Mandarin Oriental International Limited

Annual Report 2015

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. Having grown from a well-respected Asian hotel company into a global brand, the Group now operates, or has under development, 46 hotels representing 11,000 rooms in 24 countries, with 21 hotels in Asia, nine in The Americas and 16 in Europe, Middle East and North Africa. In addition, the Group operates, or has under development, 15 *Residences at Mandarin Oriental* connected to its properties. The Group has equity interests in a number of its properties and adjusted net assets worth approximately US$3.6 billion as at 31st December 2015.

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 Group is committed to exceeding its guests' expectations through exceptional levels of hospitality, while maintaining its position as an innovative leader in the hotel industry. The strategy of the Group is to open the hotels currently under development, while continuing to seek further selective opportunities for expansion around the world.

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

Jardines
A member of the Jardine Matheson Group

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Corporate Information

Directors

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

Company Secretary

Neil M. McNamara

Registered Office

Jardine House
33-35 Reid Street
Hamilton
Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

Ben Keswick *Chairman*
Edouard Ettedgui *Group Chief Executive*
Stuart Dickie *Chief Financial Officer*
R.D. Baker
K.J. Barry
P.J. Clark
J.D. Goessing
Mark Greenberg
M.H. Hobson
Adam Keswick
C.J.W. Mares
V.F.J. Marot
Jeremy Parr
James Riley

Corporate Secretary

Neil M. McNamara

Highlights

Mandarin Oriental International Limited

- Resilient profit despite challenging conditions in a number of key markets
- US$316 million rights issue
- Acquisition of a 50% interest in the Hotel Ritz, Madrid
- Acquisition of Mandarin Oriental, Boston announced
- New hotels in Milan and Marrakech, and three new management contracts announced

Results

	Year ended 31st December 2015 US$m	2014 US$m	Change %
Combined total revenue of hotels under management[1]	**1,335.3**	1,389.9	(4)
Underlying EBITDA (Earnings before interest, tax, depreciation and amortization)[2]	**188.4**	217.3	(13)
Underlying profit attributable to shareholders[3]	**90.3**	97.0	(7)
Profit attributable to shareholders	**89.3**	97.0	(8)
	US¢	US¢	%
Underlying earnings per share[3&4]	**7.53**	9.29	(19)
Earnings per share[4]	**7.44**	9.29	(20)
Dividends per share	**5.00**	7.00	(29)
	US$	US$	%
Net asset value per share[4]	**0.98**	0.92	7
Adjusted net asset value per share[4&5]	**2.84**	3.02	(6)
Net debt/shareholders' funds	**11%**	42%	
Net debt/adjusted shareholders' funds[5]	**4%**	13%	

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

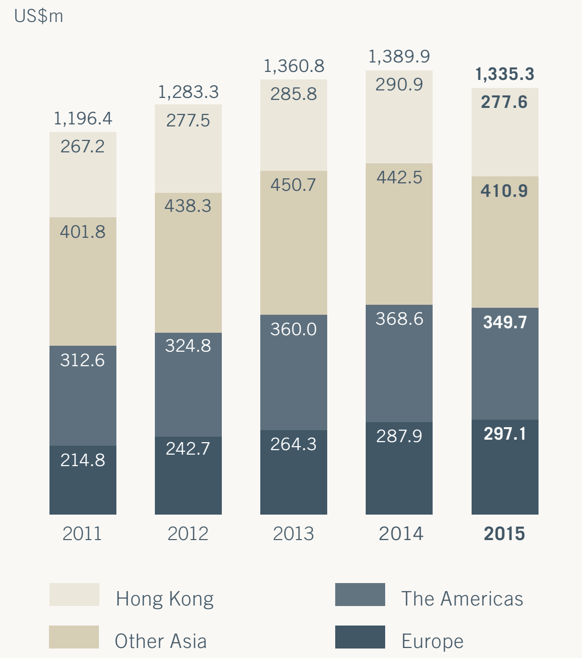
2 EBITDA of subsidiaries plus the Group's share of EBITDA of associates and joint ventures.

3 The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 7 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

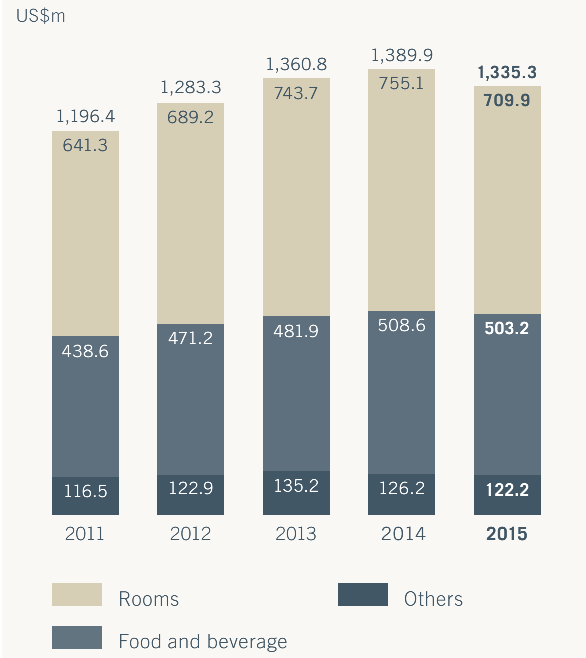
4 The comparative figures in 2014 have been adjusted to reflect the effect of the rights issue completed in April 2015.

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

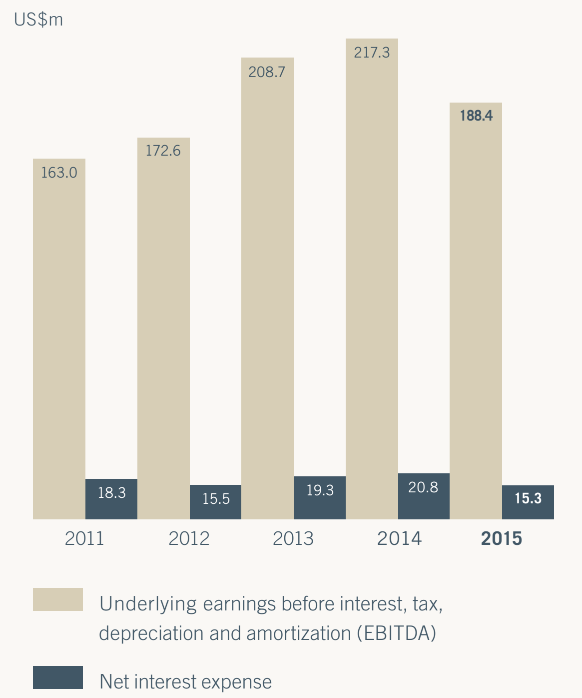
Combined total revenue
by geographical area



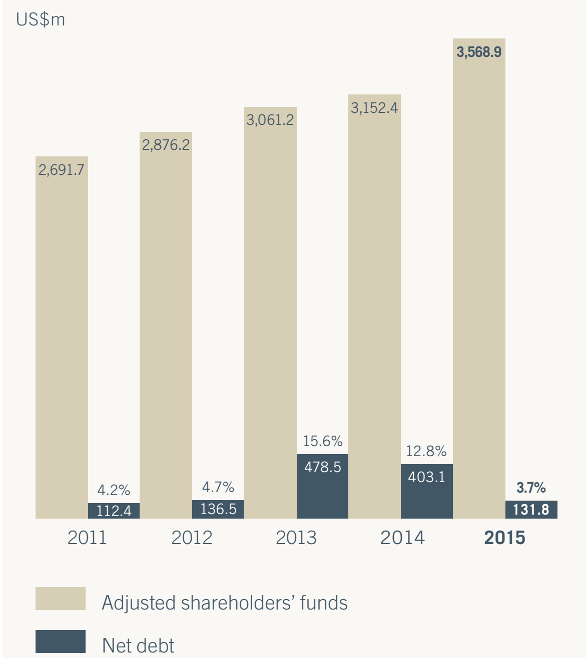
Combined total revenue
by type of business



Underlying EBITDA and net interest expense



Net debt/adjusted shareholders' funds



Chairman's Statement

Overview

Softer demand in Hong Kong and Paris, together with disruption from renovations at a number of properties, led to a 7% decrease in underlying profit compared to the prior year's record result. The Group's development projects remained active, however, with two new hotel openings and three new management contracts announced. The Group also raised US$316 million by way of a rights issue, with the proceeds reducing debt as well as funding its 50% share of the acquisition of the Hotel Ritz, Madrid, in May 2015.

Performance

Underlying earnings before interest, tax, depreciation and amortization for 2015 were US$188 million. This compares with US$217 million reported in 2014, which benefited from US$15 million of branding fees from *The Residences at Mandarin Oriental* in Bodrum.

Underlying profit of US$90 million was US$7 million lower than the prior year, and underlying earnings per share were US¢7.53 compared with US¢9.29 in 2014. Profit attributable to shareholders was US$89 million, after deducting US$1 million of acquisition transaction costs, compared to US$97 million in 2014.

Following an independent valuation of the Group's hotel properties, the net asset value per share was US$2.84 at 31st December 2015, compared with US$3.02 per share at the end of 2014.

The Directors recommend a final dividend of US¢3.00 per share. This, together with the interim dividend of US¢2.00 per share, will make a total annual dividend on the enlarged share capital of US¢5.00 per share, compared to US¢7.00 per share in 2014.

Group review

In Asia, despite an improved performance in Tokyo due to increased visitor arrivals, softer demand in Hong Kong and Singapore, together with disruption from a renovation in Kuala Lumpur, resulted in a lower contribution from the region.

The Group's performance in Europe was affected by challenging conditions in Paris following the terrorist attacks and by the adverse impact of a renovation in Munich, which were only partially offset by improved results in London. In The Americas, all of the Group's hotels reported higher revenue per available room, with the exception of New York which undertook a refurbishment of suites during the first half of the year.

Business developments

The Group continued to pursue its development strategy of seeking new hotel and residences management contracts, while maintaining the quality of its properties and making selective acquisitions that meet the Group's strategic criteria.

The Group opened Mandarin Oriental, Milan, in July followed by the partial opening of Mandarin Oriental, Marrakech in October. Management contracts were announced for new hotels under development in Beijing, Beirut and Boca Raton. In the first quarter of 2015, the Group ceased management of its hotel in San Francisco.

In May 2015, the Group acquired a 50% interest in the Hotel Ritz, Madrid for €65 million (US$73 million) in a joint venture with The Olayan Group, with Mandarin Oriental managing the hotel under a long-term management agreement. The hotel is to undergo a comprehensive renovation in 2017, currently estimated to cost a total of some €90 million, of which the Group's share will be €45 million (US$49 million).

In January 2016, the Group exercised its right to acquire the 148-room Mandarin Oriental, Boston for US$140 million, with the transaction expected to close by the end of April 2016. The Group has managed the hotel under a long-term contract since it opened in October 2008.

The Group is to undertake a major £85 million (US$126 million) refurbishment of Mandarin Oriental Hyde Park, London, which is scheduled to commence in the third quarter of 2016 and last 18 months.

Mandarin Oriental now operates 29 hotels, and has a further 17 under development. Together these represent more than 11,000 rooms in 24 countries, with 21 hotels in Asia, nine in The Americas and 16 in Europe, Middle East and North Africa. In addition, the Group operates or has under development 15 *Residences at Mandarin Oriental* connected to its properties.

Within the next 18 months, two hotels are scheduled to open in Doha and Beijing.

People

On behalf of the Directors, I would like to acknowledge the contribution of all employees throughout the Group for continuing to provide the exceptional service for which the brand is renowned.

Edouard Ettedgui is to step down as Group Chief Executive on 31st March 2016 and we would like to thank him for his tremendous contribution to the business since his appointment in 1998. Edouard will remain on the Board as a non-executive director. He will be succeeded by James Riley who is currently the Group Finance Director of Jardine Matheson Holdings Limited, and has served on the board of Mandarin Oriental's management company for the past ten years.

Giles White stepped down from the Board on 31st July 2015, and we would like to thank him for his significant contribution. On 1st August 2015, Jeremy Parr joined the Board.

Outlook

Trading conditions in a number of Mandarin Oriental's key markets are expected to remain challenging. Nevertheless, the Group is in a strong competitive position with an increasingly diversified geographical presence and earnings stream. Over the longer term, Mandarin Oriental will benefit from the strength of its brand and the limited new supply of luxury hotels in its key markets.

Ben Keswick
Chairman
3rd March 2016

Group Chief Executive's Review

Strategy

Mandarin Oriental Hotel Group is an award-winning international hotel investment and management group with deluxe and first class hotels, resorts and residences in sought-after destinations around the world. The Group operates, or has under development, 46 hotels representing 11,000 rooms in 24 countries, with 21 hotels in Asia, nine in The Americas and 16 in Europe, Middle East and North Africa. In addition, the Group operates, or has under development, 15 *Residences at Mandarin Oriental* connected to its properties.

The Group holds equity interests in a number of its hotels, and had adjusted net assets of approximately US$3.6 billion as at 31st December 2015. Capitalizing on the strength of its brand, Mandarin Oriental also operates hotels on behalf of third party owners that require no equity investment by the Group.

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

Progress achieved

The continued growth in recognition of the Mandarin Oriental brand internationally attracted an increasing number of high net worth travellers during 2015. The Group's overall performance benefited from the resilience that comes with a broad portfolio of hotels and residences across many destinations, with some markets experiencing a softening of demand while other markets performed better.

The hotels in Asia performed well against their competition, although the Hong Kong properties were impacted by reduced arrivals to the city from mainland China. The region's results were also affected by softer city-wide demand in Singapore and a renovation of the Group's property in Kuala Lumpur. In Europe, despite a strong performance in London, an extensive renovation in Munich and a drop in city-wide demand in Paris led to a lower contribution overall. In The Americas, most hotels experienced improved demand, although New York was negatively impacted by an extensive suite renovation in the first half of the year.

Mandarin Oriental's global brand recognition was further enhanced in 2015 with the well-received launches of luxury hotels in Milan, Italy and Marrakech, Morocco in July and October, respectively. During the year, three hotel management contracts were announced for new properties in Beijing, Beirut and Boca Raton. The Group's equity participation in its portfolio also increased when it acquired a 50% interest in the Hotel Ritz, Madrid in May. In January of 2016, the Group announced it would acquire Mandarin Oriental, Boston, with the transaction expected to close by the end of April.

The recognition of the Mandarin Oriental brand internationally, together with its strong balance sheet, ensures the Group remains well positioned to take advantage of opportunities for further growth.

Performance in 2015

Set out below is a review of the Group's performance in 2015, with reference to the following strategic objectives:

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

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

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

The Group's increasing global recognition is evidenced by the achievement of many significant awards from respected travel associations and publications worldwide. Highlights include a record 14 hotels listed in *Institutional Investor* 2015 'Top 100 World's Best Hotels', with seven properties voted as 'Best in the City'. The Group was also well represented with a record 18 hotels being recognized in the 2016 *Forbes Travel Guide*, with 14 properties around the world gaining the top 'Five Star Hotel' status, and four properties gaining the rare 'triple crown' for hotel, spa and restaurant. Mandarin Oriental, Hong Kong is the only hotel in the world to achieve five 'Five Star' Awards, for the hotel, spa, and three of its restaurants. Furthermore, four of the Group's hotels in the United States achieved the coveted 'Five Diamond Lodging Award' for 2016 from the *American Automobile Association*.

Condé Nast Traveler, US 'Readers' Choice Awards' 2015 featured a record 19 Mandarin Oriental hotels, with five hotels being listed as one of the top three in their respective cities. In the US, five hotels were awarded 'Best Hotels in the USA' in the *US News World Report*, 2015. In China, *Condé Nast Traveler, China* 'Readers' Choice Awards' listed Mandarin Oriental as 'Best Hotel Brand'.

The Group's reputation for excellent and innovative dining experiences was again acknowledged in the most recent 2016 *Michelin* guides with 11 restaurants being honoured and a total of 16 stars being granted. This is more than any other hotel group in the world. Once again, both *Amber* at The Landmark Mandarin Oriental, Hong Kong and *Dinner* at Mandarin Oriental Hyde Park, London were voted as two of the 'Top 50 Restaurants' in the world in the prized *San Pellegrino* listings.

The Group's spa operations were acknowledged as being among the best, with a record 12 hotels gaining the prestigious *Forbes* 'Five Star Spa' award. Again, this is more than any other hotel group in the world. In addition, two of the Group's hotels in China were identified as the best in their respective destinations by *SpaChina* in the 2015 awards.

The Group's commitment to working with some of the best architects and designers was also recognized in 2015. In particular, Mandarin Oriental, Bodrum was honoured twice at the *European Hotel Design Awards* 2015. Firstly, the resort was recognized as the best 'Newbuild' in the 'Architecture Awards' and was also nominated for 'Best Interior Design for Spa and Wellness'.

The Group's award-winning international advertising campaign now features 30 celebrity 'fans', who regularly stay at Mandarin Oriental hotels. During the last 12 months, the Group welcomed celebrated French actress, Isabelle Huppert, and Chinese actor, singer and model, Chen Kun, to the campaign. In May 2016, the tennis champion, Maria Sharapova, will become its latest fan. The Group's relationship with its celebrity fans goes far beyond their appearance in the advertisements alone, as they frequently stay at the Group's hotels and attend important gala events.

The Group also continues to invest in digital marketing across all online devices and in multiple languages. Online revenues now represent 13% of total room revenue generated from individual travel bookings. Furthermore, the Group actively encourages a global conversation with consumers through its social media strategy, and now has a larger and more connected global digital network than ever before, reaching consumers in all corners of the globe, including a growing following on China's most important social media platforms.

Further brand recognition will be accomplished as more Mandarin Oriental hotels under development open in new and exciting travel destinations.

2) Strengthening our competitive position

Every hotel is focused on maintaining or enhancing its leadership position against primary competitors in its individual market. This is critical to the Group's success. Strong brand recognition, combined with the strength of the hotel management teams, plus the added support provided by an established corporate structure, allows each property to compete effectively and to achieve premium rates. In 2015, the Group's position was further supported by limited new supply in many of the key markets in which it operates.

Demographic trends continue to support the Group's strategy of creating quality services and facilities which attract individuals who will pay a premium for genuine luxury experiences, allowing the hotels to further increase average rates. Demand for understated luxury experiences which are meaningful and of value remains strong amongst the higher spending leisure customers who make up close to 50% of the Group's room nights. These high net worth individuals continue to originate from the Group's traditional markets, but increasingly, the Group is attracting additional customers from emerging markets. This is particularly true of China, which remains the second largest source of business after the United States, accounting for 17% of total visitor arrivals. The contribution from China will continue to grow, as the total number of hotels that the Group now operates or has under development in mainland China has increased to eight, and the outbound market continues to develop.

Across the Group's portfolio, overall Revenue per Available Room ('RevPAR') was down 4% in local currency terms, and 9% in US dollar terms on a like-for-like basis[1], although 2015 results also included the negative impact from hotels undergoing renovations.

[1] Like-for-like comparison excludes hotels without a full year of operation in either 2014 or 2015.

The highlights of each region are as follows:

Asia

The Group's hotels in the region competed effectively in 2015, despite a softening in demand in some markets, particularly in Hong Kong, which put pressure on occupancy and rates. Overall, RevPAR for Asia in 2015 on a like-for-like basis, which was also negatively impacted by a renovation in Kuala Lumpur, was down 7% in local currency terms, and 12% in US dollar terms.

Mandarin Oriental, Hong Kong was affected by reduced demand from mainland China and Europe, particularly in the leisure segment. As a result, the hotel's RevPAR was down 8% over the previous year. Nonetheless, continued strong local demand led to an increase in the hotel's food and beverage revenues of 3% over 2014, and the property successfully retained four Michelin stars.

