Mandarin Oriental International Limited

Annual Report 2016

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 29 hotels and eight residences in 19 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 with the next hotel opening planned in Doha. The Group has equity interests in a number of its properties and adjusted net assets worth approximately US$3.9 billion as at 31st December 2016.

Mandarin Oriental's aim is to be recognized as the world's best luxury hotel group. This will be achieved by investing in the Group's exceptional facilities and its people, while maximizing profitability and long-term shareholder value. The Group regularly receives recognition and awards for outstanding service and quality management. The Group is committed to exceeding its guests' expectations through exceptional levels of hospitality, while maintaining its position as an innovative leader in the hotel industry. The strategy of the Group is to open the hotels currently under development, while continuing to seek further selective opportunities for expansion around the world.

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

Jardines
A member of the Jardine Matheson Group

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Corporate Information

Directors

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

Company Secretary

Neil M. McNamara

Registered Office

Jardine House
33-35 Reid Street
Hamilton
Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

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

Corporate Secretary

Neil M. McNamara

Highlights

Mandarin Oriental International Limited

- Weak demand persists in key cities
- Underlying earnings 37% lower
- Phased renovation of London hotel commenced
- New management contract in Hawaii

Results

	Year ended 31st December 2016[1] US$m	2015 US$m	Change %
Combined total revenue of hotels under management[2]	**1,323.7**	1,335.3	(1)
Underlying EBITDA (Earnings before interest, tax, depreciation and amortization)[3]	**158.2**	188.4	(16)
Underlying profit attributable to shareholders[4]	**57.3**	90.3	(37)
Profit attributable to shareholders	**55.2**	89.3	(38)
	US¢	US¢	%
Underlying earnings per share[4]	**4.56**	7.53	(39)
Earnings per share	**4.40**	7.44	(41)
Dividends per share	**4.00**	5.00	(20)
	US$	US$	%
Net asset value per share	**0.93**	0.98	(5)
Adjusted net asset value per share[5]	**3.10**	2.84	9
Net debt/shareholders' funds	**25%**	11%	
Net debt/adjusted shareholders' funds[5]	**8%**	4%	

1 Per share numbers reflect the Company's rights issue in March 2015.

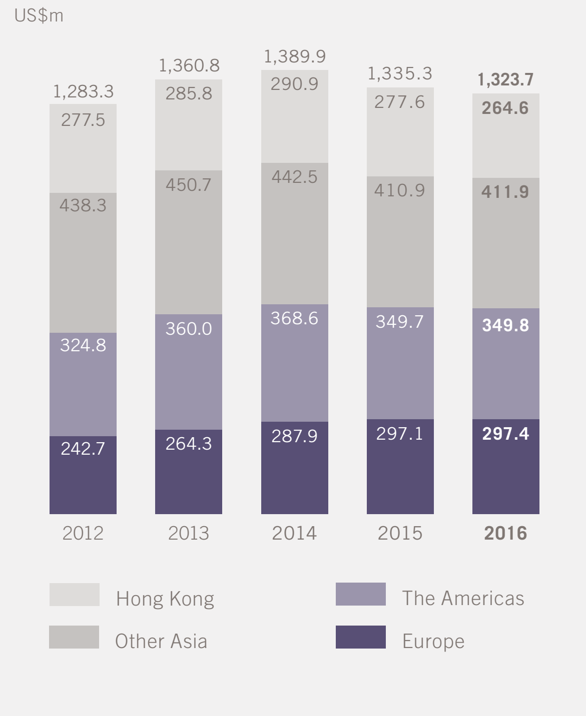
2 Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate, joint venture and managed hotels.

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

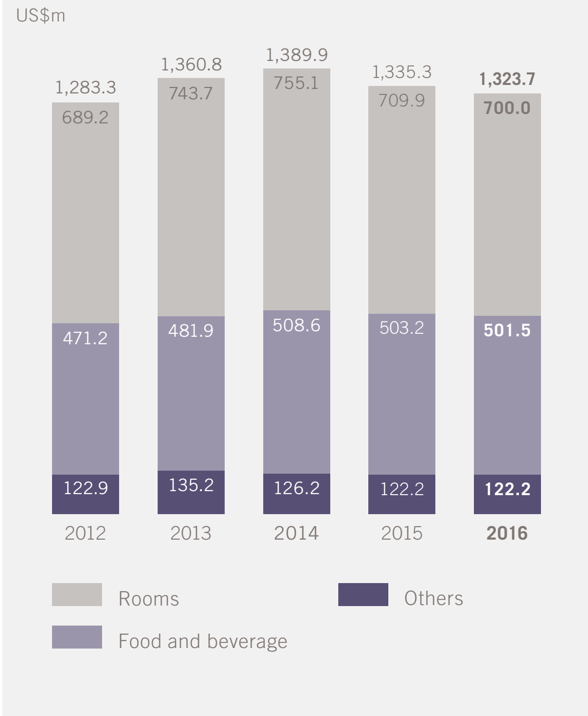
4 The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 7 to the financial statements. Management considers this to be a key measure which provides additional information to enhance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

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

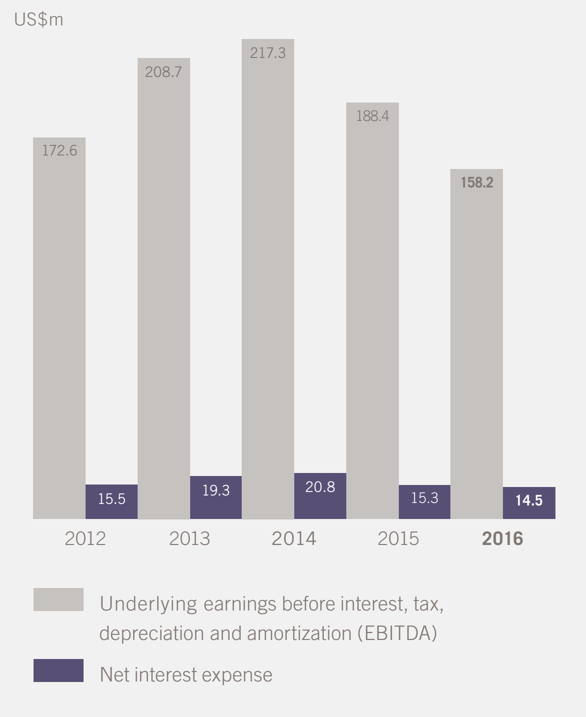
Combined total revenue
by geographical area



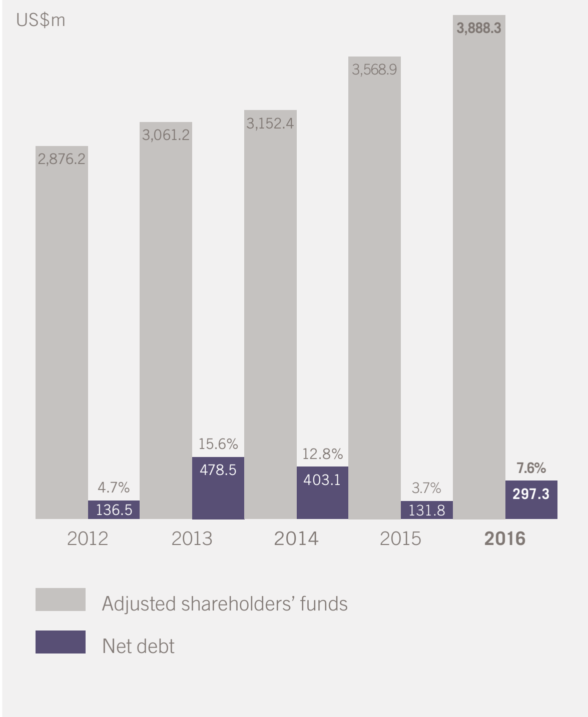
Combined total revenue
by type of business



Underlying EBITDA and net interest expense



Net debt/adjusted shareholders' funds



Chairman's Statement

Overview

Weak demand in a number of key cities during the year led to a decrease in underlying profit.

Performance

Underlying profit of US$57 million was US$33 million lower than the US$90 million reported in the prior year, and underlying earnings per share were US¢4.56 compared with US¢7.53 in 2015. Profit attributable to shareholders was US$55 million, compared to US$89 million in 2015, after deducting non-trading items in each year.

Following an independent valuation of the Group's hotel properties, the net asset value per share was US$3.10 at 31st December 2016, compared with US$2.84 per share at the end of 2015.

The Directors recommend a final dividend of US¢2.50 per share. This, together with the interim dividend of US¢1.50 per share, will make a total annual dividend of US¢4.00 per share, compared to US¢5.00 per share in 2015.

Group review

The Group experienced softer demand in many of its key markets throughout the year, particularly Hong Kong, London and Paris. Mandarin Oriental Hyde Park, London was impacted further by the start in September of its phased renovation programme, which is expected to complete in the second quarter of 2018.

The Group was able to benefit from a positive trading environment in Tokyo, a return to normal operations in Munich following a public area renovation, and a contribution from the newly acquired equity interest in Mandarin Oriental, Boston. This was partly offset by weaker performances in Washington D.C. and Jakarta.

Business developments

In April, the Group completed its US$140 million acquisition of Mandarin Oriental, Boston, a hotel it has managed since opening in October 2008. In July, the Group announced that it will brand and manage 30 luxury *Residences at Mandarin Oriental* adjacent to Mandarin Oriental, Bali, both of which are due to open in mid-2018. In February 2017, the Group announced a management contract for a 125-room luxury hotel and 107 residences in Honolulu, Hawaii, which are expected to open in 2020.

Mandarin Oriental currently operates 29 hotels and eight residences in 19 countries and territories. The Group has a strong pipeline of hotels and residences under development, with the next hotel opening in Doha expected to be in the second half of this year.

People

On behalf of the Directors, I would like to acknowledge the contribution of our colleagues throughout the world for continuing to provide the exceptional service for which the brand is renowned.

James Riley took over as Group Chief Executive on 1st April 2016, replacing Edouard Ettedgui who remains on the Board as a non-executive Director. Y.K. Pang joined the Board on 1st August.

We were saddened by the death in June of Lord Leach. He made a significant contribution to the Group and his wise counsel will be greatly missed.

Outlook

Challenging market conditions are expected to continue to impact the Group, and earnings will also be disrupted by the renovation of the London hotel. Nevertheless, the Group's strong brand position, healthy balance sheet and continued portfolio development will underpin its future performance.

Ben Keswick
Chairman
2nd March 2017

Group Chief Executive's Review

Strategy

Mandarin Oriental Hotel Group is the award-winning owner and operator of some of the world's most luxurious hotels, resorts and residences. Having grown from its Asian roots into a global brand, the Group currently operates 29 hotels and eight residences in 19 countries and territories.

The Group holds equity interests in a number of its hotels, and had adjusted net assets of approximately US$3.9 billion as at 31st December 2016. Capitalizing on the strength of its brand, Mandarin Oriental also manages hotels on behalf of third party owners that require limited or no equity investment by the Group.

Mandarin Oriental is focused on becoming recognized as the world's best luxury hotel group by expanding its geographical presence and creating hotels that are positioned amongst the leaders in their local markets, delivering contemporary luxury and a unique sense of place, while reflecting the Group's oriental heritage. It will continue to invest in its core brand attributes of creative hotel design and architecture, award winning restaurants, bars and wellness facilities, and legendary service delivery. At the same time, the Group remains alert to new trends and opportunities, ensuring the brand remains relevant to today's multi-generational audience.

Mandarin Oriental's strategy is to operate both managed and owned hotels. The Group is focused on becoming the brand of choice for owners and developers in order to further build its portfolio of managed properties in key city centres and resort destinations around the world. At the same time, the Group's strong balance sheet allows for reinvestment in existing flagship properties as well as selectively investing in opportunities in strategic locations that offer attractive returns.

Expansion of *the Residences at Mandarin Oriental* portfolio also remains a key focus, with the associated branding fees and ongoing management fees from these projects providing a growing return for the Group.

The long-term potential for growth of the Group's portfolio is significant.

Hotel overview

While each hotel focused on maintaining or enhancing its leadership position against primary competitors in its individual market, the Group encountered challenging conditions in many of its destinations in 2016. This resulted in a 3% decline in Revenue Per Available Room (RevPAR) across the Group's 29 hotels in US dollar terms on a like-for-like basis[1]. Highlights of the Group's regional performance, focusing on subsidiary and significantly owned associate hotels are as follows, with all references to RevPAR being in US dollar terms, unless otherwise stated:

Asia

Overall, RevPAR for Asia in 2016 on a like-for-like basis was down 1%, with the region generally experiencing softer demand, particularly in Hong Kong and Jakarta.

Mandarin Oriental, Hong Kong was affected by a decline in visitor arrivals to the city as well as a softening in the corporate sector. As a result, RevPAR was down 7% over the previous year. Food and beverage performance was also impacted, with revenue down 6% year-on-year.

[1] Like-for-like comparison excludes hotels without a full year of operation in either 2015 or 2016.

The Excelsior, the Group's other wholly-owned hotel in Hong Kong, was also impacted by the city-wide decline in leisure demand, particularly from mainland China, combined with an oversupply in its competitive set. As a consequence, RevPAR was down 4%. Similar to Mandarin Oriental, Hong Kong, the hotel's food and beverage revenue declined by 5%.

Mandarin Oriental, Tokyo maintained RevPAR in-line with the previous year in local currency terms. As a result of a stronger yen, however, RevPAR was up 10% in US dollar terms. Food and beverage performed well and the hotel was once again awarded a Michelin star for each of its three restaurants, the only hotel in the city to achieve this accolade.

Mandarin Oriental, Jakarta maintained its competitive position but was negatively impacted by lower demand as a result of ongoing security concerns. Occupancy was down 18% leading to a decline in RevPAR of 23%.

Mandarin Oriental, Bangkok performed well, benefiting from the completion in April 2016 of the renovation of the historic Authors' and Garden Wings including *Le Normandie* restaurant.

Despite softer demand in the luxury sector, Mandarin Oriental, Singapore did well to maintain performance in line with the previous year and increase its market share.

