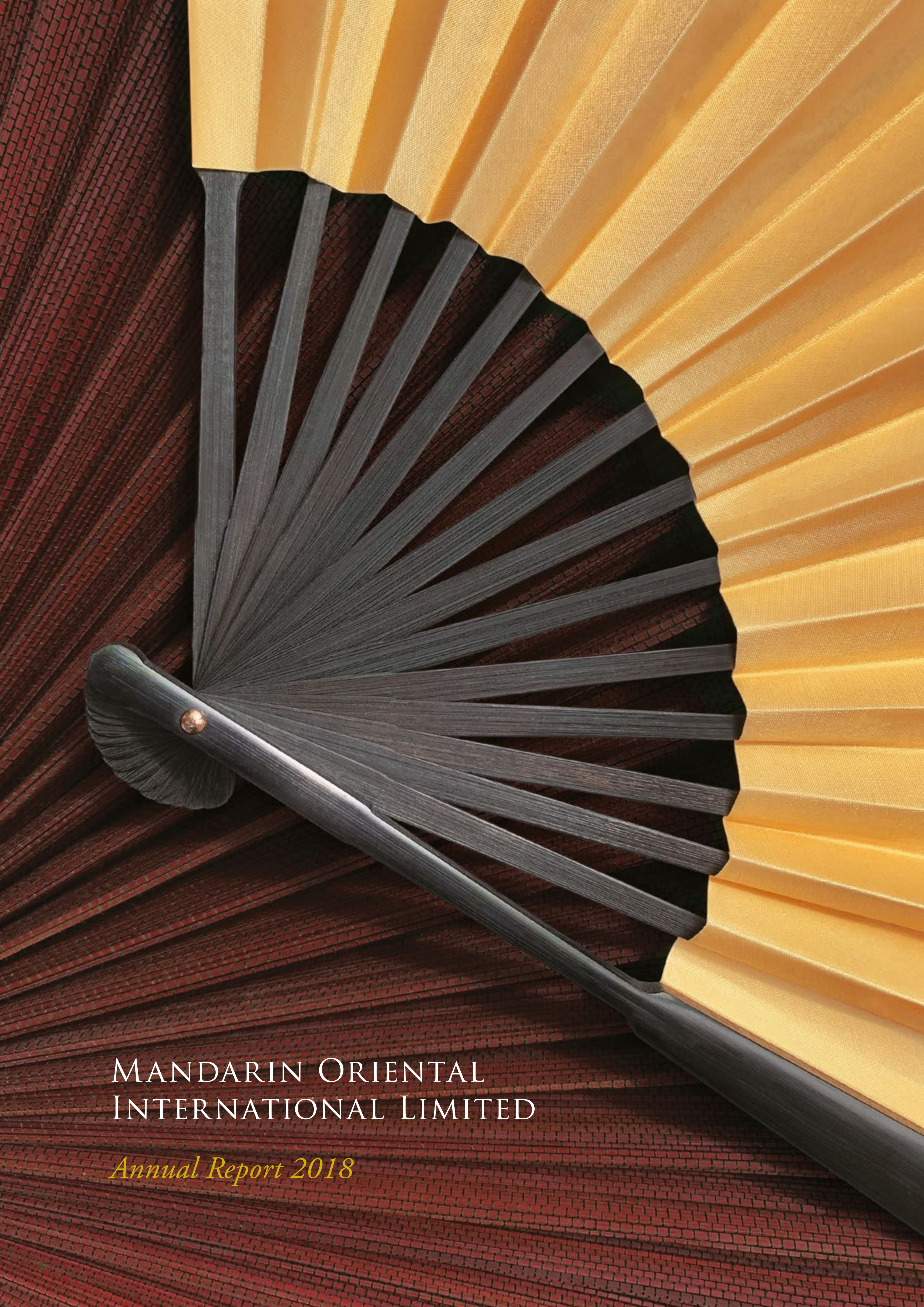


Mandarin Oriental International Limited

Annual Report 2018

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 its Asian roots into a global brand, the Group now operates 32 hotels and six residences in 23 countries and territories, with each property reflecting the Group's oriental heritage and unique sense of place. Mandarin Oriental has a strong pipeline of hotels and residences under development. The Group has equity interests in a number of its properties and adjusted net assets worth approximately US$5.8 billion as at 31st December 2018.

Mandarin Oriental's aim is to be recognised as the world's best luxury hotel group. This will be achieved by investing in the Group's exceptional facilities and its people, and seeking selective opportunities for expansion around the world, while maximising 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 parent company, Mandarin Oriental International Limited, is incorporated in Bermuda and has a standard listing on the London Stock Exchange, with secondary listings in Bermuda and Singapore. Mandarin Oriental Hotel Group International Limited, which operates from Hong Kong, manages the activities of the Group's hotels. Mandarin Oriental is a member of the Jardine Matheson Group.

Jardines

A member of the Jardine Matheson Group

Contents

Corporate Information

Directors

Ben Keswick *Chairman and Managing Director*
James Riley *Group Chief Executive*
Craig Beattie
Jack Yilun Chen
Edouard Ettedgui
Mark Greenberg
Julian Hui
Adam Keswick
Simon Keswick
Lincoln K.K. Leong
Anthony Nightingale
Y.K. Pang
Jeremy Parr
Lord Sassoon, Kt
James Watkins
Percy Weatherall

Company Secretary

Jonathan Lloyd

Registered Office

Jardine House
33-35 Reid Street
Hamilton
Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

Ben Keswick *Chairman*
James Riley *Group Chief Executive*
Craig Beattie *Chief Financial Officer*
Richard Baker
Kieren Barry
Paul Clark
Jan Goessing*
Mark Greenberg
Jill Kluge
Christoph Mares
Vincent Marot
Paul Massot
Y.K. Pang
Jeremy Parr
John Witt

Corporate Secretary

Jonathan Lloyd

* Jan Goessing will retire as a director with effect from the close of business on 28th February 2019.

Highlights

Mandarin Oriental International Limited

- 19% increase in underlying profit
- Group to redevelop The Excelsior, Hong Kong as a commercial building
- Mandarin Oriental Hyde Park, London to fully re-open in April 2019
- Seven new management contracts signed

Results

	Year ended 31st December 2018 US$m	2017 US$m	Change %
Combined total revenue of hotels under management[1]	**1,397.6**	1,380.4	1
Underlying EBITDA (Earnings before interest, tax, depreciation and amortisation)[2]	**179.1**	157.9	13
Underlying profit attributable to shareholders[3]	**65.1**	54.9	19
Profit attributable to shareholders	**43.6**	54.9	(21)
	US¢	US¢	%
Underlying earnings per share[3]	**5.16**	4.37	18
Earnings per share	**3.46**	4.37	(21)
Dividends per share	**3.00**	3.00	–
	US$	US$	%
Net asset value per share	**0.98**	1.01	(3)
Adjusted net asset value per share[4]	**4.62**	4.57	1
Net debt/shareholders' funds	**23%**	26%	
Net debt/adjusted shareholders' funds[4]	**5%**	6%	

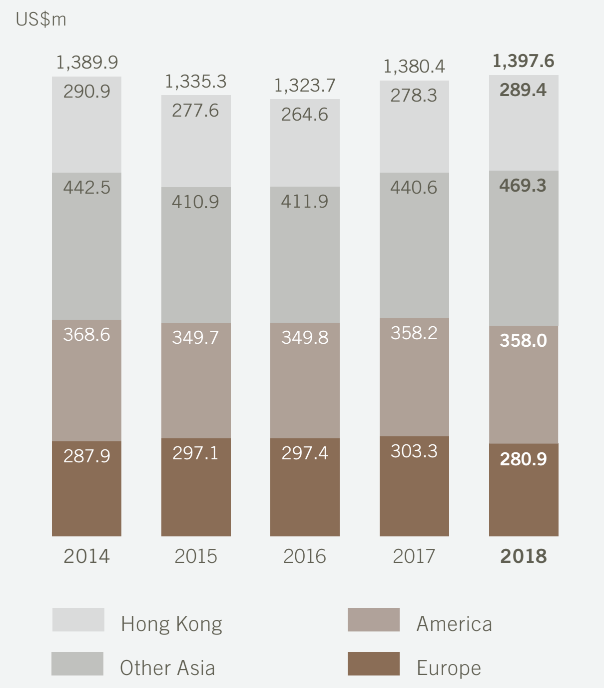
1 Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate, joint venture and managed hotels.

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

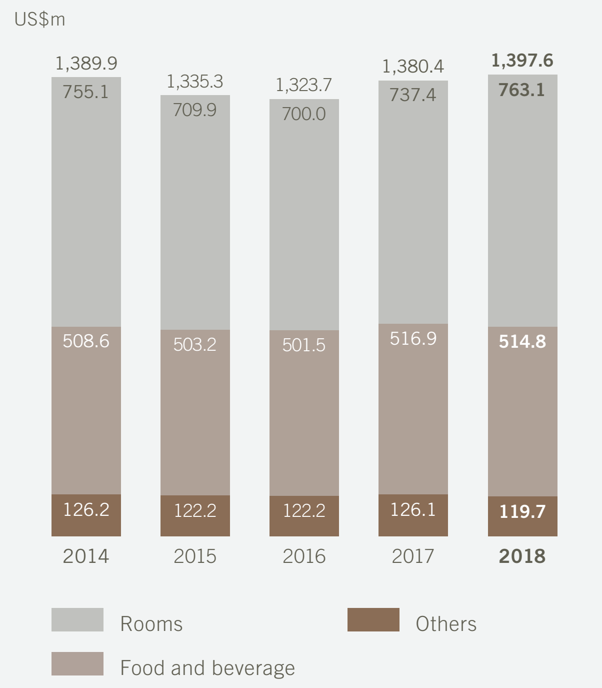
3 The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 31 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

4 The 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 amortised cost.

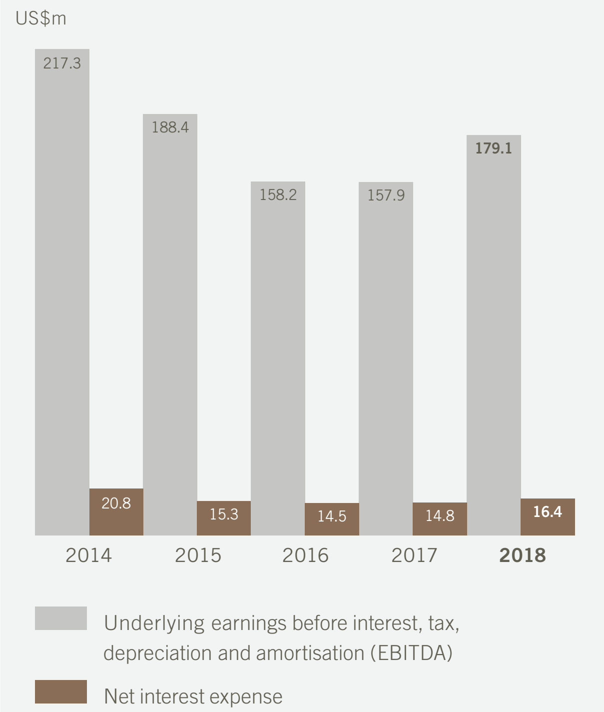
Combined total revenue
by geographical area



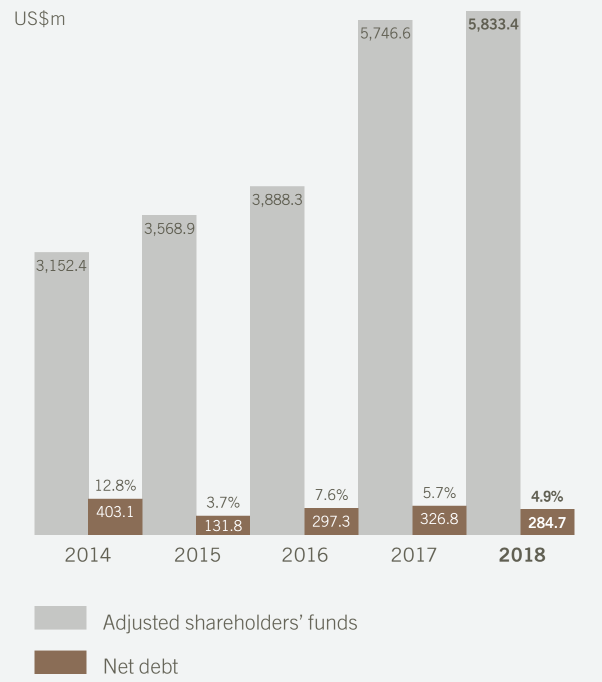
Combined total revenue
by type of business



Underlying EBITDA and net interest expense



Net debt/adjusted shareholders' funds



Chairman's Statement

Overview

Underlying profit for the year was 19% higher than the prior year due to generally improved trading across the portfolio, with particularly strong performances from the Group's owned properties in Hong Kong and its Singapore hotel. Results also benefited from the receipt of one-off fees in respect of Las Vegas and Atlanta. The impact of the fire in London in June 2018 was mitigated by insurance proceeds.

During the year, the Group completed its review of strategic options for The Excelsior, Hong Kong and announced that the site will be redeveloped as a commercial building, with the project expected to complete in 2025. The hotel will close on 31st March 2019.

Performance

Underlying earnings before interest, tax, depreciation and amortisation were higher at US$179 million, compared to US$158 million in 2017. The Group's underlying profit increased to US$65 million, from US$55 million in 2017 with underlying earnings per share at US¢5.16, compared with US¢4.37 in 2017. After taking into account a net non-trading loss primarily relating to accelerated asset write-downs due to the planned closure of The Excelsior, profit attributable to shareholders was US$44 million. This compares with US$55 million in 2017, which included no non-trading items.

Following an independent valuation of the Group's owned properties, the adjusted net asset value per share was US$4.62 at 31st December 2018, compared with US$4.57 per share at the end of 2017.

The Directors recommend a final dividend of US¢1.50 per share. This, together with the interim dividend of US¢1.50 per share, will make a total annual dividend of US¢3.00 per share, unchanged from 2017.

At 31st December 2018, the Group's net debt was US$285 million, compared to US$327 million at the end of 2017. Gearing as a percentage of adjusted shareholders' funds at 31st December 2018, after taking into account the market value of the Group's property interests, was 5% compared to 6% at the end of 2017.

The year in review

In **Asia**, results across the region were generally higher. The Group's two wholly-owned hotels in Hong Kong performed well, with a record year for Mandarin Oriental, Hong Kong. The Singapore hotel also had a very strong year while Jakarta showed notable improvement.

In **Europe**, the Paris hotel delivered a better performance, although results during the final quarter of the year were affected by demonstrations in the city. Following the fire in June 2018 repairs at Mandarin Oriental Hyde Park, London are progressing well, and the hotel re-opened its public areas and facilities on 4th December 2018. All guestrooms are scheduled to re-open in April 2019. The hotel's 2018 results include interim cash payments received during 2018 from insurers, which have financed the replacement of fixed assets and provided some compensation for the loss of profits, as the hotel was originally due to fully open in mid-2018, following the completion of its 22-month renovation programme. Discussions on both property damage and business interruption claims with the Group's insurers are expected to be concluded in 2019. Elsewhere, results in Munich and Geneva were weaker while Hotel Ritz, Madrid closed in February 2018 for restoration. It is expected to re-open in 2020.

In **America**, the performance of the Washington D.C. hotel was slightly lower than the prior year, when it benefited from the Presidential Inauguration, but overall results for the region were broadly in-line with 2017. Termination fees were received in respect of the hotels in Las Vegas and Atlanta which the Group ceased to manage following a change in the ownership of each property.

Strategic review of The Excelsior, Hong Kong

On 9th October 2018, the Group announced that The Excelsior, Hong Kong will close on 31st March 2019 in order for the site to be redeveloped as a commercial building. The decision to close the hotel follows a review of the strategic options for the site. While the Group's underlying profit will be adversely affected until the site re-opens as a commercial building (The Excelsior contributed US$24 million to underlying profit in 2018), the decision to close the hotel reflects strong commercial property values in Hong Kong and the expected higher yield associated with a commercial building at a time when the hotel requires significant investment. The redevelopment is expected to take up to six years to complete and to cost some US$650 million.

Upon closure, the Group will be required to recognise a one-time accounting valuation gain associated with reclassifying the asset as a commercial investment property on its balance sheet. Based on current market conditions, this gain is estimated to be some US$2.9 billion and will be reflected in the Group's 2019 results. In 2019, the Group will also recognise estimated non-trading costs of some US$30 million, primarily relating to the balance of accelerated asset write-downs.

Business developments

Seven new management contracts were signed and announced in 2018 while the Group's management of two hotels ceased. New Mandarin Oriental hotels are scheduled to open in Ho Chi Minh City, Grand Cayman, Moscow, Muscat and Phuket over the next five years. In Barcelona, a standalone branded *Residences by Mandarin Oriental* is scheduled to open in 2020. During the course of 2018, the Group also took over the management of a luxury resort on Lake Como in northern Italy. In 2019, the Group recently opened its first two hotels in the Middle East, in Dubai and Doha, and also announced an agreement to brand and manage *Mandarin Oriental Residences at 685 Fifth Avenue* in New York, scheduled to open in 2021.

The Group expects to open its first property in Beijing, Mandarin Oriental Wangfujing, in the coming weeks as well as potentially a second in Beijing in the next 12 months. Mandarin Oriental, Bangkok, in which the Group has a 48% interest, will partially close in March 2019 for a ten-month US$60 million renovation.

People

On behalf of the Directors, I would like to thank colleagues throughout the Group for their contribution during the year which has made the exceptional experiences we provide to our guests possible.

Dr Richard Lee and Lord Powell stepped down as Directors on 9th May 2018, and Sir Henry Keswick retired from the Board on 31st December 2018. We would like to record our gratitude to all of them for their significant contributions to the Group over many years. We were pleased to welcome Jack Yilun Chen to the Board in May 2018.

Stuart Dickie stepped down as Chief Financial Officer on 31st October 2018 and was succeeded by Craig Beattie. We would like to thank Stuart for his contribution to the Company.

Chairman's Statement *Continued*

Outlook

The outlook for 2019 remains positive. The planned closure of The Excelsior for redevelopment in March 2019, however, will substantially reduce the Group's underlying profit. Results will benefit from the full opening in the spring of the newly renovated London hotel, partially offset by the impact of the renovations in Bangkok and Madrid. These major investments, together with the Group's pipeline of new hotels under development, will position the Group for long-term growth.