The Excelsior, the Group's other wholly-owned hotel in Hong Kong, was impacted by the city-wide decline in leisure demand, particularly from mainland China, combined with aggressive rate discounting in their competitive set. As a consequence, RevPAR was down 16%. Despite this decrease, the hotel's food and beverage performance was robust, improving by 5% over 2014.

In Tokyo, the hotel's performance benefited from a further increase in visitor arrivals, and a particularly strong performance in the first quarter when the hotel became the location of a pop-up restaurant for *Noma*, attracting significant demand. Average rates increased by 14% in local currency terms, leading to an overall RevPAR increase of 20% in local currency and 5% in US dollar terms, with the hotel ending the year as the market leader in the city. Moreover, 2015 was an excellent year for Mandarin Oriental, Tokyo in terms of recognition. The hotel was ranked 'The World's Number 1' in *Institutional Investor*'s 2015 '100 World's Best Hotels' listing. In addition, the property was voted the 'Best Leisure Dining Destination' in the 2015 *Robb Report* and three of its restaurants were awarded Michelin stars in the 2016 guide, the only hotel in the city to achieve this accolade.

Mandarin Oriental, Singapore was impacted by weaker city-wide corporate and leisure demand, resulting in a 5% decrease in RevPAR in local currency terms compared to 2014. The hotel continues to achieve strong recognition and was awarded the *Forbes* 'Five Star' status in the annual 2016 *Forbes Travel Guide* for both the hotel and its spa. It was also voted one of the top city hotels in Asia in *Travel + Leisure*'s 'World's Best Awards' 2015, as well as Singapore's 'Leading Lifestyle Hotel' at the *World Travel Awards* 2015.

In Bangkok, despite a nine-month renovation of the historic Authors' and Garden Wings, including *Le Normandie* restaurant, and a terrorist attack in the city in August, the hotel performed well, achieving an overall RevPAR increase of 7% in local currency terms. It was voted 'The World's Number 2' in *Condé Nast Traveler*'s*, US* 'Readers' Choice Awards' 2015, and is one of only two hotels in Thailand to be listed in the *Robb Report*'s 'Top 100 Hotels', 2015. Furthermore, the hotel also achieved *Forbes* 'Five Star' status in the 2016 *Forbes Travel Guide* in Thailand for both the hotel and its spa.

Mandarin Oriental, Kuala Lumpur was negatively affected by the ongoing renovation programme combined with softer city-wide demand. As a result, the hotel's RevPAR was down 20% in local currency terms. The hotel was voted 'Best hotel in Kuala Lumpur' in the 2015 *DestinAsian* 'Readers' Choice Awards'.

Group Chief Executive's Review *Continued*

Mandarin Oriental, Jakarta maintained its market share and achieved an overall increase in RevPAR of 7% in local currency terms, despite reduced demand in the city. The weakening Indonesian rupiah, however, led to a 6% decline in RevPAR in US dollar terms. The hotel was voted 'Best Business Hotel in Jakarta' in *Robb Report, Singapore* 2015 and was again honoured to receive the *ASEAN* 'Green Hotel Award' 2015 for its corporate responsibility initiatives.

In China, the Group's recently opened hotels in Guangzhou and Shanghai moved further towards stabilization and achieved double digit increases in RevPAR. Both gained increasing recognition for their personalized service and high quality facilities, and were listed in *Condé Nast Traveler China*'s 'Readers' Choice Awards'. Finally, Mandarin Oriental, Taipei, which opened in 2014, was listed in *Condé Nast Traveler*'s, *US* 2015 'Hot List' as an 'Urbanist Standout' and was awarded 'Taiwan's Best Hotel Spa' in the *World Spa Awards*, 2015.

Performances at the Group's remaining Asian hotels, in Macau and Sanya, were impacted by reduced demand.

Europe

In Europe, most of the Group's hotels successfully maintained their positions at the top end of their markets, benefiting from resilient demand in the leisure sector. However, weaker city-wide demand in Paris, and a significant renovation in Munich, adversely impacted results. Across the region, RevPAR on a like-for-like basis, which includes disruption caused by the renovation in Munich, was in line with the prior year in local currency terms. When translated into US dollars, however, overall RevPAR on a like-for-like basis decreased by 12%.

Mandarin Oriental Hyde Park, London performed well as a result of strong city-wide demand, which led to an increase in RevPAR of 9% in local currency terms. The hotel was voted 'Best Business Hotel' in the UK in *Condé Nast Traveller*'s, *UK* 'Readers' Choice Awards' 2015, and one of the 'Top 10 Hotels in London' in *Condé Nast Traveler*'s, *US* 'Readers' Choice Awards' 2015. Food and beverage performed well, with the hotel's award-winning restaurant, *Dinner*, being nominated once again as one of the UK's 'Top 100 Restaurants' in the 2015 *National Restaurant Awards*.

As announced in March 2015, the Group will embark on an £85 million (US$126 million) renovation of the London hotel, scheduled to commence in the third quarter of 2016. It will take approximately 18 months to complete, and will comprise a full renovation of the existing guestrooms, restaurants, bars, meeting facilities and lobby. In addition, two new penthouse suites overlooking Hyde Park will be created as well as an expansion of the spa facilities and improvements to core buildings services. The hotel will remain open during the renovation period with reduced facilities and room inventory.

Mandarin Oriental, Munich's performance was disrupted by an extensive renovation in 2015, which led to a decrease in RevPAR in local currency terms of 21%, and a decrease in EBITDA of US$6 million when compared to the prior year. Nevertheless, the hotel remained the undisputed market leader and the new facilities, which include a lobby lounge, bar and *Matsuhisa* restaurant by renowned chef Nobu, are expected to extend further its appeal as the best hotel in the city.

In Geneva, a strong performance in the leisure segment helped to offset reduced demand from the corporate and group segment, with overall RevPAR in line with the prior year in local currency terms.

Mandarin Oriental, Paris was impacted by weaker city-wide demand due to travel security concerns following the terrorist incidents during the year. This led to a decline in RevPAR of 15% in local currency terms. The hotel's food and beverage operations, led by renowned chef Thierry Marx, have attained many accolades, and the signature restaurant, *Sur Mesure*, was once again awarded two Michelin stars in the 2016 listing. The hotel is one of only eight hotels in the city to be honoured with an official 'Palace Distinction', and was also listed in *Condé Nast Traveler*'s, *US* 'Readers' Choice Awards' 2015.

The Group's 50% joint venture acquisition of the iconic Hotel Ritz in Madrid in May has provided an exciting opportunity to extend Mandarin Oriental's portfolio to another key European capital city, and will complement the Group's top-performing Barcelona hotel. Since the acquisition, the hotel has performed in line with expectations, achieving occupancy of more than 70% at an average rate approaching €300. The hotel is scheduled to undergo a comprehensive renovation in 2017.

Elsewhere in the region, Mandarin Oriental, Barcelona remained the undisputed market leader, while the hotel in Prague successfully maintained its competitive position. Both properties received further global recognition for excellence, and were featured in *Condé Nast Traveler*'s, *US* 'Readers' Choice Awards' 2015 as two of the top hotels in their respective cities, with Mandarin Oriental, Prague being awarded 'Top Hotel in Central Europe'.

Mandarin Oriental, Bodrum continued to stabilize and increased its reputation as one of the best resorts in the region with an inclusion in the *Robb Report*'s 'Best of the Best' 2015, as well as being nominated by the *Daily Telegraph, UK* as one of the 'Top 10 Beach Hotels in Turkey'.

The Group's international recognition was further enhanced by the opening of two new hotels in Europe and North Africa in 2015. Just five months after opening, Mandarin Oriental, Milan was awarded the *Forbes* 'Five Star' award and its fine-dining restaurant, *Seta*, achieved one Michelin star. Mandarin Oriental, Marrakech, which partially opened in October, was also singled out by *Architectural Digest* as one of the year's 'Design Discoveries', and was listed in *Fodor*'s *Travel Guide* 2015 as one of the world's '25 Best New Hotels'.

The Americas

The trading environment in The Americas was generally positive in 2015, however, due to the displacement of business associated with a suite refurbishment in New York, overall RevPAR across the region on a like-for-like basis was flat.

Mandarin Oriental, Washington D.C. benefited from stronger leisure demand which led to a 3% increase in RevPAR. The hotel appeared in numerous reader surveys in prestigious publications and was voted the 'Best Hotel in Washington D.C.' in *Institutional Investor*'s 2015 'World's Best Hotels'.

Mandarin Oriental, New York continued to perform at the top end of the luxury hotel market, however, occupancy was impacted by the suite renovation in the first half of the year, which led to an overall decrease in RevPAR of 5%, despite maintaining a high average rate. The hotel's positioning as one of the world's most luxurious properties was further reinforced through a variety of awards including being one of the 'Top 10 Hotels' in the city in *Condé Nast Traveler*'s, *US* 'Readers' Choice Awards' 2015, as well as one of the 'Best Hotels in The Americas' in *Institutional Investor*'s 2015 'Top 100 World's Best Hotels'. Importantly, the hotel retained both the prestigious *Forbes* 'Five Star' rating and the *American Automobile Association*'s 'Five Diamond Lodging Award'.

At Mandarin Oriental, Miami, favourable market conditions led to an uplift in RevPAR of 3%, and the hotel's newest restaurant and bar, *La Mar*, continues to gain positive press reviews for its outstanding cuisine.

Group Chief Executive's Review *Continued*

Mandarin Oriental, Boston maintained its position as market leader, with RevPAR in line with the previous year. The hotel was ranked 'Best Hotel in Boston' in *Institutional Investor*'s 2015 'Top 100 World's Best Hotels', and *Bar Boulud* continues to be well received by the local community and international guests.

Elsewhere, the Group's hotels in Atlanta and Las Vegas increased their RevPAR over the prior year.

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

Mandarin Oriental has achieved strong geographic diversification with a well-balanced portfolio across the globe and is on track to meet its mid-term goal of operating 10,000 rooms in key global locations within the next few years. Today, the Group operates over 8,000 rooms in 29 hotels around the world, and, including the hotels under development, the total portfolio now extends to more than 11,000 rooms in 46 hotels located in 24 countries.

Three new hotel management contracts and two new hotel acquisitions have been announced, including one in 2016:

- In May, the Group acquired a 50% interest in the Hotel Ritz, Madrid for €65 million (US$73 million) in a joint venture with The Olayan Group, with Mandarin Oriental managing the hotel under a long-term management agreement. The hotel is to undergo a comprehensive renovation in 2017, currently estimated to cost some €90 million, of which the Group's share will be €45 million (US$49 million).
- In June, the Group announced a management contract for a 74-room hotel in the heart of Beijing, China, scheduled to open in 2017. The hotel, which will be the Group's second in the city, will occupy the top two floors of a luxury mixed-use project in Wangfujing, which is owned by the Group's sister company, Hongkong Land.
- In September, the Group announced that it will manage a new 280-room hotel and 103 branded *Residences* currently under development in Beirut and scheduled to open in 2018. The project provides the Group with a unique opportunity to further extend its reach in the important Middle East market.
- In November, the Group announced that it will manage a 158-room hotel and 100 branded *Residences* currently under development in Boca Raton, south Florida. The project is scheduled to open in 2017.
- In January 2016, the Group announced that it would acquire the freehold interest in the property housing Mandarin Oriental, Boston for US$140 million, with the transaction expected to close by the end of April. The Group has managed the 148-room hotel on Boylston Street since its opening in 2008, and also manages 85 privately owned *Residences at Mandarin Oriental* connected to the hotel.

During 2015, the Group ceased to manage its San Francisco hotel and the project in Grand Cayman will no longer proceed.

In total, Mandarin Oriental has 17 new hotels currently under development, all of which are long-term management contracts requiring no capital investment by the Group. Two of these properties will open within the next 18 months. Mandarin Oriental, Doha, the Group's first hotel in the Middle East, followed by Mandarin Oriental, Beijing, located in the iconic CCTV complex.

In addition to the Group's portfolio of hotels, a total of 15 *Residences at Mandarin Oriental* projects are open or under development. Over the past five years, the associated branding of these projects has, on average, resulted in fees of approximately US$10 million per annum. These fees, together with ongoing revenues from management fees and the use of hotel facilities by the home owners, should provide a growing return for the Group in future years.

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

4) Achieving a strong financial performance

The Group's overall financial performance in 2015 was impacted by softer demand in Hong Kong and Paris, together with disruption from renovations at a number of properties. Nonetheless, overall underlying profitability of the Group at US$90 million was resilient when compared to the record US$97 million result achieved in 2014. Strong competitive performances were maintained across the majority of the portfolio and the Group's development objectives remained active throughout the year.

The Group's balance sheet was further strengthened during the year following a successful US$316 million rights issue, the proceeds of which were used to fund a reduction in the Group's debt and to finance its share of the investment in Madrid.

At 31st December 2015, gearing was 4% of adjusted shareholders' funds, compared to 13% at the end of 2014. Including the impact of the acquisition of Mandarin Oriental, Boston on a pro forma basis (i.e. assuming that the hotel had been acquired on 31st December 2015), gearing would have been 8%.

The Board has recommended a final dividend of US¢3.00 per share, which, when combined with the interim dividend of US¢2.00 per share, makes a full year dividend of US¢5.00 per share on the enlarged shareholder base.

The future

While challenging conditions are expected to continue in some markets, demand for the Mandarin Oriental brand remains strong. Despite significant renovations which will begin in London in 2016, the Group's results should benefit from the further stabilization of its recently opened and acquired hotels. Looking forward, the Group will be supported by the continued growth of its global portfolio, by the increasing number of high net worth travellers from both traditional and emerging markets, and by the limited supply of competitive luxury hotels in our key mature markets.

The geographical broadening of the Group's hotel portfolio, and the increasing opportunities for branded *Residences* projects internationally, underlie the strength of the brand and the growing recognition of Mandarin Oriental as one of the best luxury hotel groups in the world.

Edouard Ettedgui
Group Chief Executive
3rd March 2016

Operating Summary

There are 29 hotels in operation, but the operating summary includes only hotels in which the Group has an equity interest and were operating in 2015.

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2015	2014	% Change
Available rooms	**501**	501	0
Average occupancy (%)	**66**	68	(3)
Average room rate (US$)	**518**	545	(5)
RevPAR (US$)	**341**	370	(8)

The Excelsior, Hong Kong 100% ownership

	2015	2014	% Change
Available rooms	**883**	884	(0)
Average occupancy (%)	**78**	85	(8)
Average room rate (US$)	**194**	212	(8)
RevPAR (US$)	**152**	180	(16)

Mandarin Oriental, Tokyo 100% leasehold

	2015	2014	% Change
Available rooms	**178**	178	0
Average occupancy (%)	**80**	76	5
Average room rate (US$)	**520**	520	0
RevPAR (US$)	**417**	397	5

Mandarin Oriental, Jakarta 96.9% ownership

	2015	2014	% Change
Available rooms	**272**	272	0
Average occupancy (%)	**55**	59	(7)
Average room rate (US$)	**186**	184	1
RevPAR (US$)	**103**	109	(6)

Mandarin Oriental, Singapore 50% ownership

	2015	2014	% Change
Available rooms	**527**	527	0
Average occupancy (%)	**80**	82	(2)
Average room rate (US$)	**274**	307	(11)
RevPAR (US$)	**220**	251	(12)

Mandarin Oriental, Bangkok 44.9% ownership

	2015	2014	% Change
Available rooms	**368**	374	(2)
Average occupancy (%)	**47**	41	15
Average room rate (US$)	**340**	386	(12)
RevPAR (US$)	**160**	159	1

Mandarin Oriental, Kuala Lumpur 25% ownership

	2015	2014	% Change
Available rooms	**632**	632	0
Average occupancy (%)	**48**	63	(24)
Average room rate (US$)	**173**	198	(13)
RevPAR (US$)	**83**	124	(33)

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2015	2014	% Change
Available rooms	**193**	194	(0)
Average occupancy (%)	**80**	78	3
Average room rate (US$)	**861**	872	(1)
RevPAR (US$)	**690**	682	1

Mandarin Oriental, Munich 100% ownership

	2015	2014	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**62**	76	(18)
Average room rate (US$)	**804**	983	(18)
RevPAR (US$)	**495**	751	(34)

Mandarin Oriental, Paris 100% ownership

	2015	2014	% Change
Available rooms	**138**	138	0
Average occupancy (%)	**57**	68	(16)
Average room rate (US$)	**1,122**	1,303	(14)
RevPAR (US$)	**635**	890	(29)

Mandarin Oriental, Geneva 92.6% ownership

	2015	2014	% Change
Available rooms	**189**	196	(4)
Average occupancy (%)	**58**	58	0
Average room rate (US$)	**669**	701	(5)
RevPAR (US$)	**388**	408	(5)

Hotel Ritz, Madrid 50% ownership (following a 50:50 joint venture acquisition on 22nd May 2015)

	2015	2014	% Change
Available rooms	**167**	N/A	N/A
Average occupancy (%)	**72**	N/A	N/A
Average room rate (US$)	**325**	N/A	N/A
RevPAR (US$)	**234**	N/A	N/A

THE AMERICAS

Mandarin Oriental, Washington D.C. 80% ownership

	2015	2014	% Change
Available rooms	**397**	397	0
Average occupancy (%)	**60**	57	5
Average room rate (US$)	**316**	324	(2)
RevPAR (US$)	**191**	185	3

Mandarin Oriental, New York 25% ownership

	2015	2014	% Change
Available rooms	**244**	244	0
Average occupancy (%)	**71**	74	(4)
Average room rate (US$)	**971**	986	(2)
RevPAR (US$)	**694**	732	(5)

Mandarin Oriental, Miami 25% ownership

	2015	2014	% Change
Available rooms	**326**	326	0
Average occupancy (%)	**72**	70	3
Average room rate (US$)	**376**	371	1
RevPAR (US$)	**271**	261	3

Development Portfolio

Mandarin Oriental Hotel Group currently has 17 hotels and 8 *Residences at Mandarin Oriental* under development.

Asia

Mandarin Oriental, Bali
A 100-room resort located on Bali's southern Bukit peninsula. Perched on a cliffside plateau, the resort will offer dramatic and spectacular views with direct access to a secluded and protected white-sand beach.

The *Residences at Mandarin Oriental*, Bangkok
146 luxury residences located across the Chao Phraya River from Mandarin Oriental, Bangkok, part of an iconic mixed-use riverfront development.

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

Mandarin Oriental Wangfujing, Beijing
A 74-room hotel located in a premier mixed-use development WF CENTRAL, with impressive views overlooking the Forbidden City.

Mandarin Oriental, Chengdu
A 327-room hotel with 18 serviced apartments located on the top 33 floors of an iconic tower, on a prime riverfront site in Jinjiang District, across from the ancient Wang-jiang Park.

Mandarin Oriental, Chongqing
A 207-room hotel with 18 serviced apartments situated in the heart of the central business district with panoramic views of the city skyline.

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

Mandarin Oriental, Manila
A 275-room hotel located within the Ayala Triangle in Makati central business district.

Mandarin Oriental, Shenzhen
A 190-room hotel situated on the top of an impressive 400-metre tower with outstanding views of the city skyline and the surrounding city parks.

Europe, Middle East and North Africa

Mandarin Oriental, Abu Dhabi
A 153-room resort and 66 *Residences at Mandarin Oriental* located on Saadiyat Island, set to become a leading leisure and cultural destination.

Mandarin Oriental, Beirut
A 255-room luxury hotel with 25 serviced apartments and 103 *Residences at Mandarin Oriental* located in Beirut's Central District at the heart of Lebanon's capital.

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

Mandarin Oriental, Dubai
A 265-room urban resort located on Jumeirah Beach Road, one of the most sought-after waterfront locations in the city.

Mandarin Oriental, Bosphorus, Istanbul
A 130-room hotel prominently located on the banks of the Bosphorus, with panoramic vistas of the famed strait, surrounding hills and the city's historical sites.