Europe

While the Group's hotels performed well against their respective competition during 2016, weaker demand in London and Paris put pressure on occupancy and rates city-wide, with the Group's overall RevPAR for the region down 15% on a like-for-like basis.

A decline in demand in the London luxury hotel segment in the first half impacted Mandarin Oriental Hyde Park's performance. The hotel was further affected by the renovation which began in September. Consequently, RevPAR was down 29%, or 19% in local currency terms. The renovation of the guestrooms and facilities, which is expected to be completed by the second quarter in 2018, will ensure the property remains one of the best luxury hotels in the city. It will remain open throughout this period with reduced facilities and room inventory.

Mandarin Oriental, Munich saw a 20% increase in RevPAR as the hotel's performance benefited from the completion in May 2016, of a 14-month public area renovation. The hotel remained the undisputed market leader and the new facilities, which include a *Matsuhisa* restaurant by chef Nobu, a bar and a rejuvenated lobby lounge, have reinforced its appeal in the city.

Mandarin Oriental, Paris was impacted by weaker city-wide demand due to ongoing travel security concerns. This, in addition to increased supply in the luxury sector following the completion of renovations by competitor hotels, led to a decline in RevPAR of 22%. The hotel's food and beverage operations, led by chef Thierry Marx, continued to perform well.

In Geneva, the hotel maintained its competitive position, however a drop in average rate led to a 5% decrease in RevPAR over the previous year.

Hotel Ritz, Madrid improved its rates and market share, as a result of increased visitor arrivals. The hotel will undergo a comprehensive renovation, which is currently scheduled to commence in the first quarter of 2018.

The Americas

Trading conditions in The Americas were generally positive during 2016, especially at the Group's associate and managed hotels, with overall RevPAR for the region up 3% on a like-for-like basis.

Mandarin Oriental, Boston maintained its position as market leader, however softer city-wide demand led to a drop in RevPAR of 6%.

The performance of Mandarin Oriental, Washington D.C. was impacted by a room renovation programme during the year, leading to a 6% decline in RevPAR.

In New York, the Group's flagship hotel performed well and improved its competitive position.

Financial performance

Earnings were lower in 2016, mainly as a result of weaker demand in the Group's key cities of Hong Kong, London and Paris.

Underlying earnings before interest, tax, depreciation and amortization for 2016 were US$158 million, compared with US$188 million in 2015. Underlying profit of the Group of US$57 million was US$33 million down on the US$90 million achieved in 2015.

Reflecting the lower earnings, cash flow generated from operations during the year was US$108 million, and total net cash outflow for the Group in 2016 was US$125 million, after paying dividends of US$57 million, capital expenditure of US$77 million across the Group's portfolio, and investing US$90 million of Group cash reserves to acquire Mandarin Oriental, Boston. In comparison, cash flow generated from operations during 2015 was US$140 million, whilst total net cash outflow for the Group was US$16 million, after paying dividends of US$75 million, hotel capital expenditure of US$50 million, and using net proceeds received of US$314 million from a 1 for 4 rights issue to repay US$262 million of bank debt and invest US$73 million to acquire the Group's 50% interest in Hotel Ritz, Madrid.

At 31st December 2016, the Group's net debt was US$297 million, compared to US$132 million at the end of 2015.

Gearing as a percentage of adjusted shareholders' funds at 31st December 2016, after taking into account the market value of the Group's property interests and the US$140 million Boston acquisition was 8% compared to 4% at the end of 2015.

Brand awareness

The recognition of Mandarin Oriental as one of the world's best luxury hotel groups, has steadily grown during the 17-year tenure of Edouard Ettedgui, who stepped down as Group Chief Executive on 31st March 2016. During the year, this continued to be reflected in the awards received from respected travel associations and publications worldwide. Highlights include *Condé Nast Traveler, US* 'Readers' Choice Awards' 2016 featuring 13 Mandarin Oriental hotels. In addition, Mandarin Oriental, Hong Kong was voted 'Best Overseas Business Hotel' in the *Condé Nast Traveller, UK* 2016 awards and Mandarin Oriental, Bangkok received the highest accolade in the 2016 *Tatler Travel Guide* for 'Enduring Excellence'.

In China, Mandarin Oriental was listed in the top five 'Best Luxury Hotel Brands' in the *Hurun Report*.

In the 2017 *Michelin* guides, a total of 12 restaurants were honoured with 18 stars being granted across the Group. The Group's spa operations were also acknowledged as being among the best, with a record 12 hotels gaining the prestigious *Forbes* 'Five Star Spa' award.

Growth

The Group has 11 hotels under development which are expected to open in the next five years. All are management contracts with no equity interest. The Group continues to review new opportunities around the world and expects to see a steady growth in its portfolio over the coming years.

In April, the Group acquired the equity interest in Mandarin Oriental, Boston for US$140 million. The Group has managed the 148-room hotel on Boylston Street since its opening in 2008, and also manages 85 privately owned *Residences at Mandarin Oriental* connected to the hotel.

In July, the Group announced that it will brand and manage 30 luxury *Residences at Mandarin Oriental* adjacent to Mandarin Oriental, Bali, both of which are due to open in mid-2018.

In February 2017, the Group announced a management contract for a 125-room luxury hotel and 107 *Residences at Mandarin Oriental* in Honolulu, Hawaii, which are expected to open in 2020.

In the second half of 2017, Mandarin Oriental expects to open its first hotel in the Middle East, in a new city centre development in the heart of Doha, Qatar.

The future

Challenging conditions are expected to continue to impact performance in a number of key markets in 2017, and earnings will be disrupted by the renovation of the London property. Looking further ahead however, the Group's results should benefit from the increasing demand of high net worth individuals from both traditional and emerging markets, travelling to our key destinations. The Group's results will also be supported by enhanced contributions from renovated flagship properties and from new hotel openings.

James Riley
Group Chief Executive
2nd March 2017

Operating Summary

Total portfolio RevPAR

US dollar

	2016 US$	2015 US$	% Change
Asia	**177**	179	(1)
Europe	**425**	502	(15)
The Americas	**324**	314	3
Total	**240**	248	(3)

Constant currency

	2016 US$	2015 US$	% Change
Asia	**178**	179	(1)
Europe	**442**	502	(12)
The Americas	**324**	314	3
Total	**242**	248	(2)

The like-for-like RevPAR presented in the table above shows RevPAR for all of the Group's hotels across the world, except for those not fully operational throughout both years.

Group's subsidiary hotels RevPAR

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2016	2015	% Change
Available rooms	**501**	501	0
Average occupancy (%)	**62**	66	(6)
Average room rate (US$)	**509**	518	(2)
RevPAR (US$)	**317**	341	(7)

Mandarin Oriental, Tokyo 100% leasehold

	2016	2015	% Change
Available rooms	**179**	178	1
Average occupancy (%)	**79**	80	(1)
Average room rate (US$)	**578**	520	11
RevPAR (US$)	**459**	417	10

The Excelsior, Hong Kong 100% ownership

	2016	2015	% Change
Available rooms	**869**	883	(2)
Average occupancy (%)	**75**	78	(4)
Average room rate (US$)	**196**	194	1
RevPAR (US$)	**146**	152	(4)

Mandarin Oriental, Jakarta 96.9% ownership

	2016	2015	% Change
Available rooms	**272**	**272**	0
Average occupancy (%)	**45**	**55**	(18)
Average room rate (US$)	**175**	**186**	(6)
RevPAR (US$)	**79**	**103**	(23)

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2016	2015	% Change
Available rooms	**193**	193	0
Average occupancy (%)	**64**	80	(20)
Average room rate (US$)	**760**	861	(12)
RevPAR (US$)	**490**	690	(29)

Mandarin Oriental, Munich 100% ownership

	2016	2015	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**67**	62	8
Average room rate (US$)	**878**	804	9
RevPAR (US$)	**593**	495	20

Mandarin Oriental, Paris 100% ownership

	2016	2015	% Change
Available rooms	**138**	138	0
Average occupancy (%)	**52**	57	(9)
Average room rate (US$)	**956**	1,122	(15)
RevPAR (US$)	**493**	635	(22)

Mandarin Oriental, Geneva 92.6% ownership

	2016	2015	% Change
Available rooms	**189**	189	0
Average occupancy (%)	**58**	58	0
Average room rate (US$)	**632**	669	(6)
RevPAR (US$)	**367**	388	(5)

THE AMERICAS

Mandarin Oriental, Boston 100% ownership
(acquired on 27th April 2016)

	2016	2015	% Change
Available rooms	**148**	148	0
Average occupancy (%)	**68**	69	(1)
Average room rate (US$)	**593**	614	(3)
RevPAR (US$)	**401**	425	(6)

Mandarin Oriental, Washington D.C. 80% ownership

	2016	2015	% Change
Available rooms	**397**	397	0
Average occupancy (%)	**56**	60	(7)
Average room rate (US$)	**320**	316	1
RevPAR (US$)	**180**	191	(6)

Development Portfolio

The following 11 hotels and 5 *Residences at Mandarin Oriental* are expected to open in the next five years.

Asia

Mandarin Oriental, Bali
An 88-room resort and 91 *Residences at Mandarin Oriental* located on Bali's southern Bukit peninsula. Perched on a cliffside plateau, the resort will offer dramatic and spectacular views with direct access to a secluded and protected white-sand beach.

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

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

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

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

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

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 and North Africa

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

Mandarin Oriental, Dubai
A 264-room urban resort located on Jumeirah Beach Road, one of the most sought-after waterfront locations in the city.

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

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

The Americas

Mandarin Oriental, Boca Raton
A 164-room hotel and 85 *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, Honolulu
A luxury 125-room hotel and 107 *Residences at Mandarin Oriental*, located on the Hawaiian island of Oahu, in the heart of the Ala Moana district.

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

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

International Recognition

Mandarin Oriental Hotel Group

When it comes to hospitality, Hong Kong sets the bar high: The city is the birthplace of Mandarin Oriental, a legend that has since been developed into a global hotel chain synonymous with comfort and luxury.

Travel + Leisure

Though all of their properties are reliably beautiful, none of their 29 hotels around the world feel standard.

Town & Country

Mandarin Oriental, Bangkok

Mandarin Oriental, Bangkok is now, in my view, the best hotel in the world. The historic areas of the hotel now better reflect the original splendour of this urban oasis on the River of Kings. This hotel is simply too good for a mere-two-night stopover. You need at least five days to sample even a fraction of its offerings.

The Gallivanter's Guide

A renovation of Bangkok's most storied luxury hotel reflects a riverfront rebirth in the Venice of the East.

Condé Nast Traveler – US

Mandarin Oriental, Hong Kong

It continues to be everyone's favourite address when it comes to rooms, restaurants and especially service, which is flawless.

Condé Nast Traveller – UK

Unparalleled views of the Victoria Harbour and an award-winning spa are just a few of the factors that contributed to its world-class reputation. With 10 different restaurants and bars, choosing where to dine can be an agonizing decision.

Travel + Leisure

The Landmark Mandarin Oriental, Hong Kong

In the midst of a gut renovation helmed by renowned interior designer Joyce Wang, the new look of this centrally located hotel defines modern luxury. The custom-made furniture is rife with thoughtful details that transform the space into a stylish home away from home.

Travel + Leisure

Mandarin Oriental, Macau

Mandarin Oriental, Macau offers pronounced "style", simply first-rate beds and food to match in an exclusive location.

The Telegraph

Mandarin Oriental Pudong, Shanghai

Chic sharp contemporary Shanghai. It will come as no surprise to fans of Mandarin Oriental that the service here is flawless. The facilities too are near impossible to fault; a seductive 25-metre indoor swimming pool, a sprawling tech-savvy gym, a comprehensive business centre and luxurious Club Lounge.

The Telegraph

Mandarin Oriental, Singapore

Mandarin Oriental is Singapore's ultimate retreat. And simply said, is luxury at its best.

Forbes Travel Guide

Mandarin Oriental, Tokyo

A sleek, skyscraper-hotel with superlative service, Japanese-inspired design, and some of the best views across the capital, located in the Nihonbashi district.

The Telegraph

Mandarin Oriental, Barcelona

One for avid shoppers, aficionados of Antoni Gaudí and lovers of all things stylish. The rooms are smart and bright, and the staff is excellent, but where the hotel really shines is in the communal areas, with terrific eating and drinking options, a leafy first-floor terrace and a rooftop with pool and a wonderful view.

The Telegraph

Mandarin Oriental, Bodrum

Paradise Bay is the aptly named setting for Mandarin Oriental, Bodrum. Sitting on the north coast of the Bodrum peninsula in south-west Turkey; 30 minutes from the town, the hotel is the ultimate in escapism, yet there is local culture at hand if and when you feel like venturing outside.

Vogue

International Recognition *Continued*

Mandarin Oriental Hyde Park, London

You can't ask for a better London locale. Tucked in bustling Knightsbridge, bordering Royal Hyde Park and the fashionable boutiques of Sloane Street, Mandarin Oriental is the only hotel in a royal park.

Watch! CBS Magazine

Mandarin Oriental, Marrakech

The first Mandarin Oriental to open in Africa is pure, unadulterated bliss. Consisting of nine suites and 54 private villas all set against a jaw-dropping view of the Atlas Mountains. Riad-inspired villas are adorned with chic white furnishings, and all include gargantuan bathrooms and dark-tiled private pools.

British Airways Highlife

Mandarin Oriental, Milan

The most recent addition to Milan's luxury hotel scene is big news for style-conscious travellers to Italy's fashion capital. Milan's new Mandarin Oriental offers, as you would expect, levels of comfort the Romans wouldn't turn their noses up at, and interiors that are a mix of tradition and modernity.

Esquire

Milan oozes fashion-fabulous hotels, but it's Mandarin Oriental that's currently up there at No.1.

The Times

Mandarin Oriental, Munich

The elegant Mandarin Oriental, Munich, now strikingly renovated, with a rooftop pool, is the perfect, centrally located base; a residential-style oasis with good service and some beautiful suites.