Ben Keswick
Chairman
28th February 2019

Group Chief Executive's Review

The Group's overall performance in 2018 was pleasing and stronger financial performance was accompanied by significant progress in a number of areas. Almost all of the Group's hotels had a better year in terms of Revenue Per Available Room ('RevPAR') and RevPAR for the Group increased by 9% in US dollar terms on a like-for-like basis[1] . Similarly, underlying EBITDA[2] improved by 13% over the prior year, led by better performances in our wholly-owned Hong Kong properties, Singapore and Paris. Spirits were temporarily dampened by the fire at the Group's London property and our London colleagues deserve special mention for their response to the crisis. The hotel is on schedule to re-open fully in April 2019. The restoration of Madrid, though delayed, is progressing and the Group has also announced a major renovation in Bangkok for 2019.

During the year the Group completed its review of long-term strategic options for The Excelsior hotel in Hong Kong. The hotel will close on 31st March 2019 to enable the Group to redevelop the site as a commercial building. We were also excited to launch our unique guest recognition programme, *Fans of M.O.*, which is designed to elevate guests' experience and recognition. The growth of our development pipeline continued, with seven new projects announced during the year.

There are promising long-term prospects for growth in the luxury travel industry. In particular, experiential luxury is expected to account for an increasing portion of the luxury travel market and the Group will benefit from this evolution. Competition is, however, ever-present and growing more intense as global high net worth luxury travellers look for unique and memorable experiences. Luxury travellers continue to have a wealth of options to choose from, provided by both traditional luxury hotel operators and alternative accommodation facilities. We also expect to see a growing competitive threat from non-traditional competitors, such as large multi-brand hotel conglomerates and broader luxury brand companies. As in other industries, technology will be an ongoing area of focus, particularly as hotel operators look to identify which technologies will last and truly make a material difference for guests. We are also ever alert to the economic and political developments which are creating uncertainty in a number of the markets in which the Group operates.

Strategy

In the context of the evolving market environment, Mandarin Oriental's consistent vision – to be recognised as the world's best luxury hotel group – remains paramount. Throughout the organisation, this vision is passionately embraced by all of our 12,000 colleagues and keeps us focused on what we do best. This consistency, I believe, also positions the Group well for growth. Having expanded from our Asian roots into a global brand, we currently operate 32 hotels and six residences in 23 countries and territories. The Group holds equity interests in many of its hotels and also manages hotels on behalf of third-party owners.

1 The like-for-like comparison includes all hotels that were operational for the entire year of both 2017 and 2018. Mandarin Oriental Hyde Park, London is included up until the hotel closed following the fire on 6th June 2018. All references to RevPAR are in US dollar terms, unless stated otherwise.

2 The Group uses earnings before interest, tax, depreciation and amortisation ('EBITDA') to analyse operating performance.

Group Chief Executive's Review *Continued*

Expanding the Mandarin Oriental portfolio is a key priority over the coming years. Since its establishment, the Group has carefully and consistently invested in the brand so that today it is recognised around the world. The modest size of our portfolio belies the global reputation the brand enjoys and the continuing strong interest in the brand from owners and developers. This provides the Group with a broad platform for growth, in both existing and new markets. While for various reasons properties may from time to time fall out of the portfolio or pipeline, our target is consistently to grow the overall Mandarin Oriental portfolio by three properties each year. The starting point for growth is to build a stronger pipeline of openings and we have successfully executed this over the past two years by announcing 13 new management agreements. Growth through management agreements is an important part of the Group's strategy and the management business is therefore likely to account for an increasing proportion of the Mandarin Oriental portfolio.

Nonetheless, owned assets remain at the heart of the Group's portfolio and if we are to sustain our market position, it is crucial that we re-invest appropriately in these owned properties. Recent and ongoing renovations include Tokyo, Kuala Lumpur, London, Madrid and, in 2019, Bangkok. Mandarin Oriental's strong balance sheet makes it well placed to fund these renovations, while providing the means to consider selective investment opportunities in strategic destinations that have long-term asset value growth potential.

With many of its properties located at the heart of business districts, corporate business remains significant for us. However, leisure travel is an increasingly important segment and our hotels are adapting to offer a broader range of luxury leisure experiences. We would also like to build on our reputation as an operator of resort properties and new development announcements in locations such as Phuket and Lake Como will help.

At the same time, new trends in luxury travel are constantly emerging and our guests are increasingly multi-generational, so we must ensure that we are in a position to benefit from these new opportunities. *Fans of M.O.*, our unique guest recognition programme launched in 2018, will allow us to forge deeper and more meaningful relationships with all our guests and help us ensure that we continue to delight during each and every stay.

A significant component of the luxury hospitality business today is the branding and management of residential developments. The majority of the Group's recently announced developments incorporate a residential component.

The Group remains focused on ensuring that its hotels are positioned amongst the leaders in their individual markets. These leadership positions are developed by our differentiated approach to curating the very best luxury hospitality experiences: we continually invest and innovate in the core brand attributes of exceptional design and architecture, restaurant and bar concepts and spa and wellness facilities, all of which are underpinned by intuitive personalised service. I believe this will help us maintain a 'luxury edge' over our competitors.

The Group's global reputation continues to be reflected in numerous awards from respected associations – Group restaurant outlets across the portfolio currently hold 23 *Michelin* stars, more than any other hotel brand in the world.

As the Group's global reach grows, so too does its responsibility towards the communities in which it is present and its need to drive sustainability in how it operates. Corporate responsibility values are deeply engrained in Mandarin Oriental's heritage. The Group focuses its sustainability efforts around the United Nations Sustainable Development Goals and our 2020 vision clearly sets out the measurable near-term priorities.

2018 Performance

Underlying EBITDA was US$179 million in 2018, compared to US$158 million in 2017, as the majority of the Group's owned properties delivered better results. Underlying profit was US$65 million in 2018, compared to US$55 million in 2017.

Turning to the RevPAR performance for the portfolio, highlighting the Group's owned hotels in particular:

In **Asia**, RevPAR was up 9% overall in 2018 on a like-for-like basis, as demand trends improved generally across the region. Several properties delivered double-digit RevPAR growth.

Mandarin Oriental, Hong Kong achieved a 12% increase in RevPAR over the previous year. This was one of the best RevPAR results the hotel has achieved in recent years, spurred by continued improvement in the overall demand conditions in Hong Kong. With corporate demand broadly stable, higher leisure demand was a major contributing factor to the improved performance. However, it is worth noting that the hotel's competitors are likely to have experienced similarly positive trends through 2018.

The Excelsior, Hong Kong also benefited from improved city-wide demand, with increased occupancy and Average Daily Rates ('ADR') leading to an 11% uplift in RevPAR. On 9th October 2018, the Group announced that The Excelsior, Hong Kong will close on 31st March 2019 in order for the site to be redeveloped as a commercial building. The Excelsior has always been an important and much-loved hotel in the Group's portfolio and the extraordinary service provided by our loyal colleagues through the years will always be remembered. While this was not an easy decision, it was the right one and reflects the ageing of the current building, the opportunity to realise unutilised gross floor area and the strong commercial property values in Hong Kong, with their higher commensurate yield. The Group is committed to ensuring that all Excelsior colleagues are treated fairly.

In Jakarta, the Group's hotel had a much improved year, with RevPAR growth of 9%. This was driven by substantially better occupancy levels, although there continues to be pressure on average rates in the city. In Tokyo, higher average rates helped increase RevPAR by 4%.

Singapore had one of its best performances in recent years, while Bangkok and Kuala Lumpur also performed well. Singapore and Kuala Lumpur both delivered double-digit growth in RevPAR. A major renovation is scheduled to begin at Mandarin Oriental, Bangkok in March 2019 and will complete in December 2019. While the River Wing building will be closed during the renovation period, the Authors' and Garden Wings will remain open. The renovation will ensure that Mandarin Oriental, Bangkok retains its long-standing reputation as the leading hotel in the city.

In **Europe**, while there were mixed performances at individual hotels, a substantial improvement in a handful of hotels led to an overall RevPAR increase of 14% on a like-for-like basis.

Prior to the fire on 6th June 2018, results for the year in London benefited from the completion of the new Knightsbridge wing rooms in September 2017, leading to RevPAR growth of 28%. I have been extremely proud of the response from all of our colleagues in London – during the closure, the *FANtastic* London community initiative has contributed over 40,000 hours of our colleagues' time and passion to community work in London. We are also grateful to the emergency services for their part in ensuring the safety of guests and staff during the incident. In December 2018, the hotel re-opened its dining, entertaining and spa facilities and the guestrooms and suites will follow in the spring of 2019. We are all looking forward to the full re-opening of this iconic hotel in London and I am confident that the hotel will soon re-establish its position as a leader in luxury hospitality in the city.

The Group's properties in Munich and Geneva both had a relatively flat year in terms of RevPAR, affected by a decline in Middle East business and generally softer demand from the group segment. These challenging market conditions are expected to persist in 2019. Meanwhile, Hotel Ritz, Madrid remains closed for restoration. Due to a construction accident, the work has been delayed by some months and the hotel is now expected to re-open in 2020.

The Group's hotels in **America** performed better than 2017, with RevPAR for the region up 4% on a like-for-like basis. New York and Miami both performed well, increasing RevPAR by 6%, primarily driven by improved ADR. Washington D.C. had a tougher year as its performance in 2017 had benefited from the Presidential Inauguration, while Boston's performance was slightly better compared to the previous year.

Business developments

The Group has 15 hotels and 12 residences under development which are likely to become operational within five years. All are management contracts with no equity participation, but we continue to look at investing in properties on an exceptional basis where they are felt to be strategic to our long-term positioning. The Group is focused on building its portfolio in major global city centre locations where the brand is currently absent, on developing a strong resort portfolio and on reinforcing the Group's position in existing markets by expanding its presence with new properties.

Seven new management contracts were announced in 2018 as follows:

- Standalone residences in Barcelona, Spain
- Resort and residences in Muscat, Oman
- A hotel in Ho Chi Minh City, Vietnam
- Resort and residences in Grand Cayman, Cayman Islands
- A re-branding in Lake Como, Italy
- Hotel and residences in Moscow, Russia
- A resort in Phuket, Thailand

These announcements exemplify both the growth opportunities and the strategy that I have outlined with regards to development. Six of the developments are in cities that are new to Mandarin Oriental while four – Grand Cayman, Ho Chi Minh City, Muscat and Moscow – will be the first Mandarin Oriental hotels in their respective territories. Four of the developments – Grand Cayman, Lake Como, Muscat and Phuket – are resorts, reflecting our aim to build our reputation as operators of world-class luxury resorts. Several of the developments also include a *Residences* component.

In the second half of 2018, we were disappointed to cease management of the Group's properties in Las Vegas and Atlanta following a change in ownership of both properties. In addition, our previously announced project in Melbourne is now on hold. The cessation of property management arrangements and setbacks to announced new developments can sometimes happen – that is why it is so critical that we build a strong and purposeful pipeline of new developments.

In 2019, we have already announced a new *Mandarin Oriental Residences at 685 Fifth Avenue* in New York and I expect the momentum in making additions to the Group's development pipeline to continue. I also look forward to the opening of new hotels within the portfolio. We recently opened our first two properties in the Middle East, in Dubai and Doha. We will open at least one property in Beijing.

Structure

2018 was a year of transition for the Group's structure. We appointed a Chief Operating Officer, responsible for all operating hotels, and a Chief Relationship Officer, responsible for key owner relationships as well as the development of new properties. We have strengthened the Group's management structure further through the promotion of several General Managers to Area Vice Presidents, who will take on responsibility for a group of hotels and report to the Chief Operating Officer. Through the Chief Relationship Officer, our pre-opening teams have been reorganised and streamlined, which I believe has prepared us better than ever for the many upcoming new hotel openings. In addition, we combined the roles of Chief Marketing Officer and Group Director of Brand Communications to drive a more unified approach to sales, marketing, branding and communications.

Culture

At the heart of Mandarin Oriental's reputation as a luxury hotel group is its culture, derived from its oriental heritage and an unwavering focus on exceptional service that delivers personal experiences and moments of delight. Our vision – to be recognised as the world's best luxury hotel group – is something that can only be achieved through our people. I am consistently impressed by the commitment of our colleagues to delivering exemplary service and the growing culture of innovation as our people seek to provide points of differentiation and exceptional experiences. I would like to thank each and every one of my 12,000 colleagues for their dedication, ambition and loyalty as we all strive to achieve this vision.

The year ahead

2019 is set to be another very busy year for the Group. We expect to open at least four new properties, re-open the London hotel, progress the major renovation in Madrid and complete a renovation in Bangkok, and begin the redevelopment of the site occupied by The Excelsior in Hong Kong. Our development pipeline remains a priority and I am confident that we will maintain the recent momentum and announce several new projects. Many of the Group's properties had a good operating performance in 2018 and we will look to sustain that in 2019, albeit in the context of continuing economic and political uncertainties which will create challenging conditions in many of our markets. Earnings will be substantially impacted by the closure of The Excelsior, Hong Kong. The renovations in Madrid and Bangkok will also have an impact, although results will benefit from the re-opening of London. With all of this I feel that we are building a very strong platform from which to deliver meaningful growth over the long-term.

James Riley
Group Chief Executive
28th February 2019

Operating Summary

Total portfolio RevPAR

US dollar

	2018 US$	2017 US$	% Change
Asia	**209**	192	9
Europe	**503**	441	14
America	**382**	368	4
Total	**277**	254	9

Constant currency

	2018 US$	2017 US$	% Change
Asia	**207**	192	8
Europe	**510**	441	16
America	**382**	368	4
Total	**277**	254	9

The like-for-like RevPAR presented in the table above includes all hotels that were in the Group's portfolio for the entire year of both 2017 and 2018. As Mandarin Oriental Hyde Park, London and Hotel Ritz, Madrid were both closed for part of 2018, the 2017 comparatives have been adjusted to align with the 2018 trading periods in this like-for-like comparison.

Group's subsidiary hotels RevPAR

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2018	2017	% Change
Available rooms	**501**	501	0
Average occupancy (%)	**77.1**	70.8	9
Average room rate (US$)	**488**	476	3
RevPAR (US$)	**376**	337	12

Mandarin Oriental, Tokyo 100% leasehold

	2018	2017	% Change
Available rooms	**179**	179	0
Average occupancy (%)	**78.3**	80.3	(2)
Average room rate (US$)	**622**	585	6
RevPAR (US$)	**487**	469	4

The Excelsior, Hong Kong 100% ownership

	2018	2017	% Change
Available rooms	**869**	869	0
Average occupancy (%)	**83.5**	79.1	6
Average room rate (US$)	**207**	197	5
RevPAR (US$)	**173**	156	11

Mandarin Oriental, Jakarta 96.9% ownership

	2018	2017	% Change
Available rooms	**272**	272	0
Average occupancy (%)	**51.3**	43.4	18
Average room rate (US$)	**140**	152	(8)
RevPAR (US$)	**72**	66	9

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2018	2017	% Change
Available rooms	**181**	181	0
Average occupancy (%)	**33.3**	30.8	8
Average room rate (US$)	**857**	723	19
RevPAR (US$)	**285**	223	28

* Mandarin Oriental Hyde Park, London closed for restoration following a fire on 6th June 2018. Comparatives for 2017 have been restated to show a comparison on a like-for-like basis.

Mandarin Oriental, Munich 100% ownership

	2018	2017	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**75.5**	76.1	(1)
Average room rate (US$)	**902**	877	3
RevPAR (US$)	**681**	667	2

Mandarin Oriental, Paris 100% ownership

	2018	2017	% Change
Available rooms	**138**	138	0
Average occupancy (%)	**55.1**	50.0	10
Average room rate (US$)	**1,088**	1,021	6
RevPAR (US$)	**599**	511	17

Mandarin Oriental, Geneva 92.6% ownership

	2018	2017	% Change
Available rooms	**181**	189	(4)
Average occupancy (%)	**63.8**	63.9	0
Average room rate (US$)	**615**	634	(3)
RevPAR (US$)	**392**	405	(3)

AMERICA

Mandarin Oriental, Boston 100% ownership

	2018	2017	% Change
Available rooms	**148**	148	0
Average occupancy (%)	**69.5**	70.4	(1)
Average room rate (US$)	**629**	602	4
RevPAR (US$)	**437**	424	3

Mandarin Oriental, Washington D.C. 89.1% ownership

	2018	2017	% Change
Available rooms	**373**	373	0
Average occupancy (%)	**66.6**	64.9	3
Average room rate (US$)	**334**	352	(5)
RevPAR (US$)	**222**	229	(3)

Development Portfolio

The following 15 hotels and 12 *Residences at Mandarin Oriental* are expected to open in the next five years.

Asia-Pacific

Mandarin Oriental, Bali
An 88-room resort and 89 *Residences at Mandarin Oriental* located on Bali's southern Bukit Peninsula. Perched on a cliffside plateau, the resort will offer dramatic 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 Qianmen, Beijing
72 courtyard suites located in a traditional hutong quarter, providing a rare opportunity to experience living in an authentic Beijing residential district, close to Tiananmen Square.

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

Mandarin Oriental, Phuket
A 107-room beachfront resort located on the island's west coast in picturesque Laem Singh Bay on Millionaire's Mile, with panoramic views of the Andaman Sea.

Mandarin Oriental, Saigon
A 228-room hotel located in a mixed-use development in the heart of Ho Chi Minh City, and close to key landmarks.

Mandarin Oriental, Shenzhen
A 191-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 & Africa

The Residences by Mandarin Oriental, Barcelona
34 luxury residences housed in a 20-storey tower, with a prime location just a short walk from Mandarin Oriental, Barcelona.

Mandarin Oriental, Dubai, Sheikh Zayed Road
A 259-room hotel and 158 *Residences at Mandarin Oriental* located on Sheikh Zayed Road with views over downtown Dubai and direct access to the area's business and leisure attractions.

Mandarin Oriental Bosphorus, Istanbul
A 123-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 Mayfair, London
A 48-room boutique hotel and 80 *Residences at Mandarin Oriental* located on Hanover Square in the heart of London's Mayfair District.

Mandarin Oriental, Moscow
A 65-room hotel and 137 *Residences at Mandarin Oriental* with a prime riverfront location on the Sofiyskaya embankment in the heart of the city, directly facing the Kremlin.

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

Mandarin Oriental, Muscat
A 151-room resort and 150 *Residences at Mandarin Oriental* located on the beach in a prime city location, with views over the Arabian Sea.

America

Mandarin Oriental, Boca Raton
A 164-room hotel and 91 *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, Grand Cayman
A 100-room beachfront resort with 89 branded *Residences at Mandarin Oriental* situated on 67 acres at St James Point, on the southern shore of the island.

Mandarin Oriental, Honolulu
A luxury 125-room hotel and 102 *Residences at Mandarin Oriental*, located on the Hawaiian island of Oahu, in the heart of the Ala Moana District.

Mandarin Oriental Residences at 685 Fifth Avenue, New York
69 luxurious residences located on Fifth Avenue New York housed in an elegant 1920's building on the corner of Fifth Avenue and 54th Street.