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

The *Residences at Mandarin Oriental*, Munich
19 luxury *Residences at Mandarin Oriental* located in a mixed-use complex being developed opposite Mandarin Oriental, Munich, which will include 51 additional hotel rooms.

The Americas

Mandarin Oriental, Boca Raton
A 158-room hotel and 100 *Residences at Mandarin Oriental* as part of a mixed-use complex, surrounded by Boca Raton's most affluent, residential neighbourhoods and a short walk from miles of pristine beaches.

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

Mandarin Oriental Dellis Cay, Turks & Caicos
A secluded 150-room hideaway resort including 86 *Residences at Mandarin Oriental*, located on an unspoiled 35-acre beachfront site.

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

Room numbers reflect the latest estimate from each project's owner/developer, and may therefore differ from the original announcements and the final number once the project is completed.

International Recognition

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

Mandarin Oriental Hotel Group

At "only" 50-plus years, Mandarin Oriental seems older than it actually is, a brand so well executed in the luxury space that it feels like it has always been there.

Forbes

Elegant and distinctive, each Mandarin Oriental property has its own unique personality while remaining true to the brand's rich Asian heritage. With legendary service, beautiful artistry, and above all else, a deep passion for delighting guests, it's no wonder it has so many fans the world over.

Centurion

Mandarin Oriental, Bangkok

With its stellar service and facilities, along with its unrivalled soul, Mandarin Oriental, Bangkok may have been built way back in 1876 but it has nothing to envy other hotels in the city. And for those who find it just too hard to leave, good news is on the horizon: the hotel will be inaugurating its private residences across the river in 2018.

Forbes

A legend in Bangkok, the riverside Mandarin Oriental is where all the VIPs stay, from George Bush to the Beckhams. Synonymous with luxury, the hotel is all about plush rooms, tiptop service and Asian-inspired elegance. An oasis away from the city's chaos, it overlooks the Chao Phraya and its never-ending parade of life.

Elle

Mandarin Oriental, Hong Kong

Mandarin Oriental, Hong Kong has been knocking all competition out of the park since 1963 and shows no signs of slowing down.

Tatler

The service at Mandarin Oriental, Hong Kong is truly wonderful. The team there is slick and professional with a touch of class.

The Wall Street Journal

The best hotels aren't always the new ones, but great old favourites that offer beauty, luxury and unparalleled service. Mandarin Oriental, Hong Kong, the grande dame of Asia has turned 50 most elegantly. She still boasts discreet service and harbour views, but now also abounds with contemporary touches.

Harper's Bazaar

The Landmark Mandarin Oriental, Hong Kong

The Landmark Mandarin Oriental is special: small by Hong Kong standards, at just 14 floors, and very sexy, it has suites that exhibit extreme ingenuity in their use of space (dining tables that turn into desks in an instant), and staff that set a new bar for personalised service.

Financial Times How to Spend It

A striking counterpoint to Hong Kong's historic sister hotel, this 113-room property blends high-tech amenities with modern design. The French restaurant Amber earned a pair of Michelin stars in 2012; cocktails are unrivalled at MO Bar.

Robb Report

Mandarin Oriental, Macau

Mandarin Oriental, Macau has elegance, superlative service, a lap pool and a luxury spa. It's a refreshing contrast to the glitzy casino hotels.

Lonely Planet Traveller

Mandarin Oriental Pudong, Shanghai

In Shanghai, the fabulous Mandarin Oriental Pudong, Shanghai was world-class. Beautiful rooms, incredible staff, and the option of a full English breakfast. I need nothing else.

Daily Mail

Mandarin Oriental, Singapore

There is something in the service and ambience of Mandarin Oriental, Singapore that makes it feel personal. I felt more like an honoured guest than a customer.

BA High Life

Mandarin Oriental, Taipei

Grand and glitzy, the 256-room Mandarin Oriental, Taipei is now the most luxurious hotel in the city since it opened last year. It's all about decadent accents, a stunning art collection and a big lineup of dining options, ranging from Italian to Cantonese to French.

Condé Nast Traveler, US

International Recognition *Continued*

Mandarin Oriental, Tokyo

A five-star luxury hotel is meant to be an experience, even if it's for business trips, and Mandarin Oriental, Tokyo, ranks among the best in the world, and one of the chain's standout properties.

Variety

Mandarin Oriental, Barcelona

With an ideal location, unbeatable selection of fine dining and amazingly attentive staff, Mandarin Oriental, Barcelona is the perfect hotel, in the perfect city, for the most perfectly sophisticated of vacations.

Pursuitist

Mandarin Oriental, Bodrum

This place delivers privacy. The rooms are sophisticated, elegant, the suites with teak panelling and cosy rugs, all comforts in place, a pretty view out across the vast blue Aegean. It would be easy to spend a week without ever leaving the tender embrace of the sensational spa and wellness centre.

Condé Nast Traveller, UK

Mandarin Oriental Hyde Park, London

Impressive from the moment you step inside. The staff are amazing. I run in Hyde Park and can cross the street to Harvey Nichols. Maybe in my next life I'll live here.

Condé Nast Traveller, UK

Mandarin Oriental, Marrakech

Mandarin Oriental's first African venture combines subtle refinement with Berber and Moorish design influences, resulting in an exotic elegance that vibrates through its 50 landscaped acres.

Departures

Mandarin Oriental, Milan

Purring with glamour, with a townhouse setting, sumptuous interiors and modern-arty light fixtures. Like all MOs, these converted 19th-century townhouses have a business-like streak, but the leisure factor lies in the chic, tree-lined terrace for lunch and a subterranean spa for lazing.

The Sunday Times Travel

Mandarin Oriental, Munich

Nobu Matsuhisa has opened the first Matsuhisa restaurant in Germany in the redesigned super luxury Mandarin Oriental, Munich.

Bunte

Mandarin Oriental, Paris

The rooms are spacious, stylish and comfortable, the service is second to none and the overall effect is of cool, calm, chic efficiency.

Esquire

Mandarin Oriental, Boston

With its contemporary Feng-Shui-influenced décor, the 148-room Mandarin Oriental, Boston is Beantown's most fashionable address.

Robb Report

Mandarin Oriental, Las Vegas

The ultra-luxurious Mandarin Oriental, Las Vegas is a hotbed of luxury in Nevada's Mojave Desert.

USA Today

Mandarin Oriental, Miami

A perfect city resort. During our stay we were repeatedly impressed with the staff's attention to detail – everything was always so tastefully presented.

About.com

Mandarin Oriental, New York

Mandarin Oriental, New York has mastered the art of standing out from the crowd. Occupying the 230 metre high Time Warner building since its launch over a decade ago, the hotel continues to push the boundaries of service and live up to its five-star expectations. The launch of the property's 42 one and two bedroom suites has introduced a contemporary aspect with an exceptional attention to detail that has become a definitive feature of the luxury brand.

Wallpaper Magazine

Financial Review

Accounting policies

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

The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted several amendments to IFRS effective on 1st January 2015, as more fully detailed in the 'Basis of preparation' note in the financial statements. The adoption of these amendments did not have a material impact on the Group's financial statements.

Results

Overall

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

	2015 US$m	2014 US$m
Subsidiaries	**160.7**	185.8
Associates and joint ventures	**27.7**	31.5
Underlying EBITDA	**188.4**	217.3

Subsidiaries

	2015 US$m	2014 US$m
Underlying EBITDA from subsidiaries	**160.7**	185.8
Non-trading items: Less: acquisition costs related to Hotel Ritz, Madrid	**(0.5)**	–
EBITDA from subsidiaries	**160.2**	185.8
Less: depreciation and amortization	**(52.9)**	(65.0)
Operating profit	**107.3**	120.8

In 2015, underlying EBITDA from subsidiaries decreased by US$25.1 million or 14%, to US$160.7 million. Excluding the US$14.9 million of branding fees received in 2014 in relation to the sale of *Residences at Mandarin Oriental* in Bodrum, 2015 underlying EBITDA decreased by US$10.2 million, or 6%. After deducting US$0.5 million of non-trading expenses related to the acquisition of the Group's 50% interest in the Hotel Ritz, Madrid, EBITDA from subsidiaries in 2015 was US$160.2 million.

Softer city-wide demand in Hong Kong, particularly from the mainland China leisure segment, led to lower average rates and occupancy at Mandarin Oriental, Hong Kong and The Excelsior, which was also impacted by aggressive discounting in its segment. Robust performances in Food and Beverage, however, helped to mitigate the impact at both hotels, with Mandarin Oriental, Hong Kong maintaining EBITDA in line with the prior year. In Tokyo, a further increase in the number of visitor arrivals led to a strong performance, with RevPAR up 20% in local currency terms. A weaker Japanese yen, however, meant that performance gains were not fully reflected in the US dollar results. Similarly, while the Jakarta hotel also reported an improved performance in local currency terms, a weaker Indonesian rupiah resulted in its EBITDA contribution being lower when translated into US dollars.

In Europe, while stronger city-wide demand in London led to a higher EBITDA from the hotel, this was more than offset by a lower contribution in Paris due to the adverse impact of terrorist attacks in city. In Munich, disruption due to a significant renovation of the hotel during the year resulted in a decline in EBITDA of US$6 million. In Geneva, an improved performance in the leisure segment allowed the hotel to maintain EBITDA in line with the prior year, despite softer city-wide demand.

Financial Review *Continued*

***Subsidiaries** continued*

In The Americas, positive trading conditions resulted in a higher contribution from Washington D.C.

In 2015, the contribution from management activities decreased by US$11.0 million, or 29%, to US$26.3 million, from US$37.3 million in 2014, which included US$14.9 million of branding fees received from sale of *Residences at Mandarin Oriental* in Bodrum.

Associates and joint ventures

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

	2015 US$m	2014 US$m
Underlying EBITDA from associates and joint ventures	**27.7**	31.5
Non-trading items: Less: acquisition costs related to Hotel Ritz, Madrid	**(0.5)**	–
EBITDA from associates and joint ventures	**27.2**	31.5
Less: depreciation and amortization	**(10.8)**	(12.1)
Operating profit	**16.4**	19.4
Less: net financing charges	**(3.5)**	(3.5)
tax	**(2.4)**	(3.6)
Share of results of associates and joint ventures	**10.5**	12.3

In total, the Group's share of underlying EBITDA from associates and joint ventures decreased by US$3.8 million or 12% to US$27.7 million in 2015. The reduction was due primarily to the disruption from renovations at the Group's 25% owned hotels in New York and Kuala Lumpur, which was also impacted by softer city-wide demand.

In Bangkok, the hotel performed well and maintained EBITDA broadly in line with 2014, despite a terrorist attack in the city in August and a nine-month renovation of the historic Authors' and Garden Wings. In Singapore, softer city-wide demand led to a slightly lower contribution from the Group's 50% owned hotel.

Improved conditions in The Americas led to a higher contribution from the Group's 25% owned hotel in Miami. The Group's results also benefited from a new hotel contribution following the 50% joint venture acquisition of the Hotel Ritz in Madrid in May 2015, with the hotel performing in line with expectations.

Depreciation and amortization of associates and joint ventures were at a similar level as 2014, as were the Group's share of net financing charges from associates and joint ventures.

Non-trading items

In 2015, there was a total of US$1.0 million of non-trading items relating to transaction costs associated with the acquisition of the Group's 50% interest in the Hotel Ritz, Madrid. These are disclosed separately as US$0.5 million of expenses attributable to the Group itself, and the Group's US$0.5 million share of costs incurred by the joint venture.

Net financing charges

Net financing charges for the Group's subsidiaries decreased to US$11.8 million in 2015, from US$17.3 million in 2014. The decrease is mainly due to a US$262 million repayment of bank debt following the Group's US$316 million rights issue in April 2015.

Interest cover

EBITDA is used as an indicator of the Group's ability to service debt and finance its future capital expenditure. Interest cover in 2015 calculated as underlying EBITDA (including the Group's share of underlying EBITDA from associates and joint ventures) over net financing charges (including the Group's share of net financing charges from associates and joint ventures), was 12.3 times compared with 10.4 times in 2014.

Tax

The tax charge for 2015 of US$16.6 million was slightly lower than the US$19.0 million charge in 2014, reflecting lower profitability. The underlying effective tax rate for the year was 20%, broadly in line with the prior year.

Cash flow

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

	2015 US$m	2014 US$m
Operating activities	**140**	160
Investing activities: • Capital expenditure on existing properties	**(50)**	(29)
• Acquisition of 50% interest in Hotel Ritz, Madrid	**(73)**	–
• Payment for Munich expansion	**–**	(17)
• Repayment of loans to associates	**1**	4
• Purchase of intangible assets	**(2)**	(3)
• Other	**–**	(1)
Financing activities: • Issue of shares	**314**	–
• Net repayment of borrowings	**(262)**	(29)
• Dividends paid	**(75)**	(70)
Net (decrease)/increase in cash	**(7)**	15
Cash and cash equivalents at 1st January	**324**	316
Effect of exchange rate changes	**(9)**	(7)
Cash and cash equivalents at 31st December	**308**	324

The Group's cash flows from operating activities were US$140 million in 2015, a decrease of US$20 million from the US$160 million inflow in 2014.

Under investing activities, capital expenditure on existing properties was US$50 million in 2015, compared to US$29 million in 2014. The US$21 million increase is due primarily to the renovation of the lobby and restaurants in Munich, which was completed towards the end of the year, and the commencement of a rooms refurbishment in Washington D.C., with capital expenditure at the other subsidiary hotels broadly in line with 2014.

In May 2015, the Group acquired a 50% interest in the Hotel Ritz, Madrid for €65 million (US$73 million) in a joint venture with The Olayan Group, with Mandarin Oriental managing the hotel under a long-term management agreement. The hotel is to undergo a comprehensive renovation in 2017, which is currently estimated to cost a total of some €90 million, of which the Group's share will be €45 million (US$49 million).

In April 2015, the Group completed a 1 for 4 rights issue, raising gross proceeds of US$316 million, which were used to fund the Group's 50% share of the acquisition of the Hotel Ritz, Madrid and to repay US$262 million of existing bank debt. In particular, the Group repaid fully its €150 million facility associated with the acquisition of the Paris property, and repaid £40 million of its £80 million term loan in London, thus providing the Group with the capacity to finance some US$300 million of previously announced significant capital commitments planned over the next five years in relation to the following development projects:

Significant capital commitments, as previously announced

	US$m	Timing
London renovation	126	2016-18
Madrid renovation (Group's 50% share)	49	2017-18
Munich extension*	122	2017-20
Total	297	

* Excludes US$17 million already spent up to 31st December 2015.

These projects, commencing with the London renovation in late 2016, will be funded through an appropriate mixture of existing cash reserves and debt facilities to be determined closer to the time.

Financial Review *Continued*

Dividends

The Board is recommending a final dividend of US¢3.00 per share for a full-year dividend of US¢5.00 per share on the enlarged share capital (2014: US¢7.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 11th May 2016 to shareholders on the register of members at the close of business on 18th March 2016.

Supplementary information

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

	2015		2014	
	US$m	Per share US$	US$m	Per share* US$
Shareholders' funds/net assets at amortized cost	**1,227**	**0.98**	956	0.92
Add: surplus for fair market value of freehold and leasehold land and buildings	**2,342**	**1.86**	2,196	2.10
Adjusted shareholders' funds/net assets	**3,569**	**2.84**	3,152	3.02

* The comparative figures in 2014 have been adjusted for the effect of the rights issue completed in April 2015.

On an IFRS basis, the Group's consolidated net debt of US$132 million at 31st December 2015 was 11% of shareholders' funds, compared with consolidated net debt of US$403 million at 31st December 2014 which was 42% of shareholders' funds. Taking into account the fair market value of the Group's interests in freehold and leasehold land, gearing was 4% of adjusted shareholders' funds at 31st December 2015, compared with 13% at 31st December 2014.

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 56% 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 2015, the Group's net assets/(liabilities) were denominated in the following currencies:

	Net assets/ (liabilities)		Adjusted net assets*	
	US$m	%	US$m	%
Hong Kong dollar	(23)	(2)	1,865	52
Euro	514	42	617	17
United States dollar	287	23	334	9
United Kingdom sterling	189	16	269	8
Singapore dollar	46	4	178	5
Thai baht	26	2	87	3
Swiss franc	119	10	119	3
Indonesian rupiah	27	2	53	2
Others	42	3	47	1
	1,227	100	3,569	100

* See supplementary information section above.

The Group, excluding associates and joint ventures, had committed borrowing facilities totalling US$578 million, of which US$440 million was drawn at 31st December 2015. The principal amounts due for repayment are as follows:

	Facilities committed US$m	Facilities drawn US$m	Unused facilities US$m
Within one year	4	4	–
Between one and two years	3	3	–
Between two and three years	–	–	–
Between three and four years	570	432	138
Between four and five years	–	–	–
Beyond five years	1	1	–
	578	440	138

At 31st December 2015, the Group had US$138 million of committed, undrawn facilities in addition to its net cash balances of US$308 million. The average tenor of the Group's borrowings was 3.6 years (2014: 3.7 years), with only US$4 million of committed facilities due to mature before the end of 2016.

On 6th January 2016, the Group announced it would acquire Mandarin Oriental, Boston for US$140 million, a hotel that the Group has managed since its opening in 2008. The transaction, which is expected to close by the end of April, will be funded through an appropriate mixture of existing cash reserves and debt facilities.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 97 and 98.

Stuart Dickie
Chief Financial Officer
3rd March 2016

Directors' Profiles

Ben Keswick* *Chairman and Managing Director*
Mr Ben Keswick joined the Board as Managing Director in 2012 and became Chairman in 2013. He has held a number of executive positions since joining the Jardine Matheson group in 1998, including finance director and then chief executive officer of Jardine Pacific between 2003 and 2007 and, thereafter, group managing director of Jardine Cycle & Carriage until 2012. He has an MBA from INSEAD. Mr Keswick is chairman of Jardine Matheson Limited and Jardine Cycle & Carriage and a commissioner of Astra. He is also chairman and managing director of Dairy Farm and Hongkong Land, managing director of Jardine Matheson and Jardine Strategic, and a director of Jardine Pacific and Jardine Motors.

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

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

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

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

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

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

Simon Keswick
Mr Simon Keswick joined the Board in 1986 and was Chairman of the Company from 1986 to 2013. He joined the Jardine Matheson group in 1962 and is a director of Dairy Farm, Hongkong Land, Jardine Matheson and Jardine Strategic.

Lord Leach of Fairford
Lord Leach joined the Board in 1987. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Hongkong Land, Jardine Matheson and Jardine Strategic. He is also a member of the supervisory board of Rothschild & Co. He joined the Jardine Matheson group in 1983 after a career in 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 the honorary chairman of TAL Apparel. He is also a director of Jardine Matheson and Hongkong Land.

* Executive Director

Lincoln K.K. Leong
Mr Leong joined the Board in 2012. He is a Chartered Accountant and has extensive experience in the accountancy and investment banking industries. Mr Leong is also chief executive officer of MTR Corporation.

Anthony Nightingale
Mr Nightingale joined the Board in 2006 and was Managing Director of the Company from 2006 to 2012. He is also a director of Dairy Farm, Hongkong Land, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic, Prudential, Schindler, Shui On Land and Vitasoy, and a commissioner of Astra. Mr Nightingale also holds a number of senior public appointments, including acting as a non-official member of the Commission on Strategic Development, a Hong Kong representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council and a director of the UK ASEAN Business Council. He is chairman of The Sailors Home and Missions to Seamen in Hong Kong.

Jeremy Parr
Mr Parr joined the Board in August 2015. He is general counsel of the Jardine Matheson group. He was previously a senior corporate partner with Linklaters, where he was the global head of the firm's corporate division, based in London. Mr Parr is also a director of Jardine Matheson Limited, Dairy Farm and Jardine Matheson.

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 Hongkong Land, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Northern Trust Corporation and Textron Corporation. Previously president of the China-Britain Business Council and chairman of the Singapore-British Business Council, he is currently a British Business Ambassador. He is an independent member of the House of Lords.