The Gallivanter's Guide

Mandarin Oriental, Paris

The most unabashedly modern of Paris's eight Palais hotels (a cut above five-star), Mandarin Oriental has an offering as haute couture as its designer neighbours on the Rue Saint-Honore.

National Geographic

Mandarin Oriental, Prague

In the quiet, cobblestoned Mala Strana district, this Gothic-Baroque beauty feels like an urban oasis hidden in plain sight.

CNN

Mandarin Oriental, Atlanta

Think Luxury. Sense spaciousness. Feel renewed. A single step through the doors of Mandarin Oriental, Atlanta, transports the traveller from the hustle, heat and bustle of the city into a tranquil environment unparalleled by any other hotel in Atlanta.

The Huffington Post

Mandarin Oriental, Boston

Mandarin Oriental is located in Back Bay and with its first class service, excellent dining and a stunning spa, it is without a doubt one of Boston's most luxurious hotels. First class all the way, Mandarin Oriental doesn't do anything by half measures.

The Telegraph

Mandarin Oriental, Las Vegas

Mandarin Oriental is without doubt the classiest broad in Vegas. Its Asian-accented, non-gaming environment provides a Zen oasis away from all those bright lights and slot machines, and rooms have floor-to-ceiling windows proffering knockout views.

The Independent

Mandarin Oriental, Miami

Mandarin Oriental, Miami is an urban yet quiet resort. It is internationally known for its highest standards and a sophisticated feel that is the epitome of modern five-star luxury. With a private beach, gourmet fusion restaurants and an exotic day spa, the resort offers a taste of Asian serenity in sun and art-kissed Miami.

Forbes Travel Guide

Mandarin Oriental, New York

This is our home-away-from-home in Manhattan. The views over Central Park are breathtaking, no matter what the season. We spend every New York fashion week here, and the staff is like our own family. The spa makes a perfect city getaway and the bedrooms are spacious and elegant.

Condé Nast Traveller – UK

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. The Modern Asian-influenced décor provides the perfect urban oasis.

Pursuitist

Financial Review

Accounting policies

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

The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted several amendments to IFRS effective on 1st January 2016, as more fully detailed in the 'Basis of preparation' note in the financial statements. The adoption of these amendments did not have a material impact on the Group's financial statements.

Results

Overall

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

	2016 US$m	2015 US$m
Subsidiaries	**129.6**	160.7
Associates and joint ventures	**28.6**	27.7
Underlying EBITDA	**158.2**	188.4

Subsidiaries

	2016 US$m	2015 US$m
Underlying EBITDA from subsidiaries	**129.6**	160.7
Non-trading items: Less: acquisition costs related to Mandarin Oriental, Boston	**(1.8)**	–
acquisition costs related to Hotel Ritz, Madrid	**–**	(0.5)
EBITDA from subsidiaries	**127.8**	160.2
Less: depreciation and amortization	**(59.8)**	(52.9)
Operating profit	**68.0**	107.3

In 2016, underlying EBITDA from subsidiaries decreased by US$31.1 million, or 19%, to US$129.6 million, primarily due to weak market conditions in Hong Kong, London and Paris. After deducting US$1.8 million of non-trading expenses related to the acquisition of Mandarin Oriental, Boston, EBITDA from subsidiaries in 2016 was US$127.8 million, compared to US$160.2 million in 2015 after deducting US$0.5 million of non-trading expenses related to the acquisition of the Group's 50% interest in Hotel Ritz, Madrid.

A decline in visitor arrivals and softer corporate demand in Hong Kong resulted in lower EBITDA contributions from both Mandarin Oriental, Hong Kong and The Excelsior. In Tokyo, performance in local currency terms was in-line with that achieved in 2015, however a stronger Japanese yen meant that when translated into US dollars, the hotel's contribution was higher than the prior year. The results of the Jakarta hotel were negatively impacted by ongoing security concerns, leading to lower demand and earnings compared to 2015.

In Europe, the results of Mandarin Oriental Hyde Park, London were negatively impacted by a decline in luxury demand during the first half of the year, followed by commencement of the hotel's major renovation in September 2016. The renovation of the guestrooms and facilities is expected to be completed by the second quarter of 2018. Earnings of the Group's hotel in Paris were also lower than the prior year, due to weak city-wide demand combined with an increase in supply of luxury hotel rooms. In Munich, however, EBITDA generated by the hotel was double that achieved in 2015, due to the completion in May 2016 of a 14-month renovation of the public areas and food and beverage facilities. In Geneva, a drop in average rate led to a lower EBITDA contribution from the hotel.

Financial Review *Continued*

Subsidiaries *continued*

In The Americas, the impact of a room renovation programme resulted in a lower contribution from Washington D.C. The Group's results did, however, benefit from a new EBITDA contribution from Mandarin Oriental, Boston following the Group's acquisition of the equity interest in the hotel in April 2016.

In 2016, the contribution from management activities decreased by US$3.9 million, or 15%, to US$22.4 million, from US$26.3 million in 2015, reflecting weaker earnings across the hotel portfolio.

Associates and joint ventures

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

	2016 US$m	2015 US$m
Underlying EBITDA from associates and joint ventures	28.6	27.7
Non-trading items: Less: provision for litigation	(0.3)	–
acquisition costs related to Hotel Ritz, Madrid	–	(0.5)
EBITDA from associates and joint ventures	28.3	27.2
Less: depreciation and amortization	(11.5)	(10.8)
Operating profit	16.8	16.4
Less: net financing charges	(3.7)	(3.5)
tax	(2.2)	(2.4)
Share of results of associates and joint ventures	10.9	10.5

In total, the Group's share of underlying EBITDA from associates and joint ventures increased by US$0.9 million, or 3%, to US$28.6 million in 2016. The increase was primarily due to improved performances in Bangkok and New York following the completion of their respective renovations.

In Bangkok, the completion in April 2016 of the Authors' and Garden Wings renovation resulted in improved earnings, while the performances in Singapore and Kuala Lumpur remained stable, with EBITDA at each hotel broadly in-line with the prior year.

An increase in market share for Hotel Ritz, Madrid translated into a slight increase in earnings, while generally improved conditions in The Americas led to higher contributions from the Group's 25% owned hotels in Miami and New York, which also benefited from its suite renovation completed in 2015.

Depreciation and amortization of associates and joint ventures was 6% higher in 2015, reflecting the completion of renovations, while the Group's share of net financing charges and tax from associates and joint ventures was broadly in-line with the prior year.

Non-trading items

In 2016, there was a total of US$2.1 million of non-trading items, of which US$1.8 million related to transaction costs associated with the acquisition of Mandarin Oriental, Boston, and US$0.3 million related to the Group's share of a provision for litigation at one of the Group's associate hotels. This compares to US$1.0 million of non-trading items in 2015 relating to transaction costs associated with the acquisition of the Group's 50% interest in Hotel Ritz, Madrid, which was disclosed as US$0.5 million attributable to the Group itself and the Group's US$0.5 million share of costs incurred by the joint venture.

Net financing charges

Net financing charges for the Group's subsidiaries decreased to US$10.8 million in 2016, from US$11.8 million in 2015. The decrease is mainly due to the repayment of bank debt following the Group's rights issue during 2015.

Interest cover

EBITDA is used as an indicator of the Group's ability to service debt and finance its future capital expenditure. Interest cover in 2016, calculated as underlying EBITDA (including the Group's share of underlying EBITDA from associates and joint ventures) over net financing charges (including the Group's share of net financing charges from associates and joint ventures), was 10.9 times compared with 12.3 times in 2015.

Tax

The tax charge for 2016 of US$13.7 million was lower than the US$16.6 million charge in 2015, reflecting lower profitability. The underlying effective tax rate for 2016 was 20%, broadly in line with the prior year.

Cash flow

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

	2016 US$m	2015 US$m
Operating activities	**108**	140
Investing activities: • Capital expenditure on existing properties	**(77)**	(50)
• Acquisition of Mandarin Oriental, Boston	**(140)**	–
• Acquisition of 50% interest in Hotel Ritz, Madrid	**–**	(73)
• Advances to joint ventures	**(3)**	–
• Repayment of loans to associates	**1**	1
• Purchase of intangible assets	**(3)**	(2)
Financing activities: • Issue of shares	**–**	314
• Net drawdown/(repayment) of borrowings	**50**	(262)
• Dividends paid	**(57)**	(75)
Net decrease in cash	**(121)**	(7)
Cash and cash equivalents at 1st January	**308**	324
Effect of exchange rate changes	**(4)**	(9)
Cash and cash equivalents at 31st December	**183**	308

The Group's cash flows from operating activities were US$108 million in 2016, a decrease of US$32 million from the US$140 million inflow in 2015.

Under investing activities, capital expenditure on existing properties was US$77 million in 2016, compared to US$50 million in 2015, with the US$27 million increase primarily due to the commencement of the major hotel renovation in London.

In April 2016, the Group acquired the equity interest in Mandarin Oriental, Boston for US$140 million. This compares to the US$73 million paid in 2015 to acquire a 50% interest in Hotel Ritz, Madrid.

In order to fund the Boston acquisition, the Group drew US$50 million from existing bank facilities during 2016. In 2015, the Group completed a 1 for 4 rights issue, raising gross proceeds of US$316 million, which were then used to fund the Group's investment in Hotel Ritz, Madrid and to repay US$262 million of existing bank debt.

Looking ahead, the Group is committed to investing more than US$250 million into previously announced significant capital projects planned over the next five years:

Significant capital commitments, as previously announced

	US$m	Timing
London renovation*	79	2017-18
Madrid renovation (Group's 50% share)	47	2018-19
Munich extension**	132	2017-21
Total	258	

* Excludes US$41 million already spent up to 31st December 2016.
** Excludes US$17 million already spent up to 31st December 2016.

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¢2.50 per share for a full-year dividend of US¢4.00 per share (2015: US¢5.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 11th May 2017 to shareholders on the register of members at the close of business on 17th March 2017.

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:

	2016		2015	
	US$m	**Per share US$**	US$m	Per share US$
Shareholders' funds/net assets at amortized cost	**1,169**	**0.93**	1,227	0.98
Add: surplus for fair market value of freehold and leasehold land and buildings	**2,719**	**2.17**	2,342	1.86
Adjusted shareholders' funds/net assets	**3,888**	**3.10**	3,569	2.84

On an IFRS basis, the Group's consolidated net debt of US$297 million at 31st December 2016 was 25% of shareholders' funds, compared with consolidated net debt of US$132 million at 31st December 2015 which was 11% of shareholders' funds. Taking into account the fair market value of the Group's interests in freehold and leasehold land, gearing was 8% of adjusted shareholders' funds at 31st December 2016, compared with 4% at 31st December 2015.

Treasury activities

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objective is to manage exchange and interest rate risks and to provide a degree of certainty in respect of costs. The Group has fixed or capped interest rates on 49% of its gross borrowings.

In respect of specific hotel financing, borrowings are normally taken in the local currency to hedge partially the investment and the projected income. At 31st December 2016, 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	(73)	(6)	2,193	56
Euro	470	40	590	15
United States dollar	330	28	371	10
United Kingdom sterling	192	17	265	7
Singapore dollar	47	4	176	5
Swiss franc	111	10	111	3
Thai baht	26	2	87	2
Indonesian rupiah	27	2	51	1
Others	39	3	44	1
	1,169	100	3,888	100

* See supplementary information section above.

The Group, excluding associates and joint ventures, had committed borrowing facilities totalling US$556 million, of which US$480 million was drawn at 31st December 2016. The principal amounts due for repayment are as follows:

	Facilities committed US$m	Facilities drawn US$m	Unused facilities US$m
Within one year	3	3	–
Between one and two years	–	–	–
Between two and three years	550	474	76
Between three and four years	–	–	–
Between four and five years	–	–	–
Beyond five years	3	3	–
	556	480	76

At 31st December 2016, the Group had US$76 million of committed, undrawn facilities in addition to its net cash balances of US$183 million. The average tenor of the Group's borrowings was 2.6 years (2015: 3.6 years), with only US$3 million of committed facilities due to mature before the end of 2017.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 89 and 90.

Stuart Dickie
Chief Financial Officer
2nd March 2017

Directors' Profiles

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

James Riley* *Group Chief Executive*
Mr Riley joined the Board as Group Chief Executive in April 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 March 2016. He has been a director of Mandarin Oriental Hotel Group International since 2005.

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

Edouard Ettedgui
Mr Ettedgui joined the Board in 1998 and was Group Chief Executive until he stepped down from executive office in March 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 had previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land and Jardine Cycle & Carriage, and a commissioner of Astra and Bank Permata.

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

Adam Keswick
Mr Adam Keswick joined the Board in 2012. 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, Jardine Matheson and Jardine Strategic. He is also a director of Ferrari, and a supervisory board member of Rothschild & Co.

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

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

Dr Richard Lee
Dr Lee joined the Board in 1987. Dr Lee's principal business interests are in the manufacturing of textiles and apparel in Southeast Asia, and he is the honorary chairman of TAL Apparel. He is also a director of Jardine Matheson and Hongkong Land.

* Executive Director

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

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

Y.K. Pang
Mr Pang joined the Board in August 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, Yonghui Superstores and Zhongsheng Group Holdings. He is chairman of the Employers' Federation of Hong Kong 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 Powell of Bayswater, KCMG
Lord Powell joined the Board in 1992. He was previously Private Secretary and adviser on foreign affairs and defence to British Prime Ministers, Baroness Thatcher and Rt Hon John Major. He is a director of Hongkong Land, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Northern Trust Corporation and Textron Corporation. Previously president of the China-Britain Business Council and chairman of the Singapore-British Business Council, he is currently a British Business Ambassador. He is an independent member of the House of Lords.

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

James Watkins
Mr Watkins joined the Board in 1997. He was a director and group general counsel of Jardine Matheson from 1997 to 2003. Mr Watkins qualified as a solicitor in 1969 and was formerly a partner of Linklaters. He is also a director of Asia Satellite Telecommunications Holdings, Hongkong Land, IL&FS India Realty Fund II and Jardine Cycle & Carriage.

