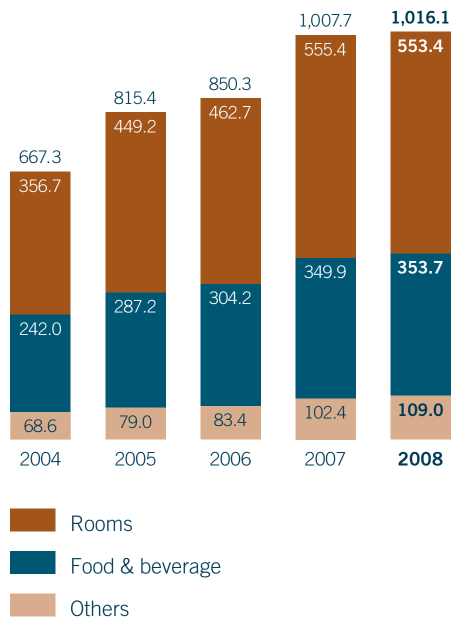
Combined total revenue
by geographical area

US$m



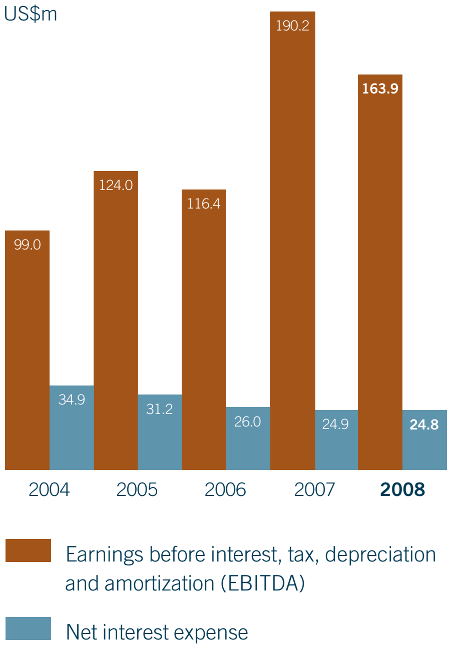
Combined total revenue
by type of business

US$m



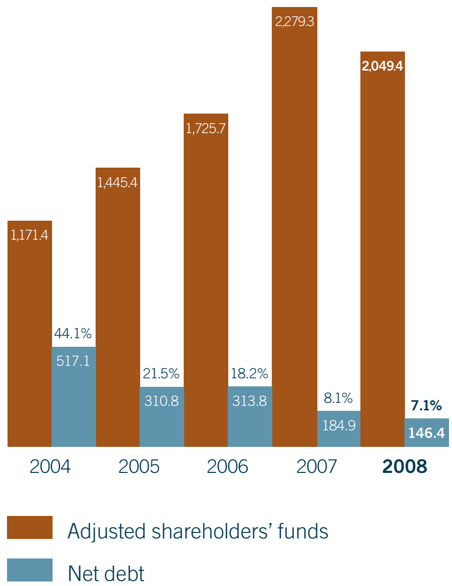
EBITDA and net interest expense

US$m



Net debt/adjusted shareholders' funds

US$m



Chairman's Statement

Overview

Despite solid results in the first six months of the year, the Group's overall performance was negatively affected by weakening demand as global economic conditions deteriorated.

Performance

Mandarin Oriental's earnings before interest, tax, depreciation and amortization for 2008 were US$164 million compared with US$190 million in 2007. Profit attributable to shareholders in 2008 was US$67 million, which compared with US$87 million in 2007 excluding non-trading items or US$108 million including such items, being principally a gain on a property disposal.

Earnings per share for the year were US¢6.84 compared with US¢8.98 in 2007, excluding non-trading items. Including non-trading items, earnings per share in 2007 were US¢11.16.

The Directors recommend a final dividend of US¢5.00 per share. This, together with the interim dividend of US¢2.00 per share, will make a total annual dividend of US¢7.00 compared with the US¢6.00 paid in respect of 2007. The increase in annual dividend reflects both the Company's financial strength and the limited capital required for the Group's expansion.

The net asset value per share with leasehold properties adjusted for fair market value was US$2.08 at 31st December 2008 based on a Directors' review of the valuations of the Group's hotel properties, in consultation with independent valuers. This represents a decrease of 11% compared with the net asset value per share of US$2.34 at the end of 2007. The Group's net debt remains low at US$146 million, 7% of adjusted shareholders' funds.

Group review

The economic downturn led to reduced activity across the Group's hotels, particularly from September onwards in what is traditionally their strongest season. Business from the corporate segment, especially the financial services sector, was adversely affected, leading to a drop in occupancy at most hotels. The leisure segment proved to be more resilient, contributing to increases in average room rates in the majority of our properties.

Despite the slowdown in the past four months, the Group's wholly-owned Hong Kong hotels maintained their profitability. The results from Europe, however, were adversely affected by currency movements and an eight-month renovation project in Geneva. The Group's hotels in The Americas suffered from the downturn, but maintained their competitive positions.

Developments

Mandarin Oriental, Boston opened in October 2008, and in January 2009, Mandarin Oriental, Sanya joined the portfolio. During 2008, the Group announced two new projects: a 221-room hotel to be opened in Moscow in 2011 and a 198-room hotel and branded residences in Atlanta, also to be completed in 2011.

More recently, the Group has announced that it will manage a 114 villa luxury resort in The Maldives, due to open in the next 12 months.

Mandarin Oriental is on schedule to open a further three new hotels in 2009, in Marrakech, Barcelona and Las Vegas, all of which will be operated by the Group under long-term management contracts. The opening of Mandarin Oriental, Beijing, scheduled for the second half of 2009, has unfortunately been postponed following a fire at the construction site in February. The Group has no equity interest in this property. Mandarin Oriental, Jakarta will re-open in the second half of the year following an extensive renovation. In total, the Group now operates 23 hotels with a further 18 hotels under development, some of which will be delayed due to the current financial environment. The Group continues to liaise closely with the developers on their timing.

In January of this year, the Group announced it would dispose of its 50% interest in the existing Macau hotel. An expected gain of approximately US$75 million will be recognized once the transaction is completed. The proceeds of some US$90 million will reduce further the Group's net debt. The Group will open a new property in Macau in 2010.

People

On behalf of the Board, I would like to express my appreciation to all employees for their dedication and commitment throughout the past year in achieving our high service standards.

Outlook

Against the background of deteriorating conditions and an uncertain global economic outlook, business will continue to be challenging with further decreases in occupancy expected at most of our hotels. Nonetheless, Mandarin Oriental's financial position is strong and the long-term outlook remains positive due to the strength of the brand and the limited new supply of luxury hotels in the Group's key markets.

Simon Keswick
Chairman
5th March 2009

Group Chief Executive's Review

Business strategy

Mandarin Oriental's aim, to become widely recognized as the best international luxury hotel group operating in sought-after destinations, remains firmly in place. An award-winning owner and operator of some of the world's most prestigious hotels and resorts, our Group will continue to grow its global presence. Mandarin Oriental now operates 23 hotels with a further 18 under development, bringing the total number of rooms to over 10,000 in 25 countries, reflecting the increasing strength of the brand.

Progress achieved

After a solid first half performance, the effects of the global economic downturn began to impact the Group's results from September onwards. As market conditions deteriorated, the hotels experienced a weakening of demand which resulted in reduced occupancies as well as a decline in related revenues. With the environment expected to remain challenging, comprehensive plans have been put in place to manage responsibly for reduced occupancy levels, without compromising our guests' satisfaction. Mandarin Oriental's strong financial position ensures that the Group is well placed to face the challenges ahead.

Despite the downturn, the Group's growing portfolio remained competitively strong and continued to achieve high average room rates. Whilst corporate travel has decreased, the demand amongst high net worth individuals for luxurious services and facilities when travelling for leisure remained intact, and our hotels successfully attracted travellers who paid premium rates for Mandarin Oriental experiences. The Group continues to benefit from the limited new supply in our sector and the impact of our growth around the world.

The resilience of the Group is clearly demonstrated in the following table which compares our performance over the past five years, since the end of the Asian downturn in 2003. In 2008, as a result of our successful growth strategy, we have achieved combined total revenues of hotels under management of over US$1 billion, in line with 2007 and above previous years. Earnings in 2008 were lower than the previous year however, with approximately two-thirds of the drop resulting from currency related movements and the renovation in Geneva, while the remaining decrease was due to the effects of the current economic downturn. Nonetheless, the Group's results remained significantly above those seen in previous years.

	2004 US$m	2005 US$m	2006 US$m	2007 US$m	**2008 US$m**
Combined total revenue of hotels under management	667	815	850	1,008	**1,016**
EBITDA	99	124	116	190	**164**
Profit attributable to shareholders excluding non-trading items	19	41	45	87	**67**

Furthermore, Mandarin Oriental's international expansion continued. In 2008, the Group added two new properties to its portfolio, in Boston and on the Riviera Maya in Mexico, which have met with considerable acclaim. While some of our already announced projects will be delayed as a result of the developers experiencing difficulty in obtaining adequate financing in the current environment, the Group signed two new management contracts during 2008, for hotels in Moscow and Atlanta. The Group also announced two new *Residences at Mandarin Oriental* that will accompany hotel projects, bringing the total number of branded residential projects to 13. In February 2009, the Group announced a new management contract for a luxury hideaway resort in The Maldives, comprising 114 spectacular villas, which is due to open in the next 12 months. The Group continues to review additional opportunities for luxurious urban hotels, resorts, hideaways and residences in important locations around the world.

Performance in 2008

Set out below is a review of the Group's performance in 2008, 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

Despite the current operational challenges that have impacted profitability, the vision on what constitutes success for our Group remains unchanged.

The Group remains focused on delivering our own style of luxury, comprising the essential elements of tradition, quality and innovation. Consequently, at existing hotels and within our growing portfolio, we continue to invest behind our core brand attributes of cutting-edge hotel design and architecture, holistic spa operations, innovative dining experiences, guest-orientated technology and the delivery of legendary service to our guests. As a result, Mandarin Oriental is increasingly recognized for creating some of the world's most sought-after properties, providing 21st century luxury with oriental charm. As the number of hotels we operate in new destinations grows, Mandarin Oriental is enjoying increasing recognition for creating many of the world's most desirable luxury hotels, supported by the Group's award-winning international advertising campaign which features 18 celebrity 'fans', who regularly stay in our hotels.

Further evidence of the Group's increasing global recognition in 2008 is the achievement of many significant awards from respected travel associations and publications worldwide. Highlights include *Condé Nast Traveler US Gold List 2008* which featured 11 award nominations, and *'The World's Best'* from *Travel + Leisure*, which had seven of our hotels appearing. Nine hotels were nominated in the annual *Forbes 400 Best Hotels* listing, and 11 hotels, the highest number ever achieved, appeared in the prestigious *Institutional Investor's World's Best 2008* listings.

The new hideaway, Mandarin Oriental Riviera Maya, Mexico achieved impressive accolades in its first year of operation and was recognized as one of the *'Best New Hotels in the World'* by *Travel + Leisure, Condé Nast Traveler, US* and *UK* editions, as well as *The Daily Telegraph, UK* and the prestigious *Robb Report*.

The Group's expertise in creative dining was also recognized in 2008 with restaurants in both luxury hotels in Hong Kong achieving *Michelin* star status, while three restaurants at Mandarin Oriental, Tokyo gained this honour. The Group's holistic spa operations were also recognized with Mandarin Oriental being nominated as *'Best Spa Brand'* in *Spa Finder's 2008 Readers Choice Awards*, while Mandarin Oriental, Hong Kong was one of only two spas in the region to achieve *'Mobil Five Star'* status for its spa facilities.

Finally Mandarin Oriental Hotel Group was positioned ahead of all its competitors, as one of Asia's *'200 Most Admired Companies'* in the *Wall Street Journal, Asia*.

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

2) Strengthening our competitive position

With most hotels experiencing a decrease in visitor arrivals, particularly in the last four months of the year, the focus remained on ensuring the hotels maintained or enhanced their leadership positions against their primary competition. In response to market challenges, appropriate cost containment measures were implemented, while ensuring the quality of service remained uncompromised.

Mandarin Oriental's operational and marketing focus remains on attracting wealthy leisure travellers. This strategy has led to the Group achieving over 40% of its business from the leisure segment, more than double the level achieved six years ago. This successful shift in consumer demand, which is a reflection of the strength of the brand's reputation and our growing portfolio, has resulted in the Group achieving an average rate of over US$400 across the portfolio.