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 Brand Recognition

The recognition of Mandarin Oriental as one of the world's best luxury hotel groups continued to be reflected in the awards received from respected travel associations and publications worldwide. Highlights in 2018 include the Group being awarded for 'Best Service' as well as 'Best Hotel Brand' in the *Cathay Pacific Marco Polo Club* 'Members Choice Awards'. In addition, the *Condé Nast Traveler, US* 'Readers' Choice Awards' and the *US News & World Report* listed 11 and 12 Mandarin Oriental hotels respectively as among the 'Best in the World'. Mandarin Oriental, Bangkok was recognised once again as the 'Best Hotel in the World' in several noteworthy publications including, the *Tatler Travel Guide, Conde Nast Traveler, US* 'Readers' Choice Awards', *The Telegraph* 'Ultra Awards' and *Travel + Leisure's* 'World's Best Awards'. During its first year of operation as a Mandarin Oriental property, the Group's newest luxury resort Mandarin Oriental, Canouan, won 'Best Hotel Spa' in the *World Spa Awards*.

In the 2019 *Michelin* guides, a total of 16 restaurants were honoured, with 23 stars being granted across the Group. The Group's spa operations were also acknowledged as being among the best, with a record 13 hotels gaining the prestigious *Forbes* 'Five Star Spa' award.

Mandarin Oriental Hotel Group

The celebrated Mandarin Oriental Hotel Group is a byword for luxury and exceptional service.

Country & Town House

Inspired by the Orient, Mandarin Oriental operates some of the world's most acclaimed hotels in prestigious destinations around the globe. Each hotel offers a strong sense of place and top amenities – some of the best spas around are found inside the walls of Mandarin Oriental hotels.

Pursuitist

If you have ever been fortunate enough to be a guest of Mandarin Oriental, you know they do things with a certain graceful charm. The attention to detail is what makes your stay memorable. The stationery with your initials embossed, gifts left on your pillow at turn-down, and the simple skill of anticipating your needs before they arise!

Spa & Wellness International

Mandarin Oriental, Bangkok

Polished white-gloved service, elegant interiors, a riverside location plus 140-years of history combine to make Mandarin Oriental, Bangkok one of the classiest hotels in Asia. Formal and fabulous, without ever feeling fusty.

The Independent

I cannot think of a hotel that delights me more than this consummate urban resort…I know that when I return I will fall in love all over again with this extraordinary hotel.

The Gallivanter's Guide

Mandarin Oriental, Hong Kong

Drinking from silver tankards in the Captain's Bar, taking afternoon tea at the Clipper Lounge, devouring dim sum at Man Wah – all have become Hong Kong institutions over Mandarin Oriental, Hong Kong's six-decade-long history.

Sunday Times Travel Magazine

The Landmark Mandarin Oriental, Hong Kong

With a modern, streamlined look, The Landmark Mandarin Oriental, Hong Kong is an oasis for travelers with discriminating taste who appreciate excellent service and who want to be as centrally located as possible. Staff will remember you by name throughout your stay, and service is some of the best in the city.

Forbes Travel Guide

Mandarin Oriental Pudong, Shanghai

Basing yourself on the Pudong side of the Huangpu River? There are plenty of big-name hotels to choose from, but we love Mandarin Oriental Pudong, Shanghai for its generously sized rooms, sleek contemporary style, museum-quality art collection, excellent restaurants and luxurious spa.

Travel & Lifestyle

Mandarin Oriental, Taipei

My 86 sqm one-bedroom Club City Suite was beautiful. The bedroom was steeped in Parisian elegance with Oriental flourishes, and the king-size bed was possibly the most comfortable bed I've ever slept in. Fantastic. I couldn't find anything to fault during my stay, from the design and facilities to the service – top marks all round.

Business Traveller

Mandarin Oriental, Tokyo

Mandarin Oriental, Tokyo is a world in itself. Guests are disinclined to leave the hotel because they are made to feel so fabulous and welcome. Even the smallest of the 179 bedrooms is vast, with glamorous touches. The reason everyone loves it here is down to the service: nobody has to carry a heavy parcel for long, or needs to wait for more than a couple of seconds for a lift, or queue at the front desk. Could things get any better? Absolutely, evidently not.

Condé Nast Traveller

Mandarin Oriental, Barcelona

Nearly ten years after opening, Mandarin Oriental, Barcelona still astounds. From its gently sloping walkway that gradually silences the racket of the Passeig de Gracia upon entering, to the grand Patricia Urquiola-designed Blanc restaurant. This hotel is the ultimate word in luxury.

*Wallpaper**

There is a reason why Mandarin Oriental, Barcelona, figures year after year on lists of the best hotels in Barcelona, Spain, and even the world. Every detail is absolutely flawless, from the friendly doormen to the impeccable lobby. It is almost impossible to fault. If I had to think of something, it would be that I can't help but wonder whether I'm beautiful enough to stay here.

Condé Nast Traveler

Mandarin Oriental, Bodrum

Wrapped around its own private bay on the northern shores of a rugged peninsula jutting-out from Turkey's beautiful Aegean coast, it's hard to imagine a more laid-back yet sophisticated and exclusive retreat than Mandarin Oriental, Bodrum. Once you enter the grounds of the resort there's nothing to remind you of the outside world.

The Telegraph

Mandarin Oriental Hyde Park, London

The atmosphere at Mandarin Oriental Hyde Park, London is gracious without being stuffy from the moment the red-coated, top-hatted doorman opens the door. Guestrooms eschew glitz for subtle décor and contemporary comforts while retaining historic charm. Despite the Asian origins of the hotel group, it feels like the best of British.

Sydney Morning Herald

Mandarin Oriental, Marrakech

With hotels so perfect that the very words 'Mandarin Oriental' have become synonymous with unparalleled luxury, it should come as little surprise that this Marrakech edition would be one of the most spectacular residences in the city. While the stunning grounds, impressive facilities and top-tier service are all well worth noting, for GQ, it's the pool villas that take this hotel from great to exceptional. The palatial villas are mind-blowingly beautiful. The two bedrooms are perfectly lovely, but it's the master bathroom you'll fantasise about for months after your stay.

GQ

International Brand Recognition *Continued*

Mandarin Oriental, Milan

Milan is full of loud labels and big brands, but for those who prefer their luxury to whisper instead of shout then Mandarin Oriental, Milan is the discreet-but-deluxe spot for you. Tastefully tucked off a main thoroughfare in the prime shopping district, Mandarin Oriental, Milan has quiet wow-factor.

Forbes

Mandarin Oriental, Paris

Transport yourself out of Paris with this high-gloss hotel. You might call it another elegance; but it makes sense that this would be the case at a Mandarin, where the codes for 'luxury' are different, where guests and staff alike swear by impeccable service from start to finish; stylish modern décor; and high-class dining and spa options.

Condé Nast Traveler

Mandarin Oriental, Prague

One of the coziest places to wake up in the morning in Prague is at Mandarin Oriental. Set in a former monastery in the charming and centrally located Mala Strana district, the hotel is a bastion of luxury and comfort.

The Travel Channel

Mandarin Oriental, Boston

There is no hotel chain more synonymous with elegance and sophistication than Mandarin Oriental, and its Boston outpost sits among the U.S. elites.

Time Out

Mandarin Oriental, Canouan

This luxurious, all-suite resort lies in a Caribbean setting of dreams, overlooking a white sandy bay backed by forested hillside. Tranquility abounds on the lush 1200-acre estate, with tortoises – the small island's predominant residents – setting the tone, which is relaxed and unhurried.

The Telegraph

Mandarin Oriental, Miami

The bridge that connects Brickell Key to downtown Miami may not be a long one, but it's enough to make guests of Mandarin Oriental, Miami feel as if they're entering their own little private sanctuary. Cutting a fanned shape into the skyline, the hotel's striking design and unique location set it apart as unique from the get-go.

Condé Nast Traveler

Mandarin Oriental, New York

Every element at Mandarin Oriental, New York reflects a sophisticated Asian aesthetic that recognizes the hotel chain's Far Eastern heritage while simultaneously capturing the individuality of New York. What's more, the Five-Star hotel is dedicated to Asian-style service, which is polished, professional, and unparalleled.

Forbes Travel Guide

They call it the city that never sleeps because of the hustle and bustle, the action and energy, the cars and the noise. Imagine a place in New York City where you can watch all of it unfold, while still relaxing in exquisite, luxurious surroundings. That is Mandarin Oriental, New York, an escape located directly in the center of it all. Situated in the Time Warner Center on Columbus Circle, the Modern Asian-influenced décor provides the perfect urban oasis. With impeccable service as icing on the cake, the Mandarin Oriental is a must-stay in NYC.

Pursuitist

Financial Review

Accounting policies

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

The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted two new standards to IFRS effective on 1st January 2018, as more fully detailed in the 'Basis of preparation' note in the financial statements. The adoption of these new standards does not have a material effect on the financial statements and have been applied retrospectively, although the comparative financial statements have not been restated. In addition, additional disclosures have been made in the financial statements in respect of revenue from contracts with customers and impairment of debtors in accordance with the requirements under IFRS.

Results

Overall

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

	2018 US$m	2017 US$m
Subsidiaries	**153.5**	127.8
Associates and joint ventures	**25.6**	30.1
Underlying EBITDA	**179.1**	157.9

Subsidiaries

	2018 US$m	2017 US$m
Underlying EBITDA from subsidiaries	**153.5**	127.8
Less: underlying depreciation and amortisation	**(62.9)**	(58.8)
Underlying operating profit	**90.6**	69.0

In 2018, underlying EBITDA from subsidiaries increased by US$25.7 million, or 20%, to US$153.5 million. Results benefited primarily from strong performances in Hong Kong and the assumed return to full inventory of the newly renovated London hotel. Although the London hotel closed following the fire in June 2018, insurance proceeds have compensated for the loss of anticipated profits as the hotel had been due to fully re-open in mid-2018 following renovation. In 2017, results in London were lower due to the full year impact of the renovation, which commenced in September 2016.

In Asia, all subsidiary hotels improved their EBITDA performance. Mandarin Oriental, Hong Kong delivered a record performance and The Excelsior hotel performed well in its final year prior to closure. There was also a notably improved performance in Jakarta, owing to higher occupancy levels, while Tokyo's performance improved slightly despite an ongoing rooms renovation.

In Europe, while individual hotel EBITDA results were mixed, the region overall benefited significantly from the better results in London. Despite the political demonstrations in the final quarter of 2018, the Paris hotel also had a better year with higher occupancy. Munich's result was slightly weaker than 2017 while Geneva had a softer year primarily due to weaker demand and strong competition.

In America, overall EBITDA performance was flat year on year, with an improvement in Boston offset by lower results in Washington D.C. as 2017's performance benefited from the Presidential Inauguration.

In 2018, the EBITDA contribution from management activities increased by US$9.1 million to US$31.7 million. While the management business generally performed better, a significant portion of the increase was related to one-off termination fees received in respect of the cessation of management contracts for the Las Vegas and Atlanta hotels.

Financial Review *Continued*

Associates and joint ventures

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

	2018 US$m	2017 US$m
EBITDA from associates and joint ventures	**25.6**	30.1
Less: depreciation and amortisation	**(13.3)**	(12.1)
Operating profit	**12.3**	18.0
Less: net financing charges	**(3.5)**	(3.8)
tax	**(3.0)**	(2.7)
Share of results of associates and joint ventures	**5.8**	11.5

In total, the Group's share of EBITDA from associates and joint ventures decreased by US$4.5 million, or 15%, to US$25.6 million in 2018. The decrease was primarily due to the planned closure of Hotel Ritz, Madrid in February 2018 for a full restoration that is now due to complete in 2020.

Singapore had one of its best performances in recent years, with strong market demand enabling the hotel to increase EBITDA. Bangkok and Kuala Lumpur also delivered better results while in America, both New York and Miami performed in-line with the prior year.

Depreciation and amortisation of associates and joint ventures was 10% higher in 2018, primarily due to the write-off of fixed assets in preparation for the renovation in Madrid. The Group's share of net financing charges and tax from associates and joint ventures were broadly in-line with the prior year.

Net financing charges

Net financing charges for the Group's subsidiaries increased to US$12.9 million in 2018, from US$11.0 million in 2017. The increase was primarily due to higher borrowing costs for the Group's US$447 million facility in Hong Kong, following several increases in the reference rate over the course of 2018.

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 2018, calculated as underlying EBITDA (including the Group's share of underlying EBITDA from associates and joint ventures) over net financing charges (including capitalised interest and the Group's share of net financing charges from associates and joint ventures), was 10.7 times compared with 10.6 times in 2017.

Tax

Taxation for 2018 of US$18.6 million, excluding tax charges on non-trading items of US$0.5 million, was higher than the US$15.0 million charge in 2017, reflecting improved results at the Group's subsidiary hotels, notably in Hong Kong and London. The underlying effective tax rate for 2018 slightly increased to 21% from 20% in 2017.

Non-trading items

	2018 US$m	2017 US$m
Fire at Mandarin Oriental Hyde Park, London – repair expenses and write-off of tangible assets and other incidental expenses	**(28.6)**	–
– insurance recovery for replacement of tangible assets and other incidental expenses	**29.6**	–
Closure of The Excelsior, Hong Kong – accelerated depreciation and amortisation	**(23.6)**	–
– other costs	**(2.8)**	–
Change in fair value of other investments	**4.4**	–
Non-trading items before tax	**(21.0)**	–
Tax	**(0.5)**	–
Net non-trading losses	**(21.5)**	–

Net non-trading losses of US$21.5 million were recorded in 2018. As the non-trading expenses relating to the repair expenses and write-off of tangible assets due to the fire at the London hotel were fully covered by insurance compensation, the net non-trading losses were primarily due to the accelerated asset write-downs related to the closure of The Excelsior hotel. Under accounting standards, the accelerated write-downs are recognised on a straight-line basis from the date of announcement until the date of closure of the hotel. These non-trading costs, which are non-cash in nature, will also impact results in 2019. There were no non-trading items in 2017.

Cash flow

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

	2018 US$m	2017 US$m
Operating activities	**146**	120
Investing activities		
Net capital expenditure on existing properties	**(53)**	(83)
Payment on Munich expansion	**–**	(3)
Net advances to associates and joint ventures	**(8)**	(10)
Purchase of intangible assets	**(7)**	(6)
Other	**(1)**	–
Financing activities		
Net drawdown of borrowings	**28**	28
Dividends paid	**(38)**	(50)
Net increase/(decrease) in cash	**67**	(4)
Cash and cash equivalents at 1st January	**184**	183
Effect of exchange rate changes	**(4)**	5
Cash and cash equivalents at 31st December	**247**	184

The Group's cash flows from operating activities were US$146 million in 2018, an increase of US$26 million from the US$120 million inflow in 2017.

Under investing activities, capital expenditure on existing properties was US$53 million in 2018, compared to US$83 million in 2017. The decrease was primarily due to the completion of the renovation at Mandarin Oriental Hyde Park, London in mid-2018.

No significant acquisitions were made by the Group in 2018 and 2017.

Fire at Mandarin Oriental Hyde Park, London

In 2018, the Group received interim insurance payments covering both property damage and business interruption, totalling US$66 million. This amount was recognised in the financial statements as follows:

- US$31 million for the reimbursement of operating expenditures and loss of profits in 2018 was recorded as underlying business performance;
- US$30 million for the replacement of damaged tangible assets and other incidental expenses incurred as a result of the fire was recognised as non-trading income; and
- US$5 million for the reimbursement of operating expenditures expected in 2019 was recognised on the balance sheet as cash received in advance.

The total property damage and business interruption claims with the Group's insurers are expected to be concluded in 2019.

Looking ahead, the Group is committed to investing US$774 million into previously announced significant capital projects:

Significant capital commitments, as previously announced

	US$m	Timing
Madrid renovation (Group's 50% share)	44	2019-20
Munich extension	141	2019-23
Redevelopment of The Excelsior site	589	2019-25
	774	

These projects will be funded through an appropriate mixture of external debt and existing cash reserves.

Financial Review *Continued*

Dividends

The Board is recommending a final dividend of US¢1.50 per share for a full-year dividend of US¢3.00 per share (2017: US¢3.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 15th May 2019 to shareholders on the register of members at the close of business on 15th March 2019.

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:

	2018		2017	
	US$m	Per share US$	US$m	Per share US$
Shareholders' funds/net assets at amortised cost	**1,239**	**0.98**	1,274	1.01
Add: surplus for fair market value of freehold and leasehold land and buildings	**4,594**	**3.64**	4,473	3.56
Adjusted shareholders' funds/net assets	**5,833**	**4.62**	5,747	4.57

In 2019, work will commence to redevelop the site of The Excelsior hotel into a mixed-use commercial building. When the hotel closes, the site will be revalued and transferred from an owner occupied property held at historical depreciated cost to an investment property under development subject to regular valuation review. The initial revaluation gain, estimated at some US$2.9 billion, will be recognised in the property revaluation reserve through other comprehensive income. This classification change has no impact on the Group's total adjusted shareholders' funds, however, the US$2.9 billion gain will be reclassified from adjusted shareholders' funds to shareholders' funds. Subsequent fair value changes of the investment property will be recognised as a non-trading item in the profit and loss.

On an IFRS basis, the Group's consolidated net debt of US$285 million at 31st December 2018 was 23% of shareholders' funds, compared with consolidated net debt of US$327 million at 31st December 2017 which was 26% of shareholders' funds. Taking into account the fair market value of the Group's interests in freehold and leasehold land, gearing was 5% of adjusted shareholders' funds at 31st December 2018, compared with 6% at 31st December 2017.

Treasury activities

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

In respect of specific hotel financing, borrowings are normally taken in local currency to hedge partially the investment and the projected income. At 31st December 2018, 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	(116)	(9)	3,854	66
Euro	528	42	689	12
United States dollar	373	30	430	7
United Kingdom sterling	206	17	370	6
Singapore dollar	59	5	209	4
Thai baht	31	2	98	2
Swiss franc	89	7	89	1
Indonesian rupiah	21	2	41	1
Others	48	4	53	1
	1,239	100	5,833	100

* See supplementary information section above.