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

Consolidated Profit and Loss Account

for the year ended 31st December 2016

	Note	2016 Underlying business performance US$m	2016 Non-trading items US$m	2016 Total US$m	2015 Underlying business performance US$m	2015 Non-trading items US$m	2015 Total US$m
Revenue	1	597.4	–	597.4	607.3	–	607.3
Cost of sales		(383.4)	–	(383.4)	(362.1)	–	(362.1)
Gross profit		214.0	–	214.0	245.2	–	245.2
Selling and distribution costs		(39.7)	–	(39.7)	(37.0)	–	(37.0)
Administration expenses		(104.5)	(1.8)	(106.3)	(100.4)	(0.5)	(100.9)
Operating profit	2	69.8	(1.8)	68.0	107.8	(0.5)	107.3
Financing charges		(12.1)	–	(12.1)	(13.7)	–	(13.7)
Interest income		1.3	–	1.3	1.9	–	1.9
Net financing charges	3	(10.8)	–	(10.8)	(11.8)	–	(11.8)
Share of results of associates and joint ventures	4	11.2	(0.3)	10.9	11.0	(0.5)	10.5
Profit before tax		70.2	(2.1)	68.1	107.0	(1.0)	106.0
Tax	5	(13.7)	–	(13.7)	(16.6)	–	(16.6)
Profit after tax		56.5	(2.1)	54.4	90.4	(1.0)	89.4
Attributable to:							
Shareholders of the Company	6&7	57.3	(2.1)	55.2	90.3	(1.0)	89.3
Non-controlling interests		(0.8)	–	(0.8)	0.1	–	0.1
		56.5	(2.1)	54.4	90.4	(1.0)	89.4
		US¢		US¢	US¢		US¢
Earnings per share	6						
– basic		4.56		4.40	7.53		7.44
– diluted		4.54		4.38	7.50		7.41

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2016

	Note	2016 US$m	2015 US$m
Profit for the year		**54.4**	89.4
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	12	**(3.1)**	(5.4)
Tax on items that will not be reclassified	5	**0.5**	0.9
		(2.6)	(4.5)
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net losses arising during the year		**(56.1)**	(43.3)
Revaluation of other investments			
– transfer to profit and loss		**–**	(0.6)
Cash flow hedges			
– net gains arising during the year		**2.5**	–
Tax relating to items that may be reclassified	5	**(0.4)**	–
Share of other comprehensive expense of associates and joint ventures		**(1.7)**	(11.7)
		(55.7)	(55.6)
Other comprehensive expense for the year, net of tax		**(58.3)**	(60.1)
Total comprehensive (expense)/income for the year		**(3.9)**	29.3
Attributable to:			
Shareholders of the Company		**(3.0)**	29.3
Non-controlling interests		**(0.9)**	–
		(3.9)	29.3

Consolidated Balance Sheet

at 31st December 2016

	Note	2016 US$m	2015 US$m
Net assets			
Intangible assets	8	**44.3**	44.1
Tangible assets	9	**1,352.1**	1,255.0
Associates and joint ventures	10	**163.8**	164.4
Other investments		**10.7**	10.2
Loans receivable	11	**–**	–
Deferred tax assets	13	**2.6**	2.8
Non-current assets		**1,573.5**	1,476.5
Stocks		**5.9**	6.0
Debtors and prepayments	14	**94.2**	89.9
Current tax assets		**5.2**	1.8
Bank and cash balances	15	**182.6**	308.6
Current assets		**287.9**	406.3
Creditors and accruals	16	**(140.1)**	(138.6)
Current borrowings	17	**(2.5)**	(4.2)
Current tax liabilities		**(8.7)**	(9.3)
Current liabilities		**(151.3)**	(152.1)
Net current assets		**136.6**	254.2
Long-term borrowings	17	**(477.4)**	(436.2)
Deferred tax liabilities	13	**(56.1)**	(59.8)
Pension liabilities	12	**(3.2)**	–
Other non-current liabilities	25	**–**	(3.0)
		1,173.4	1,231.7
Total equity			
Share capital	20	**62.8**	62.8
Share premium	21	**490.4**	490.3
Revenue and other reserves		**616.2**	673.6
Shareholders' funds		**1,169.4**	1,226.7
Non-controlling interests		**4.0**	5.0
		1,173.4	1,231.7

Approved by the Board of Directors

Ben Keswick
James Riley
Directors
2nd March 2017

Consolidated Statement of Changes in Equity

for the year ended 31st December 2016

	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
2016										
At 1st January		**62.8**	**490.3**	**284.5**	**504.7**	**(2.7)**	**(112.9)**	**1,226.7**	**5.0**	**1,231.7**
Total comprehensive income		–	–	–	**52.6**	**2.1**	**(57.7)**	**(3.0)**	**(0.9)**	**(3.9)**
Dividends paid by the Company	23	–	–	–	**(56.5)**	–	–	**(56.5)**	–	**(56.5)**
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	**(0.1)**	**(0.1)**
Share-based long-term incentive plans		–	–	**2.2**	–	–	–	**2.2**	–	**2.2**
Transfer		–	**0.1**	**(0.5)**	**0.4**	–	–	–	–	–
At 31st December		**62.8**	**490.4**	**286.2**	**501.2**	**(0.6)**	**(170.6)**	**1,169.4**	**4.0**	**1,173.4**
2015										
At 1st January		50.2	188.2	283.1	495.6	(2.7)	(58.0)	956.4	5.0	961.4
Total comprehensive income		–	–	–	84.2	–	(54.9)	29.3	–	29.3
Dividends paid by the Company	23	–	–	–	(75.3)	–	–	(75.3)	–	(75.3)
Issue of shares		12.6	301.4	–	–	–	–	314.0	–	314.0
Share-based long-term incentive plans		–	–	2.3	–	–	–	2.3	–	2.3
Transfer		–	0.7	(0.9)	0.2	–	–	–	–	–
At 31st December		62.8	490.3	284.5	504.7	(2.7)	(112.9)	1,226.7	5.0	1,231.7

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US$55.2 million (2015: US$89.3 million) and net actuarial loss on employee defined benefit plans of US$2.6 million (2015: US$4.5 million). In addition, in 2015, total comprehensive income included in revenue reserves was also stated after deducting a US$0.6 million fair value gain on other investments which was transferred to the profit and loss account.

Consolidated Cash Flow Statement

for the year ended 31st December 2016

	Note	2016 US$m	2015 US$m
Operating activities			
Operating profit	2	**68.0**	107.3
Depreciation	9	**57.7**	50.6
Amortization of intangible assets	8	**2.1**	2.3
Other non-cash items	24a	**2.7**	2.2
Movements in working capital	24b	**(3.8)**	(1.6)
Interest received		**1.3**	2.0
Interest and other financing charges paid		**(10.4)**	(12.1)
Tax paid		**(19.0)**	(18.5)
		98.6	132.2
Dividends and interest from associates and joint ventures		**9.1**	8.0
Cash flows from operating activities		**107.7**	140.2
Investing activities			
Purchase of tangible assets		**(77.0)**	(50.0)
Purchase of intangible assets		**(2.7)**	(1.5)
Acquisition of Mandarin Oriental, Boston	26	**(140.0)**	–
Acquisition of Hotel Ritz, Madrid	27	**–**	(73.3)
Purchase of other investments		**(1.3)**	(0.9)
Advance to joint ventures	24c	**(2.8)**	(0.1)
Repayment of loans to associates	24d	**0.9**	0.6
Sale of tangible assets		**0.1**	–
Sale of other investments		**–**	0.8
Cash flows from investing activities		**(222.8)**	(124.4)
Financing activities			
Issue of shares	24e	**–**	314.0
Drawdown of borrowings		**51.5**	–
Repayment of borrowings		**(1.6)**	(261.5)
Dividends paid by the Company	23	**(56.5)**	(75.3)
Dividends paid to non-controlling interests		**(0.1)**	–
Cash flows from financing activities		**(6.7)**	(22.8)
Net decrease in cash and cash equivalents		**(121.8)**	(7.0)
Cash and cash equivalents at 1st January		**308.6**	324.3
Effect of exchange rate changes		**(4.3)**	(8.7)
Cash and cash equivalents at 31st December	24f	**182.5**	308.6

Principal Accounting Policies

A 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 below.

Amendments effective in 2016 which are relevant to the Group's operations:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative: Presentation of Financial Statements
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Annual Improvements to IFRSs	2012 – 2014 Cycle

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

New standards and amendments effective after 2016 which are relevant to the Group's operations and yet to be adopted:

Certain new standards and amendments, which are effective after 2016, have been published and will be adopted by the Group from their effective dates. The Group is currently assessing the potential impact of these standards and amendments but expects their adoption will not have a significant effect on the Group's consolidated financial statements except as set out below.

IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1st January 2018), which replaces IAS 39 'Financial Instruments: Recognition and Measurement', addresses the classification and measurement of financial assets and liabilities and includes a new expected credit losses model for financial assets that replaces the incurred loss impairment model used today. A substantially-reformed approach to hedging accounting is introduced. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities. While the Group is still assessing the impact of how its impairment provisions would be affected by the new impairment model, it may result in an earlier recognition of credit losses. The new hedge accounting rules will align the accounting for hedging instruments closely with the Group's risk management practices. Nevertheless, the Group does not expect a significant impact on the accounting for its hedging relationships.

IFRS 15 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1st January 2018), establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. lFRS 15 replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' which covers contracts for goods and services. The core principle in that framework is that revenue is recognized when control of a good or service transfers to a customer. The new standard will also result in new disclosure requirements on revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. A preliminary review was completed and the Group is undertaking a detailed assessment of the impact of the new rules on the Group's financial statements.

Principal Accounting Policies *Continued*

A Basis of preparation *continued*

IFRS 16 'Leases' (effective for accounting periods beginning on or after 1st January 2019) replaces IAS 17 'Leases' and related interpretations. It will result in lessees bringing almost all their leases onto the balance sheet as the distinction between operating leases and finance leases is removed. The model requires a lessee to recognize a right-of-use asset (the right to use the underlying leased asset) and a lease liability (the obligation to make lease payments) 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. A preliminary review was completed and the Group is yet to undertake a detailed assessment on how the new lease model will affect the Group's profit, classification of cash flows and balance sheet position.

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

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

B Basis of consolidation

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

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

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

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

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

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

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

B Basis of consolidation *continued*

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

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

C Foreign currencies

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

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

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

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

D Impairment of non-financial assets

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

Principal Accounting Policies *Continued*

E Intangible assets

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

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

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

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

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

F Tangible fixed assets and depreciation

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

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

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

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

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

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

G Loans receivable

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

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

H Investments

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

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

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

I Leases

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

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

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

J Stocks

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

K Debtors

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

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

L Cash and cash equivalents

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

M Provisions

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

N Borrowings and borrowing costs

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

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

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

O Government grants

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

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

P Current and deferred tax

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

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

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

P Current and deferred tax *continued*

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

Q Employee benefits

i) Pension obligations

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

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

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

Past service costs are recognized immediately in profit and loss.

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

ii) Share-based compensation

Share-based long-term incentive plans have been set up to provide 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 recognized 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 recognized in profit and loss.

R Derivative financial instruments

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

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

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

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

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

S Financial guarantee contracts

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

T Offsetting financial instruments

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

U Non-trading items

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

V Earnings per share

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

W Dividends

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

X Revenue recognition

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

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

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

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

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

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

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

Y Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Financial Risk Management

A Financial risk factors

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

The Group's treasury function co-ordinates, under the directions of the board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimize the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the profit and loss account. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2016 are disclosed in note 25.

i) Market risk

Foreign exchange risk

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

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

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. In 2016 and 2015, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2016, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's profit after tax would have been US$0.1 million lower/higher (2015: 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$0.1 million lower/higher (2015: 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 2016 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

A Financial risk factors *continued*

i) ***Market risk*** *continued*

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps and caps. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its gross borrowings, in fixed rate instruments. At 31st December 2016, the Group's interest rate hedge was 49% (2015: 56%), with an average tenor of 2.0 years (2015: 3.1 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 17.

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

At 31st December 2016, 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 lower/higher (2015: US$0.5 million lower/higher), and hedging reserves would have been US$1.5 million (2015: US$2.5 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant sensitivity resulting from interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong, United Kingdom and European rates, over the period until the next annual balance sheet date. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

A Financial risk factors *continued*

ii) Credit risk

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

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2016, 83% (2015: 89%) of deposits and balances with banks and financial institutions were made to institutions with credit ratings of no less than A- (Fitch). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit rating of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

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

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

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition, long-term cash flows are projected to assist with the Group's long-term debt financing plans.

At 31st December 2016, total available borrowing facilities amounted to US$556 million (2015: US$578 million) of which US$480 million (2015: US$440 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US$76 million (2015: US$138 million), in addition to cash balances of US$183 million (2015: US$308 million).

A Financial risk factors *continued*

iii) Liquidity risk continued

The table below analyzes the Group's non-derivative financial liabilities and net settled derivative financial liabilities at 31st December 2016 and 2015 into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year US$m	Between one and two years US$m	Between two and three years US$m	Between three and four years US$m	Between four and five years US$m	Beyond five years US$m	Total undiscounted cash flows US$m
2016							
Borrowings	**14.0**	**11.3**	**479.7**	**0.2**	**0.3**	**4.0**	**509.5**
Creditors	**134.1**	**–**	**–**	**–**	**–**	**–**	**134.1**
Net settled derivative financial instruments	**0.8**	**–**	**–**	**–**	**–**	**–**	**0.8**
2015							
Borrowings	14.0	11.1	8.4	436.7	0.2	2.1	472.5
Creditors	133.5	–	–	–	–	–	133.5
Net settled derivative financial instruments	2.0	0.9	0.1	–	–	–	3.0

B Capital management

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

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

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by shareholders' funds on an IFRS basis, where the Group's freehold and leasehold interests are carried in the consolidated balance sheet at amortized 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. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2016 and 2015 are as follows:

	2016	2015
Gearing ratio		
– based on shareholders' funds	**25%**	11%
– based on adjusted shareholders' funds	**8%**	4%
Interest cover	**7.5 times**	10.1 times

Financial Risk Management *Continued*

C Fair value estimation

i) Financial instruments that are measured at fair value

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

a) Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly ('observable current market transactions')

The fair values of derivative financial instruments are determined using rates quoted by the Group's bankers at the balance sheet date. The rates for interest rate swaps and caps and forward foreign exchange contracts are calculated by reference to market interest rates and foreign exchange rates.