The highlights of each region are as follows:

Asia

In Hong Kong, all three hotels managed by the Group maintained their competitive positions while experiencing a drop in occupancy levels over the previous year due to the shortfall in corporate demand. At the 100%-owned Mandarin Oriental, Hong Kong this shortfall was particularly significant following the weakening of the financial services sector from September onwards, in what is traditionally the strongest quarter of the year. Nonetheless, the Group's flagship achieved a 10% rate improvement over 2007 at US$437, and The Landmark, Mandarin Oriental increased its rate by 11% to almost US$500. In the first ever Hong Kong and Macau edition of the *Mobil Travel Guide*, Mandarin Oriental, Hong Kong and The Landmark, Mandarin Oriental attained coveted *'Five Star'* ratings; two of only four hotels in the territory to do so. This important recognition also validates the Group's decision to operate two complementary luxury hotels in a key city such as Hong Kong.

The Excelsior, the Group's other 100%-owned property in Hong Kong, also performed well against competition, achieving an occupancy of 84%, with an average rate of US$184, up from US$179 in 2007.

In Macau, Mandarin Oriental was affected by a further increase in the city's hotel supply against a slowdown in visitor arrivals. With occupancy down from 66% in 2007 to 48% in 2008, the hotel focused on attracting lower-spending group and meeting business which also resulted in an average rate decrease, thereby reducing RevPAR (Revenue Per Available Room) by 33% from 2007.

Throughout Southeast Asia, the number of corporate visitors decreased, particularly in the second half of the year, and occupancy levels were negatively affected in Manila, Singapore and Kuala Lumpur. Nonetheless, average rates in those hotels increased in local currency terms by 15%, 19% and 11% respectively. Mandarin Oriental, Jakarta remained closed throughout 2008, undergoing a US$50 million renovation programme designed to re-position the property as one of the city's most luxurious and contemporary hotels when it re-opens in the second half of 2009.

Despite the political uncertainties in Thailand, Mandarin Oriental, Bangkok maintained its strong competitive position at the top of the luxury hotel sector and once again was recognized as one of the world's best hotels in the most important world-wide travel awards.

In Tokyo, weakening demand in the corporate sector negatively impacted Mandarin Oriental's occupancy levels, which declined by 18%. Nonetheless, the hotel performed well against its competition, due to the strength in the leisure market, and continues to enhance its reputation as one of the top luxury hotels in the city. The property achieved first place position as the hotel to provide the best comfort levels against 30 other properties in the *Michelin Tokyo Guide 2009* and attained one *Michelin Star* for each of its three restaurants.

Europe

In Europe, the Group's hotels were relatively less impacted by the economic downturn, but their contribution to the Group's results was adversely affected by currency movements compared with 2007. Nonetheless, the hotels were successful in maintaining or enhancing their competitive positions at the top of their markets.

Mandarin Oriental Hyde Park, London witnessed a decrease in occupancy from 88% in 2007 to 84% in 2008, but with a resilient demand from leisure travellers, the hotel increased its average rate by 3% in local currency terms. Nonetheless, the contribution from the London hotel decreased significantly as a result of currency movements.

In Munich, Mandarin Oriental maintained its position as the undisputed market leader in the city, and, following a full scale rooms renovation in 2007, increased its average rate by 9% in local currency terms. With occupancy also increasing, the hotel achieved a 15% increase in RevPAR.

In August 2008, Mandarin Oriental, Geneva completed a significant renovation, designed to appeal to the leisure traveller, which provided the hotel with a new lobby, seven additional roof-top suites, two new restaurants and a bar. The hotel successfully increased its average rate in local currency terms by 5% over the previous year, however the renovation disrupted occupancy levels as well as food and beverage revenues, leading to an 8% decrease in RevPAR and a resulting lower contribution to the Group's results from this subsidiary hotel.

The Americas

In The Americas, our hotels maintained their competitive positions in an environment that became more challenging as the year progressed. Mandarin Oriental, Washington D.C.'s contribution to Group profits was down due to a reduction in average rates, however, the hotel did well to maintain stable occupancy levels while city-wide demand was down. The hotel is now established as one of the city's most luxurious properties, and continues to receive positive press accolades and awards, including *'Top Hotels in the USA'* in the 2008 *Zagat* survey.

In New York, continued strong demand from the leisure segment for the Group's US flagship property resulted in an increase in average rate from US$937 in 2007 to US$952 in 2008, despite lower occupancies in the last four months of the year. Mandarin Oriental, New York remains one of only a few hotels to achieve and retain both the prestigious *'Mobil Five Star'* and the *American Automobile Association's 'Five Diamond Lodgings Award'*.

In Miami, softer demand for the city led to reduced occupancies at Mandarin Oriental and a subsequent 2% drop in average rates. The property continues to perform well against competition, receiving significant media attention and a listing in all of the major readership surveys. The Spa at Mandarin Oriental, Miami was recently awarded the only *'Mobil Five Star'* rating in the state of Florida.

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

Mandarin Oriental has accomplished strong geographic diversification and is on track to achieve its mid-term goal of operating 10,000 rooms in key global locations within the next few years. Of the 18 developments which the Group has announced in the past four years, 13 are under construction. The remaining projects are experiencing delays as the developers pursue the required levels of project funding. Only one of the previously announced projects, in Dallas, will not go ahead, but the Group remains in active discussion with the developer about potential new sites in the city, once development conditions improve.

In 2009, the Group will add four new properties to its operating portfolio, including its first mainland Chinese hotel which opened on Hainan Island in January. The three additional luxury properties to open in the coming months are Barcelona, Las Vegas and Marrakech. Mandarin Oriental, Beijing, which was scheduled to open in the second half of this year as part of the CCTV development in the city centre, has been postponed while the extent of damage caused by the fire at the construction site in February is reviewed by the relevant authorities. Mandarin Oriental has a long-term management contract for the hotel with no ownership interest. The Group's second hotel in Macau, which was also due to open in 2009, is now set to open in early 2010.

The brand was further strengthened with the completion of the Group's second *Residences at Mandarin Oriental* which opened in Boston. Mandarin Oriental has a total of 13 residential projects open or under development. The associated branding fees for these projects provide a further return for the Group.

Despite global market conditions and a slowing down of hotel development, the long-term potential for growth remains significant. In the current economic environment, the attraction of a strong brand is even more compelling to luxury hotel developers, as this can positively impact their ability to secure funding. The Group continues to review opportunities for additional management contracts and remains well positioned to take advantage of future investment opportunities that may arise in strategic locations. 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's financial well-being remains fundamental to the Group's success. While the challenges posed by the overall economic uncertainty had a negative impact on the results, our hotels focused on introducing appropriate cost containment measures. Overall however, the Group remains in a very strong financial position with a low level of gearing and significant cash balances. In 2009, there is no requirement for refinancing of any of the Group's significant bank borrowings.

The Group's cash balances will benefit further in 2009 from receipt of the proceeds of approximately US$90 million arising on the disposal of its 50% interest in its existing Macau hotel. The transaction, which was announced in January 2009, is expected to complete in May.

Reflecting the Group's strong financial position, Mandarin Oriental has recommended maintaining a final dividend of US¢5.00, which, when combined with the interim dividend of US¢2.00, makes a full year dividend of US¢7.00, up from US¢6.00 in 2007.

The future

It is currently not possible to predict the timing of a return to a less challenging business environment. The Group is closely monitoring demand across its properties and will continue to adjust costs as appropriate.

Nonetheless Mandarin Oriental, with its strong balance sheet, is well placed to cope with the current situation and will benefit from its growing global portfolio, as it doubles in size in the coming few years. The severity of the downturn will also limit further new supply in most of the destinations in which we operate.

As we open new projects in the world's most sought-after destinations, the recognition of Mandarin Oriental as a global luxury brand grows stronger and places us in an excellent position to benefit from a global recovery when it occurs. With the support of all our stakeholders – our colleagues, guests, partners and shareholders – we have the means to deliver our long-term vision of being widely recognized as the best luxury hotel group in the world.

Edouard Ettedgui
Group Chief Executive
5th March 2009

Operating Summary

There are 23 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

	2008	2007	% Change
Available rooms	**502**	487	3
Average occupancy (%)	**69**	74	(7)
Average room rate (US$)	**437**	399	10
RevPAR (US$)	**300**	294	2

Mandarin Oriental, Macau 50% ownership

	2008	2007	% Change
Available rooms	**416**	416	0
Average occupancy (%)	**48**	66	(27)
Average room rate (US$)	**153**	168	(9)
RevPAR (US$)	**74**	111	(33)

The Excelsior, Hong Kong 100% ownership

	2008	2007	% Change
Available rooms	**886**	885	0
Average occupancy (%)	**84**	88	(5)
Average room rate (US$)	**184**	179	3
RevPAR (US$)	**154**	157	(2)

Mandarin Oriental, Singapore 50% ownership

	2008	2007	% Change
Available rooms	**527**	527	0
Average occupancy (%)	**66**	75	(12)
Average room rate (US$)	**265**	209	27
RevPAR (US$)	**176**	157	12

Mandarin Oriental, Tokyo 100% leasehold

	2008	2007	% Change
Available rooms	**179**	179	0
Average occupancy (%)	**63**	77	(18)
Average room rate (US$)	**537**	475	13
RevPAR (US$)	**336**	367	(8)

Mandarin Oriental, Bangkok 44.9% ownership

	2008	2007	% Change
Available rooms	**393**	393	0
Average occupancy (%)	**61**	66	(8)
Average room rate (US$)	**297**	269	10
RevPAR (US$)	**182**	178	2

Mandarin Oriental, Jakarta 96.9% ownership (2007: 88.3%)
(closed from 23rd December 2007 for renovation)

	2008	2007	% Change
Available rooms	**N/A**	404	N/A
Average occupancy (%)	**N/A**	37	N/A
Average room rate (US$)	**N/A**	68	N/A
RevPAR (US$)	**N/A**	25	N/A

Mandarin Oriental, Kuala Lumpur 25% ownership

	2008	2007	% Change
Available rooms	**632**	632	0
Average occupancy (%)	**68**	77	(12)
Average room rate (US$)	**192**	168	14
RevPAR (US$)	**131**	129	2

Mandarin Oriental, Manila 96.2% ownership

	2008	2007	% Change
Available rooms	**442**	443	0
Average occupancy (%)	**72**	80	(10)
Average room rate (US$)	**117**	97	21
RevPAR (US$)	**84**	78	8

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2008	2007	% Change
Available rooms	**198**	198	0
Average occupancy (%)	**84**	88	(5)
Average room rate (US$)	**842**	886	(5)
RevPAR (US$)	**703**	776	(9)

Mandarin Oriental, Munich 100% ownership

	2008	2007	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**75**	72	4
Average room rate (US$)	**685**	585	17
RevPAR (US$)	**516**	420	23

Mandarin Oriental, Geneva 92.6% ownership

	2008	2007	% Change
Available rooms	**197**	190	4
Average occupancy (%)	**63**	72	(13)
Average room rate (US$)	**643**	550	17
RevPAR (US$)	**408**	398	3

THE AMERICAS

Mandarin Oriental, Washington D.C. 80% ownership

	2008	2007	% Change
Available rooms	**400**	400	0
Average occupancy (%)	**60**	61	(2)
Average room rate (US$)	**322**	331	(3)
RevPAR (US$)	**193**	201	(4)

Mandarin Oriental, New York 25% ownership

	2008	2007	% Change
Available rooms	**248**	248	0
Average occupancy (%)	**73**	76	(4)
Average room rate (US$)	**952**	937	2
RevPAR (US$)	**691**	715	(3)

Mandarin Oriental, Miami 25% ownership

	2008	2007	% Change
Available rooms	**326**	326	0
Average occupancy (%)	**66**	72	(8)
Average room rate (US$)	**390**	399	(2)
RevPAR (US$)	**256**	288	(11)

Development Portfolio

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

2009

Mandarin Oriental, Barcelona
A 98-room hotel, housed in the redevelopment 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. The 44 *Residences at Mandarin Oriental* are due to open in 2011.

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

2010

Mandarin Oriental Lago Nam Van, Macau
This property will be part of a prestigious mixed-use complex on the waterfront, featuring 215 rooms.

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

Mandarin Oriental Dellis Cay, Turks & Caicos
A secluded 197-room hideaway featuring a variety of *Residences at Mandarin Oriental* housed in 17 stand-alone villas and 78 multi-roomed apartments, all located on an unspoiled 35-acre beachfront site.

2011 and beyond

Mandarin Oriental, Beijing
Due to a fire at the construction site in February 2009, the opening of the 241-room hotel has been postponed.

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, with 26 luxurious *Residences at Mandarin Oriental*, adjacent to the hotel.

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.

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

Mandarin Oriental, Moscow
A 221-room hotel situated in the redevelopment of an original 19th century manor house. Located close to the Kremlin and Red Square.

Mandarin Oriental, Paris
A 138-room luxurious palace hotel with a pre-eminent address on rue Saint-Honoré, the historic and fashionable centre of Paris.