Lord Sassoon, Kt
Lord Sassoon joined the Board in 2013. He began his career at KPMG, before joining SG Warburg (later UBS Warburg) in 1985. From 2002 to 2006 he was in the United Kingdom Treasury as a civil servant, where he had responsibility for financial services and enterprise policy. Following this, he chaired the Financial Action Task Force; and conducted a review of the UK's system of financial regulation. From 2010 to 2013 Lord Sassoon was the first Commercial Secretary to the Treasury and acted as the Government's Front Bench Treasury spokesman in the House of Lords. He is a director of Dairy Farm, Hongkong Land, Jardine Lloyd Thompson and Jardine Matheson. He is also chairman of the China-Britain 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 Linklaters. He is also a director of Asia Satellite Telecommunications Holdings, Global Sources, Hongkong Land, IL&FS India Realty Fund II and Jardine Cycle & Carriage.

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

Consolidated Profit and Loss Account

for the year ended 31st December 2015

		2015			2014		
	Note	Underlying business performance US$m	Non-trading items US$m	Total US$m	Underlying business performance US$m	Non-trading items US$m	Total US$m
Revenue	1	**607.3**	**–**	**607.3**	679.9	–	679.9
Cost of sales		**(362.1)**	**–**	**(362.1)**	(410.0)	–	(410.0)
Gross profit		**245.2**	**–**	**245.2**	269.9	–	269.9
Selling and distribution costs		**(37.0)**	**–**	**(37.0)**	(44.7)	–	(44.7)
Administration expenses		**(100.4)**	**(0.5)**	**(100.9)**	(104.4)	–	(104.4)
Operating profit	2	**107.8**	**(0.5)**	**107.3**	120.8	–	120.8
Financing charges		**(13.7)**	**–**	**(13.7)**	(19.9)	–	(19.9)
Interest income		**1.9**	**–**	**1.9**	2.6	–	2.6
Net financing charges	3	**(11.8)**	**–**	**(11.8)**	(17.3)	–	(17.3)
Share of results of associates and joint ventures	4	**11.0**	**(0.5)**	**10.5**	12.3	–	12.3
Profit before tax		**107.0**	**(1.0)**	**106.0**	115.8	–	115.8
Tax	5	**(16.6)**	**–**	**(16.6)**	(19.0)	–	(19.0)
Profit after tax		**90.4**	**(1.0)**	**89.4**	96.8	–	96.8
Attributable to:							
Shareholders of the Company	6&7	**90.3**	**(1.0)**	**89.3**	97.0	–	97.0
Non-controlling interests		**0.1**	**–**	**0.1**	(0.2)	–	(0.2)
		90.4	**(1.0)**	**89.4**	96.8	–	96.8
		US¢		**US¢**	US¢		US¢
Earnings per share	6						
– basic		**7.53**		**7.44**	9.29		9.29
– diluted		**7.50**		**7.41**	9.25		9.25

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2015

	Note	2015 US$m	2014 US$m
Profit for the year		**89.4**	96.8
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	12	**(5.4)**	(5.6)
Tax on items that will not be reclassified	5	**0.9**	0.9
		(4.5)	(4.7)
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net losses arising during the year		**(43.3)**	(57.0)
Revaluation of other investments			
– fair value losses on other investments		**–**	(0.1)
– transfer to profit and loss		**(0.6)**	–
Fair value gains on cash flow hedges		**–**	4.0
Tax relating to items that may be reclassified	5	**–**	(0.7)
Share of other comprehensive expense of associates and joint ventures		**(11.7)**	(4.0)
		(55.6)	(57.8)
Other comprehensive expense for the year, net of tax		**(60.1)**	(62.5)
Total comprehensive income for the year		**29.3**	34.3
Attributable to:			
Shareholders of the Company		**29.3**	35.0
Non-controlling interests		**–**	(0.7)
		29.3	34.3

Consolidated Balance Sheet

at 31st December 2015

	Note	2015 US$m	2014 US$m
Net assets			
Intangible assets	8	**44.1**	45.6
Tangible assets	9	**1,255.0**	1,315.1
Associates and joint ventures	10	**164.4**	101.6
Other investments		**10.2**	10.5
Loans receivable	11	**–**	–
Pension assets	12	**–**	7.3
Deferred tax assets	13	**2.8**	2.2
Non-current assets		**1,476.5**	1,482.3
Stocks		**6.0**	5.9
Debtors and prepayments	14	**89.9**	94.5
Current tax assets		**1.8**	1.3
Bank and cash balances	15	**308.6**	324.6
Current assets		**406.3**	426.3
Creditors and accruals	16	**(138.6)**	(144.6)
Current borrowings	17	**(4.2)**	(217.0)
Current tax liabilities		**(9.3)**	(9.6)
Current liabilities		**(152.1)**	(371.2)
Net current assets		**254.2**	55.1
Long-term borrowings	17	**(436.2)**	(510.7)
Deferred tax liabilities	13	**(59.8)**	(62.3)
Other non-current liabilities	25	**(3.0)**	(3.0)
		1,231.7	961.4
Total equity			
Share capital	20	**62.8**	50.2
Share premium	21	**490.3**	188.2
Revenue and other reserves		**673.6**	718.0
Shareholders' funds		**1,226.7**	956.4
Non-controlling interests		**5.0**	5.0
		1,231.7	961.4

Approved by the Board of Directors

Ben Keswick
Edouard Ettedgui
Directors
3rd March 2016

Consolidated Statement of Changes in Equity

for the year ended 31st December 2015

	Note	Share capital US$m	Share premium US$m	Capital reserves US$m	Revenue reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Attributable to shareholders of the Company US$m	Attributable to non-controlling interests US$m	Total equity US$m
2015										
At 1st January		**50.2**	**188.2**	**283.1**	**495.6**	**(2.7)**	**(58.0)**	**956.4**	**5.0**	**961.4**
Total comprehensive income		**–**	**–**	**–**	**84.2**	**–**	**(54.9)**	**29.3**	**–**	**29.3**
Dividends paid by the Company	23	**–**	**–**	**–**	**(75.3)**	**–**	**–**	**(75.3)**	**–**	**(75.3)**
Issue of shares		**12.6**	**301.4**	**–**	**–**	**–**	**–**	**314.0**	**–**	**314.0**
Employee share option schemes		**–**	**–**	**2.3**	**–**	**–**	**–**	**2.3**	**–**	**2.3**
Transfer		**–**	**0.7**	**(0.9)**	**0.2**	**–**	**–**	**–**	**–**	**–**
At 31st December		**62.8**	**490.3**	**284.5**	**504.7**	**(2.7)**	**(112.9)**	**1,226.7**	**5.0**	**1,231.7**
2014										
At 1st January		50.2	186.6	282.1	473.6	(6.0)	2.5	989.0	5.7	994.7
Total comprehensive income		–	–	–	92.2	3.3	(60.5)	35.0	(0.7)	34.3
Dividends paid by the Company	23	–	–	–	(70.2)	–	–	(70.2)	–	(70.2)
Issue of shares		–	–	–	–	–	–	–	–	–
Employee share option schemes		–	–	2.6	–	–	–	2.6	–	2.6
Transfer		–	1.6	(1.6)	–	–	–	–	–	–
At 31st December		50.2	188.2	283.1	495.6	(2.7)	(58.0)	956.4	5.0	961.4

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US$89.3 million (2014: US$97.0 million). There is no fair value loss on other investments in 2015 (2014: net fair value loss on other investments of US$0.1 million).

Consolidated Cash Flow Statement

for the year ended 31st December 2015

	Note	2015 US$m	2014 US$m
Operating activities			
Operating profit	2	**107.3**	120.8
Depreciation	9	**50.6**	62.4
Amortization of intangible assets	8	**2.3**	2.6
Other non-cash items	24a	**2.2**	1.5
Movements in working capital	24b	**(1.6)**	2.2
Interest received		**2.0**	2.6
Interest and other financing charges paid		**(12.1)**	(24.4)
Tax paid		**(18.5)**	(21.4)
		132.2	146.3
Dividends and interest from associates		**8.0**	13.2
Cash flows from operating activities		**140.2**	159.5
Investing activities			
Purchase of tangible assets		**(50.0)**	(29.4)
Purchase of intangible assets		**(1.5)**	(2.9)
Payment on Munich expansion	26	**–**	(16.9)
Acquisition of Hotel Ritz, Madrid	27	**(73.3)**	–
Purchase of other investments		**(0.9)**	(1.0)
Advance to joint ventures		**(0.1)**	–
Repayment of loans to associates	24c	**0.6**	4.3
Sale of tangible assets		**–**	0.3
Sale of other investments		**0.8**	–
Cash flows from investing activities		**(124.4)**	(45.6)
Financing activities			
Issue of shares	24d	**314.0**	–
Drawdown of borrowings		**–**	512.5
Repayment of borrowings		**(261.5)**	(540.8)
Dividends paid by the Company	23	**(75.3)**	(70.2)
Cash flows from financing activities		**(22.8)**	(98.5)
Net (decrease)/increase in cash and cash equivalents		**(7.0)**	15.4
Cash and cash equivalents at 1st January		**324.3**	315.7
Effect of exchange rate changes		**(8.7)**	(6.8)
Cash and cash equivalents at 31st December	24e	**308.6**	324.3

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 on a going concern basis and under the historical cost convention except as disclosed in the accounting policies below.

Amendments effective in 2015 which are relevant to the Group's operations:

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs	2010 – 2012 Cycle
	2011 – 2013 Cycle

The adoption of these amendments does not have a material impact on the Group's accounting policies and disclosures.

Amendments to IAS 19 'Employee Benefits' clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual Improvements to IFRSs 2010 – 2012 Cycle and 2011 – 2013 Cycle comprise a number of amendments to IFRSs. The amendments which are relevant to the Group's operations include the followings:

Amendment to IFRS 2 'Share-based Payment' clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

Amendment to IFRS 3 'Business Combinations' clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32 'Financial Instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. It also clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11.

Amendment to IFRS 8 'Operating Segments' requires disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.

Amendment to IAS 24 'Related Party Disclosures' requires the reporting entity to disclose the fees paid for key management personnel services from another entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors.

Amendment to IFRS 13 'Fair Value Measurement' clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9.

Principal Accounting Policies *Continued*

A Basis of preparation *continued*

The following standards and amendments which are effective after 2015, are relevant to the Group's operations and yet to be adopted:

		Effective for accounting periods beginning on or after
IFRS 9	Financial Instruments	1st January 2018
IFRS 15	Revenue from Contracts with Customers	1st January 2018
IFRS 16	Leases	1st January 2019
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1st January 2016
Amendments to IAS 1	Disclosure Initiative: Presentation of Financial Statements	1st January 2016
Amendments to IAS 7	Disclosure Initiative: Statement of Cash Flows	1st January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	1st January 2017
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	1st January 2016
Annual Improvements to IFRSs	2012 – 2014 Cycle	1st January 2016

The Group is currently assessing the potential impact of these new standards and amendments. The Group will adopt these new standards and amendments from their respective effective dates.

A complete set of IFRS 9 'Financial Instruments' has been published which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This complete version includes revised guidance on the classification and measurement of financial assets and liabilities. It also includes a new expected credit losses model that replaces the incurred loss impairment model used today. A substantially-reformed approach to hedging accounting is also introduced. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that a company should recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in new disclosure requirements on revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 replaces IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue – Barter Transactions Involving Advertising Services'.

A Basis of preparation *continued*

IFRS 16 'Leases', which replaces IAS 17 'Leases' and related interpretations, requires lessees to bring their leases onto the balance sheet. For lessees, IFRS 16 eliminates the classification of leases as either operating leases or finance leases which is required by IAS 17 and, instead, introduces a single lessee accounting model. The model requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures a right-of-use asset similarly to other non-financial asset and a lease liability similarly to other financial liability. As a consequence, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities arising from a lease are initially measured on a present value basis. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. A lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to IFRS 11 'Joint Arrangements' introduce new guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3 'Business Combinations', and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations.

Amendments to IAS 1 and IAS 7 'Disclosure Initiative' are part of the International Accounting Standards Board's initiatives to improve the effectiveness of disclosure in financial reporting. Amendments to IAS 1 clarify that companies shall apply professional judgements in determining what information to disclose and how to structure it in the financial statements. The amendments include narrow-focus improvements in the guidance on materiality, disaggregation and subtotals, note structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. Amendments to IAS 7 require companies to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Amendments to IAS 12 'Income Taxes' clarify the requirements on the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value.

Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' clarify that the use of revenue-based methods to calculate the depreciation or amortization of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments to IAS 38 further clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption however, can be rebutted in certain limited circumstances.

Annual Improvements to IFRSs 2012 – 2014 Cycle comprise a number of non-urgent but necessary amendments. None of these amendments is likely to have a significant impact on the consolidated financial statements of the Group.

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

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

B Basis of consolidation

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

ii) A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition includes the fair value at the acquisition date of any contingent consideration. The Group recognizes the non-controlling interest's proportionate share of the recognized identifiable net assets of the acquired subsidiary. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognized in profit and loss.

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

iii) An associate is an entity, not being a subsidiary or joint venture, over which the Group exercises significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Associates and joint ventures are included on the equity basis of accounting.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognized in the consolidated financial statements only to the extent of unrelated investor's interests in the associates and joint ventures.

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

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

C Foreign currencies

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

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

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

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

D Impairment of non-financial assets

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

E Intangible assets

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

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

Principal Accounting Policies *Continued*

E Intangible assets *continued*

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

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

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

F Tangible fixed assets and depreciation

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

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

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

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

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

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

G Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortized cost using the effective interest method.

Loans receivable are classified as non-current assets unless their maturities are within 12 months after the balance sheet date.

H Investments

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

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

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

I Leases

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

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

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

J Stocks

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

K Debtors

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

Debtors with maturities greater than 12 months after the balance sheet date are classified under non-current assets.

Principal Accounting Policies *Continued*

L Cash and cash equivalents

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

M Provisions

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

N Borrowings and borrowing costs

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

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

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

O Government grants

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

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

P Current and deferred tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Q Employee benefits

i) Pension obligations

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the year in which they occur.

Past service costs are recognized immediately in profit and loss.

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

ii) Share-based compensation

Share-based long-term incentive plans have been set up to provide longer-term incentives for selected executives. Awards can take the form of share options with an exercise price based on the then prevailing market prices or such other price set by the Board or they can be conditional rights to receive free shares. Awards normally vest after the third anniversary of the date of grant and may be subject to the achievement of performance conditions.

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

R Derivative financial instruments

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

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

Principal Accounting Policies *Continued*

R 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 profit and loss.

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

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

S Financial guarantee contracts

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

T Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

U Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading items include gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; provisions against asset impairment and writebacks; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

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. For the purpose of calculating diluted earnings per share, the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on the average share price during the year.

W Dividends

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

X 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.

i) 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.

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

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

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

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

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

Y Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Z Segment reporting

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

Financial Risk Management

A Financial risk factors

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

The Group's treasury function co-ordinates, under the directions of the Board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimize the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the profit and loss account. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2015 are disclosed in note 25.

i) Market risk

Foreign exchange risk

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

Group entities are required to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions, entities in the Group use forward foreign exchange contracts in a consistent manner to hedge firm and anticipated foreign exchange commitments. The Group does not usually hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile and the hedging is cost effective.

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. In 2015 and 2014, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2015, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's profit after tax would have been US$0.1 million lower/higher (2014: US$0.7 million lower/higher), arising from foreign exchange losses/gains taken on translation. The impact on amounts attributable to the shareholders of the Company would be US$0.1 million lower/higher (2014: US$0.7 million lower/higher). This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2015 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

A Financial risk factors *continued*

i) Market risk continued

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps and caps. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its gross borrowings, in fixed rate instruments. At 31st December 2015, the Group's interest rate hedge was 56% (2014: 43%), with an average tenor of 3.1 years (2014: 3.3 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 17.

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

At 31st December 2015, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$0.5 million lower/higher (2014: US$2.6 million lower/higher), and hedging reserves would have been US$2.5 million (2014: US$3.5 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant sensitivity resulting from interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong, United Kingdom and European rates, over the period until the next annual balance sheet date. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

Financial Risk Management *Continued*

A Financial risk factors *continued*

ii) Credit risk

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

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2015, 89% (2014: 98%) of deposits and balances with banks and financial institutions were made to institutions with credit ratings of no less than A- (Fitch). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit rating of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

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

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

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 2015, total available borrowing facilities amounted to US$578 million (2014: US$861 million) of which US$440 million (2014: US$728 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US$138 million (2014: US$133 million), in addition to cash balances of US$308 million.

A Financial risk factors *continued*

iii) Liquidity risk continued

The table below analyzes the Group's non-derivative financial liabilities and net settled derivative financial liabilities at 31st December 2015 and 2014 into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year US$m	Between one and two years US$m	Between two and three years US$m	Between three and four years US$m	Between four and five years US$m	Beyond five years US$m	Total undiscounted cash flows US$m
2015							
Borrowings	**14.0**	**11.1**	**8.4**	**436.7**	**0.2**	**2.1**	**472.5**
Creditors	**133.5**	**–**	**–**	**–**	**–**	**–**	**133.5**
Net settled derivative financial instruments	**2.0**	**0.9**	**0.1**	**–**	**–**	**–**	**3.0**
2014							
Borrowings	231.1	12.5	12.3	9.5	510.0	2.3	777.7
Creditors	139.9	–	–	–	–	–	139.9
Net settled derivative financial instruments	2.2	1.2	0.3	–	–	–	3.7

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 and cash balances. Interest cover is calculated as underlying operating profit and share of results of associates and joint ventures divided by net financing charges. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2015 and 2014 based on IFRS balance sheets are as follows:

	2015	2014
Gearing ratio	**11%**	42%
Interest cover	**10.1**	7.7

Financial Risk Management *Continued*

C Fair value estimation

i) Financial instruments that are measured at fair value

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

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

b) Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly ('observable current market transactions')
The fair values of derivative financial instruments are determined using rates quoted by the Group's bankers at the balance sheet date. The rates for interest rate swaps and caps and forward foreign exchange contracts are calculated by reference to market interest rates and foreign exchange rates.

The fair value of unlisted investments, which are classified as available-for-sale and mainly include club and school debentures, are determined using prices quoted by brokers at the balance sheet date.

c) Inputs for assets or liabilities that are not based on observable market data ('unobservable inputs')
The fair value of other unlisted securities, which are classified as available-for-sale, is determined using valuation techniques by reference to observable current market transactions (including price-to earnings and price-to book ratios of listed securities of entities engaged in similar industries) or the market prices of the underlying investments with certain degree of entity specific estimates.

There were no changes in valuation techniques during the year.

The table below analyzes financial instruments carried at fair value at 31st December 2015 and 2014, by the levels in the fair value measurement hierarchy.

	Quoted prices in active markets US$m	Observable current market transactions US$m	Unobservable inputs US$m	Total US$m
2015				
Assets				
Available-for-sale financial assets – unlisted investments	**–**	**2.1**	**8.1**	**10.2**
Liabilities				
Derivatives designated at fair value – through other comprehensive income	**–**	**(3.0)**	**–**	**(3.0)**
2014				
Assets				
Available-for-sale financial assets – unlisted investments	–	2.9	7.6	10.5
Liabilities				
Derivatives designated at fair value – through other comprehensive income	–	(3.0)	–	(3.0)

There were no transfers among the three categories during the year ended 31st December 2015 and 2014.