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

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

The fair value of other unlisted securities, which are classified as available-for-sale, is determined using valuation techniques by reference to observable current market transactions (including price-to earnings and price-to book ratios of listed securities of entities engaged in similar industries) or the market prices of the underlying investments with certain degree of entity specific estimates.

There were no changes in valuation techniques during the year.

The table below analyzes financial instruments carried at fair value at 31st December 2016 and 2015, by the levels in the fair value measurement hierarchy.

	Observable current market transactions US$m	Unobservable inputs US$m	Total US$m
2016			
Assets			
Available-for-sale financial assets – unlisted investments	**2.1**	**8.6**	**10.7**
Liabilities			
Derivatives designated at fair value – through other comprehensive income	**(0.6)**	**–**	**(0.6)**
2015			
Assets			
Available-for-sale financial assets – unlisted investments	2.1	8.1	10.2
Liabilities			
Derivatives designated at fair value – through other comprehensive income	(3.0)	–	(3.0)

There were no transfers among the two categories during the year ended 31st December 2016 and 2015.

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

	Available-for-sale financial assets 2016 US$m	2015 US$m
At 1st January	**8.1**	7.6
Additions	**0.5**	0.5
At 31st December	**8.6**	8.1

C Fair value estimation *continued*

ii) Financial instruments that are not measured at fair value

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

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

D Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2016 and 2015 are as follows:

	Loans and receivables US$m	Derivatives used for hedging US$m	Available-for-sale US$m	Other financial instruments at amortized cost US$m	Total carrying amount US$m	Fair value US$m
2016						
Assets						
Other investments	**–**	**–**	**10.7**	**–**	**10.7**	**10.7**
Debtors	**65.8**	**–**	**–**	**–**	**65.8**	**65.8**
Bank and cash balances	**182.6**	**–**	**–**	**–**	**182.6**	**182.6**
	248.4	**–**	**10.7**	**–**	**259.1**	**259.1**
Liabilities						
Borrowings	**–**	**–**	**–**	**(479.9)**	**(479.9)**	**(479.9)**
Trade and other payables excluding non-financial liabilities	**–**	**(0.6)**	**–**	**(134.1)**	**(134.7)**	**(134.7)**
	–	**(0.6)**	**–**	**(614.0)**	**(614.6)**	**(614.6)**
2015						
Assets						
Other investments	–	–	10.2	–	10.2	10.2
Debtors	61.2	–	–	–	61.2	61.2
Bank and cash balances	308.6	–	–	–	308.6	308.6
	369.8	–	10.2	–	380.0	380.0
Liabilities						
Other non-current liabilities	–	(3.0)	–	–	(3.0)	(3.0)
Borrowings	–	–	–	(440.4)	(440.4)	(440.3)
Trade and other payables excluding non-financial liabilities	–	–	–	(133.5)	(133.5)	(133.5)
	–	(3.0)	–	(573.9)	(576.9)	(576.8)

Critical Accounting Estimates and Judgements

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

A Acquisition of subsidiaries, associates and joint ventures

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

B Impairment of assets

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

C Tangible fixed assets and depreciation

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

D Income taxes

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

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

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

E Pension obligations

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

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

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

F Non-trading items

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

Notes to the Financial Statements

1 Revenue

	2016 US$m	2015 US$m
Analysis by geographical area		
– Hong Kong	**224.5**	238.6
– Other Asia	**106.4**	100.1
– Europe	**177.8**	204.9
– The Americas	**88.7**	63.7
	597.4	607.3
Analysis by activity		
– Hotel ownership	**565.4**	574.0
– Hotel & Residences branding and management	**60.7**	63.6
– Less: intra-segment revenue	**(28.7)**	(30.3)
	597.4	607.3

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

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

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

	2016 US$m	2015 US$m
Analysis by geographical area		
– Hong Kong	**69.3**	83.2
– Other Asia	**29.2**	27.8
– Europe	**25.2**	44.5
– The Americas	**5.9**	5.2
Underlying EBITDA from subsidiaries	**129.6**	160.7
Non-trading items		
– acquistion-related costs *(refer note 7)*	**(1.8)**	(0.5)
EBITDA from subsidiaries	**127.8**	160.2
Less: depreciation and amortization	**(59.8)**	(52.9)
Operating profit	**68.0**	107.3
Analysis by activity		
– Hotel ownership	**105.4**	133.9
– Hotel & Residences branding and management	**22.4**	26.3
EBITDA from subsidiaries	**127.8**	160.2
– Hotel ownership	**48.5**	84.0
– Hotel & Residences branding and management	**19.5**	23.3
Operating profit	**68.0**	107.3
The following items have been credited/(charged) in arriving at operating profit:		
Rental income *(refer note 9)*	**22.5**	22.9
Amortization of intangible assets *(refer note 8)*	**(2.1)**	(2.3)
Depreciation of tangible assets *(refer note 9)*	**(57.7)**	(50.6)
Employee benefit expense		
– salaries and benefits in kind	**(239.5)**	(228.4)
– share options and share awards granted	**(2.2)**	(2.3)
– defined benefit pension plans *(refer note 12)*	**(4.9)**	(4.0)
– defined contribution pension plans	**(1.2)**	(1.1)
	(247.8)	(235.8)
Net foreign exchange gains/(losses)	**0.5**	(0.6)
Operating leases		
– minimum lease payments	**(9.0)**	(8.0)
– contingent rents	**(5.6)**	(4.9)
– subleases	**0.3**	0.3
	(14.3)	(12.6)
Auditors' remuneration		
– audit	**(1.5)**	(1.4)
– non-audit services	**(1.0)**	(1.2)
	(2.5)	(2.6)

Notes to the Financial Statements *Continued*

3 Net financing charges

	2016 US$m	2015 US$m
Interest expense		
– bank loans	(10.0)	(11.0)
Commitment and other fees	(2.1)	(2.7)
Financing charges	(12.1)	(13.7)
Interest income	1.3	1.9
Net financing charges	(10.8)	(11.8)

4 Share of results of associates and joint ventures

	EBITDA US$m	Depreciation and amortization US$m	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/ (loss) US$m
2016						
Analysis by geographical area						
– Other Asia	20.9	(7.8)	13.1	(1.5)	(2.3)	9.3
– Europe	1.8	(0.7)	1.1	–	–	1.1
– The Americas	5.9	(3.0)	2.9	(2.2)	0.1	0.8
	28.6	(11.5)	17.1	(3.7)	(2.2)	11.2
Non-trading items						
– provision for litigation *(refer note 7)*	(0.3)	–	(0.3)	–	–	(0.3)
	28.3	(11.5)	16.8	(3.7)	(2.2)	10.9
Analysis by activity						
– Hotel ownership	27.4	(11.0)	16.4	(3.6)	(2.1)	10.7
– Other	0.9	(0.5)	0.4	(0.1)	(0.1)	0.2
	28.3	(11.5)	16.8	(3.7)	(2.2)	10.9
2015						
Analysis by geographical area						
– Other Asia	21.1	(7.7)	13.4	(1.4)	(2.2)	9.8
– Europe	1.5	(0.3)	1.2	–	(0.3)	0.9
– The Americas	5.1	(2.8)	2.3	(2.1)	0.1	0.3
	27.7	(10.8)	16.9	(3.5)	(2.4)	11.0
Non-trading items						
– acquisition-related costs *(refer note 7)*	(0.5)	–	(0.5)	–	–	(0.5)
	27.2	(10.8)	16.4	(3.5)	(2.4)	10.5
Analysis by activity						
– Hotel ownership	26.2	(10.3)	15.9	(3.4)	(2.3)	10.2
– Other	1.0	(0.5)	0.5	(0.1)	(0.1)	0.3
	27.2	(10.8)	16.4	(3.5)	(2.4)	10.5

5 Tax

	2016 US$m	2015 US$m
Tax (charged)/credited to profit and loss is analyzed as follows:		
– current tax	**(14.9)**	(17.9)
– deferred tax *(refer note 13)*	**1.2**	1.3
	(13.7)	(16.6)
Analysis by geographical area		
– Hong Kong	**(8.8)**	(10.7)
– Other Asia	**(3.5)**	(1.7)
– Europe	**(0.9)**	(4.1)
– The Americas	**(0.5)**	(0.1)
	(13.7)	(16.6)
Analysis by activity		
– Hotel ownership	**(8.1)**	(12.0)
– Hotel & Residences branding and management	**(5.6)**	(4.6)
	(13.7)	(16.6)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**(3.6)**	(10.3)
Income not subject to tax	**0.6**	0.4
Expenses not deductible for tax purposes	**(3.8)**	(2.4)
Tax losses and temporary differences not recognized	**(9.7)**	(5.7)
Utilization of previously unrecognized tax losses and temporary differences	**3.9**	2.6
Withholding tax	**(1.8)**	(1.9)
Over provision in prior years	**0.7**	0.9
Other	**–**	(0.2)
	(13.7)	(16.6)
Tax relating to components of other comprehensive income is analyzed as follows:		
Remeasurements of defined benefit plans	**0.5**	0.9
Cash flow hedges	**(0.4)**	–
	0.1	0.9

Share of tax charge of associates and joint ventures of US$2.2 million (2015: US$2.4 million) is included in share of results of associates and joint ventures *(refer note 4)*.

*The applicable tax rate for the year was 6% (2015: 11%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The decrease 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*

6 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$55.2 million (2015: US$89.3 million) and on the weighted average number of 1,255.9 million (2015: 1,199.6 million) shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$55.2 million (2015: US$89.3 million) and on the weighted average number of 1,261.5 million (2015: 1,204.5 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	
	2016	2015
Weighted average number of shares for basic earnings per share calculation	**1,255.9**	1,199.6
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**5.6**	4.9
Weighted average number of shares for diluted earnings per share calculation	**1,261.5**	1,204.5

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:

		2016			2015	
	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	**55.2**	**4.40**	**4.38**	89.3	7.44	7.41
Non-trading items *(refer note 7)*	**2.1**			1.0		
Underlying profit attributable to shareholders	**57.3**	**4.56**	**4.54**	90.3	7.53	7.50

7 Non-trading items

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

	2016 US$m	2015 US$m
Acquisition-related costs		
– administration expenses	**1.8**	0.5
– share of results of associates and joint ventures	**–**	0.5
	1.8	1.0
Provision for litigation		
– share of results of associates and joint ventures	**0.3**	–
	2.1	1.0

8 Intangible assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Development costs US$m	Total US$m
2016					
Cost	**23.9**	**6.3**	**20.5**	**16.1**	**66.8**
Amortization and impairment	**–**	**(2.1)**	**(18.2)**	**(2.4)**	**(22.7)**
Net book value at 1st January	**23.9**	**4.2**	**2.3**	**13.7**	**44.1**
Exchange differences	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Additions	**–**	**–**	**2.0**	**0.7**	**2.7**
Amortization charge	**–**	**(0.1)**	**(1.6)**	**(0.4)**	**(2.1)**
Impairment charge	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Net book value at 31st December	**23.9**	**4.1**	**2.7**	**13.6**	**44.3**
Cost	**23.9**	**6.3**	**17.8**	**16.3**	**64.3**
Amortization and impairment	**–**	**(2.2)**	**(15.1)**	**(2.7)**	**(20.0)**
	23.9	**4.1**	**2.7**	**13.6**	**44.3**
2015					
Cost	23.9	6.4	19.4	16.2	65.9
Amortization and impairment	–	(2.0)	(16.4)	(1.9)	(20.3)
Net book value at 1st January	23.9	4.4	3.0	14.3	45.6
Exchange differences	–	(0.1)	–	(0.3)	(0.4)
Additions	–	–	1.1	1.0	2.1
Amortization charge	–	(0.1)	(1.8)	(0.4)	(2.3)
Impairment charge	–	–	–	(0.9)	(0.9)
Net book value at 31st December	23.9	4.2	2.3	13.7	44.1
Cost	23.9	6.3	20.5	16.1	66.8
Amortization and impairment	–	(2.1)	(18.2)	(2.4)	(22.7)
	23.9	4.2	2.3	13.7	44.1

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2016. 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 5% to 7% to extrapolate cash flows over a five-year period after which the growth rate is assumed up to 5% in perpetuity, which may vary across the Group's geographical locations, and are based on management expectations for the market development; and pre-tax discount rates of around 8% to 13% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the business life-cycle and geographical location. On the basis of these reviews, management concluded that no impairment is required.

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

The amortization periods for intangible assets are as follows:

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

Notes to the Financial Statements *Continued*

9 Tangible assets

	Freehold properties US$m	Leasehold properties & improvements US$m	Plant & machinery US$m	Furniture equipment & motor vehicles US$m	Total US$m
2016					
Cost	**650.0**	**720.8**	**140.2**	**257.6**	**1,768.6**
Depreciation	**(80.5)**	**(171.1)**	**(74.6)**	**(187.4)**	**(513.6)**
Net book value at 1st January	**569.5**	**549.7**	**65.6**	**70.2**	**1,255.0**
Exchange differences	**(38.7)**	**(19.3)**	**(2.3)**	**(1.2)**	**(61.5)**
Additions	**125.6**	**50.3**	**8.5**	**32.5**	**216.9**
Disposals	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Depreciation charge	**(8.5)**	**(20.0)**	**(7.5)**	**(21.7)**	**(57.7)**
Net book value at 31st December	**647.9**	**560.7**	**64.3**	**79.2**	**1,352.1**
Cost	**733.3**	**743.3**	**139.4**	**260.2**	**1,876.2**
Depreciation	**(85.4)**	**(182.6)**	**(75.1)**	**(181.0)**	**(524.1)**
	647.9	**560.7**	**64.3**	**79.2**	**1,352.1**
2015					
Cost	695.8	734.7	144.6	255.4	1,830.5
Depreciation	(72.9)	(175.8)	(73.1)	(193.6)	(515.4)
Net book value at 1st January	622.9	558.9	71.5	61.8	1,315.1
Exchange differences	(46.7)	(6.2)	(4.3)	(1.9)	(59.1)
Additions	1.5	12.6	5.1	30.7	49.9
Disposals	(0.1)	–	–	(0.2)	(0.3)
Depreciation charge	(8.1)	(15.6)	(6.7)	(20.2)	(50.6)
Net book value at 31st December	569.5	549.7	65.6	70.2	1,255.0
Cost	650.0	720.8	140.2	257.6	1,768.6
Depreciation	(80.5)	(171.1)	(74.6)	(187.4)	(513.6)
	569.5	549.7	65.6	70.2	1,255.0

Freehold properties include a property of US$111.6 million (2015: US$104.6 million), which is stated net of tax increment financing of US$22.2 million (2015: US$23.0 million) *(refer note 18)*.