Mandarin Oriental, Atlanta
A 198 elegant and contemporary designed guestrooms and suites and 71 *Residences at Mandarin Oriental*, will form an integral part of a mixed-used development on the emerging "Midtown Mile" with panoramic views.

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, 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 including 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.

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

International Recognition

Mandarin Oriental Hotel Group has been recognized consistently by influential global publications as an outstanding hotel company. Highlighted here are a selection of the numerous prestigious awards that have been presented to individual properties and the Group in the last year.

Mandarin Oriental Hotel Group

A truly top-of-the-line collection of "fashionable, upscale hotels", the 20 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-World's Top Hotels, Resorts & Spas

Mandarin Oriental, Bangkok

The hotelier's rendition of paradise: the 130-year-old Mandarin Oriental, perennially cited at the top of magazine surveys naming the world's finest hotels.

Travel + Leisure

This is somewhere that everyone must visit at some point, for it is an extraordinary hotel legend.

The Gallivanter's Guide

Mandarin Oriental Dhara Dhevi, Chiang Mai

Set in over 60 acres of tranquil paddy fields and striking plantations, Mandarin Oriental Dhara Dhevi is a Chiang Mai gem. From the architecture and textiles to the rare collection of Northern Thai antiquities, this resort offers a rich and picturesque journey through the history and cultural influences of Thailand's Lanna region.

Arrivals & Departures, US

Mandarin Oriental, Hong Kong

"Effortless" service is the hallmark of this "ritzy" veteran with the right address it's still filled with tons of "old-world style" and a wonderful air of history.

Zagat-World's Top Hotels, Resorts & Spas

With views of the illuminated Hong Kong Bank and Bank of China towers from rooms with cherry paneling. "I found myself almost paralyzed with amazement each night".

Condé Nast Traveler, US

The Landmark Mandarin Oriental, Hong Kong

With a "hip central location" in the premier commercial and shopping district, this "fabulous" hotel has huge, high-tech rooms with cutting-edge entertainment systems, 400-thread-count linens and a design so stunning you'll take pictures so you can renovate when you go home.

Zagat-World's Top Hotels, Resorts & Spas

Mandarin Oriental, Singapore

We were blown away by the great night view of Singapore Harbor through the floor-to-ceiling windows. Expect "service with a smile" always.

Condé Nast Traveler, US

Mandarin Oriental, Tokyo

Clearly the "it" hotel in Tokyo, this superb spot "raises the bar" with "insane" rooms (they thought of everything) and stunning views of the city and Mount Fuji on a clear day; if you have the money, this is the best.

Zagat-World's Top Hotels, Resorts & Spas

Mandarin Oriental Hyde Park, London

"Location, location, location! It doesn't get better than this." Former gentlemen's club, which garners a perfect score for its location near London's most famous park.

Condé Nast Traveler, US

Be treated like an emperor at this "opulent jewel", where attention to detail is incredible and a "truly memorable stay" can be had.

Zagat-World's Top Hotels, Resorts & Spas

Mandarin Oriental, Prague

This converted 14th-century monastery in the Little Quarter, near the Charles Bridge, combines the tranquility of its former life with unobtrusive service and subtle luxury.

Condé Nast Traveller, UK

Mandarin Oriental, Munich

This classically elegant Neo-Renaissance hotel has just completed a full refurbishment, and yes, it is now even more beautiful…Service at the Mandarin is on a different plane. Staff is hugely professional yet extremely approachable.

The Gallivanter's Guide

Mandarin Oriental, Miami

This elegant hotel, the centerpiece of the residential Brickell Key, is all about stunning views of the Miami skyline and Biscayne Bay.

Travel + Leisure

Mandarin Oriental, New York

You may say "sayonara" to the competition after being spoiled at this world-class, luxury property in the Time Warner Center on Columbus Circle; the "gorgeous" rooms offer the best technology and home entertainment, "exceptional amenities" and panoramic vistas, the service is "incomparable".

Zagat-World's Top Hotels, Resorts & Spas

Mandarin Oriental Riviera Maya, Mexico

The contemporary design by its young Mexican architect-owner and Mandarin Oriental's faultless service makes a compelling combination.

Condé Nast Traveller, UK

This 36-acre site on the Riviera Maya is a resort with no peers in the Yucatan.

Robb Report

Mandarin Oriental, San Francisco

The service is sublime. The perfect balance between relaxed informality and precision attention.

Condé Nast Traveler, US

Mandarin Oriental, Washington D.C.

Since it opened in 2004, Mandarin Oriental, Washington has been doing quite well; in fact, it has seriously upped the ante on luxury in the capital. Service is sublime. Hotel décor richly combines Asian and American traditions.

Frommer's

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 two new interpretations to IFRS effective on 1st January 2008, 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 analyze operating performance. Total EBITDA including the Group's share of EBITDA from associates and joint venture is shown below:

	2008 US$m	2007 US$m
Subsidiaries	**125.5**	146.2
Associates and joint venture	**38.4**	44.0
Total EBITDA	**163.9**	190.2

Subsidiaries

	2008 US$m	2007 US$m
EBITDA	**125.5**	146.2
Less depreciation and amortization expenses	**(39.3)**	(38.5)
Operating profit	**86.2**	107.7

EBITDA from subsidiaries in 2008 was down US$20.7 million or 14% from 2007. Notwithstanding decreases in occupancy, mainly from September onwards, Mandarin Oriental, Hong Kong and The Excelsior maintained their contributions to the Group at similar levels to the previous year. Elsewhere in Asia, Tokyo's contribution fell significantly due to weakening demand in the corporate sector throughout the year. Manila's contribution also declined in line with market conditions. Jakarta was closed throughout the year for renovation. In 2007, its contribution was negatively impacted by closure costs.

In Europe, London's decreased contribution to EBITDA was attributable to two factors. Firstly in 2007, the Group benefited from a US$8.3 million exchange gain on the refinancing of the London hotel. Secondly, in 2008, a drop in occupancy in the last quarter together with the impact of the weakening of Sterling on the US dollar reported results, had a negative impact on London's contribution.

Also in Europe, Munich's contribution increased by almost 40% in 2008 as the hotel was under renovation in 2007. In Geneva, the hotel underwent a significant eight month renovation in 2008, which saw its contribution to Group performance decline by approximately US$7 million, due to the disruption to operations.

In The Americas, Washington D.C.'s contribution declined as a result of the weakening US economy.

All Group hotels (including associates and managed only hotels) have introduced cost saving measures in order to partially offset the impact of revenue reductions on profitability.

In 2008, the contribution from management activities before depreciation was US$16.4 million, largely unchanged from US$16.2 million in 2007. Revenues on which management fees are largely based, were stable year on year, as revenues from newly opened hotels offset a decline in revenues at existing hotels. In 2008, the Group's management activity also benefited from branding fees from the sales of The *Residences at Mandarin Oriental* in Boston which were completed as the hotel opened. This was offset however, by higher overheads at the corporate level as the Group strengthened its management capability to support new hotel openings.

Depreciation and amortization expenses were US$39.3 million for 2008 slightly up from US$38.5 million in 2007.

Associates and Joint Venture

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

	2008 US$m	2007 US$m
EBITDA	**38.4**	44.0
Writeback of an impairment in respect of Kuala Lumpur	**–**	5.1
Less depreciation and amortization expenses	**(11.7)**	(11.9)
Operating profit	**26.7**	37.2
Less net financing charges	**(7.8)**	(8.5)
Less tax	**(3.6)**	(5.8)
Share of results of associates and joint venture	**15.3**	22.9

The Group's share of EBITDA from associates and joint venture decreased by US$5.6 million or 13% from 2007.

The Macau hotel's EBITDA fell in 2008, primarily as a result of the oversupply of hotel rooms in the territory as well as a slowdown in visitor arrivals from September onwards. The Group has recently announced that it will sell its 50% interest in the hotel for proceeds of approximately US$90 million with a post-tax gain on disposal of approximately US$75 million. The sale is expected to close in May 2009.

Singapore increased its contribution to the Group, however, this was offset by Bangkok's decline in EBITDA due to both the political demonstrations in the later part of the year (which closed both airports in the city for a period) and the general downturn in the world economy. Kuala Lumpur's contribution was marginally down.

In 2007, the share of results of associates and joint venture benefited 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.

In The Americas, the performance at the Group's associate hotel in New York remained solid. The Miami hotel's contribution to the Group fell significantly as local conditions weakened.

Depreciation and amortization expenses from associates and joint venture were US$11.7 million for 2008, in line with the US$11.9 million charged in 2007.

The Group's share of net financing charges from associates and joint venture was US$7.8 million in 2008, a decrease from US$8.5 million in 2007, due to falling interest rates.

Gain on partial disposal related to an associate

In 2007, the sale of half of the Group's 50% investment in Mandarin Oriental, New York was completed, reducing the Group's interest to 25%. 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.

Net financing charges

Net financing charges for the Group's subsidiaries increased marginally to US$17 million in 2008 from US$16.4 million in 2007. Although interest rates on Group borrowings generally decreased, the savings were more than offset by a reduction in interest received on cash balances on which deposit rates fell by more than borrowing rates.

Interest cover in 2008, which is calculated as operating profit before interest and tax (including the Group's share of operating profit from associates and joint venture) over net financing charges (including the Group's share of net financing charges from associates and joint venture), was 4.6 times compared with 5.6 times in 2007 on a comparable basis. 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 venture) was 6.6 times in 2008, down from 7.7 times in 2007.

Tax

The tax charge for 2008 was US$18.3 million compared to US$22.8 million in 2007. The underlying effective tax rate for the year was approximately 25%, unchanged from 2007.

Cash flow

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

	2008 US$m	2007 US$m
Operating activities	**124**	130
Investing activities:		
• Capital expenditure on existing properties	**(69)**	(50)
• Investment in Mandarin Oriental, Paris	**(6)**	–
• Net proceeds on disposal	**–**	71
• Capital distribution from associates	**23**	14
• Hotel mezzanine funding – net	**(1)**	9
• Other	**(4)**	(5)
Financing activities:		
• Issue of shares	**6**	3
• Drawdown of borrowings	**35**	536
• Repayment of borrowings	**(12)**	(464)
• Dividends paid	**(69)**	(39)
• Other	**(4)**	–
Net increase in cash and cash equivalents	**23**	205
Cash and cash equivalents at 1st January	**492**	287
Cash and cash equivalents at 31st December	**515**	492

Cash flow continued

The cash flows from operating activities were US$124 million in 2008, down by US$6 million or 5% from US$130 million in 2007.

Under investing activities, capital expenditure on existing properties totalled US$69 million, compared with US$50 million in 2007.

Significant renovations were carried out in the year at the Geneva and Jakarta hotels. Also, the hotel in London undertook preliminary works in relation to the *One Hyde Park* development adjacent to the hotel. Whilst the *One Hyde Park* development will principally house the 80 *Residences at Mandarin Oriental*, the agreement with the developer also provides space for hotel guest facilities, including a swimming pool, a new fitness centre and car parking facilities. In addition, office space will be made available to the hotel, creating space for an additional restaurant in the existing hotel building.

An analysis of capital expenditure by significant renovation project is shown below:

	2008 US$m	2007 US$m
Mandarin Oriental, Jakarta renovation	**18**	–
Mandarin Oriental, Geneva renovation	**18**	–
London – *One Hyde Park* – related works	**10**	–
Mandarin Oriental, Hong Kong renovation	**–**	21
Mandarin Oriental, Munich renovation	**–**	10
Total capital expenditure on significant projects	**46**	31
Ongoing capex at other hotels	**23**	19
	69	50

In 2008, the Group made a US$6 million investment in the Paris project which will open in the first half of 2011. Following a reassessment of the project costs based on full design drawings, the Group's investment will increase to US$60 million from the US$40 million originally announced in 2007. The increase also includes the cost of additional features at the hotel to ensure the property is positioned as one of Paris' pre-eminent palace hotels. The majority of the project costs will continue to be met by the developer as the hotel will be operated by the Group under a long-term lease.

In 2007, the Group completed the sale of half of its 50% investment in Mandarin Oriental, New York, receiving net proceeds of US$71 million.

In 2008, following successful refinancings, capital distributions were received from both the Miami and Kuala Lumpur associate hotels, amounting to US$23 million. Included in the 2007 capital distribution from associates was a US$13 million distribution from the New York hotel as a result of a refinancing of the property following the change in ownership.

In 2008, the Group provided a US$1 million mezzanine loan to the owners of the Prague hotel. In 2007, the Group received repayment of its US$12 million mezzanine loan previously provided to the owner of the Boston hotel and made loans totaling US$3 million to other owners of Group managed hotels, for a net repayment of mezzanine loans 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¢7.00 per share (2007: US¢6.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 13th May 2009 to shareholders on the register of members at the close of business on 20th March 2009.