C Fair value estimation *continued*

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

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

	Available-for-sale financial assets 2015 US$m	Available-for-sale financial assets 2014 US$m
At 1st January	**7.6**	6.2
Additions	**0.5**	1.4
At 31st December	**8.1**	7.6

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

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

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

D Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2015 and 2014 are as follows:

	Loans and receivables US$m	Derivatives used for hedging US$m	Available-for-sale US$m	Other financial instruments at amortized cost US$m	Total carrying amount US$m	Fair value US$m
2015						
Assets						
Other investments	–	–	**10.2**	–	**10.2**	**10.2**
Debtors	**61.2**	–	–	–	**61.2**	**61.2**
Bank and cash balances	**308.6**	–	–	–	**308.6**	**308.6**
	369.8	–	**10.2**	–	**380.0**	**380.0**
Liabilities						
Other non-current liabilities	–	**(3.0)**	–	–	**(3.0)**	**(3.0)**
Borrowings	–	–	–	**(440.4)**	**(440.4)**	**(440.3)**
Trade and other payables excluding non-financial liabilities	–	–	–	**(133.5)**	**(133.5)**	**(133.5)**
	–	**(3.0)**	–	**(573.9)**	**(576.9)**	**(576.8)**
2014						
Assets						
Other investments	–	–	10.5	–	10.5	10.5
Debtors	63.2	–	–	–	63.2	63.2
Bank and cash balances	324.6	–	–	–	324.6	324.6
	387.8	–	10.5	–	398.3	398.3
Liabilities						
Other non-current liabilities	–	(3.0)	–	–	(3.0)	(3.0)
Borrowings	–	–	–	(727.7)	(727.7)	(727.6)
Trade and other payables excluding non-financial liabilities	–	–	–	(139.9)	(139.9)	(139.9)
	–	(3.0)	–	(867.6)	(870.6)	(870.5)

Critical Accounting Estimates and Judgements

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

A Acquisition of subsidiaries, associates and joint ventures

The initial accounting on the acquisition of subsidiaries, associates and joint ventures involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The fair values of leasehold land and tangible assets are determined by independent valuers by reference to market prices or present value of expected net cash flows from the assets. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

B Impairment of assets

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

C Tangible fixed assets and depreciation

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

D Income taxes

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

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

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

E Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

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

F Non-trading items

The Group uses underlying business performance in its internal financial reporting to distinguish between the underlying profits and non-trading items. The identification of non-trading items requires judgement by management, but follows the consistent methodology as set out in the Group's accounting policies.

Notes to the Financial Statements

1 Revenue

	2015 US$m	2014 US$m
Analysis by geographical area		
– Hong Kong	**238.6**	249.5
– Other Asia	**100.1**	118.9
– Europe	**204.9**	249.6
– The Americas	**63.7**	61.9
	607.3	679.9
Analysis by activity		
– Hotel ownership	**574.0**	634.2
– Hotel & Residences branding and management	**63.6**	77.1
– Less: intra-segment revenue	**(30.3)**	(31.4)
	607.3	679.9

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive Directors of the Company for the purpose of resource allocation and performance assessment. The Group is operated on a worldwide basis in four regions: Hong Kong, Other Asia, Europe and The Americas which form the basis of its reportable segments. No operating segments have been aggregated to form the reportable segments.

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

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

	2015 US$m	2014 US$m
Analysis by geographical area		
– Hong Kong	**83.2**	85.1
– Other Asia	**27.8**	29.9
– Europe	**44.5**	67.6
– The Americas	**5.2**	3.2
Underlying EBITDA from subsidiaries	**160.7**	185.8
Non-trading items		
– acquistion-related costs *(refer note 7)*	**(0.5)**	–
EBITDA from subsidiaries	**160.2**	185.8
Less: depreciation and amortization	**(52.9)**	(65.0)
Operating profit	**107.3**	120.8
Analysis by activity		
– Hotel ownership	**133.9**	148.5
– Hotel & Residences branding and management	**26.3**	37.3
EBITDA from subsidiaries	**160.2**	185.8
– Hotel ownership	**84.0**	86.7
– Hotel & Residences branding and management	**23.3**	34.1
Operating profit	**107.3**	120.8
The following items have been credited/(charged) in arriving at operating profit:		
Rental income *(refer note 9)*	**22.9**	22.8
Amortization of intangible assets *(refer note 8)*	**(2.3)**	(2.6)
Depreciation of tangible assets *(refer note 9)*	**(50.6)**	(62.4)
Impairment of debtors	**(0.2)**	(0.1)
Employee benefit expense		
– salaries and benefits in kind	**(228.4)**	(246.8)
– share options granted	**(2.3)**	(2.6)
– defined benefit pension plans *(refer note 12)*	**(4.0)**	(3.7)
– defined contribution pension plans	**(1.1)**	(1.1)
	(235.8)	(254.2)
Net foreign exchange losses	**(0.6)**	(0.2)
Operating leases		
– minimum lease payments	**(8.0)**	(8.7)
– contingent rents	**(4.9)**	(5.6)
– subleases	**0.3**	0.3
	(12.6)	(14.0)
Auditors' remuneration		
– audit	**(1.4)**	(1.6)
– non-audit services	**(1.2)**	(0.8)
	(2.6)	(2.4)

In 2014, the impact of the Manila hotel closure on EBITDA mainly included lease termination fee (US$10 million); partly offset by loss from operations (US$1 million) and retrenchment costs (US$5 million). Including the write-off of remaining fixed assets through depreciation (US$7 million), the total impact of the Manila closure on underlying profit was negative US$3 million.

Notes to the Financial Statements *Continued*

3 Net financing charges

	2015 US$m	2014 US$m
Interest expense		
– bank loans	**(11.0)**	(18.0)
Commitment and other fees	**(2.7)**	(1.9)
Financing charges	**(13.7)**	(19.9)
Interest income	**1.9**	2.6
Net financing charges	**(11.8)**	(17.3)

4 Share of results of associates and joint ventures

	EBITDA US$m	Depreciation and amortization US$m	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/ (loss) US$m
2015						
Analysis by geographical area						
– Other Asia	**21.1**	**(7.7)**	**13.4**	**(1.4)**	**(2.2)**	**9.8**
– Europe	**1.5**	**(0.3)**	**1.2**	**–**	**(0.3)**	**0.9**
– The Americas	**5.1**	**(2.8)**	**2.3**	**(2.1)**	**0.1**	**0.3**
	27.7	**(10.8)**	**16.9**	**(3.5)**	**(2.4)**	**11.0**
Non-trading items						
– acquisition-related costs *(refer note 7)*	**(0.5)**	**–**	**(0.5)**	**–**	**–**	**(0.5)**
	27.2	**(10.8)**	**16.4**	**(3.5)**	**(2.4)**	**10.5**
Analysis by activity						
– Hotel ownership	**26.2**	**(10.3)**	**15.9**	**(3.4)**	**(2.3)**	**10.2**
– Other	**1.0**	**(0.5)**	**0.5**	**(0.1)**	**(0.1)**	**0.3**
	27.2	**(10.8)**	**16.4**	**(3.5)**	**(2.4)**	**10.5**
2014						
Analysis by geographical area						
– Other Asia	25.9	(9.2)	16.7	(1.4)	(2.9)	12.4
– Europe	–	–	–	–	–	–
– The Americas	5.6	(2.9)	2.7	(2.1)	(0.7)	(0.1)
	31.5	(12.1)	19.4	(3.5)	(3.6)	12.3
Non-trading items						
– acquisition-related costs *(refer note 7)*	–	–	–	–	–	–
	31.5	(12.1)	19.4	(3.5)	(3.6)	12.3
Analysis by activity						
– Hotel ownership	30.4	(11.5)	18.9	(3.4)	(3.4)	12.1
– Other	1.1	(0.6)	0.5	(0.1)	(0.2)	0.2
	31.5	(12.1)	19.4	(3.5)	(3.6)	12.3

5 Tax

	2015 US$m	2014 US$m
Tax (charged)/credited to profit and loss is analyzed as follows:		
– current tax	**(17.9)**	(18.8)
– deferred tax *(refer note 13)*	**1.3**	(0.2)
	(16.6)	(19.0)
Analysis by geographical area		
– Hong Kong	**(10.7)**	(11.6)
– Other Asia	**(1.7)**	(3.0)
– Europe	**(4.1)**	(6.5)
– The Americas	**(0.1)**	2.1
	(16.6)	(19.0)
Analysis by activity		
– Hotel ownership	**(12.0)**	(14.6)
– Hotel & Residences branding and management	**(4.6)**	(4.4)
	(16.6)	(19.0)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**(10.3)**	(11.5)
Expenses not deductible for tax purposes	**(2.0)**	(1.5)
Tax losses not recognized	**(5.0)**	(2.7)
Withholding tax	**(1.9)**	(4.0)
Over provision in prior years	**0.9**	0.1
Other	**1.7**	0.6
	(16.6)	(19.0)
Tax relating to components of other comprehensive income is analyzed as follows:		
Remeasurements of defined benefit plans	**0.9**	0.9
Cash flow hedges	**–**	(0.7)
	0.9	0.2

Share of tax charge of associates and joint ventures of US$2.4 million (2014: US$3.6 million) is included in share of results of associates and joint ventures *(refer note 4)*.

*The applicable tax rate for the year was 11% (2014: 11%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

Notes to the Financial Statements *Continued*

6 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$89.3 million (2014: US$97.0 million) and on the weighted average number of 1,199.6 million (2014: 1,044.7 million after adjusting for the rights issue completed in April 2015) shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$89.3 million (2014: US$97.0 million) and on the weighted average number of 1,204.5 million (2014: 1,048.8 million after adjusting for the rights issue completed in April 2015) shares in issue after adjusting for the numbers of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on average share price during the year.

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

	Ordinary shares in millions	
	2015	2014
Weighted average number of shares for basic earnings per share calculation	**1,199.6**	1,044.7
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**4.9**	4.1
Weighted average number of shares for diluted earnings per share calculation	**1,204.5**	1,048.8

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

	2015			2014		
	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	**89.3**	**7.44**	**7.41**	97.0	9.29	9.25
Non-trading items *(refer note 7)*	**1.0**			–		
Underlying profit attributable to shareholders	**90.3**	**7.53**	**7.50**	97.0	9.29	9.25

The basic and diluted earnings per share for the year ended 31st December 2014 have been adjusted to reflect the effect of the rights issue completed in April 2015.

7 Non-trading items

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

	2015 US$m	2014 US$m
Acquisition-related costs		
– administration expenses	**0.5**	–
– share of results of associates and joint ventures	**0.5**	–
	1.0	–

8 Intangible assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Development costs US$m	Total US$m
2015					
Cost	**23.9**	**6.4**	**19.4**	**16.2**	**65.9**
Amortization and impairment	**–**	**(2.0)**	**(16.4)**	**(1.9)**	**(20.3)**
Net book value at 1st January	**23.9**	**4.4**	**3.0**	**14.3**	**45.6**
Exchange differences	**–**	**(0.1)**	**–**	**(0.3)**	**(0.4)**
Additions	**–**	**–**	**1.1**	**1.0**	**2.1**
Amortization	**–**	**(0.1)**	**(1.8)**	**(0.4)**	**(2.3)**
Impairment	**–**	**–**	**–**	**(0.9)**	**(0.9)**
Net book value at 31st December	**23.9**	**4.2**	**2.3**	**13.7**	**44.1**
Cost	**23.9**	**6.3**	**20.5**	**16.1**	**66.8**
Amortization and impairment	**–**	**(2.1)**	**(18.2)**	**(2.4)**	**(22.7)**
	23.9	**4.2**	**2.3**	**13.7**	**44.1**
2014					
Cost	23.9	6.5	18.0	12.8	61.2
Amortization and impairment	–	(1.9)	(14.4)	(2.3)	(18.6)
Net book value at 1st January	23.9	4.6	3.6	10.5	42.6
Exchange differences	–	–	(0.1)	(0.2)	(0.3)
Additions	–	–	1.5	4.4	5.9
Amortization	–	(0.2)	(2.0)	(0.4)	(2.6)
Impairment	–	–	–	–	–
Net book value at 31st December	23.9	4.4	3.0	14.3	45.6
Cost	23.9	6.4	19.4	16.2	65.9
Amortization and impairment	–	(2.0)	(16.4)	(1.9)	(20.3)
	23.9	4.4	3.0	14.3	45.6

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2015. For the purpose of impairment review, goodwill acquired has been allocated to the respective hotels and is reviewed for impairment based on individual hotel forecast operating performance and cash flows. Cash flow projections for the impairment reviews are based on individual hotel budgets prepared on the basis of assumptions reflective of the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of between 3% to 8% to extrapolate cash flows over a five-year period after which the growth rate is assumed up to 5% in perpetuity, which may vary across the Group's geographical locations, and are based on management expectations for the market development; and pre-tax discount rates of around 8% to 10% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the business life-cycle and geographical location. On the basis of these reviews, management concluded that no impairment is required.

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

The remaining amortization periods for intangible assets are as follows:

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

Notes to the Financial Statements *Continued*

9 Tangible assets

	Freehold properties US$m	Leasehold properties & improvements US$m	Plant & machinery US$m	Furniture equipment & motor vehicles US$m	Total US$m
2015					
Cost	**695.8**	**734.7**	**144.6**	**255.4**	**1,830.5**
Depreciation and impairment	**(72.9)**	**(175.8)**	**(73.1)**	**(193.6)**	**(515.4)**
Net book value at 1st January	**622.9**	**558.9**	**71.5**	**61.8**	**1,315.1**
Exchange differences	**(46.7)**	**(6.2)**	**(4.3)**	**(1.9)**	**(59.1)**
Additions	**1.5**	**12.6**	**5.1**	**30.7**	**49.9**
Transfers	**–**	**–**	**–**	**–**	**–**
Disposals	**(0.1)**	**–**	**–**	**(0.2)**	**(0.3)**
Depreciation charge	**(8.1)**	**(15.6)**	**(6.7)**	**(20.2)**	**(50.6)**
Net book value at 31st December	**569.5**	**549.7**	**65.6**	**70.2**	**1,255.0**
Cost	**650.0**	**720.8**	**140.2**	**257.6**	**1,768.6**
Depreciation and impairment	**(80.5)**	**(171.1)**	**(74.6)**	**(187.4)**	**(513.6)**
	569.5	**549.7**	**65.6**	**70.2**	**1,255.0**
2014					
Cost	755.5	751.5	152.2	272.8	1,932.0
Depreciation and impairment	(66.8)	(163.4)	(68.1)	(193.2)	(491.5)
Net book value at 1st January	688.7	588.1	84.1	79.6	1,440.5
Exchange differences	(60.4)	(21.5)	(6.0)	(3.9)	(91.8)
Additions	–	13.1	1.7	14.4	29.2
Transfers	2.6	1.3	–	(3.9)	–
Disposals	–	–	(0.1)	(0.3)	(0.4)
Depreciation charge	(8.0)	(22.1)	(8.2)	(24.1)	(62.4)
Net book value at 31st December	622.9	558.9	71.5	61.8	1,315.1
Cost	695.8	734.7	144.6	255.4	1,830.5
Depreciation and impairment	(72.9)	(175.8)	(73.1)	(193.6)	(515.4)
	622.9	558.9	71.5	61.8	1,315.1

Freehold properties include a property of US$104.6 million (2014: US$96.2 million), which is stated net of tax increment financing of US$23.0 million (2014: US$23.9 million) *(refer note 18)*.

Net book value of leasehold properties acquired under finance leases amounted to US$183.5 million (2014: US$183.7 million).

Rental income from properties and other tangible assets amounted to US$22.9 million (2014: US$22.8 million) *(refer note 2)*.

9 Tangible assets *continued*

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

	2015 US$m	2014 US$m
Within one year	**19.0**	21.0
Between one and two years	**13.2**	16.9
Between two and five years	**17.5**	21.9
Beyond five years	**8.0**	12.8
	57.7	72.6

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

Analysis of additions by geographical area		
– Hong Kong	**7.8**	9.4
– Other Asia	**2.4**	1.6
– Europe	**27.1**	16.5
– The Americas	**12.6**	1.7
	49.9	29.2
Analysis of additions by activity		
– Hotel ownership	**48.9**	28.1
– Hotel & Residences branding and management	**1.0**	1.1
	49.9	29.2
Analysis of depreciation by geographical area		
– Hong Kong	**(16.7)**	(16.5)
– Other Asia	**(5.8)**	(13.2)
– Europe	**(23.9)**	(28.6)
– The Americas	**(4.2)**	(4.1)
	(50.6)	(62.4)
Analysis of depreciation by activity		
– Hotel ownership	**(49.6)**	(61.4)
– Hotel & Residences branding and management	**(1.0)**	(1.0)
	(50.6)	(62.4)

Notes to the Financial Statements *Continued*

10 Associates and joint ventures

	2015 US$m	2014 US$m
Associates		
Listed associate – OHTL	**17.1**	18.8
Unlisted associates	**71.0**	77.3
Share of attributable net assets	**88.1**	96.1
Notional goodwill	**5.5**	5.5
	93.6	101.6
Joint ventures		
Share of attributable net assets of unlisted joint ventures	**64.7**	–
Goodwill on acquisition	**6.1**	–
	70.8	–
	164.4	101.6

	Associates		Joint ventures	
	2015 US$m	2014 US$m	2015 US$m	2014 US$m
Movements of associates and joint ventures during the year:				
At 1st January	**101.6**	110.8	**–**	–
Exchange differences	**–**	–	**(0.8)**	–
Share of results after tax and non-controlling interests	**10.1**	12.3	**0.4**	–
Share of other comprehensive income after tax and non-controlling interests	**(9.5)**	(4.0)	**(2.2)**	–
Dividends received	**(8.0)**	(13.2)	**–**	–
Repayment of loans to associates *(refer note 24c)*	**(0.6)**	(4.3)	**–**	–
Acquisition of Hotel Ritz, Madrid *(refer note 27)*	**–**	–	**73.3**	–
Advance to joint ventures	**–**	–	**0.1**	–
At 31st December	**93.6**	101.6	**70.8**	–
Fair value of listed associate	**190.1**	82.4	**N/A**	N/A

a) Investment in associates

The material associates of the Group are listed below. These associates have share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investments in material associates in 2015 and 2014:

Name of entity	Nature of business	Country of incorporation and principal place of business/place of listing	% of ownership interest 2015	2014
OHTL PCL ('OHTL')	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	**44.9%**	44.9%
Marina Bay Hotel Private Ltd. ('Marina Bay Hotel')	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	**50.0%**	50.0%

At 31st December 2015, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US$190.1 million (2014: US$82.4 million) and the carrying amount of the Group's interest was US$22.6 million (2014: US$24.3 million).

10 Associates and joint ventures *continued*

a) Investment in associates continued

Summarized financial information for material associates

Summarized balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Non-current assets	**62.4**	59.2	**122.5**	132.8	**184.9**	192.0
Current assets						
Cash and cash equivalents	**3.5**	6.4	**5.2**	3.9	**8.7**	10.3
Other current assets	**4.1**	4.0	**2.9**	3.8	**7.0**	7.8
Total current assets	**7.6**	10.4	**8.1**	7.7	**15.7**	18.1
Non-current liabilities						
Financial liabilities*	**(9.7)**	(10.6)	**(23.3)**	(25.0)	**(33.0)**	(35.6)
Other non-current liabilities*	**(3.6)**	(3.9)	**(2.8)**	(3.3)	**(6.4)**	(7.2)
Total non-current liabilities	**(13.3)**	(14.5)	**(26.1)**	(28.3)	**(39.4)**	(42.8)
Current liabilities						
Financial liabilities*	**(17.9)**	(11.1)	**(9.6)**	(10.5)	**(27.5)**	(21.6)
Other current liabilities*	**(2.8)**	(4.5)	**(5.7)**	(7.9)	**(8.5)**	(12.4)
Total current liabilities	**(20.7)**	(15.6)	**(15.3)**	(18.4)	**(36.0)**	(34.0)
Net assets	**36.0**	39.5	**89.2**	93.8	**125.2**	133.3

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

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

	OHTL		Marina Bay Hotel		Total	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Revenue	**55.7**	58.9	**74.3**	84.4	**130.0**	143.3
Depreciation and amortization	**(4.5)**	(5.7)	**(6.9)**	(7.8)	**(11.4)**	(13.5)
Interest income	**0.1**	0.1	**–**	–	**0.1**	0.1
Interest expense	**(0.3)**	(0.6)	**(0.6)**	(0.7)	**(0.9)**	(1.3)
Profit from underlying business performance	**7.7**	7.9	**15.2**	18.8	**22.9**	26.7
Income tax expense	**(1.2)**	(1.2)	**(2.2)**	(3.0)	**(3.4)**	(4.2)
Profit after tax	**6.5**	6.7	**13.0**	15.8	**19.5**	22.5
Other comprehensive expense	**(3.9)**	–	**(7.6)**	(5.0)	**(11.5)**	(5.0)
Total comprehensive income	**2.6**	6.7	**5.4**	10.8	**8.0**	17.5
Dividends received from associates	**6.1**	8.4	**10.0**	11.8	**16.1**	20.2

The information above reflects the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates, and fair value of the associates at the time of acquisition.