The Group, excluding associates and joint ventures, had committed borrowing facilities totalling US$610 million, of which US$532 million was drawn at 31st December 2018. The principal amounts due for repayment are as follows:

	Facilities committed US$m	Facilities drawn US$m	Unused facilities US$m
Within one year	552	525	27
Between one and two years	–	–	–
Between two and three years	57	6	51
Between three and four years	–	–	–
Between four and five years	–	–	–
Beyond five years	1	1	–
	610	532	78

At 31st December 2018, the Group had US$78 million of committed, undrawn facilities in addition to its cash balances of US$247 million. The average tenor of the Group's borrowings was 0.8 years (2017: 1.6 years), with US$549 million of committed facilities due to mature in mid-2019. The Group is in advanced discussions with its key relationship banks to refinance these facilities, which comprise a US$102 million facility in London and a US$447 million facility in Hong Kong. Based on the Group's consistent track record of securing external financing in a timely manner, its operating performance and strong balance sheet, the Group is confident that it will complete the refinancing of these bank facilities before their expiry.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 103 and 104.

Craig Beattie
Chief Financial Officer
28th February 2019

Directors' Profiles

Ben Keswick* *Chairman and Managing Director*
Mr 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, Jardine Cycle & Carriage and Yonghui Superstores and a commissioner of Astra. He is also executive chairman and managing director of Jardine Matheson and Jardine Strategic, chairman and managing director of Dairy Farm and Hongkong Land, and a director of Jardine Pacific and Jardine Motors.

James Riley* *Group Chief Executive*
Mr Riley joined the Board as Group Chief Executive in 2016. He has previously held a number of senior executive positions in the Jardine Matheson group since joining from Kleinwort Benson in 1993. A Chartered Accountant, he was group finance director of Jardine Matheson from 2005 to 2016. He has been a director of Mandarin Oriental Hotel Group International since 2005. He was a non-executive director of the Hongkong and Shanghai Banking Corporation from 2012 to 2016.

Craig Beattie* *Chief Financial Officer*
Mr Beattie joined the Board as Chief Financial Officer in November 2018. He has previously held a number of senior finance positions in the Jardine Matheson group since joining from Ernst & Young in the UK in 2006, including group treasurer of Jardine Matheson from 2016 to 2018. He was director of Corporate Finance of the Group from 2011 to 2013. He is a Chartered Accountant.

Jack Yilun Chen
Mr Chen joined the Board in May 2018. He is a senior executive within Taikang Insurance Group and a director of China Guardian Auctions.

Edouard Ettedgui
Mr Ettedgui joined the Board in 1998 and was Group Chief Executive until he stepped down from executive office in 2016. He was formerly group finance director of Dairy Farm, prior to which he was business development director of British American Tobacco. He is also a director of Yum China Holdings.

Mark Greenberg
Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He 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 Permata Bank.

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 Matheson.

Adam Keswick
Mr Keswick joined the Board in 2012. Having joined Jardine Matheson in 2001, he was appointed to the board in 2007 and was deputy managing director from 2012 to 2016. Mr Keswick is also deputy chairman of Jardine Lloyd Thompson and a director of Dairy Farm, Hongkong Land and Jardine Strategic. He is also a director of Ferrari, and vice chairman of the supervisory board of Rothschild & Co.

* Executive Director

Simon Keswick
Mr 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.

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 was also chief executive officer of MTR Corporation until 1st April 2019.

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. He is chairperson of The Sailors Home and Missions to Seafarers in Hong Kong.

Y.K. Pang
Mr Pang joined the Board in 2016. He is deputy managing director of Jardine Matheson, chairman of Jardine Pacific, and chairman and chief executive of Jardine Motors. He previously held a number of senior executive positions in the Jardine Matheson group, which he joined in 1984, including chief executive of Hongkong Land between 2007 and 2016. Mr Pang is also deputy chairman of Jardine Matheson Limited, and a director of Dairy Farm, Hongkong Land, Jardine Matheson (China), Jardine Strategic and Zhongsheng. He is chairman of the General Committee and Executive Committee of the Employers' Federation of Hong Kong, Deputy Chairman of the Hong Kong Management Association and a past chairman of the Hong Kong General Chamber of Commerce.

Jeremy Parr
Mr Parr joined the Board in 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 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 served as a civil servant in the United Kingdom Treasury, where he had responsibility for financial services and enterprise policy. He subsequently 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 Hongkong Land and IL&FS India Realty Fund II.

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 2018

	Note	2018 Underlying business performance US$m	2018 Non-trading items (Note 8) US$m	2018 Total US$m	2017 Underlying business performance US$m	2017 Non-trading items (Note 8) US$m	2017 Total US$m
Revenue	2	**613.7**	**–**	**613.7**	610.8	–	610.8
Cost of sales		**(389.1)**	**–**	**(389.1)**	(389.7)	–	(389.7)
Gross profit		**224.6**	**–**	**224.6**	221.1	–	221.1
Selling and distribution costs		**(42.4)**	**–**	**(42.4)**	(38.2)	–	(38.2)
Administration expenses		**(122.2)**	**–**	**(122.2)**	(113.9)	–	(113.9)
Other operating income/(expense)		**30.6**	**(21.0)**	**9.6**	–	–	–
Operating profit	3	**90.6**	**(21.0)**	**69.6**	69.0	–	69.0
Financing charges		**(15.1)**	**–**	**(15.1)**	(12.3)	–	(12.3)
Interest income		**2.2**	**–**	**2.2**	1.3	–	1.3
Net financing charges	4	**(12.9)**	**–**	**(12.9)**	(11.0)	–	(11.0)
Share of results of associates and joint ventures	5	**5.8**	**–**	**5.8**	11.5	–	11.5
Profit before tax		**83.5**	**(21.0)**	**62.5**	69.5	–	69.5
Tax	6	**(18.6)**	**(0.5)**	**(19.1)**	(15.0)	–	(15.0)
Profit after tax		**64.9**	**(21.5)**	**43.4**	54.5	–	54.5
Attributable to:							
Shareholders of the Company	7&8	**65.1**	**(21.5)**	**43.6**	54.9	–	54.9
Non-controlling interests		**(0.2)**	**–**	**(0.2)**	(0.4)	–	(0.4)
		64.9	**(21.5)**	**43.4**	54.5	–	54.5
		US¢		**US¢**	US¢		US¢
Earnings per share	7						
– basic		**5.16**		**3.46**	4.37		4.37
– diluted		**5.15**		**3.45**	4.35		4.35

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2018

	Note	2018 US$m	2017 US$m
Profit for the year		**43.4**	54.5
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	14	**(3.0)**	7.7
Tax on items that will not be reclassified	6	**0.5**	(1.2)
		(2.5)	6.5
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net (losses)/gains arising during the year		**(39.7)**	87.1
Cash flow hedges			
– net gains arising during the year		**0.6**	0.8
Tax relating to items that may be reclassified	6	**(0.1)**	(0.2)
Share of other comprehensive (expense)/income of associates and joint ventures		**(1.8)**	8.4
		(41.0)	96.1
Other comprehensive (expense)/income for the year, net of tax		**(43.5)**	102.6
Total comprehensive (expense)/income for the year		**(0.1)**	157.1
Attributable to:			
Shareholders of the Company		**0.2**	157.3
Non-controlling interests		**(0.3)**	(0.2)
		(0.1)	157.1

Consolidated Balance Sheet

at 31st December 2018

	Note	2018 US$m	2017 US$m
Net assets			
Intangible assets	9	**53.0**	47.7
Tangible assets	10	**1,386.5**	1,453.2
Associates and joint ventures	11	**197.1**	196.6
Other investments	12	**15.2**	11.0
Deferred tax assets	13	**11.4**	11.0
Pension assets	14	**0.2**	4.9
Non-current debtors	15	**5.1**	0.5
Non-current assets		**1,668.5**	1,724.9
Stocks		**6.6**	6.4
Current debtors	15	**95.9**	100.2
Current tax assets		**3.5**	4.0
Bank and cash balances	16	**246.8**	183.9
Current assets		**352.8**	294.5
Current creditors	17	**(170.8)**	(151.4)
Current borrowings	18	**(524.2)**	(2.6)
Current tax liabilities		**(14.0)**	(17.8)
Current liabilities		**(709.0)**	(171.8)
Net current (liabilities)/assets		**(356.2)**	122.7
Long-term borrowings	18	**(7.3)**	(508.1)
Deferred tax liabilities	13	**(61.6)**	(58.6)
Pension liabilities	14	**(0.4)**	(0.6)
Non-current creditors	17	**–**	(0.2)
		1,243.0	1,280.1
Total equity			
Share capital	21	**63.1**	62.9
Share premium	22	**497.8**	493.9
Revenue and other reserves		**678.3**	717.2
Shareholders' funds		**1,239.2**	1,274.0
Non-controlling interests		**3.8**	6.1
		1,243.0	1,280.1

Approved by the Board of Directors

Ben Keswick
James Riley
Directors
28th February 2019

Consolidated Statement of Changes in Equity

for the year ended 31st December 2018

	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
2018										
At 1st January		**62.9**	**493.9**	**265.9**	**526.5**	**0.1**	**(75.3)**	**1,274.0**	**6.1**	**1,280.1**
Total comprehensive income		**–**	**–**	**–**	**41.0**	**0.5**	**(41.3)**	**0.2**	**(0.3)**	**(0.1)**
Dividends paid by the Company	24	**–**	**–**	**–**	**(37.8)**	**–**	**–**	**(37.8)**	**–**	**(37.8)**
Issue of shares		**0.2**	**0.1**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**
Share-based long-term incentive plans		**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Change in interest in a subsidiary		**–**	**–**	**–**	**2.0**	**–**	**–**	**2.0**	**(2.0)**	**–**
Transfer		**–**	**3.8**	**(3.9)**	**0.1**	**–**	**–**	**–**	**–**	**–**
At 31st December		**63.1**	**497.8**	**262.5**	**531.8**	**0.6**	**(116.6)**	**1,239.2**	**3.8**	**1,243.0**
2017										
At 1st January		62.8	490.4	286.2	501.2	(0.6)	(170.6)	1,169.4	4.0	1,173.4
Total comprehensive income		–	–	–	61.3	0.7	95.3	157.3	(0.2)	157.1
Dividends paid by the Company	24	–	–	–	(50.3)	–	–	(50.3)	–	(50.3)
Issue of shares		0.1	0.6	–	–	–	–	0.7	–	0.7
Share-based long-term incentive plans		–	–	(0.8)	–	–	–	(0.8)	–	(0.8)
Change in interest in a subsidiary		–	–	–	(2.3)	–	–	(2.3)	2.3	–
Transfer		–	2.9	(19.5)	16.6	–	–	–	–	–
At 31st December		62.9	493.9	265.9	526.5	0.1	(75.3)	1,274.0	6.1	1,280.1

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US$43.6 million (2017: US$54.9 million) and net actuarial loss on employee defined benefit plans of US$2.6 million (2017: net actuarial gain of US$6.4 million).

Consolidated Cash Flow Statement

for the year ended 31st December 2018

	Note	2018 US$m	2017 US$m
Operating activities			
Operating profit	3	**69.6**	69.0
Depreciation	10	**81.6**	56.7
Amortisation of intangible assets	9	**4.9**	2.1
Other non-cash items	25a	**(4.0)**	0.2
Movements in working capital	25b	**17.5**	9.6
Interest received		**1.9**	1.3
Interest and other financing charges paid		**(14.4)**	(12.3)
Tax paid		**(18.8)**	(13.3)
		138.3	113.3
Dividends and interest from associates and joint ventures		**7.8**	6.6
Cash flows from operating activities		**146.1**	119.9
Investing activities			
Purchase of tangible assets		**(61.2)**	(82.6)
Purchase of intangible assets		**(7.4)**	(5.7)
Payment on Munich expansion	25c	**–**	(3.1)
Purchase of other investments		**(1.1)**	(0.9)
Advance to associates and joint ventures	25d	**(9.1)**	(11.4)
Repayment of loans to associates and joint ventures	25e	**1.2**	1.3
Repayment of intangible assets		**0.8**	–
Sale of other investments		**–**	0.4
Insurance recovery received for purchase of tangible assets	25f	**7.8**	–
Cash flows from investing activities		**(69.0)**	(102.0)
Financing activities			
Issue of shares		**0.1**	0.6
Drawdown of borrowings	18	**27.6**	30.8
Repayment of borrowings	18	**(0.2)**	(2.5)
Dividends paid by the Company	24	**(37.8)**	(50.3)
Cash flows from financing activities		**(10.3)**	(21.4)
Net increase/(decrease) in cash and cash equivalents		**66.8**	(3.5)
Cash and cash equivalents at 1st January		**183.9**	182.5
Effect of exchange rate changes		**(3.9)**	4.9
Cash and cash equivalents at 31st December	25g	**246.8**	183.9

Notes to the Financial Statements

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') 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.

Details of the Group's principal accounting policies are included in note 31.

This is the first set of the Group's annual financial statements in which IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' have been applied. Changes to principal accounting policies are described below. There are no other amendments relating to existing accounting standards, which are effective in 2018 and relevant to the Group's operations, that have a significant effect on the Group's accounting policies. The Group has not early adopted any standard, interpretation or amendment that have been issued but not yet effective.

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 2.

Changes in principal accounting policies

The Group has adopted the following new accounting standards from 1st January 2018:

IFRS 9 'Financial Instruments'
Under IFRS 9, the gains and losses arising from changes in fair value of the Group's investments, previously classified as available-for-sale, have been recognised in profit and loss, instead of through other comprehensive income. Such fair value gains or losses on revaluation of these investments are classified as non-trading items, and do not have any impact on the Group's underlying profit attributable to shareholders and shareholders' funds. The new forward-looking expected credit loss model, which replaces the incurred loss impairment model, has not resulted in a change to the Group's impairment provisions and earnings. The new hedge accounting rules, which align the accounting for hedging instruments closely with the Group's risk management practices, has no significant impact to the Group.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 establishes a comprehensive framework for the recognition of revenue. It replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' which covers contracts for goods and services. The core principle in the framework is that revenue is recognised when control of a good or service transfers to a customer. The new standard does not change the Group's revenue recognition from hotel ownership, hotel management, rendering of services, and sale of food and beverages and goods.

Changes to accounting policies on adoption of IFRS 9 and 15 have been applied retrospectively although the comparative financial statements have not been restated, other than certain comparative disclosures.

Notes to the Financial Statements *Continued*

2 Revenue

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 America 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 20.

	2018 US$m	2017 US$m
Analysis by geographical area		
– Hong Kong	**245.5**	235.8
– Other Asia	**111.5**	107.9
– Europe	**143.7**	163.8
– America	**113.0**	103.3
	613.7	610.8
Analysis by activity		
– Hotel ownership	**570.3**	577.6
– Hotel & Residences branding and management	**74.6**	62.1
– Less: intra-segment revenue	**(31.2)**	(28.9)
	613.7	610.8
Revenue from contracts with customers		
– Recognised at a point in time	**222.5**	234.6
– Recognised over time	**370.1**	354.1
	592.6	588.7
Revenue from other sources		
– Rental income	**21.1**	22.1
	613.7	610.8

Contract balances

Setup costs in order to secure long-term hotel management contracts are capitalised under intangible assets and amortised in profit and loss when the related revenue is recognised. Management expects the setup costs to be recoverable.

Contract liabilities primarily relate to the advance consideration received from customers relating to gift cards and advance customer deposits, for which revenue is recognised when the goods and services are provided to the customers.

Contract liabilities are further analysed as follows:

	2018 US$m	2017 US$m
Contract liabilities *(refer note 17)*		
– Gift cards	**12.3**	11.4
– Advance customer deposits and other	**11.1**	9.2
	23.4	20.6

Increases in contract liabilities during the year were in line with the growth of the Group's contracted sales.

2 Revenue *continued*

Revenue recognised in relation to contract liabilities

Revenue recognised in the current year relating to carried-forward contract liabilities:

	2018 US$m	2017 US$m
Gift cards	7.1	6.7
Advance customer deposits and other	7.5	8.7
	14.6	15.4

Revenue expected to be recognised on unsatisfied contracts with customers

The following table shows the timing of revenue to be recognised on unsatisfied performance obligations at 31st December 2018:

	Gift cards US$m	Advance customer deposits and other US$m	Total US$m
Within one year	4.8	15.1	19.9
Between one and two years	5.1	8.5	13.6
Between two and three years	1.6	–	1.6
Between three and four years	0.6	–	0.6
Between four and five years	0.2	–	0.2
	12.3	23.6	35.9

As permitted under the transitional provisions in IFRS 15, the transaction price allocated to unsatisfied performance obligations at 31st December 2017 is not disclosed.