Property valuation

The Group's accounting policy requires independent valuations of the Group's hotel property interests to be carried out at intervals not exceeding three years, with the exception of hotels within the first three years of operations which have not yet stabilized. The last full independent valuation was carried out at 31st December 2007. In the intervening years, the Directors review the carrying values of the properties in consultation with the Group's independent appraisers and adjustment is made where there has been a material change.

As a result of the 2008 review, the Directors have concluded that there were significant movements in the valuations of certain properties giving rise to a revaluation deficit of US$43 million (net of deferred tax), which has been charged against the Group's property revaluation reserves.

In addition, the Group's leasehold land has been revalued downwards by US$84 million, with the decrease primarily attributable to the Group's two long leaseholds in Hong Kong. This US$84 million reduction, 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. As shown in the supplementary information on page 24, the revaluation surplus relating to leasehold land not recognized in the financial statements, after taking into account the US$84 million reduction in value, was US$1,043 million down from US$1,127 million in 2007.

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 51% 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 2008, the Group's net assets were denominated in the following currencies:

	Net assets		Adjusted net assets*	
	US$m	%	US$m	%
Hong Kong Dollar	46	5	1,008	49
United States Dollar	549	55	549	27
United Kingdom Sterling	117	12	117	6
Thai Baht	70	7	70	3
Euro	72	7	72	4
Swiss Franc	62	6	62	3
Others	90	8	171	8
	1,006	100	2,049	100

* see supplementary information section on page 24

Investment of the Group's cash, which totalled US$515 million at 31st December 2008, 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.

Treasury activities *continued*

The Group, excluding associates and joint venture, had committed borrowing facilities totaling US$804 million, of which US$661 million was drawn at 31st December 2008. The principal amounts are due for repayment as follows:

	Facilities committed US$m	Facilities drawn US$m	Unused Facilities US$m
Within one year	12	7	5
Between one and two years	120	117	3
Between two and three years	39	3	36
Between three and four years	4	4	–
Between four and five years	10	10	–
Beyond five years	619	520	99
	804	661	143

At 31st December 2008, the Group had US$143 million of committed, undrawn facilities in addition to its cash balances of US$515 million. The average tenor of the Group's borrowings was 5 years (2007: 5.9 years).

Following major refinancings in 2007, no significant financings were undertaken in 2008, nor are any significant financings required in 2009.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 83 to 84.

Supplementary information

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:

	2008		2007	
	US$m	**Per share US$**	US$m	Per share US$
Shareholders' funds/ net assets	**1,006**	**1.02**	1,152	1.18
Add revaluation surplus relating to leasehold land	**1,043**	**1.06**	1,127	1.16
Adjusted shareholders' funds/net assets	**2,049**	**2.08**	2,279	2.34

Net debt of US$146 million at 31st December 2008 was 7% of adjusted shareholders' funds, compared with net debt of US$185 million at 31st December 2007 which was 8% of adjusted shareholders' funds. On an IFRS basis, gearing was 15% at 31st December 2008 (2007: 16%).

John R Witt
Chief Financial Officer
5th March 2009

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 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 and the Employers' Federation of Hong Kong, 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. Previously he was a senior corporate partner of Allen & Overy based in London and Hong Kong, having qualified as an English solicitor in 1976 and a Hong Kong solicitor in 1988. 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 Roc Oil Company.

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, Hongkong Land, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Capital Generation Partners, Textron Corporation, Schindler Holdings, Northern Trust Global Services, Yell Group and Magna Holdings. He is co-chairman of the UK Government's Asia Task Force and was previously president of the China-Britain Business Council and chairman of the Singapore-British Business Council.

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 2008

	Note	2008 US$m	2007 US$m
Revenue	1	**530.0**	529.5
Cost of sales		**(324.5)**	(318.8)
Gross profit		**205.5**	210.7
Selling & distribution costs		**(36.6)**	(32.6)
Administration expenses		**(82.7)**	(70.4)
Operating profit	2	**86.2**	107.7
Interest income		**12.4**	18.9
Financing charges		**(29.4)**	(35.3)
Net financing charges	3	**(17.0)**	(16.4)
Share of results of associates and joint venture excluding writeback of impairment of an associate		**15.3**	17.8
Writeback of impairment of an associate	4	**–**	5.1
Share of results of associates and joint venture	4	**15.3**	22.9
Gain on disposal related to an associate	5	**–**	16.0
Profit before tax		**84.5**	130.2
Tax	6	**(18.3)**	(22.8)
Profit for the year		**66.2**	107.4
Attributable to:			
Shareholders of the Company		**67.1**	108.2
Minority interests		**(0.9)**	(0.8)
		66.2	107.4
		US¢	US¢
Earnings per share	7		
– basic		**6.84**	11.16
– diluted		**6.79**	10.96

Consolidated Balance Sheet

as at 31st December 2008

	Note	2008 US$m	Restated 2007 US$m
Net assets			
Intangible assets	8	**232.3**	223.4
Tangible assets	9	**860.8**	995.0
Associates and joint venture	10	**155.5**	204.6
Other investments		**3.9**	3.1
Loans receivable	11	**4.8**	3.4
Pension assets	12	**6.6**	34.0
Deferred tax assets	13	**16.5**	27.5
Other non-current assets	26	**–**	0.2
Non-current assets		**1,280.4**	1,491.2
Stocks		**4.1**	4.7
Debtors and prepayments	14	**61.3**	69.3
Current tax assets		**15.2**	3.4
Cash at bank	25e	**514.9**	492.4
Current assets		**595.5**	569.8
Creditors and accruals	15	**(92.9)**	(105.5)
Current borrowings	16	**(7.4)**	(13.4)
Current tax liabilities		**(5.2)**	(7.2)
Current liabilities		**(105.5)**	(126.1)
Net current assets		**490.0**	443.7
Long-term borrowings	16	**(653.9)**	(663.9)
Deferred tax liabilities	13	**(85.8)**	(107.7)
Pension liabilities	12	**–**	(0.1)
Other non-current liabilities	26	**(19.2)**	(2.9)
		1,011.5	1,160.3
Total equity			
Share capital	19	**49.2**	48.7
Share premium	20	**168.9**	163.5
Revenue and other reserves	22	**788.3**	940.1
Shareholders' funds		**1,006.4**	1,152.3
Minority interests	23	**5.1**	8.0
		1,011.5	1,160.3

Approved by the Board of Directors

A J L Nightingale
Edouard Ettedgui
Directors
5th March 2009

Consolidated Statement of Recognized Income and Expense

for the year ended 31st December 2008

	2008 US$m	2007 US$m
(Deficits)/surpluses on revaluation of properties	**(69.3)**	78.4
Actuarial (losses)/gains on defined benefit pension plans	**(27.6)**	7.6
Net exchange translation differences	**(74.0)**	38.3
Gain on other investments	**0.2**	0.1
Loss on cash flow hedges	**(18.1)**	(5.5)
Tax on items taken directly to equity	**32.6**	(29.6)
Net (loss)/income recognized directly in equity	**(156.2)**	89.3
Transfer to profit and loss on realization of exchange reserves	**(0.7)**	(8.3)
Profit for the year	**66.2**	107.4
Total recognized income and expense for the year	**(90.7)**	188.4
Attributable to:		
Shareholders of the Company	**(87.2)**	184.1
Minority interests	**(3.5)**	4.3
	(90.7)	188.4

Consolidated Cash Flow Statement

for the year ended 31st December 2008

	Note	2008 US$m	Restated 2007 US$m
Operating activities			
Operating profit		**86.2**	107.7
Depreciation	9	**37.8**	37.6
Amortization of intangible assets	8	**1.5**	0.9
Non-cash items	25a	**3.2**	(3.9)
Movements in working capital	25b	**0.5**	5.3
Interest received		**13.4**	18.5
Interest and other financing charges paid		**(31.8)**	(34.9)
Tax paid		**(6.9)**	(14.0)
		103.9	117.2
Dividends from associates and joint venture		**20.0**	12.3
Cash flows from operating activities		**123.9**	129.5
Investing activities			
Purchase of tangible assets		**(68.8)**	(50.1)
Purchase of intangible assets		**(9.6)**	(5.0)
Advance of mezzanine loans		**(1.4)**	(3.4)
Repayment of mezzanine loan		**–**	12.0
Increase in other investments		**(0.7)**	(0.2)
Proceeds on disposal related to an associate	25c	**–**	70.7
Capital distribution from associates	25d	**23.2**	14.4
Cash flows from investing activities		**(57.3)**	38.4
Financing activities			
Issue of shares		**5.8**	3.5
Drawdown of borrowings		**35.3**	535.9
Repayment of borrowings		**(11.9)**	(464.4)
Dividends paid by the Company	24	**(68.7)**	(38.7)
Dividends paid to minority shareholders		**(0.1)**	–
Cash flows from financing activities		**(39.6)**	36.3
Effect of exchange rate changes		**(4.4)**	1.3
Net increase in cash and cash equivalents		**22.6**	205.5
Cash and cash equivalents at 1st January		**492.1**	286.6
Cash and cash equivalents at 31st December	25e	**514.7**	492.1

Principal Accounting Policies

A Basis of preparation

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

i) Interpretations effective in 2008 which are relevant to the Group's operations

IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' provides guidance on whether share-based payment transactions involving treasury shares or involving entities within a group should be accounted for as equity-settled or cash-settled share-based transactions in the separate financial statements of the entities.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognized as an asset under a defined benefit plan. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

The adoption of the above interpretations did not have a material impact on the Group's financial statements.

ii) Standards, amendments and interpretations effective after 2008 which are relevant to the Group's operations but will have no material impact on the Group's accounting policies

IAS 23 'Borrowing Costs' (effective from 1st January 2009) supersedes IAS 23 (as revised in 1993) and requires the capitalization of borrowing costs relating to qualifying assets.

Amendments to IFRS 2 'Vesting Conditions and Cancellations' (effective from 1st January 2009) restrict vesting conditions to service conditions and performance conditions, and specify that a failure to meet a non-vesting condition, whether by the entity or by the counterparty, should be treated as a cancellation.

IAS 16 (Amendment) 'Property, Plant and Equipment' and the consequential amendment to IAS 7 'Statement of Cash Flows' (effective from 1st January 2009) is part of the 2008 improvement project. It specifies that entities whose ordinary activities include renting and subsequently selling the same items of property, plant and equipment should recognize revenue from both renting and selling the assets. The cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

IAS 19 (Amendment) 'Employee Benefits' (effective from 1st January 2009) is part of the 2008 improvement project. It clarifies the distinction between curtailments and negative past service costs under a defined benefit plan.

IAS 38 (Amendment) 'Intangible Assets' (effective from 1st January 2009) is part of the 2008 improvement project. It clarifies that expenditure on advertising and other promotional activities must be recognized in the period in which the entity obtains the right to access the advertising or promotional material.

Amendment to IAS 39 'Eligible Hedged Items' (effective from 1st July 2009) clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective from 1st October 2008) addresses the nature of the hedged risk and amount of the hedged item for which a hedging relationship may be designated in the consolidated financial statements of a parent entity.

A Basis of preparation *continued*

iii) Standards, amendments and interpretations effective after 2008 which are relevant to the Group's operations and yet to be adopted

IFRS 3 'Business Combinations' (effective from 1st July 2009), which replaces IFRS 3 (as issued in 2004) and the related amendment to IAS 27 'Consolidated and Separate Financial Statements' (effective from 1st July 2009) provide guidance for applying the acquisition method for business combinations. The major changes from the existing standards include: the immediate expensing of all acquisition costs, the inclusion in the cost of acquisition of the fair value at acquisition date of any contingent purchase consideration, the removal of the requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating goodwill, and changes in a parent's ownership interest in a subsidiary undertaking that do not result in the loss of control should be accounted for as equity transactions. 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.

IFRS 8 'Operating Segments' (effective from 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 will apply IFRS 8 from 1st January 2009. There will be no change in the Group's reportable segments as they are consistent with the internal reporting provided to management.

IAS 1 'Presentation of Financial Statements' (effective from 1st January 2009) replaces IAS 1 (as revised in 2003 and 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.

Amendments to IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective from 1st January 2009) remove the definition of the cost method from IAS 27 and allow an entity to recognize a dividend from subsidiary, jointly controlled entity or associate in profit and loss in its separate financial statements when its right to receive the dividend is established. The Group will apply amendments to IFRS 1 and IAS 27 from 1st January 2009. There will be no impact on the consolidated financial statements as the changes only affect the separate financial statements of the investing entity.

IFRS 5 (Amendment) 'Non-current Assets Held for Sale and Discontinued Operations' (effective from 1st July 2009) is part of the 2008 improvement project. It specifies that if a sale plan involving loss of control of a subsidiary undertaking meets the held-for-sale criteria, the assets and liabilities of the subsidiary undertaking should be reclassified and accounted for as a disposal group in accordance with IFRS 5. The Group will apply the amendment from 1st January 2010 and only the disclosure and presentation of financial information will be affected.