Notes to the Financial Statements *Continued*

10 Associates and joint ventures *continued*

a) Investment in associates continued

Reconciliation of the summarized financial information

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

	OHTL		Marina Bay Hotel		Total	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Net assets at 1st January	**39.5**	41.2	**93.8**	94.8	**133.3**	136.0
Profit for the year	**6.5**	6.7	**13.0**	15.8	**19.5**	22.5
Other comprehensive expense	**(3.9)**	–	**(7.6)**	(5.0)	**(11.5)**	(5.0)
Dividends paid	**(6.1)**	(8.4)	**(10.0)**	(11.8)	**(16.1)**	(20.2)
Net assets at 31st December	**36.0**	39.5	**89.2**	93.8	**125.2**	133.3
Effective interest in associates (%)*	**47.6**	47.6	**50.0**	50.0		
Group's share of net assets in associates	**17.1**	18.8	**44.6**	46.9	**61.7**	65.7
Notional goodwill*	**5.5**	5.5	**–**	–	**5.5**	5.5
Carrying value	**22.6**	24.3	**44.6**	46.9	**67.2**	71.2
Fair value	**190.1**	82.4	**N/A**	N/A	**190.1**	82.4

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

	2015 US$m	2014 US$m
Share of profit	**0.5**	1.2
Share of other comprehensive expense	**(3.8)**	(1.4)
Share of total comprehensive expense	**(3.3)**	(0.2)
Carrying amount of interests in these associates	**26.4**	30.4

*During 2013, OHTL repurchased some of its own shares. The number of OHTL shares held by the Group remained unchanged. As a result of the share repurchase, notional goodwill of US$5.5 million was recognized and the Group's effective interest increased to 47.6%.

Contingent liabilities relating to the Group's interest in associates

	2015 US$m	2014 US$m
Financial guarantee in respect of facilities made available to an associate	**21.2**	21.6

The guarantee in respect of facilities made available to an associate is stated at its contracted amount. The Directors are of the opinion that it is not probable that this guarantee will be called upon.

10 Associates and joint ventures *continued*

b) Investment in joint ventures

The material joint venture of the Group is listed below. This joint venture has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in material joint venture in 2015 and 2014:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest 2015	2014
Ritz Madrid, S.A. ('Ritz Madrid')	Owner of Hotel Ritz, Madrid	Spain	**50%**	–

Summarized financial information for material joint venture

Summarized balance sheet at 31st December

	Ritz Madrid 2015 US$m	2014 US$m
Non-current assets	**165.1**	–
Current assets		
Cash and cash equivalents	**1.8**	–
Other current assets	**2.3**	–
Total current assets	**4.1**	–
Non-current liabilities		
Financial liabilities*	**(133.0)**	–
Other non-current liabilities*	**(35.8)**	–
Total non-current liabilities	**(168.8)**	–
Current liabilities		
Other current liabilities*	**(3.9)**	–
Total current liabilities	**(3.9)**	–
Net liabilities	**(3.5)**	–

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

Notes to the Financial Statements *Continued*

10 Associates and joint ventures *continued*

b) Investment in joint ventures *continued*

Summarized financial information for material joint venture *continued*

Summarized statement of comprehensive income for the period from 22nd May 2015 to 31st December 2015

	Ritz Madrid 2015 US$m	2014 US$m
Revenue	17.0	–
Depreciation and amortization	(0.7)	–
Profit from underlying business performance	2.5	–
Income tax expense	(0.6)	–
Profit after tax from underlying business performance	1.9	–
Non-trading items	(1.0)	–
Profit after tax	0.9	–
Other comprehensive expense	(4.4)	–
Total comprehensive expense	(3.5)	–

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures, and fair value of the joint ventures at the time of acquisition.

Reconciliation of the summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interests in its material joint venture for the period from 22nd May 2015 to 31st December 2015:

	Ritz Madrid 2015 US$m	2014 US$m
Net liabilities at 1st January	–	–
Profit for the year	0.9	–
Other comprehensive expense	(4.4)	–
Net liabilities at 31st December	(3.5)	–
Effective interest in joint venture (%)*	50.0	–
Group's share of net liabilities in joint venture	(1.8)	–
Goodwill on acquisition	6.1	–
Shareholders' loans	66.5	–
Carrying value	70.8	–

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

*In May 2015, the Group completed its acquisition of the Hotel Ritz, Madrid in a 50/50 joint venture with The Olayan Group *(refer note 27)*.

10 Associates and joint ventures *continued*

b) Investment in joint ventures continued

Commitments and contingent liabilities in respect of joint ventures

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

	2015 US$m	2014 US$m
Commitment to provide funding if called	40.6	–

There were no contingent liabilities relating to the Group's interest in its joint ventures at 31st December 2015.

11 Loans receivable

As at 31st December 2015 and 2014, the loans receivable comprised (i) a loan of US$2.4 million, bearing interest at EURO LIBOR + 2%; and (ii) a loan of US$1.5 million, bearing interest at 10%; on which full provisions have been made.

12 Pension plans

The Group operates defined benefit pension plans in the main territories in which it operates, with the majority of the plans in Hong Kong. Most of the pension plans are final salary defined benefit plans calculated based on a members' length of service and their salaries in the final years leading up to retirement. In Hong Kong, the pension benefits are paid in one lump sum. With the exception of certain plans in Hong Kong, all the defined benefit plans are closed to new members. In addition, although all plans are impacted by the discount rate, liabilities are driven by salary growth.

The Group's defined benefit plans are either funded or unfunded, with the assets of the funded plans held independently of the Group's assets in separate trustee administered funds. Plan assets held in trusts are governed by local regulations and practice in each country. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the Company and the boards of trustees. The Group's major plans are valued by independent actuaries annually using the projected unit credit method.

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

	2015 US$m	2014 US$m
Fair value of plan assets	66.1	69.4
Present value of funded obligations	(66.1)	(62.1)
Net pension assets	–	7.3
Analysis of net pension assets		
Pension assets	–	7.3

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

The movement in the net pension assets is as follows:

	Fair value of plan assets US$m	Present value of obligation US$m	Total US$m
2015			
At 1st January	**69.4**	**(62.1)**	**7.3**
Current service cost	**–**	**(4.1)**	**(4.1)**
Interest income/(expense)	**2.3**	**(1.9)**	**0.4**
Past service cost and losses on settlements	**–**	**–**	**–**
	71.7	**(68.1)**	**3.6**
Administration expenses	**(0.3)**	**–**	**(0.3)**
Remeasurements			
– return on plan assets, excluding amounts included in interest income/(expense)	**(4.7)**	**–**	**(4.7)**
– change in financial assumptions	**–**	**(1.3)**	**(1.3)**
– experience losses	**–**	**0.6**	**0.6**
	(4.7)	**(0.7)**	**(5.4)**
Contributions from employers	**2.1**	**–**	**2.1**
Contributions from plan participants	**0.7**	**(0.7)**	**–**
Benefit payments	**(3.3)**	**3.3**	**–**
Transfer (to)/from other plans	**(0.1)**	**0.1**	**–**
At 31st December	**66.1**	**(66.1)**	**–**
2014			
At 1st January	71.9	(58.1)	13.8
Current service cost	–	(4.0)	(4.0)
Interest income/(expense)	3.1	(2.5)	0.6
Past service cost and losses on settlements	–	(0.1)	(0.1)
	75.0	(64.7)	10.3
Administration expenses	(0.2)	–	(0.2)
Remeasurements			
– return on plan assets, excluding amounts included in interest income/(expense)	(1.3)	–	(1.3)
– change in financial assumptions	–	(3.1)	(3.1)
– experience losses	–	(1.2)	(1.2)
	(1.3)	(4.3)	(5.6)
Contributions from employers	1.9	–	1.9
Contributions from plan participants	0.7	(0.7)	–
Benefit payments	(6.6)	7.5	0.9
Transfer (to)/from other plans	(0.1)	0.1	–
At 31st December	69.4	(62.1)	7.3

12 Pension plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2015 is 5.0 years (2014: 5.3 years).

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

	2015 US$m	2014 US$m
Less than a year	**16.0**	6.6
Between one and two years	**8.1**	14.1
Between two and five years	**22.3**	23.5
Beyond five years	**76.5**	80.5
	122.9	124.7

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

	Hong Kong	
	2015 %	2014 %
Discount rate	**3.0**	3.4
Salary growth rate	**5.0**	5.0

As participants of the plans relating to Hong Kong usually take lump sum amounts upon retirement, mortality is not a principal assumption for these plans.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption US$m	Decrease in assumption US$m
Discount rate	1%	(3.1)	3.4
Salary growth rate	1%	3.0	(2.8)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognized within the balance sheet.

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

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

	Asia Pacific US$m	Europe US$m	North America US$m	Global US$m	Total US$m
2015					
Quoted investments					
Equity instruments	6.6	–	–	–	6.6
Debt instruments					
– government	–	–	0.1	–	0.1
– corporate bonds					
– investment grade	–	–	–	–	–
– non-investment grade	–	–	–	–	–
	–	–	–	–	–
	–	–	0.1	–	0.1
Investment funds	5.8	4.4	10.5	1.9	22.6
	12.4	4.4	10.6	1.9	29.3
Unquoted investments					
Equity instruments	–	–	–	–	–
Debt instruments					
– government	1.4	3.4	1.5	0.3	6.6
– corporate bonds					
– investment grade	0.3	1.7	2.5	–	4.5
– non-investment grade	–	0.1	0.6	–	0.7
	0.3	1.8	3.1	–	5.2
	1.7	5.2	4.6	0.3	11.8
Investment funds	0.6	0.2	0.2	20.7	21.7
	2.3	5.4	4.8	21.0	33.5
Total investments	14.7	9.8	15.4	22.9	62.8
Cash and cash equivalents					3.3
					66.1

12 Pension plans *continued*

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

	Asia Pacific US$m	Europe US$m	North America US$m	Global US$m	Total US$m
2014					
Quoted investments					
Equity instruments	7.4	–	–	–	7.4
Debt instruments					
– government	–	–	–	–	–
– corporate bonds					
– investment grade	–	–	–	–	–
– non-investment grade	–	–	–	–	–
	–	–	–	–	–
	–	–	–	–	–
Investment funds	0.4	6.5	11.3	2.8	21.0
	7.8	6.5	11.3	2.8	28.4
Unquoted investments					
Equity instruments	–	–	–	–	–
Debt instruments					
– government	2.3	6.4	2.9	0.6	12.2
– corporate bonds					
– investment grade	0.3	1.0	1.5	–	2.8
– non-investment grade	–	2.0	3.2	–	5.2
	0.3	3.0	4.7	–	8.0
	2.6	9.4	7.6	0.6	20.2
Investment funds	0.1	–	–	20.1	20.2
	2.7	9.4	7.6	20.7	40.4
Total investments	10.5	15.9	18.9	23.5	68.8
Cash and cash equivalents					0.6
					69.4

The defined benefit plans in Hong Kong have strategic asset allocation for its closed plans. The closed plans have an equity/debt allocation of 55/45 split.

The strategic asset allocation is derived from the asset-liability modeling ('ALM') review, done triennially to ensure the plans can meet future funding and solvency requirements. The last ALM review was completed in 2015, with the new strategic asset allocations adopted in 2015. The next ALM review is scheduled for 2018.

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

At 31st December 2015, the Hong Kong plans had assets of US$66.1 million (2014: US$69.4 million). These assets were invested 23% in Asia Pacific, 16% in Europe, 25% in North America and the rest of 36% in Global (2014: 15%, 23%, 27% and 35%, respectively). Within Asia Pacific, 49% was invested in Hong Kong equities. In 2015, 47% and 53% of the investments were in quoted and unquoted instruments respectively. In 2014, the split was 41% and 59% respectively. The high percentage of quoted instruments provides liquidity to fund drawdowns and benefit payments. Within the quoted equity allocation, the plan is well diversified in terms of sectors, with the top three being financials, industrials and technology with a combined fair value of US$4.6 million. In 2014, the top three sectors were financials, industrial and consumer goods with a combined fair value of US$5.1 million.

Through its defined benefit pension plans, the Group is expected to be exposed to a number of risks such as asset volatility changes in bond yields, inflation risk and life expectancy, the most significant of which are detailed below:

Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The Group's defined benefit plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while generating volatility and risk in the short term.

In Hong Kong, where the Group has closed plans, the assets and liabilities mix are distinct to reduce the level of investment risk to the plan. In 2015, the closed plans exited from commodities and increased allocations to hedge funds. The plans also reduced their allocations to global fixed income by holding cash and investing a portion to Asian fixed income to reduce volatility risks. Management believes the long-term nature of the plan liabilities and the strength of the Group supports a level of equity investment as part of the Group's long term strategy to manage the plans efficiently.

Change in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk
The majority of the Group's plan assets are unaffected by inflation.

The Group ensures that the investment positions are managed within an ALM framework that is developed to achieve long-term returns that are in line with the obligations under the pension schemes. Within the ALM framework, the Group's objective is to match assets to the pension obligations by investing in a well-diversified portfolio that generates sufficient risk-adjusted returns that match the benefit payments. The Group also actively monitors the duration and the expected yield of the investments to ensure it matches the expected cash outflows arising from the pension obligations.

Investments across the plans are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

The Group maintains an active and regular contribution schedule across all the plans. The contributions to all its plans in 2015 were US$2.1 million and the estimated amount of contributions expected to be paid to all its plans in 2016 is US$2.2 million.

13 Deferred tax assets/(liabilities)

	Accelerated tax depreciation US$m	Fair value gains/losses US$m	Losses US$m	Employee benefits US$m	Unremitted earnings in associates/ joint ventures US$m	Provisions and other temporary differences US$m	Total US$m
2015							
At 1st January	**(58.1)**	**0.4**	**1.1**	**(1.2)**	**(1.6)**	**(0.7)**	**(60.1)**
Exchange differences	**0.7**	**0.1**	–	–	**0.1**	–	**0.9**
Credited/(charged) to profit and loss	**1.0**	–	–	**0.3**	**0.1**	**(0.1)**	**1.3**
Credited to other comprehensive income	–	–	–	**0.9**	–	–	**0.9**
At 31st December	**(56.4)**	**0.5**	**1.1**	–	**(1.4)**	**(0.8)**	**(57.0)**
Deferred tax assets	**0.2**	**0.5**	**1.1**	**0.9**	–	**0.1**	**2.8**
Deferred tax liabilities	**(56.6)**	–	–	**(0.9)**	**(1.4)**	**(0.9)**	**(59.8)**
	(56.4)	**0.5**	**1.1**	–	**(1.4)**	**(0.8)**	**(57.0)**
2014							
At 1st January	(60.3)	1.1	1.4	(2.2)	(1.7)	(0.7)	(62.4)
Exchange differences	2.4	–	(0.2)	–	–	0.1	2.3
(Charged)/credited to profit and loss	(0.2)	–	(0.1)	0.1	0.1	(0.1)	(0.2)
(Charged)/credited to other comprehensive income	–	(0.7)	–	0.9	–	–	0.2
At 31st December	(58.1)	0.4	1.1	(1.2)	(1.6)	(0.7)	(60.1)
Deferred tax assets	0.1	0.5	1.1	0.3	–	0.2	2.2
Deferred tax liabilities	(58.2)	(0.1)	–	(1.5)	(1.6)	(0.9)	(62.3)
	(58.1)	0.4	1.1	(1.2)	(1.6)	(0.7)	(60.1)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

Deferred tax assets of US$43.1 million (2014: US$42.4 million) arising from unused tax losses of US$171.7 million (2014: US$170.8 million) have not been recognized in the financial statements. Included in the unused tax losses, US$135.9 million have no expiry date and the balance will expire at various dates up to and including 2035.

Deferred tax assets of US$3.6 million (2014: US$3.6 million) have not been recognized in relation to temporary differences in subsidiaries.

The Group has no unrecognized deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2015 and 2014.

Notes to the Financial Statements *Continued*

14 Debtors and prepayments

	2015 US$m	2014 US$m
Trade debtors		
– third parties	35.1	36.9
– associates and joint ventures	4.1	4.3
	39.2	41.2
– provision for impairment	(1.6)	(1.4)
	37.6	39.8
Other debtors		
– third parties*	52.5	55.0
– associates and joint ventures	2.2	2.2
	54.7	57.2
– provision for impairment	(2.4)	(2.5)
	52.3	54.7
	89.9	94.5
Analysis by geographical area of operation		
– Hong Kong	21.0	22.1
– Other Asia	17.1	17.5
– Europe	39.7	39.6
– The Americas	12.1	15.3
	89.9	94.5

*Included prepayments of US$12.5 million (2014: US$13.9 million) in respect of Munich expansion *(refer note 26)*.

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

	2015 US$m	2014 US$m
Fair value		
– trade debtors	37.6	39.8
– other debtors**	23.6	23.4
	61.2	63.2

**Excluding prepayments, rental and other deposits.

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

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

14 Debtors and prepayments *continued*

At 31st December 2015, trade debtors of US$1.7 million (2014: US$1.6 million) and other debtors of US$2.8 million (2014: US$2.7 million) were impaired. The amounts of the provision were US$1.6 million (2014: US$1.4 million) and US$2.4 million (2014: US$2.5 million), respectively. It was assessed that a portion of the debtors is expected to be recoverable. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Below 30 days	**0.1**	0.1	**0.2**	0.2
Between 31 and 60 days	**–**	–	**–**	–
Between 61 and 90 days	**–**	–	**–**	–
Over 90 days	**1.6**	1.5	**2.6**	2.5
	1.7	1.6	**2.8**	2.7

At 31st December 2015, trade debtors of US$7.9 million (2014: US$9.5 million) and other debtors of US$2.1 million (2014: US$3.6 million), respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Below 30 days	**4.9**	2.6	**1.6**	1.9
Between 31 and 60 days	**0.8**	2.9	**0.3**	0.6
Between 61 and 90 days	**0.6**	2.8	**0.1**	0.5
Over 90 days	**1.6**	1.2	**0.1**	0.6
	7.9	9.5	**2.1**	3.6

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2015 becoming impaired is low as they have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
At 1st January	**(1.4)**	(0.8)	**(2.5)**	(3.6)
Additional provisions	**(0.7)**	(0.7)	**(0.1)**	(0.4)
Unused amounts reversed	**0.4**	–	**0.2**	1.0
Amounts written off	**0.1**	0.1	**–**	0.5
At 31st December	**(1.6)**	(1.4)	**(2.4)**	(2.5)

Notes to the Financial Statements *Continued*

14 Debtors and prepayments *continued*

Other debtors are further analyzed as follows:

	2015 US$m	2014 US$m
Other amounts due from associates and joint ventures	**2.2**	2.2
Other receivables	**21.4**	21.2
Financial assets	**23.6**	23.4
Prepayments	**12.0**	12.6
Rental and other deposits	**16.6**	18.1
Other	**0.1**	0.6
	52.3	54.7

No debtors and prepayments have been pledged as security.