Notes to the Financial Statements *Continued*

3 EBITDA (earnings before interest, tax, depreciation and amortisation) and operating profit from subsidiaries

	2018 US$m	2017 US$m
Analysis by geographical area		
– Hong Kong	**75.3**	74.0
– Other Asia	**32.6**	29.6
– Europe	**33.2**	17.0
– America	**12.4**	7.2
Underlying EBITDA from subsidiaries	**153.5**	127.8
Non-trading items *(refer note 8)*		
Fire at Mandarin Oriental Hyde Park, London		
– repair expenses and write-off of tangible assets and other incidental expenses	**(28.6)**	–
– insurance recovery for replacement of tangible assets and other incidental expenses	**29.6**	–
Closure of The Excelsior, Hong Kong – other costs	**(2.8)**	–
Change in fair value of other investments	**4.4**	–
	2.6	–
EBITDA from subsidiaries	**156.1**	127.8
Underlying depreciation and amortisation from subsidiaries	**(62.9)**	(58.8)
Non-trading items *(refer note 8)*		
Closure of The Excelsior, Hong Kong		
– accelerated depreciation and amortisation	**(23.6)**	–
Operating profit	**69.6**	69.0
Analysis by activity		
– Hotel ownership	**124.4**	105.2
– Hotel & Residences branding and management	**31.7**	22.6
EBITDA from subsidiaries	**156.1**	127.8
– Hotel ownership	**43.9**	49.2
– Hotel & Residences branding and management	**25.7**	19.8
Operating profit	**69.6**	69.0

3 EBITDA (earnings before interest, tax, depreciation and amortisation) and operating profit from subsidiaries *continued*

	2018 US$m	2017 US$m
The following items have been credited/(charged) in arriving at operating profit:		
Rental income *(refer note 10)*	**21.1**	22.1
Depreciation of tangible assets *(refer note 10)*	**(81.6)**	(56.7)
Amortisation of intangible assets *(refer note 9)*	**(4.9)**	(2.1)
Employee benefit expense		
– salaries and benefits in kind	**(271.0)**	(248.9)
– share options and share awards granted	**(0.8)**	(2.3)
– defined benefit pension plans *(refer note 14)*	**(4.6)**	(4.7)
– defined contribution pension plans	**(1.6)**	(1.4)
	(278.0)	(257.3)
Net foreign exchange gains	**0.2**	0.6
Operating leases		
– minimum lease payments	**(8.7)**	(8.7)
– contingent rents	**(6.2)**	(6.0)
– subleases	**0.3**	0.2
	(14.6)	(14.5)
Auditors' remuneration		
– audit	**(1.7)**	(1.6)
– non-audit services	**(0.9)**	(1.1)
	(2.6)	(2.7)

Notes to the Financial Statements *Continued*

4 Net financing charges

	2018 US$m	2017 US$m
Interest expense		
– bank loans	**(13.3)**	(10.4)
Commitment and other fees	**(1.8)**	(1.9)
Financing charges	**(15.1)**	(12.3)
Interest income	**2.2**	1.3
Net financing charges	**(12.9)**	(11.0)

5 Share of results of associates and joint ventures

	EBITDA **US$m**	Depreciation and amortisation **US$m**	Operating profit/ (loss) **US$m**	Net financing charges **US$m**	Tax **US$m**	Net profit/ (loss) **US$m**
2018						
Analysis by geographical area						
– Other Asia	**25.7**	**(8.5)**	**17.2**	**(1.3)**	**(3.0)**	**12.9**
– Europe	**(4.2)**	**(1.9)**	**(6.1)**	**–**	**–**	**(6.1)**
– America	**4.1**	**(2.9)**	**1.2**	**(2.2)**	**–**	**(1.0)**
	25.6	**(13.3)**	**12.3**	**(3.5)**	**(3.0)**	**5.8**
Analysis by activity						
– Hotel ownership	**24.4**	**(12.7)**	**11.7**	**(3.4)**	**(2.9)**	**5.4**
– Other	**1.2**	**(0.6)**	**0.6**	**(0.1)**	**(0.1)**	**0.4**
	25.6	**(13.3)**	**12.3**	**(3.5)**	**(3.0)**	**5.8**
2017						
Analysis by geographical area						
– Other Asia	23.5	(8.3)	15.2	(1.4)	(2.3)	11.5
– Europe	2.7	(0.8)	1.9	–	(0.1)	1.8
– America	3.9	(3.0)	0.9	(2.4)	(0.3)	(1.8)
	30.1	(12.1)	18.0	(3.8)	(2.7)	11.5
Analysis by activity						
– Hotel ownership	28.9	(11.6)	17.3	(3.6)	(2.6)	11.1
– Other	1.2	(0.5)	0.7	(0.2)	(0.1)	0.4
	30.1	(12.1)	18.0	(3.8)	(2.7)	11.5

6 Tax

	2018 US$m	2017 US$m
Tax (charged)/credited to profit and loss is analysed as follows:		
– current tax	**(15.4)**	(23.6)
– deferred tax *(refer note 13)*	**(3.7)**	8.6
	(19.1)	(15.0)
Analysis by geographical area		
– Hong Kong	**(11.7)**	(10.3)
– Other Asia	**(3.3)**	3.9
– Europe	**(2.3)**	(7.2)
– America	**(1.8)**	(1.4)
	(19.1)	(15.0)
Analysis by activity		
– Hotel ownership	**(14.8)**	(9.1)
– Hotel & Residences branding and management	**(4.3)**	(5.9)
	(19.1)	(15.0)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**(7.2)**	(4.3)
Income not subject to tax		
– Change in fair value of other investments	**0.7**	–
– Other items	**0.9**	0.8
Expenses not deductible for tax purposes		
– Closure of The Excelsior, Hong Kong	**(4.8)**	–
– Other items	**(3.4)**	(3.6)
Tax losses and temporary differences not recognised	**(4.9)**	(6.8)
Utilisation of previously unrecognised tax losses and temporary differences	**0.1**	3.9
Recognition of previously unrecognised tax losses	**1.4**	3.8
Deferred tax assets written off	**(0.3)**	–
Withholding tax	**(2.2)**	(8.3)
Over/(under) provision in prior years	**0.6**	(0.5)
	(19.1)	(15.0)
Tax relating to components of other comprehensive income is analysed as follows:		
Remeasurements of defined benefit plans	**0.5**	(1.2)
Cash flow hedges	**(0.1)**	(0.2)
	0.4	(1.4)

Share of tax charge of associates and joint ventures of US$3.0 million (2017: US$2.7 million) is included in share of results of associates and joint ventures *(refer note 5)*.

*The applicable tax rate for the year was 13% (2017: 7%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The increase in applicable tax rate was mainly caused by a change in the geographic mix of the Group's profits.

Notes to the Financial Statements *Continued*

7 Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders of US$43.6 million (2017: US$54.9 million) and on the weighted average number of 1,260.6 million (2017: 1,257.7 million) shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$43.6 million (2017: US$54.9 million) and on the weighted average number of 1,263.3 million (2017: 1,262.0 million) 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	
	2018	2017
Weighted average number of shares for basic earnings per share calculation	**1,260.6**	1,257.7
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**2.7**	4.3
Weighted average number of shares for diluted earnings per share calculation	**1,263.3**	1,262.0

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:

	2018			2017		
	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	**43.6**	**3.46**	**3.45**	54.9	4.37	4.35
Non-trading items *(refer note 8)*	**21.5**			–		
Underlying profit attributable to shareholders	**65.1**	**5.16**	**5.15**	54.9	4.37	4.35

8 Non-trading items

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

	2018 US$m	2017 US$m
Fire at Mandarin Oriental Hyde Park, London*		
– repair expenses and write-off of tangible assets and other incidental expenses	(28.6)	–
– insurance recovery for replacement of tangible assets and other incidental expenses	29.6	–
Closure of The Excelsior, Hong Kong†		
– accelerated depreciation and amortisation	(24.3)	–
– other costs	(2.6)	–
Change in fair value of other investments	4.4	–
	(21.5)	–

*Following the fire on 6th June 2018, Mandarin Oriental Hyde Park, London has closed for the necessary repairs in order to restore the property. The hotel re-opened its public areas and facilities on 4th December 2018. All guestrooms are scheduled to re-open in April 2019. The repair expenses and write-off of damaged tangible assets, and other incidental expenses of US$28.6 million as a result of the fire have been recognised as non-trading expenses. The Group received interim cash payments during 2018 from insurers. The insurance compensation of US$29.6 million for the replacement of tangible assets and other incidental expenses has been recognised as non-trading income. The insurance compensation for the reimbursement of operating expenditures and loss of profits of US$31.1 million has been recorded as underlying business performance. The total property damage and business interruption claims with the Group's insurers are expected to be concluded in 2019.

† On 9th October 2018, the Group announced that The Excelsior, Hong Kong will close on 31st March 2019 in order for the site to be redeveloped as a commercial building. An accelerated depreciation and amortisation charge as a result of the revision of the estimated useful lives of the non-leasehold land assets of the hotel, together with additional costs in respect of the hotel closure, have been recognised as non-trading expenses during the year. At the date of change in use, the site will be revalued and transferred from an owner occupied property held at historical depreciated cost to an investment property under development subject to regular valuation review. The initial revaluation gain will be recognised to the property revaluation reserve through other comprehensive income. Subsequent fair value changes of the investment property will be recognised as a non-trading item in the profit and loss.

Notes to the Financial Statements *Continued*

9 Intangible assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Development project contract costs US$m	Total US$m
2018					
Cost	**23.9**	**6.4**	**23.5**	**18.6**	**72.4**
Amortisation and impairment	**–**	**(2.5)**	**(19.1)**	**(3.1)**	**(24.7)**
Net book value at 1st January	**23.9**	**3.9**	**4.4**	**15.5**	**47.7**
Exchange differences	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Additions	**–**	**–**	**5.5**	**4.3**	**9.8**
Disposals	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Transfer from tangible assets	**–**	**–**	**1.4**	**–**	**1.4**
Amortisation charge	**–**	**(0.2)**	**(1.9)**	**(2.8)**	**(4.9)**
Net book value at 31st December	**23.9**	**3.7**	**9.4**	**16.0**	**53.0**
Cost	**23.9**	**6.4**	**28.1**	**21.8**	**80.2**
Amortisation and impairment	**–**	**(2.7)**	**(18.7)**	**(5.8)**	**(27.2)**
	23.9	**3.7**	**9.4**	**16.0**	**53.0**
2017					
Cost	23.9	6.3	17.8	16.3	64.3
Amortisation and impairment	–	(2.2)	(15.1)	(2.7)	(20.0)
Net book value at 1st January	23.9	4.1	2.7	13.6	44.3
Exchange differences	–	–	–	0.4	0.4
Additions	–	–	3.4	2.5	5.9
Transfer to tangible assets	–	–	(0.2)	–	(0.2)
Amortisation charge	–	(0.2)	(1.5)	(0.4)	(2.1)
Impairment charge	–	–	–	(0.6)	(0.6)
Net book value at 31st December	23.9	3.9	4.4	15.5	47.7
Cost	23.9	6.4	23.5	18.6	72.4
Amortisation and impairment	–	(2.5)	(19.1)	(3.1)	(24.7)
	23.9	3.9	4.4	15.5	47.7

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2018. 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 updated individual hotel forecasts (including the following year's individual hotel budgets) with assumptions updated for the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of between 4% to 8% to project cash flows over a five-year period after which the growth rate is assumed to be up to 5% in perpetuity. Individual growth assumptions vary across the Group's geographical locations, and are based on management expectations for each market's development. Pre-tax discount rates of 7% to 13% are applied to each 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 exists.

The amortisation charges are all recognised in arriving at operating profit and are included in cost of sales, selling and distribution costs, administration expenses and other operating expense.

9 Intangible assets *continued*

The amortisation periods for intangible assets are as follows:

Leasehold land	20 to 40 years
Computer software	3 to 5 years
Development project contract costs	15 to 40 years

10 Tangible assets

	Freehold properties US$m	Leasehold properties & improvements US$m	Plant & machinery US$m	Furniture equipment & motor vehicles US$m	Total US$m
2018					
Cost	**841.4**	**744.0**	**155.0**	**291.6**	**2,032.0**
Depreciation	**(90.3)**	**(199.8)**	**(86.6)**	**(202.1)**	**(578.8)**
Net book value at 1st January	**751.1**	**544.2**	**68.4**	**89.5**	**1,453.2**
Exchange differences	**(27.5)**	**(7.1)**	**(2.4)**	**(1.8)**	**(38.8)**
Additions	**17.4**	**8.8**	**3.5**	**32.4**	**62.1**
Disposals and write-off	**(3.8)**	**–**	**(0.8)**	**(2.4)**	**(7.0)**
Transfer to intangible assets	**–**	**–**	**–**	**(1.4)**	**(1.4)**
Reclassification	**19.8**	**(13.5)**	**0.2**	**(6.5)**	**–**
Depreciation charge	**(7.3)**	**(41.9)**	**(8.6)**	**(23.8)**	**(81.6)**
Net book value at 31st December	**749.7**	**490.5**	**60.3**	**86.0**	**1,386.5**
Cost	**837.1**	**726.1**	**132.0**	**273.6**	**1,968.8**
Depreciation	**(87.4)**	**(235.6)**	**(71.7)**	**(187.6)**	**(582.3)**
	749.7	**490.5**	**60.3**	**86.0**	**1,386.5**
2017					
Cost	733.3	743.3	139.4	260.2	1,876.2
Depreciation	(85.4)	(182.6)	(75.1)	(181.0)	(524.1)
Net book value at 1st January	647.9	560.7	64.3	79.2	1,352.1
Exchange differences	57.0	10.5	5.4	2.3	75.2
Additions	34.8	25.2	2.7	19.8	82.5
Disposals	–	–	–	(0.1)	(0.1)
Transfer from intangible assets	–	–	–	0.2	0.2
Reclassification	22.1	(34.0)	3.1	8.8	–
Depreciation charge	(10.7)	(18.2)	(7.1)	(20.7)	(56.7)
Net book value at 31st December	751.1	544.2	68.4	89.5	1,453.2
Cost	841.4	744.0	155.0	291.6	2,032.0
Depreciation	(90.3)	(199.8)	(86.6)	(202.1)	(578.8)
	751.1	544.2	68.4	89.5	1,453.2

Freehold properties include a property of US$105.0 million (2017: US$108.5 million), which is stated net of tax increment financing of US$20.5 million (2017: US$21.3 million) *(refer note 19)*.

Net book value of leasehold properties acquired under finance leases amounted to US$180.6 million (2017: US$181.2 million).

Rental income from properties and other tangible assets amounted to US$21.1 million (2017: US$22.1 million) *(refer note 3)*.

Notes to the Financial Statements *Continued*

10 Tangible assets *continued*

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

	2018 US$m	2017 US$m
Within one year	**18.4**	18.6
Between one and two years	**18.0**	16.8
Between two and five years	**24.8**	38.0
Beyond five years	**–**	1.2
	61.2	74.6

Certain of the hotel properties are pledged as security for bank borrowings as shown in note 18.

11 Associates and joint ventures

	2018 US$m	2017 US$m
Associates		
Listed associate – OHTL	**20.9**	20.1
Unlisted associates	**91.1**	89.4
Share of attributable net assets	**112.0**	109.5
Notional goodwill	**5.5**	5.5
	117.5	115.0
Joint ventures		
Share of attributable net assets of unlisted joint ventures	**73.3**	75.0
Goodwill on acquisition	**6.3**	6.6
	79.6	81.6
	197.1	196.6

	Associates		Joint ventures	
	2018 US$m	2017 US$m	2018 US$m	2017 US$m
Movements of associates and joint ventures during the year:				
At 1st January	**115.0**	93.5	**81.6**	70.3
Exchange differences	**–**	–	**(3.6)**	9.4
Share of results after tax and non-controlling interests	**11.9**	9.7	**(6.1)**	1.8
Share of other comprehensive (expense)/income after tax and non-controlling interests	**(1.9)**	8.4	**0.1**	–
Dividends received	**(7.7)**	(5.2)	**–**	–
Interest received	**–**	–	**(0.1)**	(1.4)
Advance to associates and joint ventures *(refer note 25d)*	**0.9**	9.1	**8.2**	2.3
Repayment of loans to associates and joint ventures *(refer note 25e)*	**(0.7)**	(0.5)	**(0.5)**	(0.8)
At 31st December	**117.5**	115.0	**79.6**	81.6
Fair value of listed associate	**198.5**	207.3	**N/A**	N/A

11 Associates and joint ventures *continued*

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 2018 and 2017:

Name of entity	Nature of business	Country of incorporation and principal place of business/ place of listing	% of ownership interest 2018	2017
OHTL PCL ('OHTL')	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	**47.6%**	47.6%
Marina Bay Hotel Private Ltd. ('Marina Bay Hotel')	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	**50.0%**	50.0%

At 31st December 2018, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US$198.5 million (2017: US$207.3 million) and the carrying amount of the Group's interest was US$26.4 million (2017: US$25.6 million).

Summarised financial information for material associates

Summarised balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Non-current assets	**69.5**	69.1	**121.8**	127.9	**191.3**	197.0
Current assets						
Cash and cash equivalents	**3.5**	2.5	**9.9**	4.8	**13.4**	7.3
Other current assets	**5.4**	5.5	**5.7**	4.0	**11.1**	9.5
Total current assets	**8.9**	8.0	**15.6**	8.8	**24.5**	16.8
Non-current liabilities						
Financial liabilities*	**(10.8)**	(10.7)	**–**	(6.7)	**(10.8)**	(17.4)
Other non-current liabilities*	**(4.6)**	(4.2)	**(3.4)**	(3.3)	**(8.0)**	(7.5)
Total non-current liabilities	**(15.4)**	(14.9)	**(3.4)**	(10.0)	**(18.8)**	(24.9)
Current liabilities						
Financial liabilities*	**(15.7)**	(16.4)	**(12.2)**	(11.1)	**(27.9)**	(27.5)
Other current liabilities*	**(3.4)**	(3.6)	**(7.1)**	(5.8)	**(10.5)**	(9.4)
Total current liabilities	**(19.1)**	(20.0)	**(19.3)**	(16.9)	**(38.4)**	(36.9)
Net assets	**43.9**	42.2	**114.7**	109.8	**158.6**	152.0

*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*

11 Associates and joint ventures *continued*

a) Investment in associates *continued*

Summarised financial information for material associates *continued*

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

	OHTL		Marina Bay Hotel		Total	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Revenue	**68.2**	63.0	**86.0**	77.6	**154.2**	140.6
Depreciation and amortisation	**(6.1)**	(6.6)	**(6.3)**	(6.3)	**(12.4)**	(12.9)
Interest expense	**(0.3)**	(0.4)	**(0.1)**	(0.3)	**(0.4)**	(0.7)
Profit from underlying business performance	**11.0**	9.5	**20.4**	17.5	**31.4**	27.0
Income tax expense	**(1.7)**	(1.4)	**(4.0)**	(3.0)	**(5.7)**	(4.4)
Profit after tax from underlying business performance	**9.3**	8.1	**16.4**	14.5	**25.7**	22.6
Non-trading items	**(0.1)**	–	**–**	–	**(0.1)**	–
Profit after tax	**9.2**	8.1	**16.4**	14.5	**25.6**	22.6
Other comprehensive income/(expense)	**–**	3.5	**(3.1)**	9.4	**(3.1)**	12.9
Total comprehensive income	**9.2**	11.6	**13.3**	23.9	**22.5**	35.5
Dividends received from associates	**7.5**	5.3	**8.4**	4.8	**15.9**	10.1

The information contained in the summarised balance sheet and statement of comprehensive income 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.

11 Associates and joint ventures *continued*

a) Investment in associates *continued*

Reconciliation of the summarised financial information

Reconciliation of the summarised 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	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Net assets at 1st January	**42.2**	35.9	**109.8**	90.7	**152.0**	126.6
Profit for the year	**9.2**	8.1	**16.4**	14.5	**25.6**	22.6
Other comprehensive income/(expense)	**–**	3.5	**(3.1)**	9.4	**(3.1)**	12.9
Dividends paid	**(7.5)**	(5.3)	**(8.4)**	(4.8)	**(15.9)**	(10.1)
Net assets at 31st December	**43.9**	42.2	**114.7**	109.8	**158.6**	152.0
Effective interest in associates (%)	**47.6**	47.6	**50.0**	50.0		
Group's share of net assets in associates	**20.9**	20.1	**57.4**	54.9	**78.3**	75.0
Notional goodwill*	**5.5**	5.5	**–**	–	**5.5**	5.5
Carrying value	**26.4**	25.6	**57.4**	54.9	**83.8**	80.5
Fair value	**198.5**	207.3	**N/A**	N/A	**198.5**	207.3

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

	2018 US$m	2017 US$m
Share of loss	**(0.7)**	(1.3)
Share of other comprehensive (expense)/income	**(0.3)**	2.1
Share of total comprehensive (expense)/income	**(1.0)**	0.8
Carrying amount of interests in these associates	**33.7**	34.5

*OHTL repurchased some of its own shares in 2013 which were subsequently cancelled in 2016. 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 recognised and the Group's effective interest increased to 47.6%.