The principal operating subsidiary undertakings, 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.

Certain comparative figures have been reclassified to conform with current year presentation.

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 to the extent of dividends received when the right to receive such dividend is established.

C Foreign currencies

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

Assets and liabilities of 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, which approximate the exchange rates at the dates of the transactons.

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 the exchange 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 is 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, associates or joint ventures 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 and are stated at cost less accumulated amortization. Amortization is calculated on the straight line basis to allocate the cost over their estimated useful lives.

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

F Tangible fixed assets and depreciation

Freehold land and buildings, and the building component of owner-occupied leasehold properties are stated at 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 of tangible fixed assets is calculated on the straight line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The estimated useful lives are as follows:

Freehold and long leasehold buildings	21 years to 150 years
Properties on leases with less than 20 years	over unexpired period of lease
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.

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 Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified under non-current assets unless their maturities are within twelve months after the balance sheet date. Loans receivable 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 Stocks

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

K Debtors

Debtors 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. 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.

L Cash and cash equivalents

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

M Provisions

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

N Borrowings and borrowing costs

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

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

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

O Government grants

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

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

P 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. Deferred tax is provided on temporary differences associated with investments in subsidiary undertakings, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Q Employee benefits

i) Pension obligations

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

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the costs of providing pensions are charged to 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.

R Dividends

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

S 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.

T Pre-operating costs

Pre-operating costs are expensed as they are incurred.

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.

U Derivative financial instruments *continued*

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 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 minimize the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. 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 2008 are disclosed in note 26.

i) Market risk

Foreign exchange risk

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

Group entities are required to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions, entities in the Group use forward foreign exchange contracts and foreign currency options in a consistent manner to hedge firm and anticipated foreign exchange commitments. The Group does not usually hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile and the hedging is cost effective. 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 2008, if the United States dollar had strengthened/weakened by 10% against the Pound Sterling and Euro with all other variables unchanged, the Group's profit after tax and total equity would have been US$0.4 million (US$0.2 million from Pound Sterling and Euro respectively) lower/higher, arising from foreign exchange losses/gains taken on translation. 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 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 unchanged. 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 2008 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 gross borrowings, in fixed rate instruments with an average tenor of less than one to six years. At 31st December 2008 the Group's interest rate hedging ratio of gross debt was 51% (2007: 49%), with an average tenor of 5.0 years (2007: 2.9 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 16.

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

At 31st December 2008, 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$1.1 million (2007: US$0.1 million) higher/lower, and hedging reserves would have been US$7.6 million (2007: US$3.8 million) lower/higher, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant variation in the sensitivity analysis as a result of interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong and 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 market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

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, capital adequacy ratios, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2008 cash balances with banks and financial institutions amounted to US$515 million (2007: US$492 million), of which over 99% (2007: 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 and capital adequacy ratios. At 31st December 2008, there was no positive fair value of derivative financial instruments (2007: US$0.2 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 by major credit cards.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group's exposure to credit risk arising from debtors is set out in note 14 and totals US$61.3 million (2007: US$69.3 million). The Group has no exposure to credit risk arising from exposure to derivative financial instruments with a positive fair value (2007: US$0.1 million). The Group's exposure to credit risk arising from bank balances totals US$515 million (2007: US$492 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, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition, long-term cash flows are projected to assist with the Group's long-term debt financing plans.

At 31st December 2008, total available borrowing facilities amounted to US$804 million (2007: US$848 million) of which US$661 million (2007: US$677 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totaled US$143 million (2007: US$171 million) in addition to its cash balances of US$515 million (2007: US$492 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 15, 16 and 26.

B Capital management

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

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

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

The ratios at 31st December 2008 and 2007 based on IFRS balance sheets are as follows:

	2008	2007
Gearing ratio	**15%**	16%
Interest cover	**4.6**	5.6

The decrease in interest cover for the year ended 2008 compared with 2007 was primarily due to lower cash flows generated by Group companies. The slight decrease in the gearing ratio for the year then ended was due to lower net debt.

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 creditor and current borrowings 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. The fair value of forward foreign exchange contracts is determined using forward exchange market rates of the same remaining tenor at the balance sheet date.

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 its value in use, calculated on the basis of management's assumptions and estimates. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value-in-use calculations.

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 those 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.

Notes to the Financial Statements

1 Revenue

	2008 US$m	2007 US$m
Analysis by geographical area		
– Hong Kong and Macau	**207.3**	200.8
– Other Asia	**116.3**	119.3
– Europe	**141.2**	146.4
– The Americas	**65.2**	63.0
	530.0	529.5
Analysis by activity		
– Hotel ownership	**506.3**	509.5
– Hotel management	**52.0**	48.1
– Less: Intra-Group revenue	**(28.3)**	(28.1)
	530.0	529.5

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 18.

2 Operating profit

	2008 US$m	2007 US$m
Analysis by geographical area		
– Hong Kong and Macau	**57.1**	54.2
– Other Asia	**2.3**	3.6
– Europe	**29.4**	47.0
– The Americas	**(2.6)**	2.9
	86.2	107.7
Analysis by activity		
– Hotel ownership	**70.9**	92.4
– Hotel management	**15.3**	15.3
	86.2	107.7

2 Operating profit *continued*

	2008 US$m	2007 US$m
The following items have been (credited)/charged in arriving at operating profit:		
Rental income	(9.5)	(9.4)
Interest income from mezzanine loans	(0.4)	(1.7)
Depreciation of tangible assets (refer note 9)		
– Owned assets	37.8	37.6
Amortization of intangible assets (refer note 8)	1.5	0.9
Repairs and maintenance	20.8	19.8
Operating lease payments	13.9	11.4
Development costs	2.0	1.7
Employee benefit expense		
– Salaries and benefits in kind	184.5	180.4
– Defined benefit pension costs (refer note 12)	1.3	1.2
– Defined contribution pension costs	0.5	0.5
– Share-based payments	4.2	2.7
	190.5	184.8
Termination costs on hotel closure	–	3.1
Realization of exchange gain arising on repatriation of capital from a foreign subsidiary undertaking and an associate	(0.7)	(8.3)
Net foreign exchange (gain)/loss	(0.3)	1.4

3 Net financing charges

	2008 US$m	2007 US$m
Interest income	12.4	18.9
Interest expense		
– Bank loans	(28.5)	(33.9)
Commitment and other fees	(0.9)	(1.4)
Financing charges	(29.4)	(35.3)
Net financing charges	(17.0)	(16.4)

4 Share of results of associates and joint venture

	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/(loss) US$m
2008				
Analysis by geographical area				
– Hong Kong and Macau	3.1	(0.3)	–	2.8
– Other Asia	19.0	(2.9)	(2.9)	13.2
– The Americas	4.6	(4.6)	(0.7)	(0.7)
	26.7	**(7.8)**	**(3.6)**	**15.3**
Analysis by activity				
– Hotel ownership	25.2	(7.8)	(3.1)	14.3
– Other	1.5	–	(0.5)	1.0
	26.7	**(7.8)**	**(3.6)**	**15.3**
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

Share of results of associates and joint venture is stated after charging depreciation and amortization of US$11.7 million (2007: US$11.9 million). In 2007, this included a US$5.1 million writeback of an impairment previously made against the value of the Group's interest in Mandarin Oriental, Kuala Lumpur.

5 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 continues to manage the hotel under a long-term agreement.

6 Tax

	2008 US$m	2007 US$m
Company and subsidiaries		
– Current tax	**6.7**	13.3
– Deferred tax (refer note 13)	**11.6**	9.5
	18.3	22.8
Analysis by geographical area		
– Hong Kong and Macau	**9.3**	8.8
– Other Asia	**3.9**	4.6
– Europe	**9.4**	6.3
– The Americas	**(4.3)**	3.1
	18.3	22.8
Analysis by activity		
– Hotel ownership	**15.1**	17.4
– Hotel management	**3.2**	5.4
	18.3	22.8
Reconciliation between tax expense and tax at the applicable tax rate:		
Tax at applicable tax rate	**8.7**	18.0
Expenses/(income) not deductible/(taxable) for tax purposes	**1.1**	(0.7)
Tax losses not recognized	**6.6**	4.8
Temporary differences not recognized	**(0.4)**	0.4
Utilization of previously unrecognized tax losses	**(0.5)**	(0.2)
Utilization of previously unrecognized temporary differences	**(0.3)**	(2.4)
Recognition of previously unrecognized deferred tax assets	**(0.4)**	(2.1)
Recognition of previously unrecognized temporary differences	**3.6**	1.8
Deferred tax assets written off	**0.9**	0.3
Withholding tax	**1.7**	2.0
Change in tax rates	**(0.1)**	–
(Over)/under provision in prior years	**(2.7)**	1.5
Other	**0.1**	(0.6)
	18.3	22.8

The applicable tax rate for the year was 13% (2007: 17%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

Share of tax of associates and joint venture of US$3.6 million (2007: US$5.8 million) are included in share of results of associates and joint venture (refer note 4).

7 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$67.1 million (2007: US$108.2 million) and on the weighted average number of 980.7 million (2007: 969.8 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$67.1 million (2007: US$108.2 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 988.8 million (2007: 987.1 million) share 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	
	2008	2007
Weighted average number of shares in issue	**988.5**	987.0
Shares held by the Trustee under the Senior Executive Share Incentive Schemes	**(7.8)**	(17.2)
Weighted average number of shares for basic earnings per share calculation	**980.7**	969.8
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	**8.1**	17.3
Weighted average number of shares for diluted earnings per share calculation	**988.8**	987.1

Basic and diluted earnings per share are also presented based on profit attributable to shareholders excluding gain on disposal and writeback of impairment. A reconciliation of earnings is set out below:

	2008			2007		
	US$m	Basic earnings per share US¢	Diluted earnings per share US¢	US$m	Basic earnings per share US¢	Diluted earnings per share US¢
Profit attributable to shareholders excluding gain on disposal and writeback of impairment	**67.1**	**6.84**	**6.79**	87.1	8.98	8.82
Gain on disposal	–	–	–	16.0	1.65	1.62
Writeback of impairment	–	–	–	5.1	0.53	0.52
Profit attributable to shareholders	**67.1**	**6.84**	**6.79**	108.2	11.16	10.96

8 Intangible assets

	Goodwill US$m	Land use rights US$m	Computer software US$m	Development costs US$m	Total US$m
2008					
Cost	23.3	194.3	2.6	7.2	227.4
Amortization	–	(3.5)	(0.5)	–	(4.0)
Net book value at 1st January	23.3	190.8	2.1	7.2	223.4
Exchange differences	–	1.2	–	(0.6)	0.6
Additions	0.6	–	1.4	8.1	10.1
Amortization charge	–	(0.6)	(0.9)	–	(1.5)
Write-off	–	–	–	(0.3)	(0.3)
Net book value at 31st December	**23.9**	**191.4**	**2.6**	**14.4**	**232.3**
Cost	23.9	195.5	4.0	14.4	237.8
Accumulated amortization	–	(4.1)	(1.4)	–	(5.5)
	23.9	**191.4**	**2.6**	**14.4**	**232.3**
2007					
Cost (restated)	23.3	195.0	0.8	3.7	222.8
Amortization	–	(3.0)	(0.1)	–	(3.1)
Net book value at 1st January (restated)	23.3	192.0	0.7	3.7	219.7
Exchange differences	–	(0.7)	0.1	0.1	(0.5)
Additions	–	–	1.7	3.4	5.1
Amortization charge	–	(0.5)	(0.4)	–	(0.9)
Net book value at 31st December	23.3	190.8	2.1	7.2	223.4
Cost	23.3	194.3	2.6	7.2	227.4
Accumulated amortization	–	(3.5)	(0.5)	–	(4.0)
	23.3	190.8	2.1	7.2	223.4

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2008 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 17% 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.

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.