15 Bank and cash balances

	2015 US$m	2014 US$m
Deposits with banks and financial institutions	**208.9**	227.4
Bank balances	**98.7**	96.1
Cash balances	**1.0**	1.1
	308.6	324.6
Analysis by currency		
– Euro	**31.2**	33.4
– Hong Kong dollar	**18.2**	15.3
– Indonesian rupiah	**14.6**	13.4
– Japanese yen	**15.0**	14.0
– Swiss franc	**5.1**	2.4
– United Kingdom sterling	**24.3**	17.3
– United States dollar	**192.4**	221.3
– Other	**7.8**	7.5
	308.6	324.6

The weighted average interest rate on deposits with banks and financial institutions is 0.7% (2014: 0.9%) per annum.

16 Creditors and accruals

	2015 US$m	2014 US$m
Trade creditors	**33.7**	34.3
Accruals	**60.4**	71.0
Rental and other refundable deposits	**13.0**	13.4
Other creditors	**26.4**	21.2
Financial liabilities	**133.5**	139.9
Rental income received in advance	**2.3**	2.2
Other income received in advance	**2.8**	2.5
	138.6	144.6
Analysis by currency		
– Euro	**15.2**	15.0
– Hong Kong dollar	**50.5**	55.4
– Japanese yen	**11.9**	12.7
– Swiss franc	**6.2**	7.5
– United Kingdom sterling	**12.7**	14.0
– United States dollar	**37.0**	34.1
– Other	**5.1**	5.9
	138.6	144.6

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

17 Borrowings

	2015 Carrying amount US$m	2015 Fair value US$m	2014 Carrying amount US$m	2014 Fair value US$m
Current				
– bank overdrafts	**–**	**–**	0.3	0.3
Current portion of long-term borrowings				
– bank loans	**1.4**	**1.4**	211.0	211.0
– other borrowings	**2.8**	**2.8**	5.7	5.7
	4.2	**4.2**	216.7	216.7
Current borrowings	**4.2**	**4.2**	217.0	217.0
Long-term borrowings				
– bank loans	**432.7**	**432.6**	507.1	507.0
– other borrowings	**1.8**	**1.8**	1.9	1.9
– tax increment financing *(refer note 18)*	**1.7**	**1.7**	1.7	1.7
Long-term borrowings	**436.2**	**436.1**	510.7	510.6
	440.4	**440.3**	727.7	727.6

The fair values are estimated using the expected future payments discounted at market interest rate less than 0.1% (2014: 0.2%) per annum.

Notes to the Financial Statements *Continued*

17 Borrowings *continued*

	2015 US$m	2014 US$m
Secured	**436.0**	516.6
Unsecured	**4.4**	211.1
	440.4	727.7

Borrowings of US$436.0 million (2014: US$516.6 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets at 31st December 2015 was US$499.2 million (2014: US$521.6 million).

The borrowings at 31st December 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
2015					
Euro	**2.0**	**1.4**	**2.0**	**–**	**2.0**
Hong Kong dollar	**2.5**	**2.5**	**119.3**	**253.5**	**372.8**
Swiss franc	**2.8**	**16.0**	**1.9**	**2.7**	**4.6**
United Kingdom sterling	**1.6**	**–**	**–**	**59.3**	**59.3**
United States dollar	**6.0**	**1.3**	**1.7**	**–**	**1.7**
Japanese yen	**–**	**–**	**–**	**–**	**–**
			124.9	**315.5**	**440.4**
2014					
Euro	1.6	2.4	3.6	182.5	186.1
Hong Kong dollar	2.2	3.5	119.3	253.6	372.9
Swiss franc	1.8	17.0	1.9	11.7	13.6
United Kingdom sterling	1.6	–	–	132.4	132.4
United States dollar	6.0	2.3	1.7	–	1.7
Japanese yen	1.0	–	–	21.0	21.0
			126.5	601.2	727.7

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

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at 31st December after taking into account hedging transactions are as follows:

	2015 US$m	2014 US$m
Within one year	**315.5**	601.2
Between one and two years	**58.5**	–
Between two and three years	**–**	60.2
Between three and four years	**64.5**	–
Between four and five years	**–**	64.4
Beyond five years	**1.9**	1.9
	440.4	727.7

18 Tax increment financing

	2015 US$m	2014 US$m
Netted off against the net book value of the property *(refer note 9)*	**23.0**	23.9
Loan *(refer note 17)*	**1.7**	1.7
	24.7	25.6

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

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

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property. The loan of US$1.7 million (2014: US$1.7 million) is included in long-term borrowings.

19 Segment information

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

	2015 US$m	2014 US$m
Analysis by geographical area		
– Hong Kong	**383.6**	392.9
– Other Asia	**105.0**	118.5
– Europe	**856.4**	840.5
– The Americas	**118.5**	110.4
	1,463.5	1,462.3

20 Share capital

	Ordinary shares in millions			
	2015	2014	**2015 US$m**	2014 US$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	**1,003.7**	1,003.0	**50.2**	50.2
Rights issue *(refer note 24d(i))*	**250.9**	–	**12.5**	–
Issued under share-based long-term incentive plans *(refer note 24d(ii))*	**1.3**	0.7	**0.1**	–
At 31st December	**1,255.9**	1,003.7	**62.8**	50.2

Notes to the Financial Statements *Continued*

21 Share premium

	2015 US$m	2014 US$m
At 1st January	188.2	186.6
Rights issue *(refer note 24d(i))*	303.7	–
Share issue expenses *(refer note 24d(i))*	(3.6)	–
Issued under share-based long-term incentive plans *(refer note 24d(ii))*	1.3	–
Transfer from capital reserves	0.7	1.6
At 31st December	490.3	188.2

22 Share-based long-term incentive plans

Share-based long-term incentive plans have been set up to provide incentives for selected executives. Awards can take the form of share options with an exercise price based on the then prevailing market prices or such other price set by the Directors or share awards which will vest free of payment. Awards normally vest on or after the third anniversary of the date of grant and may be subject to the achievement of performance conditions.

i) The Mandarin Oriental Share-based Long-term Incentive Plan (the '2014 Plan') was adopted by the Company on 6th March 2014. During 2015, conditional awards of 1,600,000 (2014: 1,890,000) shares were awarded under the 2014 Plan. Under these awards, the free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. The fair value of the share awards granted during the year was US$2.3 million (2014: 2.8 million). The inputs into the discounted cash flow valuation model were share price of US$1.630 (2014: US$1.715) per share at the grant date, dividend yield of 4.4% (2014: 4.3%), and annual risk-free interest rate of 2.1% (2014: 2.0%).

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2015	2014
At 1st January	1.9	–
Adjustments*	0.1	–
Granted	1.6	1.9
Cancelled	(0.1)	–
At 31st December	3.5	1.9

Outstanding conditional awards at 31st December:

	Ordinary shares in millions	
Awards vest date	2015	2014
2017	1.9	1.9
2018	1.6	–
Total outstanding	3.5	1.9

*Adjustments were made to the number of outstanding conditional awards as a result of the 1 for 4 rights issue effective on 9th March 2015 and approved by the Share Incentive Scheme Committee on 24th March 2015.

22 Share-based long-term incentive plans *continued*

ii) Prior to the adoption of the 2014 Plan, The Mandarin Oriental International Share Option Plan 2005 provided selected executives with options to purchase ordinary shares in the Company. The exercise price of the granted options was based on the average market price for the five trading days immediately preceding the date of grant of the options. Options are vested over a period of up to three years and are exercisable for up to ten years following the date of grant.

Movements of the outstanding options during the year:

	2015		2014	
	Weighted average exercise price US$	Options in millions	Weighted average exercise price US$	Options in millions
At 1st January	**1.69**	**32.4**	1.68	36.5
Adjustments*	**–**	**1.9**	–	–
Exercised	**1.21**	**(1.6)**	1.44	(3.1)
Cancelled	**1.70**	**(0.2)**	2.03	(1.0)
At 31st December	**1.61**	**32.5**	1.69	32.4

The average share price during the year was US$1.63 (2014: US$1.77) per share.

Outstanding options at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price* US$	**2015**	2014
2016	1.20	**0.3**	0.3
2017	1.77	**3.7**	3.6
2018	1.08-1.63	**6.9**	6.8
2019	0.66	**1.2**	1.5
2020	1.36	**3.0**	3.8
2021	1.99	**4.8**	4.5
2022	1.61	**6.8**	6.4
2023	1.57	**5.8**	5.5
Total outstanding		**32.5**	32.4
of which exercisable		**27.4**	21.2

*Adjustments were made to the exercise price and the number of outstanding options as a result of the 1 for 4 rights issue effective on 9th March 2015 and approved by the Share Incentive Scheme Committee on 24th March 2015.

Notes to the Financial Statements *Continued*

23 Dividends

	2015 US$m	2014 US$m
Final dividend in respect of 2014 of US¢5.00 (2013: US¢5.00) per share	**50.2**	50.1
Interim dividend in respect of 2015 of US¢2.00 (2014: US¢2.00) per share	**25.1**	20.1
	75.3	70.2

A final dividend in respect of 2015 of US¢3.00 (2014: US¢5.00) per share amounting to a total of US$37.7 million (2014: US$50.2 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2016 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2016.

24 Notes to consolidated cash flow statement

a) Other non-cash items

	2015 US$m	2014 US$m
Share-based payment	**2.4**	2.6
Others	**(0.2)**	(1.1)
	2.2	1.5

b) Movements in working capital

(Increase)/decrease in stocks	**(0.3)**	0.3
Increase in debtors and prepayments	**(0.6)**	(4.9)
(Decrease)/increase in creditors and accruals	**(2.6)**	5.9
Increase in pension obligations	**1.9**	0.9
	(1.6)	2.2

c) The Group received repayment on its shareholder loan previously provided to Mandarin Oriental, Miami of US$0.6 million in 2015.

In 2014, the Group received repayment on its shareholder loans previously provided to Mandarin Oriental, Kuala Lumpur and Mandarin Oriental, New York of US$3.3 million and US$1.0 million, respectively.

24 Notes to consolidated cash flow statement *continued*

d) *i)* In April 2015, the Group completed a 1 for 4 rights issue with 250.9 million new ordinary shares issued at US$1.26 per share, raising US$316.2 million of gross proceeds. The proceeds of the issue were used to pay down debt in advance of the proposed refurbishment of Mandarin Oriental Hyde Park, London and to fund the Group's acquisition of a 50% interest in the Hotel Ritz, Madrid. The Group paid expenses of US$3.6 million in connection with the rights issue in 2015.

ii) The Group also issued 1.3 million new ordinary shares under the share-based long-term incentive plans with proceeds of US$1.4 million in 2015.

e) Analysis of balances of cash and cash equivalents

	2015 US$m	2014 US$m
Bank and cash balances *(refer note 15)*	308.6	324.6
Bank overdrafts *(refer note 17)*	–	(0.3)
	308.6	324.3

25 Derivative financial instruments

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

	2015 Positive fair value US$m	2015 Negative fair value US$m	2014 Positive fair value US$m	2014 Negative fair value US$m
Designated as cash flow hedges				
– interest rate swaps and caps	–	3.0	–	3.0
At 31st December	–	3.0	–	3.0

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2015 were US$243.1 million (2014: US$306.8 million).

At 31st December 2015, the fixed interest rates relating to interest rate swaps and caps varied from 1.9% to 2.9% (2014: 1.0% to 2.9%).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 0.2% to 1.3% (2014: 0.2% to 1.7%) per annum.

Notes to the Financial Statements *Continued*

26 Munich expansion

In March 2014, the Group announced that it had entered into an agreement with a developer for the expansion of Mandarin Oriental, Munich. The expansion will include new hotel rooms and facilities as part of a mixed-use complex estimated to open in 2021. The Group's total investment in the project, which will also include a refurbishment of the existing hotel's 73 rooms, is estimated at €124 million (US$135 million) in today's terms. As at 31st December 2015 and 31st December 2014, cumulative costs paid by the Group in relation to the expansion project amounted to €12 million (US$16.9 million), the majority of which have been included within Other Debtors pending transfer of title in the underlying land.

27 Acquisition of Hotel Ritz, Madrid

In May 2015, the Group acquired a 50% interest in the Hotel Ritz, Madrid for €65 million (US$73.3 million) in a joint venture with The Olayan Group, with Mandarin Oriental managing the hotel under a long-term management agreement. The hotel is to undergo a comprehensive renovation in 2017, currently estimated to cost a total of some €90 million, of which the Group's share will be €45 million (US$49 million).

28 Commitments

	2015 US$m	2014 US$m
Capital commitments		
Authorized not contracted		
– other	**263.9**	139.8
Contracted not provided		
– joint ventures	**40.6**	–
– other	**16.9**	26.7
	57.5	26.7
	321.4	166.5
Operating lease commitments		
Total commitments under operating leases		
– due within one year	**5.9**	6.9
– due between one and two years	**5.7**	6.4
– due between two and three years	**5.5**	6.2
– due between three and four years	**5.5**	5.8
– due between four and five years	**5.5**	5.5
– due beyond five years	**82.0**	87.6
	110.1	118.4

No future sublease payments are receivable relating to the above operating leases (2014: nil).

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

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

In the normal course of business, the Group undertakes a variety of transactions with its associates and joint ventures and with JMH and its subsidiaries, associates and joint ventures. The more significant of these transactions are described below:

During 2015, the Group managed six associate and joint venture hotels (2014: five associate hotels) and received management fees of US$13.2 million (2014: US$14.3 million) based on long-term management agreements on normal commercial terms.

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 2015 to JLT amounted to US$0.8 million (2014: US$0.8 million).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2015 amounted to US$2.5 million (2014: US$3.5 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US$0.5 million (2014: 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 Group did not have any amount payable to JML as at 31st December 2015 (2014: nil).

The outstanding balances with associates and joint ventures are set out in debtors and prepayment in note 14.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 92 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.

	2015 US$m	2014 US$m
Subsidiaries	959.2	721.4
Net current liabilities	(3.1)	(1.4)
Net assets	956.1	720.0
Share capital *(refer note 20)*	62.8	50.2
Share premium *(refer note 21)*	490.3	188.2
Revenue and other reserves	403.0	481.6
Shareholders' funds	956.1	720.0

Subsidiaries are shown at cost less amount provided.

31 Post balance sheet event

In January 2016, the Group announced that it would acquire Mandarin Oriental, Boston for US$140 million, a hotel that the Group has managed since its opening in 2008. The transaction is expected to close by the end of April 2016.

Principal Subsidiaries, Associates, Joint Ventures and Managed Hotels

at 31st December 2015

			Attributable interest %		Proportion of ordinary shares and voting powers at 31st December 2015 held by the Group	non-controlling interests	
Principal country	Company name	Main activities	2015	2014	%	%	Hotel profile
Subsidiaries							
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management	**100**	100	**100**	–	–
Hong Kong	Mandarin Oriental Hotel Group Limited	Management	**100**	100	**100**	–	–
Hong Kong	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong	**100**	100	**100**	–	501 rooms. Lease expiry 2895
Hong Kong	Excelsior Hotel (BVI) Limited	Owner: The Excelsior, Hong Kong	**100**	100	**100**	–	883 rooms. Lease expiry 2842
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	**100**	100	**100**	–	178 rooms. Lease expiry 2035
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta	**96.9**	96.9	**96.9**	**3.1**	272 rooms. Lease expiry 2023
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London	**100**	100	**100**	–	193 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva	**85.3**	85.3	**85.3**	**14.7**	189 rooms. Lease expiry 2040
Switzerland	Société pour l' Exploitation de Mandarin Oriental (Genèva) SA		**100**	100	**100**	–	–
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	**100**	100	**100**	–	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	**100**	100	**100**	–	138 rooms. Freehold
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	**80**	80	**80**	**20**	397 rooms. Freehold
Associates and joint ventures							
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	**50**	50	**50**	**50**	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	**44.9**	44.9	**44.9**	**55.1**	368 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	**25**	25	**25**	**75**	632 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	**49**	49	**49**	**51**	–
Spain	Ritz Madrid, S.A.	Owner: Hotel Ritz, Madrid	**50**	–	**50**	**50**	167 rooms. Freehold *(refer note 27)*
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	**25**	25	**25**	**75**	244 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	**25**	25	**25**	**75**	326 rooms. Freehold
Managed hotels							
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		–	–	–	–	109 rooms
Macau	Mandarin Oriental, Macau		–	–	–	–	213 rooms
China	Mandarin Oriental, Sanya		–	–	–	–	296 rooms
China	Mandarin Oriental, Guangzhou		–	–	–	–	263 rooms
China	Mandarin Oriental Pudong, Shanghai		–	–	–	–	362 rooms
Taiwan	Mandarin Oriental, Taipei		–	–	–	–	301 rooms
Czech Republic	Mandarin Oriental, Prague		–	–	–	–	99 rooms
Spain	Mandarin Oriental, Barcelona		–	–	–	–	120 rooms
Turkey	Mandarin Oriental, Bodrum		–	–	–	–	127 rooms
Italy	Mandarin Oriental, Milan		–	–	–	–	104 rooms
Morocco	Mandarin Oriental, Marrakech		–	–	–	–	63 rooms
United States	Mandarin Oriental, Boston		–	–	–	–	148 rooms
United States	Mandarin Oriental, Las Vegas		–	–	–	–	392 rooms
United States	Mandarin Oriental, Atlanta		–	–	–	–	127 rooms

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the consolidated financial statements

Our opinion

In our opinion, Mandarin Oriental International Limited's consolidated financial statements (the 'financial statements'):

- present fairly, in all material respects, the financial position of the Group as at 31st December 2015 and its financial performance and its cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') and the Companies Act 1981 (Bermuda).

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 31st December 2015;
- the Consolidated Profit and Loss Account and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law in Bermuda and IFRSs as issued by the International Accounting Standards Board (IASB).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibilities Statement on page 89, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the Companies Act 1981 (Bermuda).

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 Companies Act 1981 (Bermuda) 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, including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
London
United Kingdom
3rd March 2016

a) The maintenance and integrity of the Mandarin Oriental International Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Five Year Summary

Consolidated Profit and Loss Account

	2011 US$m	2012 US$m	2013 US$m	2014 US$m	**2015 US$m**
Revenue	614.2	648.3	668.6	679.9	**607.3**
Operating profit	87.3	83.9	111.8	120.8	**107.3**
Net financing charges	(12.0)	(11.1)	(15.8)	(17.3)	**(11.8)**
Share of results of associates and joint ventures	9.8	15.5	20.6	12.3	**10.5**
Profit before tax	85.1	88.3	116.6	115.8	**106.0**
Tax	(18.7)	(17.3)	(19.8)	(19.0)	**(16.6)**
Profit after tax	66.4	71.0	96.8	96.8	**89.4**
Profit attributable to shareholders	66.0	70.7	96.3	97.0	**89.3**
Underlying profit attributable to shareholders	57.5	69.2	93.2	97.0	**90.3**
Earnings per share (US¢)*	6.37	6.80	9.23	9.29	**7.44**
Underlying earnings per share (US¢)*	5.54	6.66	8.93	9.29	**7.53**
Dividends per share (US¢)	6.00	7.00	7.00	7.00	**5.00**

Consolidated Balance Sheet

	2011 US$m	2012 US$m	2013 US$m	2014 US$m	**2015 US$m**
Intangible assets	40.1	42.1	42.6	45.6	**44.1**
Tangible assets	1,038.0	1,055.5	1,440.5	1,315.1	**1,255.0**
Associates and joint ventures	78.4	108.6	110.8	101.6	**164.4**
Other investments	6.0	7.2	9.3	10.5	**10.2**
Loans receivable	–	–	–	–	**–**
Pension assets	12.5	11.2	14.4	7.3	**–**
Deferred tax assets	8.5	4.7	3.1	2.2	**2.8**
Net current assets/(liabilities)	394.9	382.8	(317.7)	55.1	**254.2**
Long-term borrowings	(578.5)	(580.5)	(238.7)	(510.7)	**(436.2)**
Deferred tax liabilities	(64.9)	(64.3)	(65.5)	(62.3)	**(59.8)**
Pension liabilities	(0.2)	(0.6)	(0.6)	–	**–**
Other non-current liabilities	(19.2)	(15.5)	(3.5)	(3.0)	**(3.0)**
Net assets	915.6	951.2	994.7	961.4	**1,231.7**
Share capital	49.8	50.0	50.2	50.2	**62.8**
Share premium	179.7	182.1	186.6	188.2	**490.3**
Revenue and other reserves	681.2	713.8	752.2	718.0	**673.6**
Shareholders' funds	910.7	945.9	989.0	956.4	**1,226.7**
Non-controlling interests	4.9	5.3	5.7	5.0	**5.0**
Total equity	915.6	951.2	994.7	961.4	**1,231.7**
Net asset value per share (US$)*	0.87	0.91	0.95	0.92	**0.98**

Consolidated Cash Flow Statement

	2011 US$m	2012 US$m	2013 US$m	2014 US$m	**2015 US$m**
Cash flows from operating activities	146.3	126.0	156.9	159.5	**140.2**
Cash flows from investing activities	(65.0)	(87.0)	(422.3)	(45.6)	**(124.4)**
Net cash flow before financing activities	81.3	39.0	(265.4)	113.9	**15.8**
Cash flow per share from operating activities (US¢)*	14.11	12.11	15.04	15.27	**11.69**

*The comparative figures from 2011 to 2014 have been adjusted to reflect the effect of the rights issue completed in April 2015.