Net book value of leasehold properties acquired under finance leases amounted to US$183.0 million (2015: US$183.5 million).

Rental income from properties and other tangible assets amounted to US$22.5 million (2015: US$22.9 million) *(refer note 2)*.

9 Tangible assets *continued*

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

	2016 US$m	2015 US$m
Within one year	**19.1**	19.0
Between one and two years	**14.9**	13.2
Between two and five years	**28.9**	17.5
Beyond five years	**4.4**	8.0
	67.3	57.7

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

	2016 US$m	2015 US$m
Analysis of additions by geographical area		
– Hong Kong	**15.0**	7.8
– Other Asia	**4.0**	2.4
– Europe	**46.0**	27.1
– The Americas	**151.9**	12.6
	216.9	49.9
Analysis of additions by activity		
– Hotel ownership	**216.0**	48.9
– Hotel & Residences branding and management	**0.9**	1.0
	216.9	49.9
Analysis of depreciation charge by geographical area		
– Hong Kong	**(17.0)**	(16.7)
– Other Asia	**(4.0)**	(5.8)
– Europe	**(29.4)**	(23.9)
– The Americas	**(7.3)**	(4.2)
	(57.7)	(50.6)
Analysis of depreciation charge by activity		
– Hotel ownership	**(56.7)**	(49.6)
– Hotel & Residences branding and management	**(1.0)**	(1.0)
	(57.7)	(50.6)

Notes to the Financial Statements *Continued*

10 Associates and joint ventures

	2016 US$m	2015 US$m
Associates		
Listed associate – OHTL	17.0	17.1
Unlisted associates	71.0	71.0
Share of attributable net assets	88.0	88.1
Notional goodwill	5.5	5.5
	93.5	93.6
Joint ventures		
Share of attributable net assets of unlisted joint ventures	64.5	64.7
Goodwill on acquisition	5.8	6.1
	70.3	70.8
	163.8	164.4

	Associates		Joint ventures	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Movements of associates and joint ventures during the year:				
At 1st January	93.6	101.6	70.8	–
Exchange differences	–	–	(2.6)	(0.8)
Share of results after tax and non-controlling interests	9.8	10.1	1.1	0.4
Share of other comprehensive income after tax and non-controlling interests	(1.7)	(9.5)	–	(2.2)
Dividends received	(7.3)	(8.0)	–	–
Interest received	–	–	(1.8)	–
Repayment of loans to associates *(refer note 24d)*	(0.9)	(0.6)	–	–
Acquisition of Hotel Ritz, Madrid *(refer note 27)*	–	–	–	73.3
Advance to joint ventures *(refer note 24c)*	–	–	2.8	0.1
At 31st December	93.5	93.6	70.3	70.8
Fair value of listed associate	193.2	190.1	N/A	N/A

a) Investment in associates

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

Nature of investments in material associates in 2016 and 2015:

Name of entity	Nature of business	Country of incorporation and principal place of business/place of listing	% of ownership interest 2016	2015
OHTL PCL ('OHTL')	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	47.6%	44.9%
Marina Bay Hotel Private Ltd. ('Marina Bay Hotel')	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	50.0%	50.0%

At 31st December 2016, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US$193.2 million (2015: US$190.1 million) and the carrying amount of the Group's interest was US$22.6 million (2015: US$22.6 million).

10 Associates and joint ventures *continued*

a) Investment in associates continued

Summarized financial information for material associates

Summarized balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m
Non-current assets	**65.8**	62.4	**118.7**	122.5	**184.5**	184.9
Current assets						
Cash and cash equivalents	**5.1**	3.5	**6.2**	5.2	**11.3**	8.7
Other current assets	**4.3**	4.1	**2.8**	2.9	**7.1**	7.0
Total current assets	**9.4**	7.6	**9.0**	8.1	**18.4**	15.7
Non-current liabilities						
Financial liabilities*	**(11.7)**	(9.7)	**(20.1)**	(23.3)	**(31.8)**	(33.0)
Other non-current liabilities*	**(3.5)**	(3.6)	**(2.7)**	(2.8)	**(6.2)**	(6.4)
Total non-current liabilities	**(15.2)**	(13.3)	**(22.8)**	(26.1)	**(38.0)**	(39.4)
Current liabilities						
Financial liabilities*	**(21.0)**	(17.9)	**(8.7)**	(9.6)	**(29.7)**	(27.5)
Other current liabilities*	**(3.1)**	(2.8)	**(5.5)**	(5.7)	**(8.6)**	(8.5)
Total current liabilities	**(24.1)**	(20.7)	**(14.2)**	(15.3)	**(38.3)**	(36.0)
Net assets	**35.9**	36.0	**90.7**	89.2	**126.6**	125.2

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

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

	OHTL		Marina Bay Hotel		Total	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m
Revenue	**58.0**	55.7	**73.3**	74.3	**131.3**	130.0
Depreciation and amortization	**(6.2)**	(4.5)	**(5.8)**	(6.9)	**(12.0)**	(11.4)
Interest income	**–**	0.1	**–**	–	**–**	0.1
Interest expense	**(0.5)**	(0.3)	**(0.6)**	(0.6)	**(1.1)**	(0.9)
Profit from underlying business performance	**7.1**	7.7	**16.2**	15.2	**23.3**	22.9
Income tax expense	**(1.4)**	(1.2)	**(3.0)**	(2.2)	**(4.4)**	(3.4)
Profit after tax from underlying business performance	**5.7**	6.5	**13.2**	13.0	**18.9**	19.5
Non-trading items	**(0.6)**	–	**–**	–	**(0.6)**	–
Profit after tax	**5.1**	6.5	**13.2**	13.0	**18.3**	19.5
Other comprehensive income/(expense)	**0.4**	(3.9)	**(2.6)**	(7.6)	**(2.2)**	(11.5)
Total comprehensive income	**5.5**	2.6	**10.6**	5.4	**16.1**	8.0
Dividends received from associates	**5.6**	6.1	**9.1**	10.0	**14.7**	16.1

The information contained in the summarized 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.

Notes to the Financial Statements *Continued*

10 Associates and joint ventures *continued*

a) Investment in associates *continued*

Reconciliation of the summarized financial information

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

	OHTL		Marina Bay Hotel		Total	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m
Net assets at 1st January	**36.0**	39.5	**89.2**	93.8	**125.2**	133.3
Profit for the year	**5.1**	6.5	**13.2**	13.0	**18.3**	19.5
Other comprehensive income/(expense)	**0.4**	(3.9)	**(2.6)**	(7.6)	**(2.2)**	(11.5)
Dividends paid	**(5.6)**	(6.1)	**(9.1)**	(10.0)	**(14.7)**	(16.1)
Net assets at 31st December	**35.9**	36.0	**90.7**	89.2	**126.6**	125.2
Effective interest in associates (%)*	**47.6**	47.6	**50.0**	50.0		
Group's share of net assets in associates	**17.0**	17.1	**45.4**	44.6	**62.4**	61.7
Notional goodwill*	**5.5**	5.5	**–**	–	**5.5**	5.5
Carrying value	**22.5**	22.6	**45.4**	44.6	**67.9**	67.2
Fair value	**193.2**	190.1	**N/A**	N/A	**193.2**	190.1

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

	2016 US$m	2015 US$m
Share of profit	**0.8**	0.5
Share of other comprehensive expense	**(0.6)**	(3.8)
Share of total comprehensive income/(expense)	**0.2**	(3.3)
Carrying amount of interests in these associates	**25.6**	26.4

*During 2013, OHTL repurchased some of its own shares which were subsequently classified on its balance sheet as treasury shares. The number of OHTL shares held by the Group remained unchanged. As a result of the share repurchase, notional goodwill of US$5.5 million was recognized and the Group's effective interest increased to 47.6%. In September 2016, OHTL registered the decrease of its authorized and paid-up share capital with the Ministry of Commerce of Thailand by cancellation of the treasury shares which were unsold at the expiration of the share resale period. Accordingly, the Group's attributable interest also increased to 47.6% after such treasury shares cancellation.

Contingent liabilities relating to the Group's interest in associates

	2016 US$m	2015 US$m
Financial guarantee in respect of facilities made available to an associate	**20.8**	21.2

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

10 Associates and joint ventures *continued*

b) Investment in joint ventures

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

Nature of investment in material joint venture in 2016 and 2015:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest 2016	2015
Ritz Madrid, S.A. ('Ritz Madrid')	Owner of Hotel Ritz, Madrid	Spain	**50%**	50%

Summarized financial information for material joint venture

Summarized balance sheet at 31st December

	Ritz Madrid 2016 US$m	2015 US$m
Non-current assets	**162.4**	165.1
Current assets		
Cash and cash equivalents	**4.6**	1.8
Other current assets	**2.0**	2.3
Total current assets	**6.6**	4.1
Non-current liabilities		
Financial liabilities*	**(133.8)**	(133.0)
Other non-current liabilities*	**(34.2)**	(35.8)
Total non-current liabilities	**(168.0)**	(168.8)
Current liabilities		
Other current liabilities*	**(5.8)**	(3.9)
Total current liabilities	**(5.8)**	(3.9)
Net liabilities	**(4.8)**	(3.5)

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

Notes to the Financial Statements *Continued*

10 Associates and joint ventures *continued*

b) Investment in joint ventures continued

Summarized financial information for material joint venture *continued*

Summarized statement of comprehensive income for the year ended 31st December 2016 and for the period from 22nd May 2015 to 31st December 2015

	Ritz Madrid	
	2016 US$m	2015 US$m
Revenue	**27.0**	17.0
Depreciation and amortization	**(1.3)**	(0.7)
Profit from underlying business performance	**2.2**	2.5
Income tax expense	**–**	(0.6)
Profit after tax from underlying business performance	**2.2**	1.9
Non-trading items	**–**	(1.0)
Profit after tax	**2.2**	0.9
Other comprehensive income/(expense)	**0.1**	(4.4)
Total comprehensive income/(expense)	**2.3**	(3.5)
Interest received from joint venture	**3.6**	–

The information contained in the summarized 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 summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interests in its material joint venture for the year ended 31st December 2016 and for the period from 22nd May 2015 to 31st December 2015:

	Ritz Madrid	
	2016 US$m	2015 US$m
Net liabilities at 1st January	**(3.5)**	–
Profit for the year/period	**2.2**	0.9
Other comprehensive income/(expense)	**0.1**	(4.4)
Interest paid	**(3.6)**	–
Net liabilities at 31st December	**(4.8)**	(3.5)
Effective interest in joint venture (%)*	**50.0**	50.0
Group's share of net liabilities in joint venture	**(2.4)**	(1.8)
Goodwill on acquisition	**5.8**	6.1
Shareholders' loans	**66.9**	66.5
Carrying value	**70.3**	70.8

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

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

10 Associates and joint ventures *continued*

b) Investment in joint ventures *continued*

Commitments and contingent liabilities in respect of joint ventures

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

	2016 US$m	2015 US$m
Commitment to provide funding if called	36.6	40.6

There were no contingent liabilities relating to the Group's interest in its joint ventures at 31st December 2016 (2015: nil).

11 Loans receivable

At 31st December 2016 and 2015, the loans receivable comprised (i) a loan of US$2.4 million, bearing interest at EURO LIBOR + 2%; and (ii) a loan of US$1.5 million, bearing interest at 10%; on which full provisions have been made.

12 Pension plans

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

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

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

	2016 US$m	2015 US$m
Fair value of plan assets	65.6	66.1
Present value of funded obligations	(68.8)	(66.1)
Net pension liabilities	(3.2)	–
Analysis of net pension liabilities		
Pension liabilities	(3.2)	–

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

The movement in the net pension liabilities is as follows:

	Fair value of plan assets US$m	Present value of obligation US$m	Total US$m
2016			
At 1st January	**66.1**	**(66.1)**	**–**
Current service cost	**–**	**(4.3)**	**(4.3)**
Past service cost-plan amendments	**–**	**(0.3)**	**(0.3)**
Interest income/(expense)	**1.8**	**(1.8)**	**–**
Administration expenses	**(0.3)**	**–**	**(0.3)**
	1.5	**(6.4)**	**(4.9)**
	67.6	**(72.5)**	**(4.9)**
Exchange differences	**–**	**(0.1)**	**(0.1)**
Remeasurements			
– return on plan assets, excluding amounts included in interest income/(expense)	**0.6**	**–**	**0.6**
– change in financial assumptions	**–**	**1.9**	**1.9**
– experience losses	**–**	**(3.2)**	**(3.2)**
– demographic assumption changes	**–**	**(2.4)**	**(2.4)**
	0.6	**(3.7)**	**(3.1)**
Contributions from employers	**4.9**	**–**	**4.9**
Contributions from plan participants	**0.8**	**(0.8)**	**–**
Benefit payments	**(12.0)**	**12.0**	**–**
Transfer from other plans	**3.7**	**(3.7)**	**–**
At 31st December	**65.6**	**(68.8)**	**(3.2)**
2015			
At 1st January	69.4	(62.1)	7.3
Current service cost	–	(4.1)	(4.1)
Interest income/(expense)	2.3	(1.9)	0.4
Administration expenses	(0.3)	–	(0.3)
	2.0	(6.0)	(4.0)
	71.4	(68.1)	3.3
Remeasurements			
– return on plan assets, excluding amounts included in interest income/(expense)	(4.7)	–	(4.7)
– change in financial assumptions	–	(1.3)	(1.3)
– experience gains	–	0.6	0.6
	(4.7)	(0.7)	(5.4)
Contributions from employers	2.1	–	2.1
Contributions from plan participants	0.7	(0.7)	–
Benefit payments	(3.3)	3.3	–
Transfer to other plans	(0.1)	0.1	–
At 31st December	66.1	(66.1)	–

12 Pension plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2016 is 5.3 years (2015: 5.0 years).

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

	2016 US$m	2015 US$m
Less than a year	9.5	16.0
Between one and two years	11.3	8.1
Between two and five years	20.6	22.3
Beyond five years	94.6	76.5
	136.0	122.9

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

	Hong Kong	
	2016 %	2015 %
Discount rate	3.30	3.00
Salary growth rate	4.75	5.00

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%	(3.4)	3.7
Salary growth rate	1%	3.3	(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 when calculating the pension liability recognized within the balance sheet.