9 Tangible assets

	Freehold land & buildings US$m	Leasehold buildings & improvements US$m	Plant & machinery US$m	Furniture & equipment US$m	Total US$m
2008					
Costs or valuation	579.1	397.6	96.7	195.5	1,268.9
Depreciation	(16.1)	(85.1)	(49.6)	(123.1)	(273.9)
Net book value at 1st January	563.0	312.5	47.1	72.4	995.0
Exchange differences	(108.0)	(0.7)	(1.1)	1.1	(108.7)
Additions	–	45.9	0.6	16.1	62.6
Reclassification	–	1.4	(1.4)	–	–
Depreciation charge	(3.7)	(9.9)	(4.7)	(19.5)	(37.8)
Revaluation deficit	(44.5)	(5.8)	–	–	(50.3)
Net book value at 31st December	**406.8**	**343.4**	**40.5**	**70.1**	**860.8**
Cost or valuation	426.6	437.4	93.8	207.6	1,165.4
Accumulated depreciation	(19.8)	(94.0)	(53.3)	(137.5)	(304.6)
	406.8	**343.4**	**40.5**	**70.1**	**860.8**
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
Exchange 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/(deficit)	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

The Directors have reviewed the carrying values of all properties at 31st December 2008 in consultation with the Group's independent, professionally qualified valuers. The Directors are of the opinion that there is a decrease in the fair value of properties of US$50.3 million. After reducing the deferred tax liabilities by US$16.5 million on the fair value decrease, US$33.8 million has been taken to capital reserves. In 2007, 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$47.0 million was taken to capital reserves.

Freehold land & buildings include a property valued at US$126 million (2007: US$148.2 million), which is stated net of tax incremental financing of US$29 million (2007: US$29.8 million) (refer note 17).

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$587.8 million (2007: US$646.5 million).

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

9 Tangible assets *continued*

	2008 US$m	2007 US$m
Analysis of additions by geographical area		
– Hong Kong and Macau	**9.6**	27.4
– Other Asia	**20.0**	5.6
– Europe	**29.7**	18.2
– The Americas	**3.3**	2.4
	62.6	53.6
Analysis of additions by activity		
– Hotel ownership	**58.0**	51.6
– Hotel management	**4.6**	2.0
	62.6	53.6
Analysis of depreciation by geographical area		
– Hong Kong and Macau	**(14.3)**	(14.2)
– Other Asia	**(6.8)**	(8.2)
– Europe	**(10.8)**	(9.9)
– The Americas	**(5.9)**	(5.3)
	(37.8)	(37.6)
Analysis of depreciation by activity		
– Hotel ownership	**(36.5)**	(36.4)
– Hotel management	**(1.3)**	(1.2)
	(37.8)	(37.6)

10 Associates and joint venture

	2008 US$m	2007 US$m
Listed investment in OHTL PCL	**60.8**	75.6
Unlisted investments in other associates	**82.8**	113.3
Group share of attributable net assets of associates	**143.6**	188.9
Joint venture (refer note 31)	**11.9**	15.7
	155.5	204.6
Market value of listed investment in OHTL PCL	**70.5**	81.8

The Directors have reviewed the carrying value of all operating properties owned by associates and joint venture at 31st December 2008 in consultation with the Group's independent, professionally qualified valuers. The Group's share of the underlying net revaluation deficit of US$11.1 million (2007: net revaluation surplus of US$1.6 million) has been dealt with in capital reserves.

In addition, the consolidated profit and loss account for the year ended 31st December 2007 included a US$5.1 million writeback of an impairment previously made against the value of the Group's 25% interest in Mandarin Oriental, Kuala Lumpur.

Subsequent to year end, on 20th January 2009, the Group announced that it had entered into an agreement to sell its 50% interest in Mandarin Oriental, Macau as further discussed in note 31.

10 Associates and joint venture *continued*

	2008 US$m	2007 US$m
The Group's share of assets and liabilities and results of associates and joint venture are summarized below:		
Associates		
Non-current assets	**332.5**	373.4
Current assets	**30.1**	30.6
Current liabilities	**(32.3)**	(33.1)
Non-current liabilities	**(186.7)**	(182.0)
Attributable net assets	**143.6**	188.9
Revenue	**117.2**	116.3
Profit before tax	**16.1**	23.2
Net profit	**12.5**	18.4
Capital commitments	**6.6**	5.6
Contingent liabilities	**–**	–
Joint venture		
Non-current assets	**22.9**	24.6
Current assets	**2.6**	5.6
Current liabilities	**(6.1)**	(6.8)
Non-current liabilities	**(7.5)**	(7.7)
Attributable net assets	**11.9**	15.7
Revenue	**17.5**	20.5
Profit before tax	**2.8**	5.5
Net profit	**2.8**	4.5
Capital commitments	**0.1**	1.1
Contingent liabilities	**–**	–
Movements of share of attributable net assets for the year:		
At 1st January	**204.6**	190.0
Net exchange translation differences	**(10.3)**	17.4
Share of results	**15.3**	17.8
Writeback of impairment of an associate	**–**	5.1
Dividends received	**(20.0)**	(12.8)
Share of property revaluation net of tax	**(11.1)**	1.6
Fair value loss on cash flow hedges net of tax	**(0.1)**	(0.1)
Capital distribution (refer note 25d)	**(23.2)**	(14.4)
Others	**0.3**	–
At 31st December	**155.5**	204.6

11 Loans receivable

	2008 US$m	2007 US$m
At 1st January	**3.4**	12.0
Addition	**1.4**	3.4
Repayment	**–**	(12.0)
At 31st December	**4.8**	3.4

The balance as at 31st December 2008 comprised a mezzanine loan of US$3.0 million, bearing interest at LIBOR+5.6% per annum with repayment on or before 22nd February 2010; and a loan of US$1.8 million, bearing interest at EURO LIBOR+4% with repayment on or before 12th September 2011. The carrying amount of the loans receivable approximates its fair value.

The balance as at 31st December 2007 principally consisted of a mezzanine loan which was interest-bearing at LIBOR+5.6% per annum with repayment on or before 22nd February 2010.

12 Pension plans

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

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

	2008 Weighted average %	2007 Weighted average %
Discount rate applied to pension obligations	**6.0**	4.9
Expected return on plan assets	**7.5**	7.5
Future salary increases	**5.0**	5.0

The expected return on plan assets is determined on the basis of long-term average returns on global equities of 6.5% to 10% per annum and global bonds of 3.5% to 6.0% per annum, and the long-term benchmark allocation of assets between equities and bonds in each plan.

12 Pension plans *continued*

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

	2008 US$m	2007 US$m
Fair value of plan assets	**53.9**	80.3
Present value of funded obligations	**(47.3)**	(46.4)
Net pension assets	**6.6**	33.9
Analysis of net pension assets		
Pension assets	**6.6**	34.0
Pension liabilities	**–**	(0.1)
	6.6	33.9
Movements in the fair value of plan assets		
At 1st January	**80.3**	71.6
Expected return on plan assets	**5.8**	5.3
Actuarial (losses)/gains	**(30.6)**	5.2
Contributions from company	**1.1**	0.4
Contributions from plan members	**0.9**	0.9
Exchange difference	**0.2**	(0.1)
Benefits paid	**(4.0)**	(3.2)
Transfer-in of assets	**0.2**	0.2
At 31st December	**53.9**	80.3
Movements in the present value of defined benefit obligations		
At 1st January	**(46.4)**	(45.7)
Current service cost	**(4.4)**	(4.1)
Interest cost	**(2.3)**	(2.2)
Contributions from plan members	**(0.9)**	(0.9)
Actuarial gains	**3.0**	2.4
Curtailment and settlement	**(0.4)**	(0.4)
Exchange difference	**(0.1)**	(0.1)
Benefits paid – funded	**4.0**	3.2
Benefits paid – unfunded	**0.4**	1.6
Transfer-in of liabilities	**(0.2)**	(0.2)
At 31st December	**(47.3)**	(46.4)

12 Pension plans *continued*

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

	2008 US$m	2007 US$m
Equity instruments	**23.9**	48.5
Debt instruments	**14.3**	16.2
Other assets	**15.7**	15.6
	53.9	80.3

The five year history of experience adjustments is as follows:

	2008 US$m	2007 US$m	2006 US$m	2005 US$m	2004 US$m
Fair value of plan assets	**53.9**	80.3	71.6	62.2	58.4
Present value of funded obligations	**(47.3)**	(46.4)	(45.7)	(40.8)	(36.9)
Plan surplus	**6.6**	33.9	25.9	21.4	21.5
Experience adjustments on plan assets	**(30.7)**	5.1	7.1	1.9	3.8
Percentage of plan assets (%)	**57.0**	6.4	9.9	3.1	6.6
Experience adjustments on plan obligations	**(1.0)**	1.4	1.7	(1.2)	0.4
Percentage of plan obligations (%)	**2.2**	3.0	3.7	3.0	1.2

The net cumulative actuarial gains recorded in the Statement of Recognized Income and Expense is US$4.4 million (2007: US$32.0 million).

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

	2008 US$m	2007 US$m
Current service cost	**4.4**	4.1
Interest cost	**2.3**	2.2
Loss on curtailment and settlement	**0.4**	0.2
Expected return on plan assets	**(5.8)**	(5.3)
	1.3	1.2
Actual return on plan assets in the year	**(24.8)**	10.5

The estimated amount of contributions expected to be paid to the plans in 2009 is US$1.9 million.

13 Deferred tax (assets)/liabilities

	Accelerated tax depreciation US$m	Asset revaluation US$m	Pension plans US$m	Unremitted earnings in associates & joint venture US$m	Provisions and other temporary differences US$m	Losses US$m	Total US$m
2008							
At 1st January	37.5	60.0	5.6	1.9	(11.0)	(13.8)	80.2
Exchange differences	(0.7)	(11.0)	0.1	(0.3)	–	0.4	(11.5)
Charged/(credited) to consolidated profit and loss account	10.7	–	–	–	(1.2)	2.1	11.6
Charged/(credited) to equity	–	(20.2)	(4.6)	–	0.1	–	(24.7)
Transfer to current tax asset	–	–	–	–	13.7	–	13.7
At 31st December	**47.5**	**28.8**	**1.1**	**1.6**	**1.6**	**(11.3)**	**69.3**
2007							
At 1st January	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

	2008 US$m	2007 US$m
Deferred tax assets	**(16.5)**	(27.5)
Deferred tax liabilities	**85.8**	107.7
	69.3	80.2

Deferred tax balances predominantly comprise non-current items.

Deferred tax assets of US$31.8 million (2007: US$29.7 million) have not been recognized in relation to unused 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 unused tax losses:

	2008 US$m	2007 US$m
Within one year	**–**	0.1
Between one and five years	**6.9**	0.3
Over five years	**6.6**	5.7
With no expiry dates	**18.3**	23.6
	31.8	29.7

Deferred tax assets of US$7.3 million (2007: US$4.6 million) have not been recognized in relation to temporary differences in subsidiaries.

Deferred tax liabilities on temporary differences associated with investments in subsidiary undertakings have not been recognized as there is no current intention of remitting the retained earnings to the holding companies.

14 Debtors and prepayments

	2008 US$m	2007 US$m
Trade debtors		
– third parties	**31.2**	38.9
– associates and joint venture	**3.3**	3.8
	34.5	42.7
– provision for impairment	**(1.2)**	(0.6)
	33.3	42.1
Other debtors		
– third parties	**26.4**	24.8
– associates and joint venture	**1.6**	2.4
	28.0	27.2
– provision for impairment	**–**	–
	28.0	27.2
	61.3	69.3

Other debtors are further analyzed as follows:

Prepayments	**7.7**	10.4
Amounts due from associates and joint venture	**1.6**	2.4
Rental and other deposits	**2.7**	1.8
Derivative financial instruments	**–**	0.1
Other	**16.0**	12.5
	28.0	27.2
Analysis by geographical area of operation		
Hong Kong and Macau	**16.7**	20.6
Other Asia	**10.3**	11.5
Europe	**21.8**	21.7
The Americas	**12.5**	15.5
	61.3	69.3

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

14 Debtors and prepayments *continued*

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

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

At 31st December 2008, trade debtors of US$1.7 million (2007: US$1.0 million) were impaired. The amount of the provision was US$1.2 million (2007: US$0.6 million). It was assessed that a portion of the debtors would be recoverable. The ageing analysis of these trade debtors is as follows :

	2008 US$m	2007 US$m
Below 30 days	**0.2**	0.2
Between 31 and 60 days	**0.3**	0.1
Between 61 and 90 days	**0.1**	0.1
Over 90 days	**1.1**	0.6
	1.7	1.0

At 31st December 2008, trade debtors and other debtors of US$13.8 million (2007: US$12.4 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**	6.7
Between 31 and 60 days	**1.4**	3.0
Between 61 and 90 days	**2.1**	1.3
Over 90 days	**3.6**	1.4
	13.8	12.4

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2008 becoming impaired is low as the majority of the balances have been settled subsequent to year end.

Movements on the provision for impairment are as follows:

	Trade debtors	
	2008 US$m	2007 US$m
At 1st January	**(0.6)**	(1.2)
Additional provisions	**(0.6)**	–
Unused amounts reversed	**–**	0.5
Bad debts written off	**–**	0.1
At 31st December	**(1.2)**	(0.6)

15 Creditors and accruals

	2008 US$m	2007 US$m
Trade creditors	30.1	36.7
Accruals	45.8	55.7
Deposits accepted	13.1	10.7
Derivative financial instruments (refer note 26)	1.0	–
Other creditors	2.9	2.4
	92.9	105.5
Currency		
Hong Kong Dollar	38.9	48.1
Japanese Yen	11.1	10.2
Swiss Franc	9.8	7.1
United Kingdom Sterling	7.7	15.3
United States Dollar	18.0	17.2
Other	7.4	7.6
	92.9	105.5

The fair value of creditors approximate their carrying amounts.