Responsibility Statement

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

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

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

For and on behalf of the Board

Edouard Ettedgui
Stuart Dickie
Directors
3rd March 2016

Corporate Governance

Mandarin Oriental International Limited is incorporated in Bermuda. The Company was established as an Asian-based hotel group and has since extended its operations to key locations around the world. The Company's equity shares have a standard listing on the Main Market of the London Stock Exchange, and secondary listings in Bermuda and Singapore. The Disclosure Rules and Transparency Rules (the 'DTRs') issued by the Financial Conduct Authority in the United Kingdom (the 'FCA') require that this Report address all relevant information about the corporate governance practices applied beyond the requirements under Bermuda law.

The Company attaches importance to the corporate stability and opportunities that result from it being part of the Jardine Matheson Holdings Limited ('Jardine Matheson') group, which is considered to be fundamental to the Company's ability to pursue its long-term development strategy. By coordinating objectives, establishing common values and standards, and sharing experience, contacts and business relationships, the Jardine Matheson group companies aim to optimize their opportunities across countries where they operate, particularly in Asia.

The Group is committed to high standards of governance. The system of governance it has adopted is based on a well-tried approach to oversight and management that has been developed over many years by the members of the Jardine Matheson group. It enables the Company to benefit from Jardine Matheson's strategic guidance and professional expertise, while at the same time the independence of the Board is respected and clear operational accountability rests with the Company's executive management team.

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

The presence of Jardine Matheson representatives on the Board and on the board of MOHG, as well as on its audit and finance committees, provides an added element of stability to the Company's financial planning and supervision, enhancing its ability to raise finance and take a long-term view of business development. It also eases the ability of management to work effectively together in exploiting the full range of the Jardine Matheson group's commercial strengths.

The Directors of the Company retain full power to manage the business affairs of the Company, other than matters reserved to be exercised by the Company in general meeting under Bermuda legislation or the Company's Bye-laws. Among the matters on which the Board decides are the Group's business strategy, its annual budget, dividends and major corporate activities.

The Board

The Company currently has a Board of 17 Directors. Their names and brief biographies appear on pages 26 and 27 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The Board composition and operation helps to provide the Company with the necessary stability as it seeks to grow its business.

The role of the Chairman is to lead the Board as it oversees the Group's strategic and financial direction, while the principal role of the Managing Director is to act as chairman of MOHG and of its finance committee. Ben Keswick is currently appointed to both positions. The responsibility for running the Group's business and all the executive matters affecting the Group rests with the Group Chief Executive. The implementation of 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.

The Board is scheduled to hold four meetings in 2016 and ad hoc procedures are adopted to deal with urgent matters. In 2015 one meeting was held in Bermuda and three were held in Asia. The Board receives high quality, up to date information for each of its meetings. In addition, certain Directors of the Company who do not serve on the board of MOHG and who are based outside Asia regularly visit Asia and Bermuda to discuss the Group's business, as well as to participate in the four strategic reviews that precede the regular Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs reinforces the process by which business is reviewed before consideration at Board meetings.

Directors' appointment, retirement, remuneration and service contracts

Candidates for appointment as executive Directors of the Company, as executive directors of MOHG or as senior executives elsewhere in the Group may be sourced internally, or from the Jardine Matheson group or externally, including by using the services of specialist executive search firms. The aim is to appoint individuals who combine international best practice with familiarity of or adaptability to Asian markets. When appointing non-executive Directors, the Board pays particular attention to the Asian business experience and relationships that they can bring.

Each new Director is appointed by the Board and, in accordance with the Company's Bye-laws, each new Director so appointed is subject to retirement at the first annual general meeting after appointment. Thereafter, Directors are subject to retirement by rotation under the Bye-laws 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 does not extend to the Chairman or Managing Director.

On 31st July 2015, Giles White retired from the Board. Jeremy Parr was appointed as a Director of the Company with effect from 1st August 2015. On 26th November 2015 it was announced that Edouard Ettedgui will step down as Group Chief Executive on 31st March 2016 and that James Riley will join the Board in his place on 1st April 2016.

Corporate Governance *Continued*

In accordance with Bye-law 85, Stuart Dickie, Lord Leach of Fairford, Anthony Nightingale, Lord Powell of Bayswater and Lord Sassoon retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Jeremy Parr and James Riley will also retire and, being eligible, offer themselves for re-election. Stuart Dickie has a service contract with a subsidiary of the Company that has a notice period of six months, and it is proposed that upon his appointment as Group Chief Executive becoming effective on 1st April 2016, James Riley will have a service contract with a subsidiary of the Company that has 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 are required to be offered international terms and the nature of the remuneration packages is designed to reflect this. Executive Directors joining from outside the Group may be offered an initial fixed-term service contract to reflect any requirement for them to relocate.

Recommendations and decisions on remuneration and other benefits payable or made available to executive Directors result from consultations between the Chairman and other Directors as he considers appropriate. Directors' fees, which are payable to all Directors other than the Group Chief Executive and the Chief Financial Officer, are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws.

For the year ended 31st December 2015, the Directors received from the Group US$7.3 million (2014: US$7.2 million) in Directors' fees and employee benefits, being US$0.7 million (2014: US$0.6 million) in Directors' fees, US$5.9 million (2014: US$5.7 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.2 million (2014: US$0.2 million) in post-employment benefits and US$0.5 million (2014: US$0.7 million) in share-based payments. The information set out in this paragraph forms part of the audited financial statements.

Share-based long-term incentive plans have also been established to provide incentives for executive Directors and senior managers. Share options and share awards are granted by the scheme trustee after consultation between the Chairman and the Group Chief Executive as well as other Directors as they consider appropriate. Share options are granted at the then prevailing market prices, while share awards will vest free of payment. The share options and share awards normally vest on or after the third anniversary of the date of grant. Grants may be made in a number of instalments. Share options and share awards 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.

Audit Committee

The Board has established within MOHG an audit committee (the 'Audit Committee'), the current members of which are Adam Keswick, Mark Greenberg, Jeremy Parr and James Riley; they have extensive knowledge of the Group while at the same time not being directly involved in operational management. The chairman, group chief executive and chief financial officer of MOHG, together with representatives of the internal and external auditors, also attend the Audit Committee meetings by invitation. The Audit Committee meets and reports to the Board semi-annually.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results, including the adoption of new accounting policies, is undertaken by the Audit Committee 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 keeps under review the nature, scope and results of the audits conducted by the internal audit function. The Audit Committee's responsibilities extend to reviewing the effectiveness of both the internal and external audit functions; considering the independence and objectivity of the external auditors; and reviewing and approving the level and nature of non-audit work performed by the external auditors.

The terms of reference of the Audit Committee can be found on the Company's website at www.mandarinoriental.com.

Risk management and internal control

The Board has overall responsibility for the Group's systems of risk management and internal control. The Board has delegated to the Audit Committee responsibility for reviewing areas of risk and uncertainty, the operation and effectiveness of the Group's systems of internal control and the procedures by which these are monitored. The Audit Committee considers the systems and procedures on a regular basis, and reports to the Board semi-annually. The systems of internal control are 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.

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

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

The Company's policy on commercial conduct underpins the Group's internal control process, particularly in the area of compliance. The policy is set out in the Group's Code of Conduct, which is a set of guidelines to which every employee must adhere, and is reinforced and monitored by an annual compliance certification process.

The Audit Committee 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.

The principal risks and uncertainties facing the Company are set out on pages 97 and 98.

Directors' responsibilities in respect of the financial statements

The Directors are required under the Bermuda Companies Act 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 are required to 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. The financial statements have been prepared on a going concern basis.

Code of Conduct

The Group conducts business in a professional, ethical and even-handed manner. Its ethical standards are clearly set out in its Code of Conduct, which is modelled on the Jardine Matheson group's code of conduct. The Code of Conduct 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 of Conduct 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.

Directors' share interests

The Directors of the Company in office on 3rd March 2016 had interests (within the meaning of the DTRs) as set out below in the ordinary share capital of the Company. These interests include those notified to the Company in respect of the Directors' connected persons (as that term is used in the DTRs in relation to companies incorporated outside the United Kingdom).

Edouard Ettedgui	13,507,228
Stuart Dickie	271,083
Lincoln K.K. Leong	129,756

In addition, Edouard Ettedgui held share options in respect of 8,693,974 ordinary shares, and Stuart Dickie held share options in respect of 2,385,540 ordinary shares and share awards in respect of 484,156 ordinary shares, issued pursuant to the Company's share-based long-term incentive plans.

Substantial shareholders

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

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic Holdings Limited ('Jardine Strategic'), which is directly interested in 925,548,772 ordinary shares carrying 73.69% 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 3rd March 2016.

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

Governance principles

The Company's primary listing on the London Stock Exchange is a standard listing on the Main Market. Under a standard listing, the Company is subject to the UK Listing Rules (other than those which apply only to companies with a premium listing), the DTRs, the UK Prospectus Rules and the market abuse provisions of the UK Financial Services and Markets Act. The Company, therefore, is bound by the rules in relation to continuous disclosure, periodic financial reporting, disclosure of interests in shares and market abuse, including the rules governing insider dealing, market manipulation and the disclosure of price sensitive information. The Company is also subject to regulatory oversight from the FCA, as the Company's principal securities regulator, and is required to comply with the Admission and Disclosure Standards of the Main Market of the London Stock Exchange.

When shareholders approved the Company's move to a standard listing from a premium listing in 2014, the Company stated that it intended to maintain certain governance principles on the same basis as was then applicable to the Company's premium listing, as follows:

1. When assessing a significant transaction, being a larger transaction which would be classified as a class 1 transaction under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to provide a fairness opinion on the terms of the transaction.

2. In the event of a related party transaction, being a transaction with a related party which would require a sponsor to provide a fair and reasonable opinion under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to confirm that the terms of the transaction are fair and reasonable as far as the shareholders of the Company are concerned.

3. Further, as soon as the terms of a significant transaction or a related party transaction are agreed, an announcement will be issued by the Company providing such details of the transaction as are necessary for investors to evaluate the effect of the transaction on the Company.

4. At each annual general meeting, the Company will seek shareholder approval to issue new shares on a non-pre-emptive basis for up to 33% of the Company's issued share capital, of which up to 5% can be issued for cash consideration.

5. The Company will continue to adhere to its Securities Dealing Rules, which follow the UK Model Code as then applied to the Company.

6. The Company will continue its policies and practices in respect of risk management and internal controls.

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 page 83.

Securities purchase arrangements

The Directors have the power under the Bermuda Companies Act and the Company's Memorandum of Association to purchase the Company's shares. Any shares so purchased shall be treated as cancelled. When the Board reviews the possibility for share repurchases, it will take into consideration the potential for the enhancement of earnings or asset values per share. When purchasing such shares, the Company is subject to the UK market abuse regime.

Takeover Code

The Company is subject to a Takeover Code, based on London's City Code on Takeovers and Mergers. The Takeover Code provides an orderly framework within which takeovers can be conducted and the interests of shareholders protected. The Takeover Code has statutory backing, being established under the Acts of incorporation of the Company in Bermuda.

Annual General Meeting

The 2016 Annual General Meeting will be held at Rosewood Tucker's Point, Bermuda on 4th May 2016. 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. A corporate website is maintained containing a wide range of information of interest to investors at www.mandarinoriental.com.

Power to amend Bye-laws

The Bye-laws of the Company can be amended by the shareholders by way of a special resolution at a general meeting of the Company.

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on page 93 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 Rules and Transparency Rules issued by the Financial Conduct Authority in the United Kingdom and are in addition to the matters referred to in the Chairman's Statement and Group Chief Executive's Review.

Economic and financial risk

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

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Risk Management section in the Financial Statements on pages 44 to 49.

Commercial and market risk

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

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

The Group competes with other luxury hotel operators for new opportunities in the areas of hotel management, residences management and residences branding. Failure to establish and maintain relationships with hotel owners or developers could adversely affect the Group's business. The Group also makes investment decisions in respect of acquiring new hotel properties and undertaking major renovations at hotels in which it has an ownership interest. The success of these investments is measured over the longer term and as a result is subject to market risk.

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

Pandemic, terrorism and natural disasters

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

Principal Risks and Uncertainties *Continued*

Key agreements

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

Intellectual property and value of the brand

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

Regulatory and political risk

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

Shareholder Information

Financial calendar

2015 full-year results announced	3rd March 2016
Shares quoted ex-dividend on the Singapore Exchange	16th March 2016
Shares quoted ex-dividend on the London Stock Exchange	17th March 2016
Share registers closed	21st to 25th March 2016
Annual General Meeting to be held	4th May 2016
2015 final dividend payable	11th May 2016
2016 half-year results to be announced	28th July 2016*
Shares quoted ex-dividend on the Singapore Exchange	17th August 2016*
Shares quoted ex-dividend on the London Stock Exchange	18th August 2016*
Share registers to be closed	22nd to 26th August 2016*
2016 interim dividend payable	12th October 2016*

* Subject to change

Dividends

Shareholders will receive their cash 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 2015 final dividend by notifying the United Kingdom transfer agent in writing by 22nd April 2016. The sterling equivalent of dividends declared in United States dollars will be calculated by reference to a rate prevailing on 27th April 2016. Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends only in sterling. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive their cash dividends in United States dollars unless they elect, through CDP, to receive Singapore dollars.

Registrars and transfer agent

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

Principal Registrar

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

Jersey Branch Registrar

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

Singapore Branch Registrar

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

United Kingdom Transfer Agent

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom

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

Mandarin Oriental Hotel Group Contact Addresses

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

Asia-Pacific

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

Mandarin Oriental, Guangzhou
389 Tianhe Road, Tianhe District
Guangzhou 510620, China
Telephone +86(20) 3808 8888
Facsimile +86(20) 3808 8889
Email mogzh-reservations@mohg.com

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

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

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

Mandarin Oriental, Jakarta
Jalan M H Thamrin
PO Box 3392
Jakarta 10310
Indonesia
Telephone +62(21) 2993 8888
Facsimile +62(21) 2993 8889
Email mojkt-reservations@mohg.com

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

Mandarin Oriental, Macau
Avenida Dr Sun Yat Sen
NAPE, Macau
Telephone +853 8805 8888
Facsimile +853 8805 8899
Email momac-reservations@mohg.com

Mandarin Oriental, Sanya
12 Yuhai Road
Sanya 572000
Hainan, China
Telephone +86(898) 8820 9999
Facsimile +86(898) 8820 9393
Email mosan-reservations@mohg.com

Mandarin Oriental Pudong, Shanghai
111 Pudong Road (S), Pudong
Shanghai 200120, China
Telephone +86(21) 2082 9888
Facsimile +86(21) 2082 9000
Email mopud-reservations@mohg.com

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

Mandarin Oriental, Taipei
158 Dunhua North Road
Taipei 10548, Taiwan
Telephone +886(2) 2715 6888
Facsimile +886(2) 2715 6699
Email motpe-reservations@mohg.com

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

Europe, Middle East & North Africa

Mandarin Oriental, Barcelona
Passeig de Gràcia, 38-40
08007 Barcelona, Spain
Telephone +34 93 151 8888
Facsimile +34 93 151 8889
Email mobcn-reservations@mohg.com

Mandarin Oriental, Bodrum
Cennet Koyu Çomça Mevkii
314. Sokak No. 10, Göltürkbükü Mahallesi
48400, Bodrum, Muğla, Turkey
Telephone +90(252) 311 1888
Facsimile +90(252) 311 1889
Email mobod-reservations@mohg.com

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

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

Hotel Ritz, Madrid
Plaza de la Lealtad 5
28015 Madrid
Spain
Telephone +34(91) 701 67 67
Facsimile +34(91) 701 67 76
Email rzmad-reservations@mohg.com

Mandarin Oriental, Marrakech
Route du Golf Royal
40000 Marrakech, Morocco
Telephone +212 524 298 888
Facsimile +212 524 298 889
Email momrk-reservations@mohg.com

Mandarin Oriental Hotel Group Contact Addresses *Continued*

Mandarin Oriental, Milan
Via Andegari 9
20121 Milan, Italy
Telephone +39 02 8731 8888
Facsimile +39 02 8731 8881
Email momln-reservations@mohg.com

Mandarin Oriental, Munich
Neuturmstrasse 1
80331 Munich, Germany
Telephone +49(0) 89 290 980
Facsimile +49(0) 89 222 539
Email momuc-reservations@mohg.com

Mandarin Oriental, Paris
251 rue Saint-Honoré
75001 Paris, France
Telephone +33(1) 7098 7888
Facsimile +33(1) 7098 7887
Email mopar-reservations@mohg.com

Mandarin Oriental, Prague
Nebovidská 459/1
11800 Prague 1, Czech Republic
Telephone +420(2) 33 088 888
Facsimile +420(2) 33 088 668
Email moprg-reservations@mohg.com

The Americas

Mandarin Oriental, Atlanta
3376 Peachtree Road NE
Atlanta, Georgia 30326, USA
Telephone +1(404) 995 7500
Facsimile +1(404) 995 7501
Email moatl-reservations@mohg.com

Mandarin Oriental, Boston
776 Boylston Street
Boston, Massachusetts 02199, USA
Telephone +1(617) 535 8888
Facsimile +1(617) 535 8889
Email mobos-reservations@mohg.com

Mandarin Oriental, Las Vegas
3752 Las Vegas Boulevard South
Las Vegas, Nevada 89158, USA
Telephone +1(702) 590 8888
Facsimile +1(702) 590 8880
Email molas-reservations@mohg.com

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

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

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

Sales and Reservations Offices

Mandarin Oriental Hotel Group

Sales Offices

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

Australia
Suite 108, 1 Cassins Avenue
North Sydney, NSW 2060
Australia
Telephone +61(2) 8920 1871
Facsimile +61(2) 8920 2542

Japan
2-1-1 Nihonbashi Muromachi
Chuo-ku, Tokyo 103-8328 Japan
Telephone +81(3) 3231 2920
Facsimile +81(3) 3231 2925

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

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Facsimile +33(1) 7098 7304

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London W1T 2QA
United Kingdom
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Facsimile +44(0) 20 7908 7880

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Facsimile +1(312) 962 8853

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Telephone +1(954) 941 6151
Facsimile +1(954) 489 9256

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Facsimile +1(443) 458 1324

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Facsimile +86(28) 6466 3999

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Guangzhou 510620, China
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