Contingent liabilities relating to the Group's interest in associates

	2018 US$m	2017 US$m
Financial guarantee in respect of facilities made available to an associate	**20.3**	20.4

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

Notes to the Financial Statements *Continued*

11 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 2018 and 2017:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest **2018**	2017
Ritz Madrid, S.A. ('Ritz Madrid')	Owner of Hotel Ritz, Madrid	Spain	**50.0%**	50.0%

Summarised financial information for material joint venture

Summarised balance sheet at 31st December

	Ritz Madrid **2018** **US$m**	2017 US$m
Non-current assets	**184.5**	186.3
Current assets		
Cash and cash equivalents	**6.7**	7.8
Other current assets	**0.7**	2.4
Total current assets	**7.4**	10.2
Non-current liabilities		
Financial liabilities*†	**(162.8)**	(154.6)
Other non-current liabilities*	**(37.0)**	(38.5)
Total non-current liabilities	**(199.8)**	(193.1)
Current liabilities		
Other current liabilities*	**(8.3)**	(8.1)
Total current liabilities	**(8.3)**	(8.1)
Net liabilities	**(16.2)**	(4.7)

*Financial liabilities excluding trade and other payables and provisions, which are presented under other current and non-current liabilities.
† Including shareholders' loans from joint venture partners of US$162.8 million (2017: US$154.6 million).

11 Associates and joint ventures *continued*

b) Investment in joint ventures *continued*

Summarised financial information for material joint venture *continued*

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

	Ritz Madrid	
	2018 US$m	2017 US$m
Revenue	**3.5**	30.3
Depreciation and amortisation	**(3.8)**	(1.6)
(Loss)/profit after tax	**(12.2)**	3.5
Other comprehensive income/(expense)	**0.9**	(0.6)
Total comprehensive (expense)/income	**(11.3)**	2.9
Interest received from joint venture	**0.2**	2.8

The information contained in the summarised balance sheet and statement of comprehensive income 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, fair value of the joint ventures at the time of acquisition, and elimination of interest on shareholders' loan.

Reconciliation of the summarised financial information

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

	Ritz Madrid	
	2018 US$m	2017 US$m
Net liabilities at 1st January	**(4.7)**	(4.8)
(Loss)/profit for the year	**(12.2)**	3.5
Other comprehensive income/(expense)	**0.9**	(0.6)
Interest paid	**(0.2)**	(2.8)
Net liabilities at 31st December	**(16.2)**	(4.7)
Effective interest in joint venture (%)	**50.0**	50.0
Group's share of net liabilities in joint venture	**(8.1)**	(2.3)
Goodwill on acquisition	**6.3**	6.6
Shareholders' loans	**81.4**	77.3
Carrying value	**79.6**	81.6

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

Commitments and contingent liabilities in respect of joint ventures

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

	2018 US$m	2017 US$m
Commitment to provide funding if called	**44.1**	55.1

There were no contingent liabilities relating to the Group's interest in its joint ventures at 31st December 2018 and 2017.

Notes to the Financial Statements *Continued*

12 Other investments

	2018 US$m	2017 US$m
Investments measured at fair value through profit and loss – unlisted investments	**15.2**	11.0

Movements of these investments which were valued based on unobservable inputs during the year are disclosed in note 33.

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
2018							
At 1st January	**(54.2)**	**(0.1)**	**7.8**	**(0.7)**	**(1.5)**	**1.1**	**(47.6)**
Exchange differences	**0.8**	**0.1**	**(0.2)**	**–**	**(0.1)**	**0.1**	**0.7**
(Charged)/credited to profit and loss	**(4.1)**	**–**	**1.4**	**0.1**	**–**	**(1.1)**	**(3.7)**
(Charged)/credited to other comprehensive income	**–**	**(0.1)**	**–**	**0.5**	**–**	**–**	**0.4**
At 31st December	**(57.5)**	**(0.1)**	**9.0**	**(0.1)**	**(1.6)**	**0.1**	**(50.2)**
Deferred tax assets	**0.3**	**–**	**9.0**	**0.6**	**–**	**1.5**	**11.4**
Deferred tax liabilities	**(57.8)**	**(0.1)**	**–**	**(0.7)**	**(1.6)**	**(1.4)**	**(61.6)**
	(57.5)	**(0.1)**	**9.0**	**(0.1)**	**(1.6)**	**0.1**	**(50.2)**
2017							
At 1st January	(52.6)	0.1	1.1	0.5	(1.4)	(1.2)	(53.5)
Exchange differences	(1.2)	–	0.1	–	(0.1)	(0.1)	(1.3)
(Charged)/credited to profit and loss	(0.4)	–	6.6	–	–	2.4	8.6
Charged to other comprehensive income	–	(0.2)	–	(1.2)	–	–	(1.4)
At 31st December	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)
Deferred tax assets	0.3	–	7.8	0.4	–	2.5	11.0
Deferred tax liabilities	(54.5)	(0.1)	–	(1.1)	(1.5)	(1.4)	(58.6)
	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)

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$42.9 million (2017: US$48.8 million) arising from unused tax losses of US$203.2 million (2017: US$198.2 million) have not been recognised in the financial statements. Included in the unused tax losses, US$177.0 million have no expiry date and the balance will expire at various dates up to and including 2037.

Deferred tax assets of US$1.5 million (2017: US$1.1 million) have not been recognised in relation to temporary differences in subsidiaries.

The Group has no unrecognised deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2018 and 2017.

14 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 recognised in the consolidated balance sheet are as follows:

	2018 US$m	2017 US$m
Fair value of plan assets	**62.9**	73.1
Present value of funded obligations	**(62.7)**	(68.2)
	0.2	4.9
Present value of unfunded obligations	**(0.4)**	(0.6)
Net pension (liabilities)/assets	**(0.2)**	4.3
Analysis of net pension (liabilities)/assets		
Pension assets	**0.2**	4.9
Pension liabilities	**(0.4)**	(0.6)
	(0.2)	4.3

Notes to the Financial Statements *Continued*

14 Pension plans *continued*

The movement in the net pension (liabilities)/assets is as follows:

	Fair value of plan assets US$m	Present value of obligation US$m	Total US$m
2018			
At 1st January	**73.1**	**(68.8)**	**4.3**
Current service cost	**–**	**(4.6)**	**(4.6)**
Interest income/(expense)	**2.1**	**(1.8)**	**0.3**
Administration expenses	**(0.3)**	**–**	**(0.3)**
	1.8	**(6.4)**	**(4.6)**
	74.9	**(75.2)**	**(0.3)**
Exchange differences	**(0.1)**	**0.1**	**–**
Remeasurements			
– return on plan assets, excluding amounts included in interest income	**(4.6)**	**–**	**(4.6)**
– change in financial assumptions	**–**	**1.7**	**1.7**
– experience losses	**–**	**(0.1)**	**(0.1)**
	(4.6)	**1.6**	**(3.0)**
Contributions from employers	**3.1**	**–**	**3.1**
Contributions from plan participants	**0.8**	**(0.8)**	**–**
Benefit payments	**(11.0)**	**11.0**	**–**
Transfer to other plans	**(0.2)**	**0.2**	**–**
At 31st December	**62.9**	**(63.1)**	**(0.2)**
2017			
At 1st January	65.6	(68.8)	(3.2)
Current service cost	–	(4.5)	(4.5)
Interest income/(expense)	2.1	(2.3)	(0.2)
	2.1	(6.8)	(4.7)
	67.7	(75.6)	(7.9)
Exchange differences	(0.5)	0.5	–
Remeasurements			
– return on plan assets, excluding amounts included in interest income	8.9	–	8.9
– change in financial assumptions	–	(1.8)	(1.8)
– experience gains	–	0.5	0.5
– demographic assumption changes	–	0.1	0.1
	8.9	(1.2)	7.7
Contributions from employers	4.5	–	4.5
Contributions from plan participants	0.8	(0.8)	–
Benefit payments	(8.5)	8.5	–
Transfer from other plans	0.2	(0.2)	–
At 31st December	73.1	(68.8)	4.3

14 Pension plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2018 is 5.8 years (2017: 5.6 years).

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

	2018 US$m	2017 US$m
Within one year	**8.5**	9.6
Between one and two years	**8.3**	11.3
Between two and five years	**25.6**	21.6
Between five and ten years	**35.7**	39.1
Between ten and fifteen years	**25.5**	25.8
Between fifteen and twenty years	**19.1**	20.0
Beyond twenty years	**21.2**	21.9
	143.9	149.3

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

	Hong Kong	
	2018 %	2017 %
Discount rate	**3.30**	2.90
Salary growth rate	**4.75**	4.75

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:

		Increase/(decrease) on defined benefit obligation	
	Change in assumption %	Increase in assumption US$m	Decrease in assumption US$m
Discount rate	1	(3.5)	3.8
Salary growth rate	1	3.4	(3.1)

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 as when calculating the pension liability recognised within the balance sheet.

Notes to the Financial Statements *Continued*

14 Pension plans *continued*

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

	2018 US$m	2017 US$m
Equity investments		
– Asia-Pacific	**2.4**	5.1
Investment funds		
– Asia-Pacific	**14.7**	16.6
– Europe	**6.8**	4.9
– North America	**16.8**	14.1
– Global	**12.9**	32.0
	51.2	67.6
Total investments	**53.6**	72.7
Cash and cash equivalents	**9.3**	0.4
	62.9	73.1

As at 31st December 2018, 100% of equity investments and 71% of investment funds were quoted on active markets (2017: 100% and 65% respectively).

The strategic asset allocation is derived from the asset-liability modelling ('ALM') review, done triennially to ensure the plans can meet future funding and solvency requirements. The last ALM review was completed in 2018, with modified strategic asset allocation adopted in 2018. The next ALM review is scheduled for 2021.

As at 31st December 2018, the Hong Kong plans had assets of US$62.9 million (2017: US$73.1 million).

The Group maintains an active and regular contribution schedule across all the plans. The contribution to all its plans in 2018 were US$3.1 million and the estimated amount of contributions expected to be paid to all its plans in 2019 is US$2.8 million.

15 Debtors

	2018 US$m	2017 US$m
Trade debtors		
– third parties	38.9	41.3
– associates and joint ventures	4.1	4.6
	43.0	45.9
– provision for impairment	(3.4)	(1.5)
	39.6	44.4
Other debtors		
– third parties*	60.3	55.6
– associates and joint ventures	2.5	2.8
	62.8	58.4
– provision for impairment	(1.4)	(2.1)
	61.4	56.3
	101.0	100.7
Non-current	5.1	0.5
Current	95.9	100.2
	101.0	100.7
Analysis by geographical area		
– Hong Kong	27.0	21.9
– Other Asia	12.1	12.2
– Europe	45.5	48.5
– America	16.4	18.1
	101.0	100.7

*Included deposit of US$16.3 million (2017: US$17.1 million) in respect of the expansion project of Mandarin Oriental, Munich, pending transfer of title in the underlying land.

Derivative financial instruments are stated at fair value. Other debtors are stated at amortised cost. The fair values of short-term debtors approximate their carrying amounts.

	2018 US$m	2017 US$m
Fair value		
– trade debtors	39.6	44.4
– other debtors†	22.5	21.6
	62.1	66.0

† Excluding prepayments, rental and other deposits.

Notes to the Financial Statements *Continued*

15 Debtors *continued*

Trade and other debtors

The average credit period on provision of services varies among Group businesses and is generally not more than 30 days.

Other debtors are further analysed as follows:

	2018 US$m	2017 US$m
Derivatives financial instruments *(refer note 26)*	**0.9**	0.5
Other amounts due from associates and joint ventures	**2.5**	2.8
Other receivables	**19.1**	18.3
Financial assets	**22.5**	21.6
Prepayments	**18.5**	13.8
Rental and other deposits	**20.3**	20.8
Other	**0.1**	0.1
	61.4	56.3

No debtors and prepayments have been pledged as security.

Impairment of trade debtors

Before accepting any new customer, the individual Group business assesses the potential customer's credit quality and sets credit limits by customer using internal credit scoring systems. These limits and scoring are reviewed periodically.

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

The Group applied the simplified approach to measure expected credit loss, that is a lifetime expected loss allowance for trade debtors. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors and industry trends affecting the ability of the customers to settle the receivables.

15 Debtors *continued*

Impairment of trade debtors *continued*

On that basis, the loss allowances as at 31st December 2018 and 2017 based on the ageing of trade debtors are as follows:

	Below 30 days	Between 31 and 60 days	Between 61 and 120 days	More than 120 days	Total
2018					
Expected loss rate	**–**	**2%**	**5%**	**51%**	**8%**
Gross carrying amount – trade debtors (US$m)	**30.0**	**4.9**	**2.0**	**6.1**	**43.0**
Loss allowance (US$m)	**0.1**	**0.1**	**0.1**	**3.1**	**3.4**
2017					
Expected loss rate	–	1%	8%	71%	3%
Gross carrying amount – trade debtors (US$m)	34.7	6.9	2.6	1.7	45.9
Loss allowance (US$m)	–	0.1	0.2	1.2	1.5

Movements in the provisions for impairment are as follows:

	Trade debtors 2018 US$m	2017 US$m
At 1st January	**(1.5)**	(1.8)
Additional provisions	**(2.0)**	–
Unused amounts reversed	**0.1**	–
Amounts written off	**–**	0.3
At 31st December	**(3.4)**	(1.5)

Trade debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

16 Bank and cash balances

	2018 US$m	2017 US$m
Deposits with banks and financial institutions	**137.8**	75.0
Bank balances	**107.8**	107.8
Cash balances	**1.2**	1.1
	246.8	183.9
Analysis by currency		
– Euro	**30.1**	26.9
– Hong Kong dollar	**15.6**	16.1
– Indonesian rupiah	**13.4**	13.4
– Japanese yen	**15.0**	19.0
– Swiss franc	**1.7**	4.4
– United Kingdom sterling	**28.7**	15.1
– United States dollar	**135.2**	81.8
– Other	**7.1**	7.2
	246.8	183.9

The weighted average interest rate on deposits with banks and financial institutions is 1.8% (2017: 1.1%) per annum.

Notes to the Financial Statements *Continued*

17 Creditors

	2018 US$m	2017 US$m
Trade creditors	**22.7**	22.2
Accruals	**87.6**	75.0
Rental and other refundable deposits	**7.0**	7.4
Derivative financial instruments *(refer note 26)*	**–**	0.2
Other creditors	**21.5**	23.2
Financial liabilities	**138.8**	128.0
Contract liabilities *(refer note 2)*	**23.4**	20.6
Rental income received in advance	**3.0**	3.0
Other income received in advance	**5.6**	–
	170.8	151.6
Non-current	**–**	0.2
Current	**170.8**	151.4
	170.8	151.6
Analysis by currency		
– Euro	**17.4**	17.8
– Hong Kong dollar	**58.8**	49.2
– Japanese yen	**12.4**	12.3
– Swiss franc	**6.1**	5.2
– United Kingdom sterling	**21.9**	11.4
– United States dollar	**49.0**	50.5
– Other	**5.2**	5.2
	170.8	151.6

Derivative financial instruments are stated at fair value. Other creditors are stated at amortised cost. The fair values of these creditors approximate their carrying amounts.

18 Borrowings

	2018		2017	
	Carrying amount US$m	Fair value US$m	Carrying amount US$m	Fair value US$m
Current portion of long-term borrowings				
– bank loans	**521.6**	**521.6**	–	–
– other borrowings	**2.6**	**2.6**	2.6	2.6
Current borrowings	**524.2**	**524.2**	2.6	2.6
Long-term borrowings				
– bank loans	**5.8**	**5.8**	506.5	506.5
– other borrowings	**1.5**	**1.5**	1.6	1.6
Long-term borrowings	**7.3**	**7.3**	508.1	508.1
	531.5	**531.5**	510.7	510.7

The Group is in advanced discussions with its key relationship banks regarding the refinancing of US$549 million of committed facilities due to mature within 2019, comprising a US$102 million facility in London, and a US$447 million facility in Hong Kong. Based on the Group's consistent track record of securing external financing in a timely manner, its operating performance and strong balance sheet, the Group is confident that it will complete the refinancing of these bank facilities before their expiry.

The fair values are estimated using the expected future payments discounted at market interest rate less than 0.1% (2017: less than 0.1%) per annum. This is in line with the definition of 'observable current market transactions' under the fair value measurement hierarchy. The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

	2018 US$m	2017 US$m
Secured	**523.2**	508.2
Unsecured	**8.3**	2.5
	531.5	510.7

Borrowings of US$523.2 million (2017: US$508.2 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets at 31st December 2018 was US$489.6 million (2017: US$477.7 million).

Notes to the Financial Statements *Continued*

18 Borrowings *continued*

The borrowings at 31st December are further summarised as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	US$m	Floating rate borrowings US$m	Total US$m
2018					
Euro	**0.5**	**–**	**–**	**5.8**	**5.8**
Hong Kong dollar	**3.4**	**0.5**	**118.1**	**302.0**	**420.1**
Swiss franc	**2.4**	**13.0**	**1.6**	**2.5**	**4.1**
United Kingdom sterling	**1.8**	**–**	**–**	**101.5**	**101.5**
			119.7	**411.8**	**531.5**
2017					
Hong Kong dollar	2.7	1.5	118.3	302.5	420.8
Swiss franc	2.6	14.0	1.7	2.5	4.2
United Kingdom sterling	1.5	–	–	85.7	85.7
			120.0	390.7	510.7

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

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:

	2018 US$m	2017 US$m
Floating rate borrowings		
– Within one year	**411.8**	390.7
Fixed rate borrowings		
– Within one year	**118.1**	–
– Between one and two years	**–**	118.3
– Beyond five years	**1.6**	1.7
	119.7	120.0
	531.5	510.7

18 Borrowings *continued*

The movements in borrowings are as follows:

	Bank overdrafts US$m	Long-term borrowings US$m	Total US$m
2018			
At 1st January	–	**510.7**	**510.7**
Exchange differences	–	**(6.6)**	**(6.6)**
Drawdown of borrowings	–	**27.6**	**27.6**
Repayment of borrowings	–	**(0.2)**	**(0.2)**
At 31st December	–	**531.5**	**531.5**
2017			
At 1st January	0.1	479.8	479.9
Exchange differences	–	2.6	2.6
Change in bank overdrafts	(0.1)	–	(0.1)
Drawdown of borrowings	–	30.8	30.8
Repayment of borrowings	–	(2.5)	(2.5)
At 31st December	–	510.7	510.7

19 Tax increment financing

	2018 US$m	2017 US$m
Netted off against the net book value of the property *(refer note 10)*	**20.5**	21.3

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

The District agreed to contribute to the subsidiary US$33.0 million through the issuance of TIF Bonds in addition to US$1.7 million issued in the form of a loan, bearing simple interest at an annual rate of 6.0% which was repaid on maturity on 10th April 2017.