16 Borrowings

	2008 Carrying amount US$m	2008 Fair value US$m	2007 Carrying amount US$m	2007 Fair value US$m
Current				
– Bank overdrafts	0.2	0.2	0.3	0.3
Current portion of long-term borrowings				
– Bank loans	7.0	7.7	6.9	6.9
– Other borrowings	0.2	0.2	6.2	6.2
	7.2	7.9	13.1	13.1
Current borrowings	7.4	8.1	13.4	13.4
Long-term borrowings				
– Bank loans	643.9	644.3	660.1	660.1
– Other borrowings	8.3	8.3	2.1	2.1
– Tax increment financing (refer note 17)	1.7	1.7	1.7	1.7
Long-term borrowings	653.9	654.3	663.9	663.9
	661.3	662.4	677.3	677.3

The fair values are based on the expected future payments discounted at market interest rate of 3.3% (2007: 4.7%) per annum. The fair value of current and long-term borrowings approximate their carrying amount, as the impact of discounting is not significant.

16 Borrowings *continued*

The borrowings are further summarized as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	US$m	Floating rate borrowings US$m	Total US$m
2008					
Euro	5.9	4.7	13.0	–	13.0
Hong Kong Dollar	2.4	4.3	179.4	185.3	364.7
Swiss Franc	2.7	23.0	2.2	39.4	41.6
United Kingdom Sterling	4.4	5.5	30.4	91.2	121.6
United States Dollar	3.9	1.6	47.7	47.9	95.6
Japanese Yen	1.2	–	–	24.3	24.3
Philippine Peso	8.9	–	–	0.5	0.5
			272.7	**388.6**	**661.3**
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

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account of hedging transactions (refer note 26).

16 Borrowings *continued*

The remaining contractual maturities of the borrowings, including related interest payments, are analyzed below. The interest payments are computed using contractual rates and, in the case of floating rate borrowings, based on market rates at the balance sheet date before taking into account of hedging transaction. Cash flows denominated in currencies other than United States dollars are converted into United States dollars at the rates of exchange ruling at the balance sheet date.

	2008 US$m	2007 US$m
Within one year	**27.0**	45.3
Between one and two years	**134.3**	38.3
Between two and three years	**18.8**	143.4
Between three and four years	**20.0**	28.7
Between four and five years	**25.4**	28.7
Beyond five years	**539.0**	577.3
	764.5	861.7
Secured	**628.8**	649.5
Unsecured	**32.5**	27.8
	661.3	677.3

Borrowings of US$628.8 million (2007: US$649.5 million) are secured against the tangible fixed assets of certain subsidiary undertakings. The book value of these tangible fixed assets as at 31st December 2008 was US$836.8 million (2007: US$951.0 million).

17 Tax increment financing

	2008 US$m	2007 US$m
Netted off against the net book value of the property (refer note 9)	**29.0**	29.8
Loan (refer note 16)	**1.7**	1.7
	30.7	31.5

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

The District agreed to contribute to the subsidiary US$33.0 million through the issuance of TIF Bonds in addition to US$1.7 million issued in the form of a loan, bearing simple interest at an annual rate of 6.0%. The US$1.7 million loan plus all accrued interest will be due on the earlier of 10th April 2017 or the date of the first sale of the hotel.

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property (refer note 9). The loan of US$1.7 million (2007: US$1.7 million) is included in long-term borrowings (refer note 16).

18 Segment information

Analysis by geographical area

	Capital expenditure US$m	Segment assets US$m	Associates and joint venture US$m	Segment liabilities US$m
2008				
Hong Kong and Macau	10.5	459.3	11.9	(52.2)
Other Asia	20.9	62.1	128.3	(15.7)
Europe	37.0	485.2	–	(24.4)
The Americas	4.3	163.3	15.3	(19.8)
Segment	72.7	1,169.9	155.5	(112.1)
Unallocated	–	550.5	–	(752.3)
	72.7	**1,720.4**	**155.5**	**(864.4)**
2007 (restated)				
Hong Kong and Macau	28.6	489.4	15.8	(48.0)
Other Asia	6.4	60.4	156.4	(15.5)
Europe	20.2	594.1	–	(27.3)
The Americas	3.5	186.1	32.4	(17.7)
Segment	58.7	1,330.0	204.6	(108.5)
Unallocated	–	526.4	–	(792.2)
	58.7	1,856.4	204.6	(900.7)

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 venture include the Group’s share of attributable net assets.

Analysis by activity

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

19 Share capital

	Ordinary shares in millions			
	2008	2007	**2008 US$m**	2007 US$m
Authorized:				
Shares of US¢5.00 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid:				
At 1st January	**990.8**	990.8	**49.6**	49.6
Issued under share incentive schemes	**0.4**	–	**–**	–
At 31st December	**991.2**	990.8	**49.6**	49.6
Outstanding under share incentive schemes	**(7.8)**	(17.2)	**(0.4)**	(0.9)
At 31st December	**983.4**	973.6	**49.2**	48.7

20 Share premium

	2008 US$m	2007 US$m
At 1st January	**173.0**	173.0
Issued under share incentive schemes	**0.4**	–
At 31st December	**173.4**	173.0
Outstanding under share incentive schemes	**(4.5)**	(9.5)
At 31st December	**168.9**	163.5

21 Senior Executive Share Incentive Schemes

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

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

The shares issued under the Schemes held on trust by the wholly-owned subsidiary undertaking are, for presentation purposes, netted off the Company's share capital in the consolidated balance sheet (refer note 19) and the premium attached to them is netted off the share premium account (refer note 20).

21 Senior Executive Share Incentive Schemes *continued*

Movements for the year:

	2008 Weighted average exercise price US$	2008 Options in millions	2007 Weighted average exercise price US$	2007 Options in millions
At 1st January	**0.94**	**31.1**	0.72	31.2
Granted	**1.69**	**8.9**	1.88	5.6
Exercised	**0.60**	**(9.7)**	0.62	(5.6)
Repurchased and cancelled	**1.88**	**(0.3)**	0.99	(0.1)
At 31st December	**1.27**	**30.0**	0.94	31.1

The average share price during the year was US$1.69 (2007: US$2.13) per share.

Outstanding at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price US$	**2008**	2007
2008	0.5 – 0.9	–	2.9
2009	0.7 – 0.8	1.2	1.9
2010	0.5 – 0.7	2.8	4.6
2011	0.6	0.4	1.2
2012	0.4	0.6	1.7
2013	0.3 – 0.4	0.4	1.0
2014	0.6	0.6	0.8
2015	0.8 – 1.0	2.4	3.6
2016	1.0 – 1.4	7.4	7.8
2017	1.9	5.3	5.6
2018	1.1 – 1.7	8.9	–
Total outstanding		**30.0**	31.1
of which exercisable		**7.6**	15.9

The fair value of options granted during the year, determined using the Trinomial valuation model, was US$5.6 million (2007: US$5.0 million). The significant inputs into the model, based on the weighted average number of options issued, were share price of US$1.63 (2007: US$1.98) at the grant date, exercise price shown above, expected volatility based on the last three years of 41% (2007: 33%), dividend yield of 3.16% (2007: 1.4%), option life disclosed above, and annual risk-free interest rate of 3.5% (2007: 4.5%). Options are assumed to be exercised at the end of the third year following the date of grant.

22 Revenue and other reserves

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
2008					
At 1st January	440.0	527.2	(2.0)	(25.1)	940.1
Revaluation of properties					
– net revaluation deficit	–	(65.6)	–	–	(65.6)
– deferred tax	–	22.6	–	–	22.6
Revaluation of other investments					
– fair value gain	0.2	–	–	–	0.2
– deferred tax	(0.1)	–	–	–	(0.1)
Defined benefit pension plans					
– actuarial loss	(27.6)	–	–	–	(27.6)
– deferred tax	4.6	–	–	–	4.6
Net exchange translation differences					
– amount arising in year	–	–	–	(73.5)	(73.5)
– transfer to profit and loss (note 2)	–	–	–	(0.7)	(0.7)
Fair value loss on cash flow hedges	–	–	(17.9)	–	(17.9)
Deferred tax on fair value loss	–	–	3.6	–	3.6
Share-based payments	–	4.2	–	–	4.2
Profit attributable to shareholders	67.1	–	–	–	67.1
Dividends (refer note 24)	(68.7)	–	–	–	(68.7)
At 31st December 2008	**415.5**	**488.4**	**(16.3)**	**(99.3)**	**788.3**
Of which:					
– Company	**411.2**	**14.5**	**–**	**–**	**425.7**
– Associates and joint venture	**(14.8)**	**103.3**	**(0.1)**	**(55.0)**	**33.4**

22 Revenue and other reserves *continued*

	Revenue reserves US$m	Capital reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Total US$m
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 24)	(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 venture	(10.1)	114.4	–	(44.7)	59.6

Capital reserves include property revaluation reserves of US$220.0 million net of attributable deferred tax of US$71.0 million (2007: US$262.8 million net of attributable deferred tax of US$93.7 million) which are non-distributable in certain territories in which the Group operates.

23 Minority interests

	2008 US$m	2007 US$m
At 1st January	**8.0**	3.7
Net exchange translation differences	**(0.5)**	0.9
Revaluation of properties		
– net revaluation (deficit)/surplus	**(3.7)**	8.1
– deferred tax	**1.8**	(3.7)
Fair value loss on financial instruments	**(0.2)**	(0.3)
Deferred tax on fair value loss on financial instruments	**0.1**	0.1
Attributable loss less dividends	**(1.0)**	(0.8)
Change in shareholding	**0.6**	–
At 31st December	**5.1**	8.0

24 Dividends

	2008 US$m	2007 US$m
Final dividend in respect of 2007 of US¢5.00 (2006: US¢3.00) per share	**49.0**	29.0
Interim dividend in respect of 2008 of US¢2.00 (2007: US¢1.00) per share	**19.7**	9.7
	68.7	38.7

A final dividend in respect of 2008 of US¢5.00 (2007: US¢5.00) per share amounting to a total of US$49.1 million (2007: US$49.0 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 2009.

25 Notes to consolidated cash flow statement

a) Non-cash items

	2008 US$m	2007 US$m
Realization of exchange gain arising on repatriation of capital from a foreign subsidiary undertaking and an associate	**(0.7)**	(8.3)
Net foreign exchange (gain)/loss	**(0.3)**	1.4
Share-based payment	**4.2**	2.7
Other	**–**	0.3
	3.2	(3.9)

b) Movements in working capital

	2008 US$m	2007 US$m
Decrease/(increase) in stocks	**0.5**	(0.4)
Decrease in debtors and prepayments	**3.2**	0.5
(Decrease)/increase in creditors and accruals	**(3.2)**	5.2
	0.5	5.3

c) Proceeds on disposal related to an associate

	2008 US$m	2007 US$m
Net assets disposed of	**–**	13.7
Gain on disposal (refer note 5)	**–**	25.0
	–	38.7
Repayment of mezzanine loan and interest	**–**	41.0
Tax	**–**	(9.0)
Net cash flow	**–**	70.7

d) The Group received repayment from its shareholder loans previously provided to Mandarin Oriental, Kuala Lumpur and Mandarin Oriental, Miami of US$8.9 million and US$13.5 million, respectively. The Group also received capital distribution of US$0.8 million from Mandarin Oriental, New York.

e) Analysis of balances of cash and cash equivalents

	2008 US$m	2007 US$m
Cash at bank	**514.9**	492.4
Bank overdrafts	**(0.2)**	(0.3)
	514.7	492.1

The weighted average effective interest rate on short-term bank deposits included in cash at bank was 2.5% (2007: 4.8%).

26 Derivative financial instruments

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

	2008 Positive fair value US$m	2008 Negative fair value US$m	2007 Positive fair value US$m	2007 Negative fair value US$m
Designated as cash flow hedges				
– interest rate swaps and caps	–	**20.2**	0.2	2.9
At 31st December	–	**20.2**	0.2	2.9
Non current	–	**19.2**	0.2	2.9
Current (refer note 15)	–	**1.0**	–	–
At 31st December	–	**20.2**	0.2	2.9

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$m	Beyond five years US$m
2008				
Net settled				
– interest rate swaps	**5.8**	**5.3**	**8.7**	**1.7**
2007				
Net settled				
– interest rate swaps	0.4	1.1	1.5	0.7

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2008 were US$321.2 million (2007: US$312.9 million).