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

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

	Asia Pacific US$m	Europe US$m	North America US$m	Global US$m	Total US$m
2016					
Quoted investments					
Equity instruments	**5.0**	**–**	**–**	**–**	**5.0**
Investment funds	**10.1**	**4.1**	**11.3**	**7.5**	**33.0**
	15.1	**4.1**	**11.3**	**7.5**	**38.0**
Unquoted investments					
Investment funds	**0.6**	**0.3**	**0.3**	**21.8**	**23.0**
Total investments	**15.7**	**4.4**	**11.6**	**29.3**	**61.0**
Cash and cash equivalents					**4.6**
					65.6
2015					
Quoted investments					
Equity instruments	6.6	–	–	–	6.6
Debt instruments					
– government	–	–	0.1	–	0.1
Investment funds	5.8	4.4	10.5	1.9	22.6
	12.4	4.4	10.6	1.9	29.3
Unquoted investments					
Debt instruments					
– government	1.4	3.4	1.5	0.3	6.6
– corporate bonds					
– investment grade	0.3	1.7	2.5	–	4.5
– non-investment grade	–	0.1	0.6	–	0.7
	0.3	1.8	3.1	–	5.2
	1.7	5.2	4.6	0.3	11.8
Investment funds	0.6	0.2	0.2	20.7	21.7
	2.3	5.4	4.8	21.0	33.5
Total investments	14.7	9.8	15.4	22.9	62.8
Cash and cash equivalents					3.3
					66.1

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

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

12 Pension plans *continued*

At 31st December 2016, the Hong Kong plans had assets of US$65.6 million (2015: US$66.1 million). These assets were invested 26% in Asia Pacific, 7% in Europe, 19% in North America and the rest of 48% in Global (2015: 23%, 16%, 25% and 36%, respectively). Within Asia Pacific, 39% was invested in Hong Kong equities. In 2016, 62% and 38% of the investments were in quoted and unquoted instruments respectively. In 2015, the split was 47% and 53% respectively. The high percentage of quoted instruments provides liquidity to fund drawdowns and benefit payments. Within the quoted equity allocation, the plan is well diversified in terms of sectors, with the top three being financials, technology and industrials with a combined fair value of US$3.4 million. In 2015, the top three sectors were financials, industrials and technology with a combined fair value of US$4.6 million.

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

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

In Hong Kong, where the Group has closed plans, the assets and liabilities mix are distinct to reduce the level of investment risk to the plan. In 2016, the closed plans exited from commodities and increased allocations to hedge funds. The plans also reduced their allocations to global fixed income by holding cash and investing a portion to Asian fixed income to reduce volatility risks. Management believes the long-term nature of the plan liabilities and the strength of the Group supports a level of equity investment as part of the Group's long term strategy to manage the plans efficiently.

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

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

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

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

The Group maintains an active and regular contribution schedule across all the plans. The contributions to all its plans in 2016 were US$4.9 million and the estimated amount of contributions expected to be paid to all its plans in 2017 is US$4.6 million.

Notes to the Financial Statements *Continued*

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
2016							
At 1st January	**(56.4)**	**0.5**	**1.1**	**–**	**(1.4)**	**(0.8)**	**(57.0)**
Exchange differences	**2.2**	**–**	**–**	**–**	**–**	**–**	**2.2**
Credited/(charged) to profit and loss	**1.6**	**–**	**–**	**–**	**–**	**(0.4)**	**1.2**
(Charged)/credited to other comprehensive income	**–**	**(0.4)**	**–**	**0.5**	**–**	**–**	**0.1**
At 31st December	**(52.6)**	**0.1**	**1.1**	**0.5**	**(1.4)**	**(1.2)**	**(53.5)**
Deferred tax assets	**0.1**	**0.1**	**1.1**	**1.2**	**–**	**0.1**	**2.6**
Deferred tax liabilities	**(52.7)**	**–**	**–**	**(0.7)**	**(1.4)**	**(1.3)**	**(56.1)**
	(52.6)	**0.1**	**1.1**	**0.5**	**(1.4)**	**(1.2)**	**(53.5)**
2015							
At 1st January	(58.1)	0.4	1.1	(1.2)	(1.6)	(0.7)	(60.1)
Exchange differences	0.7	0.1	–	–	0.1	–	0.9
Credited/(charged) to profit and loss	1.0	–	–	0.3	0.1	(0.1)	1.3
Credited to other comprehensive income	–	–	–	0.9	–	–	0.9
At 31st December	(56.4)	0.5	1.1	–	(1.4)	(0.8)	(57.0)
Deferred tax assets	0.2	0.5	1.1	0.9	–	0.1	2.8
Deferred tax liabilities	(56.6)	–	–	(0.9)	(1.4)	(0.9)	(59.8)
	(56.4)	0.5	1.1	–	(1.4)	(0.8)	(57.0)

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$48.7 million (2015: US$43.1 million) arising from unused tax losses of US$186.7 million (2015: US$171.7 million) have not been recognized in the financial statements. Included in the unused tax losses, US$139.2 million have no expiry date and the balance will expire at various dates up to and including 2036.

Deferred tax assets of US$3.4 million (2015: US$3.6 million) have not been recognized in relation to temporary differences in subsidiaries.

The Group has no unrecognized deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2016 and 2015.

14 Debtors and prepayments

	2016 US$m	2015 US$m
Trade debtors		
– third parties	**38.5**	35.1
– associates and joint ventures	**4.0**	4.1
	42.5	39.2
– provision for impairment	**(1.8)**	(1.6)
	40.7	37.6
Other debtors		
– third parties*	**53.6**	52.5
– associates and joint ventures	**2.1**	2.2
	55.7	54.7
– provision for impairment	**(2.2)**	(2.4)
	53.5	52.3
	94.2	89.9
Analysis by geographical area		
– Hong Kong	**20.1**	21.0
– Other Asia	**17.0**	17.1
– Europe	**39.6**	39.7
– The Americas	**17.5**	12.1
	94.2	89.9

*Included deposit of US$12.1 million (2015: US$12.5 million) in respect of the expansion project of Mandarin Oriental, Munich, pending transfer of title in the underlying land.

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

Fair value		
– trade debtors	**40.7**	37.6
– other debtors**	**25.1**	23.6
	65.8	61.2

**Excluding prepayments, rental and other deposits.

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

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

14 Debtors and prepayments *continued*

At 31st December 2016, trade debtors of US$2.3 million (2015: US$1.7 million) and other debtors of US$2.5 million (2015: US$2.8 million) were impaired. The amounts of the provision were US$1.8 million (2015: US$1.6 million) and US$2.2 million (2015: US$2.4 million), respectively. It was assessed that a portion of the debtors is expected to be recoverable. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
Below 30 days	**0.7**	0.1	**0.3**	0.2
Between 31 and 60 days	**–**	–	**–**	–
Between 61 and 90 days	**–**	–	**–**	–
Over 90 days	**1.6**	1.6	**2.2**	2.6
	2.3	1.7	**2.5**	2.8

At 31st December 2016, trade debtors of US$13.9 million (2015: US$7.9 million) and other debtors of US$2.1 million (2015: US$2.1 million), respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
Below 30 days	**7.9**	4.9	**1.0**	1.6
Between 31 and 60 days	**1.9**	0.8	**0.5**	0.3
Between 61 and 90 days	**0.8**	0.6	**0.2**	0.1
Over 90 days	**3.3**	1.6	**0.4**	0.1
	13.9	7.9	**2.1**	2.1

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2016 becoming impaired is low as they have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
At 1st January	**(1.6)**	(1.4)	**(2.4)**	(2.5)
Additional provisions	**(0.6)**	(0.7)	**–**	(0.1)
Unused amounts reversed	**0.3**	0.4	**0.2**	0.2
Amounts written off	**0.1**	0.1	**–**	–
At 31st December	**(1.8)**	(1.6)	**(2.2)**	(2.4)

14 Debtors and prepayments *continued*

Other debtors are further analyzed as follows:

	2016 US$m	2015 US$m
Other amounts due from associates and joint ventures	**2.1**	2.2
Other receivables	**23.0**	21.4
Financial assets	**25.1**	23.6
Prepayments	**12.1**	12.0
Rental and other deposits	**16.2**	16.6
Other	**0.1**	0.1
	53.5	52.3

No debtors and prepayments have been pledged as security.

15 Bank and cash balances

	2016 US$m	2015 US$m
Deposits with banks and financial institutions	**96.7**	208.9
Bank balances	**84.9**	98.7
Cash balances	**1.0**	1.0
	182.6	308.6
Analysis by currency		
– Euro	**12.2**	31.2
– Hong Kong dollar	**16.9**	18.2
– Indonesian rupiah	**13.8**	14.6
– Japanese yen	**16.7**	15.0
– Swiss franc	**3.1**	5.1
– United Kingdom sterling	**25.6**	24.3
– United States dollar	**89.0**	192.4
– Other	**5.3**	7.8
	182.6	308.6

The weighted average interest rate on deposits with banks and financial institutions is 0.9% (2015: 0.7%) per annum.

Notes to the Financial Statements *Continued*

16 Creditors and accruals

	2016 US$m	2015 US$m
Trade creditors	**32.9**	33.7
Accruals	**64.8**	60.4
Rental and other refundable deposits	**12.1**	13.0
Derivative financial instruments *(refer note 25)*	**0.6**	–
Other creditors	**24.3**	26.4
Financial liabilities	**134.7**	133.5
Rental income received in advance	**3.4**	2.3
Other income received in advance	**2.0**	2.8
	140.1	138.6
Analysis by currency		
– Euro	**16.6**	15.2
– Hong Kong dollar	**47.6**	50.5
– Japanese yen	**11.9**	11.9
– Swiss franc	**5.1**	6.2
– United Kingdom sterling	**8.6**	12.7
– United States dollar	**46.0**	37.0
– Other	**4.3**	5.1
	140.1	138.6

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

17 Borrowings

	2016 Carrying amount US$m	2016 Fair value US$m	2015 Carrying amount US$m	2015 Fair value US$m
Current				
– bank overdrafts	**0.1**	**0.1**	–	–
Current portion of long-term borrowings				
– bank loans	**0.6**	**0.6**	1.4	1.4
– other borrowings	**0.1**	**0.1**	2.8	2.8
– tax increment financing *(refer note 18)*	**1.7**	**1.7**	–	–
	2.4	**2.4**	4.2	4.2
Current borrowings	**2.5**	**2.5**	4.2	4.2
Long-term borrowings				
– bank loans	**473.3**	**473.3**	432.7	432.6
– other borrowings	**4.1**	**4.1**	1.8	1.8
– tax increment financing *(refer note 18)*	**–**	**–**	1.7	1.7
Long-term borrowings	**477.4**	**477.4**	436.2	436.1
	479.9	**479.9**	440.4	440.3

The fair values are estimated using the expected future payments discounted at market interest rate less than 0.1% (2015: 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.

17 Borrowings *continued*

	2016 US$m	2015 US$m
Secured	475.6	436.0
Unsecured	4.3	4.4
	479.9	440.4

Borrowings of US$475.6 million (2015: US$436.0 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets at 31st December 2016 was US$457.9 million (2015: US$499.2 million).

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

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	US$m	Floating rate borrowings US$m	Total US$m
2016					
Euro	2.0	0.4	0.6	–	0.6
Hong Kong dollar	2.5	1.5	119.3	305.0	424.3
Swiss franc	2.6	15.0	1.7	2.5	4.2
United Kingdom sterling	1.4	–	–	49.1	49.1
United States dollar	6.0	0.3	1.7	–	1.7
			123.3	356.6	479.9
2015					
Euro	2.0	1.4	2.0	–	2.0
Hong Kong dollar	2.5	2.5	119.3	253.5	372.8
Swiss franc	2.8	16.0	1.9	2.7	4.6
United Kingdom sterling	1.6	–	–	59.3	59.3
United States dollar	6.0	1.3	1.7	–	1.7
			124.9	315.5	440.4

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

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

	2016 US$m	2015 US$m
Within one year	413.8	315.5
Between one and two years	–	58.5
Between two and three years	64.4	–
Between three and four years	–	64.5
Between four and five years	–	–
Beyond five years	1.7	1.9
	479.9	440.4

Notes to the Financial Statements *Continued*

18 Tax increment financing

	2016 US$m	2015 US$m
Netted off against the net book value of the property *(refer note 9)*	**22.2**	23.0
Loan *(refer note 17)*	**1.7**	1.7
	23.9	24.7

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

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

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property. The loan of US$1.7 million (2015: US$1.7 million) is included in current (2015: long-term) borrowings.