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.

Notes to the Financial Statements *Continued*

20 Segment information

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

	2018 US$m	2017 US$m
Analysis by geographical area		
– Hong Kong	334.4	372.3
– Other Asia	126.7	121.2
– Europe	919.3	937.8
– America	261.3	266.2
	1,641.7	1,697.5

21 Share capital

	Ordinary shares in millions			
	2018	2017	2018 US$m	2017 US$m
Authorised				
Shares of US¢5.00 each	1,500.0	1,500.0	75.0	75.0
Issued and fully paid				
At 1st January	1,258.6	1,255.9	62.9	62.8
Issued under share-based long-term incentive plans	2.8	2.7	0.2	0.1
At 31st December	1,261.4	1,258.6	63.1	62.9

22 Share premium

	2018 US$m	2017 US$m
At 1st January	493.9	490.4
Issued under share-based long-term incentive plans	0.1	0.6
Transfer from capital reserves	3.8	2.9
At 31st December	497.8	493.9

23 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. 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. No conditional share awards were awarded in 2018 and 2017 under the 2014 Plan.

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2018	2017
At 1st January	**3.5**	5.3
Released	**(1.9)**	(1.7)
Cancelled	**(0.1)**	(0.1)
At 31st December	**1.5**	3.5

Outstanding conditional awards at 31st December:

	Ordinary shares in millions	
Awards vest date	**2018**	2017
2018	**–**	1.6
2019	**1.5**	1.9
Total outstanding	**1.5**	3.5

Notes to the Financial Statements *Continued*

23 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:

	2018 Weighted average exercise price US$	2018 Options in millions	2017 Weighted average exercise price US$	2017 Options in millions
At 1st January	1.67	8.3	1.61	31.4
Exercised	1.70	(3.5)	1.45	(7.8)
Cancelled	1.57	(0.1)	1.66	(15.3)
At 31st December	1.66	4.7	1.67	8.3

The average share price during the year was US$2.21 (2017: US$1.78) per share.

Outstanding options at 31st December:

Expiry date	Exercise price US$	Ordinary shares in millions 2018	Ordinary shares in millions 2017
2018	1.08-1.63	–	0.5
2019	0.66	0.3	0.2
2020	1.36	0.1	0.7
2021	1.99	1.4	2.8
2022	1.61	1.9	2.5
2023	1.57	1.0	1.6
Total outstanding		4.7	8.3
of which exercisable		4.7	8.3

24 Dividends

	2018 US$m	2017 US$m
Final dividend in respect of 2017 of US¢1.50 (2016: US¢2.50) per share	18.9	31.4
Interim dividend in respect of 2018 of US¢1.50 (2017: US¢1.50) per share	18.9	18.9
	37.8	50.3

A final dividend in respect of 2018 of US¢1.50 (2017: US¢1.50) per share amounting to a total of US$18.9 million (2017: US$18.9 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2019 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2019.

25 Notes to consolidated cash flow statement

a) Other non-cash items

	2018 US$m	2017 US$m
Share-based payment	1.4	2.3
Fair value gain on other investments	(4.4)	–
Others	(1.0)	(2.1)
	(4.0)	0.2

b) Movements in working capital

	2018 US$m	2017 US$m
Increase in stocks	(0.3)	(0.2)
Increase in debtors	(2.1)	(0.3)
Increase in creditors	18.4	9.9
Increase in pension obligations	1.5	0.2
	17.5	9.6

c) The Group paid a further US$3.1 million instalment in respect of the land purchase price and related cost for the expansion of Mandarin Oriental, Munich in 2017. As at 31st December 2018 and 2017, cumulative costs paid by the Group amounted to US$20.0 million, the majority of which have been included within Other Debtors pending transfer of title in the underlying land.

d) During 2018, the Group provided shareholder loans to Mandarin Oriental, New York of US$0.9 million (2017: US$9.1 million) and Hotel Ritz, Madrid of US$8.2 million (2017: US$2.3 million).

e) During 2018, the Group received repayments on its shareholder loans previously provided to Hotel Ritz, Madrid of US$0.5 million (2017: US$0.8 million) and Mandarin Oriental, Miami of US$0.7 million (2017: US$0.5 million).

f) The Group received US$66.3 million interim insurance payments in 2018, covering both property damage and business interruption caused by the fire at Mandarin Oriental Hyde Park, London on 6th June 2018. Of this US$66.3 million, US$7.8 million was to cover the remedial capital expenditure of the tangible assets which was recorded under investing activities. The remaining balance was recorded under operating activities.

g) Analysis of balances of cash and cash equivalents

	2018 US$m	2017 US$m
Bank and cash balances *(refer note 16)*	246.8	183.9

Notes to the Financial Statements *Continued*

26 Derivative financial instruments

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

	2018		2017	
	Positive fair value US$m	Negative fair value US$m	Positive fair value US$m	Negative fair value US$m
Designated as cash flow hedges				
– interest rate swaps and caps	**0.9**	–	0.5	0.2

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2018 were US$232.7 million (2017: US$236.1 million).

At 31st December 2018, the fixed interest rates relating to interest rate swaps and caps varied from 1.8% to 2.5% (2017: 1.8% to 2.5%) per annum.

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 2.2% to 2.4% (2017: 1.3% to 1.7%) per annum.

27 Commitments

	2018 US$m	2017 US$m
Capital commitments		
Authorised not contracted		
– other	**742.5**	147.6
Contracted not provided		
– joint ventures	**44.1**	55.1
– other	**29.9**	51.6
	74.0	106.7
	816.5	254.3

The increase in authorised not contracted capital commitments was primarily attributable to the planned redevelopment of The Excelsior, Hong Kong as a commercial building following the hotel closure on 31st March 2019. The redevelopment is expected to take up to six years to complete.

	2018 US$m	2017 US$m
Operating lease commitments		
Total commitments under operating leases		
– due within one year	**7.3**	7.2
– due between one and two years	**7.1**	6.7
– due between two and three years	**6.4**	6.4
– due between three and four years	**6.4**	5.8
– due between four and five years	**6.4**	5.8
– due beyond five years	**164.5**	75.7
	198.1	107.6

No future sublease payments are receivable relating to the above operating leases (2017: nil).

Operating lease commitments principally include payments in respect of the Group's hotel in Tokyo. During 2018, the lease period has been extended by 15 years from 2035 to 2050.

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

28 Related party transactions

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

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

During 2018, the Group managed six (2017: six) associate and joint venture hotels and received management fees of US$14.8 million (2017: US$13.6 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 2018 to JLT amounted to US$1.6 million (2017: US$1.2 million).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2018 amounted to US$2.7 million (2017: US$2.5 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US$0.2 million (2017: US$0.3 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group did not have any amount payable to JML as at 31st December 2018 (2017: nil).

The outstanding balances with associates and joint ventures are set out in debtors in note 15.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 98 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

29 Summarised balance sheet of the Company

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

	2018 US$m	2017 US$m
Subsidiaries	**975.5**	964.3
Net current liabilities	**(2.4)**	(2.2)
Net assets	**973.1**	962.1
Share capital *(refer note 21)*	**63.1**	62.9
Share premium *(refer note 22)*	**497.8**	493.9
Revenue and other reserves	**412.2**	405.3
Shareholders' funds	**973.1**	962.1

Subsidiaries are shown at cost less amount provided, and include amounts due from and due to subsidiaries.

Notes to the Financial Statements *Continued*

30 Principal subsidiaries, associates, joint ventures and managed hotels

The principal subsidiaries, associates, joint ventures and managed hotels of the Group at 31st December 2018 are set out below.

Principal place of business	Name of entity	Nature of business	Attributable interest % 2018	Attributable interest % 2017	Proportion of ordinary shares and voting powers at 31st December 2018 held by the Group %	Proportion of ordinary shares and voting powers at 31st December 2018 held by non-controlling interests %	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**	–	869 rooms. Lease expiry 2842 *(refer note 8)*
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	**100**	100	**100**	–	179 rooms. Lease expiry 2050
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**	–	181 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva	**85.3**	85.3	**85.3**	**14.7**	181 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	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston	**100**	100	**100**	–	148 rooms. Freehold
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	**89.1**	83.6	**89.1**	**10.9**	373 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	**47.6**	47.6	**47.6**	**52.4**	368 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	**25**	25	**25**	**75**	629 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**	**50**	162 rooms. Freehold
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		–	–	–	–	111 rooms
Macau	Mandarin Oriental, Macau		–	–	–	–	213 rooms
China	Mandarin Oriental, Sanya		–	–	–	–	281 rooms
China	Mandarin Oriental, Guangzhou		–	–	–	–	263 rooms
China	Mandarin Oriental Pudong, Shanghai		–	–	–	–	362 rooms
Taiwan	Mandarin Oriental, Taipei		–	–	–	–	296 rooms
Czech Republic	Mandarin Oriental, Prague		–	–	–	–	99 rooms
Spain	Mandarin Oriental, Barcelona		–	–	–	–	120 rooms
Turkey	Mandarin Oriental, Bodrum		–	–	–	–	131 rooms
Italy	Mandarin Oriental, Milan		–	–	–	–	104 rooms
Italy	Mandarin Oriental, Lago di Como (previously CastaDiva Resort and Spa, Lake Como)		–	–	–	–	76 rooms
Morocco	Mandarin Oriental, Marrakech		–	–	–	–	63 rooms
Chile	Hotel Santiago		–	–	–	–	310 rooms
Saint Vincent and the Grenadines	Mandarin Oriental, Canouan		–	–	–	–	38 rooms

31 Principal accounting policies

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 recognises the non-controlling interest's proportionate share of the recognised 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 recognises 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 recognised in profit and loss.

All material intercompany transactions, balances and unrealised 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 recognised 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.

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.

31 Principal accounting policies *continued*

Foreign currencies *continued*

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 recognised in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments, such exchange differences are recognised in profit and loss. Exchange differences on other investments measured at fair value through other comprehensive income are recognised in other comprehensive income as part of the gains and losses arising from changes in their fair value. All other exchange differences are recognised 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.

Impairment of non-financial assets

Assets that have indefinite useful lives are not subject to amortisation and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortisation 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 recognised 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.

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 recognised 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.

ii) Leasehold land represents payments to third parties to acquire short-term interests in property. These payments are stated at cost and are amortised 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 capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are stated at cost less accumulated amortisation. Amortisation is calculated on the straight line basis to allocate the cost over their estimated useful lives.

iv) Development project contract costs are setup costs in order to secure long-term hotel management contracts and directly attributable to hotel projects under development, which are capitalised to the extent that such expenditure is expected to generate future economic benefits and upon completion of the project. Capitalised development project contract costs are amortised over the term of the management contracts when the related revenue is recognised.

31 Principal accounting policies *continued*

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 amortised 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 recognised by reference to their carrying amount.

Investments

The Group classifies its investments into the following measurement categories:

i) Those to be measured subsequently at fair value, either through other comprehensive income or through profit and loss; and

ii) Those to be measured at amortised cost.

The classification is based on the management's business model and their contractual cash flows characteristics.

Investments are measured at fair value with fair value gains and losses recognised in profit and loss, unless management has elected to recognise the fair value gains and losses through other comprehensive income. For investments measured at fair value through other comprehensive income, gains or losses realised upon disposal are not reclassified to profit and loss.

At initial recognition, the Group measures an investment at its fair value plus, in the case of the investment not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the investment. Transaction costs of investments carried at fair value through profit and loss are expensed in profit and loss.

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

Investments are classified as non-current assets.

31 Principal accounting policies *continued*

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 recognised as an expense in the year in which termination takes place.

Stocks

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

Debtors

Trade debtors are recognised initially at the amount of consideration that is unconditional and measured subsequently at amortised costs using effective interest method. All other debtors, excluding derivative financial instruments, are measured at amortised cost except where the effect of discounting would be immaterial. The impairment measurement is subject to whether there has been a significant increase in credit risk. For trade debtors, the Group applied the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors. Provision for impairment is established by considering potential financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised 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.

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.

Provisions

Provisions are recognised 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.

31 Principal accounting policies *continued*

Borrowings and borrowing costs

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

Borrowing costs relating to major development projects are capitalised until the asset is substantially completed. Capitalised 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.

Government grants

Grants from governments are recognised 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.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or direct in equity. In this case, the tax is also recognised 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 realised 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 recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

31 Principal accounting policies *continued*

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 recognised in other comprehensive income in the year in which they occur.

Past service costs are recognised 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 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 they can be share awards which will vest free of payment. 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 share options or the share awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options or the share awards granted as determined on the grant date. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable and the number of share awards which will vest free of payment. The impact of the revision of original estimates, if any, is recognised in profit and loss.

31 Principal accounting policies *continued*

Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures and not as speculative investments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising 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.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in other comprehensive income and accumulated in equity under hedging reserves. Changes in the fair value relating to the ineffective portion is recognised immediately in profit and loss. Where the hedged item results in the recognition of a non-financial asset or of a non-financial liability, the deferred gains and losses and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in profit and loss as the hedged item affects profit and loss. 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. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit and loss within finance cost at the same time as the interest expense on the hedged borrowings. 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 recognised when the committed or forecasted transaction ultimately is recognised in profit and loss. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to profit and loss.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 9. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognised 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 recognised in other comprehensive income and accumulated in exchange reserves; the gain or loss relating to the ineffective portion is recognised 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.

31 Principal accounting policies *continued*

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 recognised 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.

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 recognised amounts and there is an intention to settle on a net basis or realise 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.

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 fair value gains or losses on revaluation of investments which are fair value through profit and loss; 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; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

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.

Dividends

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

31 Principal accounting policies *continued*

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, sales related taxes and other revenue reducing factors.

i) Revenue from hotel ownership comprises amounts earned in respect of rental of rooms, food and beverage sales, and other ancillary services and goods supplied by the subsidiary hotels.

Revenue is recognised over the period when rooms are occupied or services are performed.

Revenue from the sale of food and beverages and goods is recognised at the point of sale when the food and beverages and goods are delivered to customers.

Payment is due immediately when the hotel guest occupies the room and receives the services and goods.

ii) Revenue from hotel and residences branding and management comprises gross fees earned from the branding and management of all the hotels and residences operated by the Group.

Branding and management fees are recognised over time as determined by the relevant contract, taking into account the performance of the hotels, and the sales and operating expenses of the residences. Fees charged to the subsidiary hotels are eliminated upon consolidation.

Hotels and residences are invoiced in accordance with the terms of contract and fees are payable when invoiced.

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

Pre-operating costs

Pre-operating costs are expensed as they are incurred.

32 Standards and amendments issued but not yet effective

A number of new standards and amendments relating to existing standards, which are effective for accounting periods beginning after 2018, have been published and will be adopted by the Group from their effective dates. An assessment of the impact of the standards and amendments, that are relevant and have a material impact to the Group, is set out below.

IFRS 16 'Leases' (effective from 1st January 2019)

The standard replaces IAS 17 'Leases' and related interpretations and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding lease liability have to be recognised on the balance sheet for all leases by lessees, except for leases with a term of less than 12 months or with low-value. The accounting for lessors will not change significantly.

IFRS 16 will affect primarily the accounting for the Group's operating leases. The Group's profit or loss and classification of cash flows will be affected by the new standard. The Group will apply IFRS 16 based on a full retrospective approach from 1st January 2019.

Based on the current assessment, it is estimated that the change in accounting for the Group's operating leases will result in the recognition of right-of-use assets of US$159 million and lease liabilities of US$167 million as at 31st December 2018. The Group's underlying profit attributable to shareholders for the year ended 31st December 2018 would decrease by less than US$1 million and the impact to shareholders' funds and gearing as at 31st December 2018 is insignificant.

33 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price 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 minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third-party banks and the Group entity that is directly exposed to the risk being hedged. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. This will effectively result in recognising interest expense at a fixed interest rate for the hedged loans.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps and caps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was approximately 100% effective.

The Group performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness for interest rate swaps may occur due to: (i) the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; and (ii) differences in critical terms between the interest rate swaps and loans.

There was no ineffectiveness during 2018 or 2017 in relation to the interest rate swaps.

Notes to the Financial Statements *Continued*

33 Financial risk management *continued*

Financial risk factors *continued*

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 2018 and 2017, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2018, 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$0.6 million (2017: US$0.1 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$0.6 million (2017: US$0.1 million) lower/higher. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2018 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.

33 Financial risk management *continued*

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 2018, the Group's interest rate hedge was 44% (2017: 47%), with an average tenor of 0.6 years (2017: 1.6 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 18.

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 2018, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$1.9 million (2017: US$2.4 million) lower/higher, and hedging reserves would have been US$1.8 million (2017: US$2.8 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.

Notes to the Financial Statements *Continued*

33 Financial risk management *continued*

Financial risk factors *continued*

i) **Market risk** *continued*

Price risk

The Group is exposed to price risk from its investments which are measured at fair value through profit and loss. Gains and losses arising from changes in the fair value of these investments are recognised in profit and loss or other comprehensive income according to their classification. The performance of these investments are monitored regularly, together with an assessment of their relevance to the Group's long-term strategic plans. Details of these investments are contained in note 12.

The Group's interest in these investments are unhedged. At 31st December 2018, if the price of these investments had been 25% higher/lower with all other variables held constant, non-trading operating profit and total equity would have been US$3.8 million (2017: US$2.8 million) higher/lower. The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

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 utilisation of credit limits is regularly monitored. At 31st December 2018, 97% (2017: 85%) 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.

33 Financial risk management *continued*

Financial risk factors continued

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 2018, total available borrowing facilities amounted to US$610 million (2017: US$560 million) of which US$532 million (2017: US$511 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US$78 million (2017: US$49 million), in addition to cash balances of US$247 million (2017: US$184 million).

The table below analyses the Group's non-derivative financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at 31st December 2018 and 2017 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
2018							
Borrowings	**533.2**	**0.2**	**5.9**	**0.2**	**0.2**	**1.5**	**541.2**
Creditors	**138.8**	**–**	**–**	**–**	**–**	**–**	**138.8**
2017							
Borrowings	15.6	513.6	0.2	0.2	0.2	1.7	531.5
Creditors	127.8	–	–	–	–	–	127.8
Net settled derivative financial instruments	0.5	–	–	–	–	–	0.5

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 maximise 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.