At 31st December 2008, the fixed interest rates relating to interest rate swaps and caps vary from 1.5% to 7.0% (2007: 1.5% to 7.0%).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 1.0% to 3.4% (2007: 3.7% to 6.4%) per annum.

27 Financial guarantee

	2008 US$m	2007 US$m
Guarantee in respect of facilities made available to an associate	**21.1**	12.5

Guarantee in respect of facilities made available to an associate 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.

28 Commitments

	2008 US$m	2007 US$m
Capital commitments:		
Authorized not contracted	**42.0**	48.0
Contracted not provided	**49.1**	14.6
	91.1	62.6
Operating lease commitments:		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**8.4**	6.3
Between one and two years	**8.3**	6.2
Between two and three years	**17.6**	6.2
Between three and four years	**20.1**	6.2
Between four and five years	**20.1**	6.2
Over five years	**410.6**	133.8
	485.1	164.9

Total future sublease payments receivable relating to the above operating leases amounted to US$0.1 million (2007: US$0.1 million).

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

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.

29 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$0.3 million (2007: US$0.5 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 outstanding balance with JML as at 31st December 2008 amounted to US$0.1 million (2007: nil).

During 2008, the Group managed seven associate and joint venture hotels and received management fees of US$14.5 million (2007: US$15.7 million) based on long-term management agreements on normal commercial terms. The outstanding balances with associates and joint venture are set out in debtors and prepayment in note 14.

The Group engages Gammon Construction Limited ('Gammon'), a joint venture of JMH, as contractor for certain of the Group's hotel renovation projects. No management fees have been paid by the Group to Gammon in 2008. During 2007, management fees paid to Gammon amounted to US$0.4 million. The Group has no outstanding balance with Gammon as at 31st December 2008 (2007: nil).

29 Related party transactions *continued*

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 2008 to JLT amounted to US$0.5 million (2007: US$0.5 million). The Group has no outstanding balance with JLT as at 31st December 2008 (2007: nil).

The Group provides hotel management services to Hongkong Land ('HKL') and received management fees of US$0.6 million in 2008 (2007: US$0.5 million) based on long-term management agreements on normal commercial terms. The Group has no outstanding balance with HKL as at 31st December 2008 (2007: nil).

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

30 Summarized balance sheet of the Company

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

	2008 US$m	2007 US$m
Subsidiaries at cost	**649.6**	325.6
Net current liabilities	**(0.9)**	(0.8)
Net operating assets	**648.7**	324.8
Share capital (refer note 19)	**49.6**	49.6
Share premium (refer note 20)	**173.4**	173.0
Revenue reserves (refer note 22)	**411.2**	91.9
Other reserves (refer note 22)	**14.5**	10.3
Shareholders' funds	**648.7**	324.8

31 Post balance sheet event

On 20th January 2009, the Group announced that it had entered into an agreement to sell its 50% interest in Mandarin Oriental, Macau, which was classified as a non-current asset held for sale on 12th January 2009 subsequent to the year end.

Mandarin Oriental, Macau was valued at US$205 million for the purposes of the sale. On disposal of its 50% interest, the Group will receive proceeds of US$90 million with a post-tax gain of approximately US$75 million which will be recognized in 2009. Completion of the sale is expected by the end of May 2009.

The Group will continue to manage the hotel for a period of up to two years under a short-term management arrangement to ensure a smooth transition of operations to the new owner.

Principal Subsidiaries, Associates, Joint Venture and Managed Hotels

as at 31st December 2008

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
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo
Philippines	Manila Mandarin Hotel Incorporated	Owner: Mandarin Oriental, Manila
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London
Switzerland	Société Immobilère de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva
	Société pour l'Exploitation de Mandarin Oriental (Genèva) SA	
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris (hotel under development)
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.
Associates		
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex
United States	Istithmar Columbus Centre LLC	Owner: Mandarin Oriental, New York
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami
Joint Venture		
Macau	Excelsior Hoteis E Investimentos Limitada	Owner: Mandarin Oriental, Macau
Managed Hotels		
Hong Kong	The Landmark Mandarin Oriental, Hong Kong	–
Thailand	Mandarin Oriental Dhara Dhevi, Chiang Mai	–
Czech Republic	Mandarin Oriental, Prague	–
United States	Mandarin Oriental, San Francisco	–
United States	Mandarin Oriental, Boston	–
Mexico	Mandarin Oriental, Riviera Maya	–
Bermuda	Elbow Beach, Bermuda	–

Attributable interest %			
2008	2007	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	Yen 10,000,000	179 rooms. Lease expiry 2035
96.2	96.2	Peso 288,918,400	443 rooms. Lease expiry 2026
96.9	88.3	Rup 266,300,230,000	404 rooms. Lease expiry 2023
100	100	GBP 4,493,484 GBP 1,578,791 *(Preference share)*	198 rooms. Freehold
85.3	85.3	CHF 6,800,000	190 rooms. Lease expiry 2040
100	100	CHF 10,800,000	–
100	100	Euro 3,632,000	73 rooms. Freehold
100	100	Euro 7,500	138 rooms. Leasehold
80	80	–	400 rooms. Freehold
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
49	49	Baht 120,000,000	–
25	25	–	248 rooms. Freehold
25	25	–	327 rooms. Freehold
50	50	Ptc 20,000,000	416 rooms. Lease expiry 2032 *(refer note 31)*
–	–	–	113 rooms
–	–	–	123 rooms
–	–	–	99 rooms
–	–	–	158 rooms
–	–	–	140 rooms
–	–	–	128 rooms
–	–	–	235 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 2008 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Bermuda Companies Act.

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
5th March 2009

Five Year Summary

Consolidated Profit and Loss Account

	2004 US$m	2005 US$m	2006 US$m	2007 US$m	**2008 US$m**
Revenue	336.8	399.2	404.6	529.5	**530.0**
Operating profit	43.4	60.4	121.9	107.7	**86.2**
Net financing charges	(27.5)	(22.4)	(15.2)	(16.4)	**(17.0)**
Share of results of associates and joint ventures	12.6	8.7	13.0	22.9	**15.3**
Gains on disposal of associates	–	52.3	–	16.0	**–**
Profit before tax	28.5	99.0	119.7	130.2	**84.5**
Tax	(4.8)	(24.8)	(39.5)	(22.8)	**(18.3)**
Profit for the year	23.7	74.2	80.2	107.4	**66.2**
Profit attributable to shareholders	28.5	77.2	80.0	108.2	**67.1**
Profit/(Loss) attributable to minority interests	(4.8)	(3.0)	0.2	(0.8)	**(0.9)**
	23.7	74.2	80.2	107.4	**66.2**
Earnings per share (US¢)	3.35	8.14	8.28	11.16	**6.84**
Dividends per share (US¢)	1.00	1.50	3.00	6.00	**7.00**

Consolidated Balance Sheet

Intangible assets	223.4	218.1	219.7	223.4	**232.3**
Tangible assets	752.1	684.0	882.5	995.0	**860.8**
Associates and joint ventures	258.6	174.0	190.0	204.6	**155.5**
Other investments	2.4	2.5	2.7	3.1	**3.9**
Loans receivable	–	43.0	12.0	3.4	**4.8**
Pension assets	22.9	22.8	27.1	34.0	**6.6**
Deferred tax assets	7.8	9.9	27.4	27.5	**16.5**
Other non-current assets	–	5.5	2.9	0.2	**–**
Net current assets/(liabilities)	(32.3)	202.1	289.8	443.7	**490.0**
Long-term borrowings	(497.1)	(471.6)	(575.1)	(663.9)	**(653.9)**
Deferred tax liabilities	(38.2)	(49.8)	(72.9)	(107.7)	**(85.8)**
Pension liabilities	(1.7)	(1.7)	(1.5)	(0.1)	**–**
Other non-current liabilities	(6.0)	–	(0.2)	(2.9)	**(19.2)**
Net operating assets	691.9	838.8	1,004.4	1,160.3	**1,011.5**
Share capital	42.6	48.3	48.4	48.7	**49.2**
Share premium	89.0	158.8	160.3	163.5	**168.9**
Revenue and other reserves	552.1	628.0	792.0	940.1	**788.3**
Shareholders' funds	683.7	835.1	1,000.7	1,152.3	**1,006.4**
Minority interests	8.2	3.7	3.7	8.0	**5.1**
Capital employed	691.9	838.8	1,004.4	1,160.3	**1,011.5**
Net asset value per share (US$)	0.80	0.87	1.03	1.18	**1.02**

Consolidated Cash Flow Statement

Cash flows from operating activities	47.1	72.6	62.4	129.5	**123.9**
Cash flows from investing activities	(28.4)	43.3	(38.0)	38.4	**(57.3)**
Net cash flow before financing activities	18.7	115.9	24.4	167.9	**66.6**
Cash flow per share from operating activities (US¢)	5.53	7.65	6.46	13.35	**12.63**

Responsibility Statement

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

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

b) the sections of this Report which constitute the management report include a fair review of all information required to be disclosed by the Disclosure and Transparency Rules 4.1.8 to 4.1.11 issued by the Financial Services Authority of the United Kingdom.

For and on behalf of the Board

Edouard Ettedgui
John R Witt
Directors
5th March 2009

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 73% 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 25 and 26 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 is scheduled to hold four meetings in 2009, 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, Edouard Ettedgui, Henry Keswick, R C Kwok and Sydney S W Leong retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. Edouard Ettedgui has a service contract with MOHG 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. For the year ended 31st December 2008, the Directors received from the Group US$7.2 million (2007: US$6.0 million) in Directors' fees and employee benefits, being US$0.4 million (2007: US$0.4 million) in Directors' fees, US$4.7 million (2007: US$4.3 million) in short-term employee benefits including salary, bonus, accommodation and deemed benefits in kind, US$0.1 million (2007: US$0.1 million) in post-employment benefits and US$2.0 million (2007: US$1.2 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 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 provide that they normally vest after the third anniversary of the date of grant. Grants may be made in a number of instalments. Share options are not granted to non-executive Directors.

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

Directors' responsibilities in respect of the financial statements

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

Code of Conduct

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

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 principal risks and uncertainties facing the Company are set out on pages 83 and 84.

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 independent of the operating businesses and reports its findings, and recommendations for any corrective action required, to the audit committee of MOHG.

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

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

The audit committee of MOHG has also been given the responsibility to oversee the effectiveness of the formal procedures 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 function. 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 18th March 2009 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 9,900,000 and 3,650,000 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 728,087,281 ordinary shares carrying 73.46% 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 18th March 2009.

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 2009 Annual General Meeting will be held on 6th May 2009. 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 7th May 2008, shareholders renewed the approval of a general mandate authorizing the Directors to effect purchases by the Company or its subsidiaries of the Company's own ordinary shares of less than 15% in aggregate of its issued share capital.

Arrangements under which shareholders have agreed to waive dividends

Mandarin Oriental Overseas (PTC) Limited has waived the interim dividend and has undertaken to waive the recommended final dividend for 2008 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 29 to the financial statements on pages 72 and 73. There were no transactions entered into by the Company during the course of the year to which the related party transaction rules of the FSA in the United Kingdom apply.

Principal Risks and Uncertainties

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

Economic and financial risk

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

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Risk Management section in the Financial Statements on pages 40 to 43 of this Report.

Commercial and market risk

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

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

The Group competes with other luxury hotel operators for management opportunities, and a failure to compete successfully or to establish and maintain relationships with hotel owners could adversely affect the Group's business.

The Group also makes investment decisions in respect of new hotel properties that take time to come to fruition and achieve the desired returns and are, therefore, subject to market risks, including the oversupply of hotel rooms. Mandarin Oriental's continued development depends on the opening of individual hotels, which are primarily controlled by third party owners and developers and can be subject to delays for reasons such as planning and construction issues, sourcing of adequate capital, and the sale of residential units. In extreme circumstances, such factors might lead to the cancellation of a project.

Pandemic, terrorism, and natural disasters

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

Key agreements

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

Intellectual property and value of the brand

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

Regulatory and political risk

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

Shareholder Information

Financial calendar

2008 full-year results announced	5th March 2009
Share registers closed	23rd to 27th March 2009
Annual General Meeting to be held	6th May 2009
2008 final dividend payable	13th May 2009
2009 half-year results to be announced	6th August 2009*
Share registers to be closed	31st August to 4th September 2009*
2009 interim dividend payable	21st October 2009*

* *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 2008 final dividend by notifying the United Kingdom transfer agent in writing by 24th April 2009. The sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 29th April 2009. 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.

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Jardine Matheson International Services Limited, PO Box HM 1068, Hamilton HM EX, Bermuda

Jersey Branch Registrar

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

Singapore Branch Registrar

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

United Kingdom Transfer Agent

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

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

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THE HOTEL GROUP

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