33 Financial risk management *continued*

Capital management continued

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 shareholders' funds on an IFRS basis, where the Group's freehold and leasehold interests are carried in the consolidated balance sheet at amortised cost, or alternatively on an adjusted shareholders' funds basis which takes into account the fair market value of the Group's freehold and leasehold interests. Net debt is calculated as total borrowings less bank and cash balances. Interest cover is calculated as underlying operating profit and the Group's share of underlying results of associates and joint ventures divided by net financing charges including capitalised interest. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2018 and 2017 are as follows:

	2018	2017
Gearing ratio		
– based on shareholders' funds	**23%**	26%
– based on adjusted shareholders' funds	**5%**	6%
Interest cover	**7.3 times**	7.2 times

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) *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 values of unlisted investments, mainly include club and school debentures, are determined using prices quoted by brokers at the balance sheet date.

b) *Inputs for assets or liabilities that are not based on observable market data ('unobservable inputs')*

The fair values of other unlisted investments, are 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 or discounted cash flow by projecting the cash inflows from these investments.

There were no changes in valuation techniques during the year.

33 Financial risk management *continued*

Fair value estimation continued

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

The table below analyses financial instruments carried at fair value at 31st December 2018 and 2017, by the levels in the fair value measurement hierarchy.

	Observable current market transactions US$m	Unobservable input US$m	Total US$m
2018			
Assets			
Other investments	**6.1**	**9.1**	**15.2**
Derivative financial instruments at fair value – through other comprehensive income	**0.9**	**–**	**0.9**
	7.0	**9.1**	**16.1**
2017			
Assets			
Other investments	1.7	9.3	11.0
Derivative financial instruments at fair value – through other comprehensive income	0.5	–	0.5
	2.2	9.3	11.5
Liabilities			
Derivative financial instruments at fair value – through other comprehensive income	(0.2)	–	(0.2)

There were no transfers among the two categories during the year ended 31st December 2018 and 2017.

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

	Unlisted investments 2018 US$m	2017 US$m
At 1st January	**9.3**	8.6
Additions	**–**	0.7
Disposals	**(0.2)**	–
At 31st December	**9.1**	9.3

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.

Notes to the Financial Statements *Continued*

33 Financial risk management *continued*

Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2018 and 2017 are as follows:

	Fair value of hedging instruments US$m	Fair value through profit and loss US$m	Financial assets at amortised cost US$m	Other financial liabilities US$m	Total carrying amount US$m	Fair value US$m
2018						
Financial assets measured at fair value						
Other investments	–	**15.2**	–	–	**15.2**	**15.2**
Derivative financial instruments	**0.9**	–	–	–	**0.9**	**0.9**
	0.9	**15.2**	–	–	**16.1**	**16.1**
Financial assets not measured at fair value						
Debtors	–	–	**61.2**	–	**61.2**	**61.2**
Bank and cash balances	–	–	**246.8**	–	**246.8**	**246.8**
	–	–	**308.0**	–	**308.0**	**308.0**
Financial liabilities not measured at fair value						
Borrowings	–	–	–	**(531.5)**	**(531.5)**	**(531.5)**
Trade and other payables excluding non-financial liabilities	–	–	–	**(138.8)**	**(138.8)**	**(138.8)**
	–	–	–	**(670.3)**	**(670.3)**	**(670.3)**
2017						
Financial assets measured at fair value						
Other investments	–	11.0	–	–	11.0	11.0
Derivative financial instruments	0.5	–	–	–	0.5	0.5
	0.5	11.0	–	–	11.5	11.5
Financial assets not measured at fair value						
Debtors	–	–	65.5	–	65.5	65.5
Bank and cash balances	–	–	183.9	–	183.9	183.9
	–	–	249.4	–	249.4	249.4
Financial liabilities measured at fair value						
Derivative financial instruments	(0.2)	–	–	–	(0.2)	(0.2)
Financial liabilities not measured at fair value						
Borrowings	–	–	–	(510.7)	(510.7)	(510.7)
Trade and other payables excluding non-financial liabilities	–	–	–	(127.8)	(127.8)	(127.8)
	–	–	–	(638.5)	(638.5)	(638.5)

34 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.

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.

Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives suffered any impairment. Other assets such as tangible fixed assets and development project contract 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.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the balance sheet date *(refer note 15)*.

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.

On 9th October 2018, the Group announced that The Excelsior, Hong Kong will close on 31st March 2019 in order for the site to be redeveloped as a commercial building. The tangible fixed assets of The Excelsior, Hong Kong comprise long-term interest in leasehold land, hotel property, leasehold improvements, plant and machinery, and furniture and equipment. Change in the intended use of the site causes the estimated period of use of the non-leasehold land assets to change. The estimated useful lives for these assets were revised resulting in an additional depreciation charge from the date of announcement to the date of hotel closure. This charge for the current year has been recorded as a non-trading expense in the profit and loss *(refer note 8)*.

34 Critical accounting estimates and judgements *continued*

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 utilised. The outcome of their actual utilisation may be different.

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.

Revenue recognition

For contracts with customers which include multiple deliverables, the separate performance obligations are identified. The transaction price is then allocated to each performance obligation based on their stand-alone selling prices. From time to time, when a stand-alone selling price may not be directly observable, the Group estimated the selling price using expected costs of rendering such services and adding an appropriate margin.

Insurance recovery recognition

Following the fire at Mandarin Oriental Hyde Park, London on 6th June 2018, the Group received interim cash payments during 2018 from the insurers in respect of the cover available under the insurance policies. The insurance compensation for the replacement of tangible assets and other incidental expenses has been based on the costs incurred and has been recognised as non-trading income in the profit and loss *(refer note 8)*. The insurance compensation for the loss of profits has been estimated with reference to the historical track record of hotel performance and has been recorded as underlying business performance in the profit and loss. The total property damage and business interruption claims with the Group's insurers are expected to be concluded in 2019.

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.

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's affairs as at 31st December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet as at 31st December 2018; the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include the Principal Accounting Policies.

Certain required disclosures have been presented in the Corporate Governance section of the Annual Report on page 98, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council's ('FRC's') Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall Group materiality: US$4.2 million (2017: US$3.5 million).
- Based on 5% of underlying profit before tax.

Audit scope

- A full scope audit of 12 of the Mandarin Oriental hotels was performed. These hotels, together with procedures performed on central functions and at the Group level, accounted for 95% of the Group's revenue, 89% of the Group's profit before tax and underlying profit before tax.

Key audit matter

- Recoverability of the carrying amounts of hotel properties.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent Auditors' Report *Continued*

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Recoverability of the carrying amounts of hotel properties	
Refer to note 31 (Principal accounting policies), note 34 (Critical accounting estimates and judgements), note 10 (Tangible assets) and note 11 (Associates and joint ventures) of the financial statements. The Group's hotel properties are stated at cost less depreciation and impairment. As at 31st December 2018, the carrying value of the hotel properties held through the Group's subsidiaries was US$1,386.5 million. The Group also has interests in a number of hotel properties held through its associates and joint ventures. Given the different political and economic environments in which the Group operates, the trading performance of these hotels varies. Management considers each hotel to be a separate cash-generating unit ('CGU') and performs an impairment assessment, where impairment indicators exist, to determine the recoverable amount of the hotel properties. The recoverable amount is determined as the higher of the CGU's value-in-use and fair value less costs to sell. In determining the fair value less cost to sell, management involved third-party valuers ('valuer') to perform valuation of the hotel properties. Except for the assets write-off of US$6.8 million recorded against the Group's carrying amount of its London hotel property, triggered by a fire that took place during the year ended 31st December 2018, management concluded that no further impairment of hotel properties was required as at 31st December 2018. We focused on this area as the impairment assessment involves significant judgements and estimation uncertainty in respect of future business performance and key assumptions including discount rates, terminal yield, occupancy rate, sales growth rate and capital expenditure necessary to maintain the service standard.	We discussed triggering events and indicators of potential impairment of hotel properties with management and inspected the operating results and forecasts of the respective hotels. We evaluated management's future cash flow forecasts and the process by which they were prepared, including testing the mathematical accuracy of the underlying calculations and compared the future cash flow forecasts to the Board approved budgets. We assessed the assumptions used by the valuer and management in the calculations of the recoverable amounts, such as the country specific discount rate and terminal yield with reference to market data. We assessed the reasonableness of the occupancy rate, sales growth rate and capital expenditure by comparing them to historical results and latest economic and industry forecasts. We assessed the qualifications, competence and objectivity of the valuer and read the valuation reports prepared by the valuer and considered the appropriateness and consistency of valuation methodologies. We performed sensitivity analyses where there were indicators of impairment. This was undertaken by making adjustments to the key assumptions in management's impairment assessments and considered whether, in isolation or as a combination, any reasonably possible adjustments would result in a material impairment. We evaluated management's process of identifying the tangible assets to be impaired as a result of the fire that broke out at the Group's London property, and checked, on a sample basis, the carrying amounts of those assets to the fixed assets register of that property. Based on our work and the evidence obtained, we found that the methodologies were applied consistently and appropriately, and the significant judgements and estimates adopted by management were appropriate.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough audit work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

The Group's accounting processes are structured around entities' finance functions, which are responsible for their own accounting records and controls, which in turn report financial information to the Group's finance function in Hong Kong to enable them to prepare financial statements.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by members of the Group engagement team or by component auditors from within the PwC Network and other auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The Group engagement team was involved in the significant reporting entities in scope for Group reporting during the audit cycle through a combination of meetings, visits and conference calls. The lead Group audit partner and other senior team members undertook multiple visits to Hong Kong during the audit and were involved throughout the year in regular conference calls and other forms of communication to direct and oversee the audit. Senior team members visited component teams in the UK and Paris during the audit to review the work of component teams with regular communication throughout the year.

A full scope audit of 12 of the Mandarin Oriental hotels was performed. These hotels, together with procedures performed on central functions and at the Group level (on the consolidation and other areas of significant judgement), accounted for 95% of the Group's revenue, 89% of the Group's profit before tax and underlying profit before tax. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	US$4.2 million (2017: US$3.5 million)
How we determined it	5% of underlying profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was US$0.5 million to US$3.5 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$0.4 million (2017: US$0.3 million) as well as misstatements below that amount that in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report *Continued*

Conclusions relating to going concern

ISAs (UK) require us to report to you when the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue. We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union or the outcome of ongoing US and China trade relationships, are not clear, and it is therefore difficult to evaluate potential implications.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 95, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, 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 these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this independent auditors' report is John Baker.

PricewaterhouseCoopers LLP
Chartered Accountants
London
28th February 2019

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

	2014 US$m	2015 US$m	2016 US$m	2017 US$m	**2018 US$m**
Revenue	679.9	607.3	597.4	610.8	**613.7**
Operating profit	120.8	107.3	68.0	69.0	**69.6**
Net financing charges	(17.3)	(11.8)	(10.8)	(11.0)	**(12.9)**
Share of results of associates and joint ventures	12.3	10.5	10.9	11.5	**5.8**
Profit before tax	115.8	106.0	68.1	69.5	**62.5**
Tax	(19.0)	(16.6)	(13.7)	(15.0)	**(19.1)**
Profit after tax	96.8	89.4	54.4	54.5	**43.4**
Profit attributable to shareholders	97.0	89.3	55.2	54.9	**43.6**
Underlying profit attributable to shareholders	97.0	90.3	57.3	54.9	**65.1**
Earnings per share (US¢)*	9.29	7.44	4.40	4.37	**3.46**
Underlying earnings per share (US¢)*	9.29	7.53	4.56	4.37	**5.16**
Dividends per share (US¢)	7.00	5.00	4.00	3.00	**3.00**

Consolidated Balance Sheet

	2014 US$m	2015 US$m	2016 US$m	2017 US$m	**2018 US$m**
Intangible assets	45.6	44.1	44.3	47.7	**53.0**
Tangible assets	1,315.1	1,255.0	1,352.1	1,453.2	**1,386.5**
Associates and joint ventures	101.6	164.4	163.8	196.6	**197.1**
Other investments	10.5	10.2	10.7	11.0	**15.2**
Deferred tax assets	2.2	2.8	2.6	11.0	**11.4**
Pension assets	7.3	–	–	4.9	**0.2**
Non-current debtors	–	–	–	0.5	**5.1**
Net current assets/(liabilities)	55.1	254.2	136.6	122.7	**(356.2)**
Long-term borrowings	(510.7)	(436.2)	(477.4)	(508.1)	**(7.3)**
Deferred tax liabilities	(62.3)	(59.8)	(56.1)	(58.6)	**(61.6)**
Pension liabilities	–	–	(3.2)	(0.6)	**(0.4)**
Non-current creditors	(3.0)	(3.0)	–	(0.2)	**–**
Net assets	961.4	1,231.7	1,173.4	1,280.1	**1,243.0**
Share capital	50.2	62.8	62.8	62.9	**63.1**
Share premium	188.2	490.3	490.4	493.9	**497.8**
Revenue and other reserves	718.0	673.6	616.2	717.2	**678.3**
Shareholders' funds	956.4	1,226.7	1,169.4	1,274.0	**1,239.2**
Non-controlling interests	5.0	5.0	4.0	6.1	**3.8**
Total equity	961.4	1,231.7	1,173.4	1,280.1	**1,243.0**
Net asset value per share (US$)*	0.92	0.98	0.93	1.01	**0.98**

Consolidated Cash Flow Statement

	2014 US$m	2015 US$m	2016 US$m	2017 US$m	**2018 US$m**
Cash flows from operating activities	159.5	140.2	107.7	119.9	**146.1**
Cash flows from investing activities	(45.6)	(124.4)	(222.8)	(102.0)	**(69.0)**
Net cash flow before financing activities	113.9	15.8	(115.1)	17.9	**77.1**
Cash flow per share from operating activities (US¢)*	15.27	11.69	8.58	9.53	**11.59**

*The comparative figures in 2014 have been adjusted in 2015 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 the Principal Risks and Uncertainties, which constitute the management report, include a fair review of all information required to be disclosed by the Disclosure Guidance 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

James Riley
Craig Beattie
Directors
28th February 2019

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 Guidance 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 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 optimise 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 ensuring that 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 a dedicated executive management team led by 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 78% 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 of the Company 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 16 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, James Riley. 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 2019 and ad hoc procedures are adopted to deal with urgent matters which arise between scheduled meetings. In 2018 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, as well as their knowledge and experience of the wider Jardine Matheson group, 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 wider 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 with, 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 and re-appointment 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.

Corporate Governance *Continued*

Dr Richard Lee and Lord Powell of Bayswater stepped down from the Board at the Annual General Meeting held on 9th May 2018, and Jack Yilun Chen joined the Board on the same day. On 31st October 2018, Stuart Dickie stepped down as Chief Financial Officer and was succeeded by Craig Beattie. Sir Henry Keswick retired from the Board with effect from 31st December 2018.

In accordance with Bye-law 85, Adam Keswick, Lincoln K.K. Leong, Anthony Nightingale 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, Craig Beattie and Jack Yilun Chen will also retire and, being eligible, offer themselves for re-election. Craig Beattie has 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 recognised 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. A motion to increase the Directors' fee to US$55,000 each per annum and the fee for the Chairman and Managing Director to US$65,000 per annum with effect from 1st January 2019 will be proposed at the forthcoming Annual General Meeting.

For the year ended 31st December 2018, the Directors received from the Group US$6.7 million (2017: US$5.9 million) in Directors' fees and employee benefits, being US$0.8 million (2017: US$0.8 million) in Directors' fees, US$5.6 million (2017: US$4.7 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.2 million (2017: US$0.2 million) in post-employment benefits and US$0.1 million (2017: US$0.2 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 Y.K. Pang, Mark Greenberg, Jeremy Parr and John Witt; 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 when necessary, 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 providing oversight in respect of risk management activities. The Audit Committee considers the Group's principal risks and uncertainties and potential changes to the risk profile, and reviews the operation and effectiveness of the Group's systems of internal control and the procedures by which these risks are monitored and mitigated. 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 organisational 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 103 and 104.

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 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 organisations.

The Code of Conduct also encourages inclusion and diversity, and requires all employees to be treated fairly, impartially and with dignity and respect. As a global hospitality employer, the Group believes in promoting equal opportunities in recruiting, developing and rewarding its people regardless of race, gender, nationality, religion, sexual orientation, disability, age or background. The high service expectations and overall quality of the Mandarin Oriental brand necessitates that the Group seeks the best people from the communities in which it operates most suited to its needs.

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 28th February 2019 had interests (within the meaning of the EU Market Abuse Regulation ('MAR'), which applies to the Company as it is listed on the London Stock Exchange) 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' closely associated persons (as that term is used under MAR).

James Riley	180,450
Edouard Ettedgui	13,507,229
Julian Hui	10,294
Lincoln K.K. Leong	129,756

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 986,147,366 ordinary shares carrying 78.16% 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 28th February 2019.

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 MAR. 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 inside 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. These rules, which were based on the UK Model Code, have since been revised to follow the provisions of MAR with respect to market abuse and disclosure of interests in shares.

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 28 to the financial statements on page 67.

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 and, therefore, reduce the issued share capital of the Company. 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 provisions of MAR.

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 2019 Annual General Meeting will be held at Rosewood Bermuda, Bermuda on 8th May 2019. 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 99 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 Guidance 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 Review on pages 24 and 25 and note 33 to the financial statements on pages 79 to 86.

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. This may also include failure to adapt to rapidly evolving customer preferences and expectations. Significant competitive pressure or the oversupply of hotel rooms in a specific market can lead to reduced margins. Advances in technology creating new or disruptive competitive pressures might also negatively affect the trading environment.

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.

Reputational risk and value of the brand

The Group's brand equity and global reputation is fundamental in supporting its ability to offer premium products and services and to achieving acceptable revenues and profit margins. Any damage to the Group's brand equity or reputation, including as a result of negative effects relating to health and safety, acts or omissions by Group personnel, information system and cybersecurity breaches, loss or misuse of personal data, and any allegations of socially irresponsible policies and practices, might adversely impact the attractiveness of the Group's properties or the loyalty of the Group's guests.

Regulatory and political risk

The nature of the Group's global operations mean that it is subject to numerous laws and regulations, including but not limited to those covering employment, competition, taxation, data privacy, foreign ownership, town planning, anti-bribery, money laundering and exchange controls. Changes to laws and regulations 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

2018 full-year results announced	28th February 2019
Shares quoted ex-dividend	14th March 2019
Share registers closed	18th to 22nd March 2019
Annual General Meeting to be held	8th May 2019
2018 final dividend payable	15th May 2019
2019 half-year results to be announced	1st August 2019*
Shares quoted ex-dividend	22nd August 2019*
Share registers to be closed	26th to 30th August 2019*
2019 interim dividend payable	17th October 2019*

* Subject to change

Dividends

Shareholders will receive their cash dividends in United States Dollars, unless they are registered on the Jersey branch register, in which case they will have the option to elect for their dividends to be paid in Sterling. These shareholders may make new currency elections for the 2018 final dividend by notifying the United Kingdom transfer agent in writing by 18th April 2019. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 2nd May 2019. Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends in Sterling only. 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

Link Market Services (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

Link 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.

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