19 Segment information

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

	2016 US$m	2015 US$m
Analysis by geographical area		
– Hong Kong	**380.8**	383.6
– Other Asia	**105.5**	105.0
– Europe	**810.3**	856.4
– The Americas	**263.6**	118.5
	1,560.2	1,463.5

20 Share capital

	Ordinary shares in millions			
	2016	2015	2016 US$m	2015 US$m
Authorized				
Shares of US¢5.00 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid				
At 1st January	**1,255.9**	1,003.7	**62.8**	50.2
Rights issue *(refer note 24e(i))*	**–**	250.9	**–**	12.5
Issued under share-based long-term incentive plans *(refer note 24e(ii))*	**–**	1.3	**–**	0.1
At 31st December	**1,255.9**	1,255.9	**62.8**	62.8

21 Share premium

	2016 US$m	2015 US$m
At 1st January	**490.3**	188.2
Rights issue *(refer note 24e(i))*	–	303.7
Share issue expenses *(refer note 24e(i))*	–	(3.6)
Issued under share-based long-term incentive plans *(refer note 24e(ii))*	–	1.3
Transfer from capital reserves	**0.1**	0.7
At 31st December	**490.4**	490.3

22 Share-based long-term incentive plans

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

i) The Mandarin Oriental Share-based Long-term Incentive Plan (the '2014 Plan') was adopted by the Company on 6th March 2014. During 2016, conditional awards of 1,976,000 (2015: 1,600,000) shares were awarded under the 2014 Plan. Under these awards, the free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. The fair value of the share awards granted during the year was US$2.2 million (2015: US$2.3 million). The inputs into the discounted cash flow valuation model were share price of US$1.30 (2015: US$1.63) per share at the grant date, dividend yield of 4.6% (2015: 4.4%), and annual risk-free interest rate of 1.2% (2015: 2.1%).

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2016	2015
At 1st January	**3.5**	1.9
Adjustments*	–	0.1
Granted	**2.0**	1.6
Cancelled	**(0.2)**	(0.1)
At 31st December	**5.3**	3.5

Outstanding conditional awards at 31st December:

	Ordinary shares in millions	
Awards vest date	**2016**	2015
2017	**1.8**	1.9
2018	**1.6**	1.6
2019	**1.9**	–
Total outstanding	**5.3**	3.5

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

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

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

Movements of the outstanding options during the year:

	2016 Weighted average exercise price US$	2016 Options in millions	2015 Weighted average exercise price US$	2015 Options in millions
At 1st January	1.61	32.5	1.69	32.4
Adjustments*	–	–	–	1.9
Exercised	1.20	(0.3)	1.21	(1.6)
Cancelled	1.82	(0.8)	1.70	(0.2)
At 31st December	1.61	31.4	1.61	32.5

The average share price during the year was US$1.36 (2015: US$1.63) per share.

Outstanding options at 31st December:

Expiry date	Exercise price* US$	Ordinary shares in millions 2016	Ordinary shares in millions 2015
2016	1.20	–	0.3
2017	1.77	3.6	3.7
2018	1.08-1.63	6.8	6.9
2019	0.66	1.2	1.2
2020	1.36	3.0	3.0
2021	1.99	4.3	4.8
2022	1.61	6.7	6.8
2023	1.57	5.8	5.8
Total outstanding		31.4	32.5
of which exercisable		31.4	27.4

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

23 Dividends

	2016 US$m	2015 US$m
Final dividend in respect of 2015 of US¢3.00 (2014: US¢5.00) per share	37.7	50.2
Interim dividend in respect of 2016 of US¢1.50 (2015: US¢2.00) per share	18.8	25.1
	56.5	75.3

A final dividend in respect of 2016 of US¢2.50 (2015: US¢3.00) per share amounting to a total of US$31.4 million (2015: US$37.7 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2017 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2017.

24 Notes to consolidated cash flow statement

a) Other non-cash items

	2016 US$m	2015 US$m
Share-based payment	2.2	2.4
Others	0.5	(0.2)
	2.7	2.2

b) Movements in working capital

	2016 US$m	2015 US$m
Increase in stocks	(0.2)	(0.3)
Increase in debtors and prepayments	(8.2)	(0.6)
Increase/(decrease) in creditors and accruals	4.6	(2.6)
Increase in pension obligations	–	1.9
	(3.8)	(1.6)

c) The Group provided shareholder loans to Hotel Ritz, Madrid of US$2.8 million in 2016 (2015: US$0.1 million).

d) The Group received repayment on its shareholder loan previously provided to Mandarin Oriental, Miami of US$0.9 million in 2016 (2015: US$0.6 million).

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

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

f) Analysis of balances of cash and cash equivalents

	2016 US$m	2015 US$m
Bank and cash balances *(refer note 15)*	182.6	308.6
Bank overdrafts *(refer note 17)*	(0.1)	–
	182.5	308.6

25 Derivative financial instruments

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

	2016		2015	
	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	–	0.6	–	3.0
At 31st December	–	0.6	–	3.0
Current *(refer note 16)*	–	0.6	–	–
Non-current	–	–	–	3.0
At 31st December	–	0.6	–	3.0

Notes to the Financial Statements *Continued*

25 Derivative financial instruments *continued*

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2016 were US$232.9 million (2015: US$243.1 million).

At 31st December 2016, the fixed interest rates relating to interest rate swaps and caps varied from 1.9% to 2.9% (2015: 1.9% to 2.9%) per annum.

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 0.7% to 1.9% (2015: 0.2% to 1.3%) per annum.

26 Acquisition of Mandarin Oriental, Boston

On 27th April 2016, the Group completed its US$140.0 million acquisition of Mandarin Oriental, Boston, a hotel that the Group has managed since its opening in 2008. The consideration of US$140.0 million represented the fair values of the tangible assets acquired at the acquisition date. There was no goodwill arising on acquisition.

27 Acquisition of Hotel Ritz, Madrid

In May 2015, the Group acquired a 50% interest in the Hotel Ritz, Madrid for €65 million (US$73.3 million) in a joint venture with The Olayan Group, with Mandarin Oriental managing the hotel under a long-term management agreement. The hotel is to undergo a comprehensive renovation in 2018 and 2019, currently estimated to cost a total of some €90 million, of which the Group's share will be €45 million (US$47 million).

28 Commitments

	2016 US$m	2015 US$m
Capital commitments		
Authorized not contracted		
– other	**134.4**	263.9
Contracted not provided		
– joint ventures	**36.6**	40.6
– other	**99.9**	16.9
	136.5	57.5
	270.9	321.4
Operating lease commitments		
Total commitments under operating leases		
– due within one year	**7.0**	5.9
– due between one and two years	**6.6**	5.7
– due between two and three years	**6.5**	5.5
– due between three and four years	**6.3**	5.5
– due between four and five years	**6.2**	5.5
– due beyond five years	**81.7**	82.0
	114.3	110.1

No future sublease payments are receivable relating to the above operating leases (2015: nil).

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

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

29 Related party transactions

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

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

During 2016, the Group managed six (2015: six) associate and joint venture hotels and received management fees of US$13.2 million (2015: US$13.2 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 2016 to JLT amounted to US$0.9 million (2015: US$0.8 million).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2016 amounted to US$2.1 million (2015: US$2.5 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US$0.3 million (2015: US$0.5 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group did not have any amount payable to JML as at 31st December 2016 (2015: nil).

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

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 84 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

30 Summarized balance sheet of the Company

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

	2016 US$m	2015 US$m
Subsidiaries	**949.3**	959.2
Net current liabilities	**(1.9)**	(3.1)
Net assets	**947.4**	956.1
Share capital *(refer note 20)*	**62.8**	62.8
Share premium *(refer note 21)*	**490.4**	490.3
Revenue and other reserves	**394.2**	403.0
Shareholders' funds	**947.4**	956.1

Subsidiaries are shown at cost less amount provided.

Principal Subsidiaries, Associates, Joint Ventures and Managed Hotels

at 31st December 2016

Principal place of business	Name of entity	Nature of business	Attributable interest % 2016	Attributable interest % 2015	Proportion of ordinary shares and voting powers at 31st December 2016 held by the Group %	Proportion of ordinary shares and voting powers at 31st December 2016 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
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	**100**	100	**100**	–	179 rooms. Lease expiry 2035
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta	**96.9**	96.9	**96.9**	**3.1**	272 rooms. Lease expiry 2023
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London	**100**	100	**100**	–	193 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva	**85.3**	85.3	**85.3**	**14.7**	189 rooms. Lease expiry 2040
Switzerland	Société pour l' Exploitation de Mandarin Oriental (Genèva) SA		**100**	100	**100**	–	–
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	**100**	100	**100**	–	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	**100**	100	**100**	–	138 rooms. Freehold
United States	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston	**100**	–	**100**	–	148 rooms. Freehold *(refer note 26)*
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	**80**	80	**80**	**20**	397 rooms. Freehold
Associates and joint ventures							
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	**50**	50	**50**	**50**	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	**47.6**	44.9	**47.6**	**52.4**	368 rooms. Various freehold/leasehold *(refer note 10)*
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	**25**	25	**25**	**75**	632 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	**49**	49	**49**	**51**	–
Spain	Ritz Madrid, S.A.	Owner: Hotel Ritz, Madrid	**50**	50	**50**	**50**	162 rooms. Freehold *(refer note 27)*
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	**25**	25	**25**	**75**	244 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	**25**	25	**25**	**75**	326 rooms. Freehold
Managed hotels							
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		–	–	–	–	109 rooms
Macau	Mandarin Oriental, Macau		–	–	–	–	213 rooms
China	Mandarin Oriental, Sanya		–	–	–	–	296 rooms
China	Mandarin Oriental, Guangzhou		–	–	–	–	263 rooms
China	Mandarin Oriental Pudong, Shanghai		–	–	–	–	362 rooms
Taiwan	Mandarin Oriental, Taipei		–	–	–	–	296 rooms
Czech Republic	Mandarin Oriental, Prague		–	–	–	–	99 rooms
Spain	Mandarin Oriental, Barcelona		–	–	–	–	120 rooms
Turkey	Mandarin Oriental, Bodrum		–	–	–	–	129 rooms
Italy	Mandarin Oriental, Milan		–	–	–	–	104 rooms
Morocco	Mandarin Oriental, Marrakech		–	–	–	–	63 rooms
United States	Mandarin Oriental, Las Vegas		–	–	–	–	392 rooms
United States	Mandarin Oriental, Atlanta		–	–	–	–	127 rooms

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the consolidated financial statements

Our opinion

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

- present fairly, in all material respects, the financial position of the Group as at 31st December 2016 and its financial performance and its cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') and the Companies Act 1981 (Bermuda).

What we have audited

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

- the Consolidated Balance Sheet as at 31st December 2016;
- the Consolidated Profit and Loss Account and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibilities Statement on page 81, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the Companies Act 1981 (Bermuda).

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

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

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

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
United Kingdom
2nd March 2017

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

	2012 US$m	2013 US$m	2014 US$m	2015 US$m	**2016 US$m**
Revenue	648.3	668.6	679.9	607.3	**597.4**
Operating profit	83.9	111.8	120.8	107.3	**68.0**
Net financing charges	(11.1)	(15.8)	(17.3)	(11.8)	**(10.8)**
Share of results of associates and joint ventures	15.5	20.6	12.3	10.5	**10.9**
Profit before tax	88.3	116.6	115.8	106.0	**68.1**
Tax	(17.3)	(19.8)	(19.0)	(16.6)	**(13.7)**
Profit after tax	71.0	96.8	96.8	89.4	**54.4**
Profit attributable to shareholders	70.7	96.3	97.0	89.3	**55.2**
Underlying profit attributable to shareholders	69.2	93.2	97.0	90.3	**57.3**
Earnings per share (US¢)*	6.80	9.23	9.29	7.44	**4.40**
Underlying earnings per share (US¢)*	6.66	8.93	9.29	7.53	**4.56**
Dividends per share (US¢)	7.00	7.00	7.00	5.00	**4.00**

Consolidated Balance Sheet

	2012 US$m	2013 US$m	2014 US$m	2015 US$m	**2016 US$m**
Intangible assets	42.1	42.6	45.6	44.1	**44.3**
Tangible assets	1,055.5	1,440.5	1,315.1	1,255.0	**1,352.1**
Associates and joint ventures	108.6	110.8	101.6	164.4	**163.8**
Other investments	7.2	9.3	10.5	10.2	**10.7**
Loans receivable	–	–	–	–	**–**
Pension assets	11.2	14.4	7.3	–	**–**
Deferred tax assets	4.7	3.1	2.2	2.8	**2.6**
Net current assets/(liabilities)	382.8	(317.7)	55.1	254.2	**136.6**
Long-term borrowings	(580.5)	(238.7)	(510.7)	(436.2)	**(477.4)**
Deferred tax liabilities	(64.3)	(65.5)	(62.3)	(59.8)	**(56.1)**
Pension liabilities	(0.6)	(0.6)	–	–	**(3.2)**
Other non-current liabilities	(15.5)	(3.5)	(3.0)	(3.0)	**–**
Net assets	951.2	994.7	961.4	1,231.7	**1,173.4**
Share capital	50.0	50.2	50.2	62.8	**62.8**
Share premium	182.1	186.6	188.2	490.3	**490.4**
Revenue and other reserves	713.8	752.2	718.0	673.6	**616.2**
Shareholders' funds	945.9	989.0	956.4	1,226.7	**1,169.4**
Non-controlling interests	5.3	5.7	5.0	5.0	**4.0**
Total equity	951.2	994.7	961.4	1,231.7	**1,173.4**
Net asset value per share (US$)*	0.91	0.95	0.92	0.98	**0.93**

Consolidated Cash Flow Statement

	2012 US$m	2013 US$m	2014 US$m	2015 US$m	**2016 US$m**
Cash flows from operating activities	126.0	156.9	159.5	140.2	**107.7**
Cash flows from investing activities	(87.0)	(422.3)	(45.6)	(124.4)	**(222.8)**
Net cash flow before financing activities	39.0	(265.4)	113.9	15.8	**(115.1)**
Cash flow per share from operating activities (US¢)*	12.11	15.04	15.27	11.69	**8.58**

*The comparative figures from 2012 to 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 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
Stuart Dickie
Directors
2nd March 2017

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

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

The Management of the Group

The Company has its dedicated executive management under the Group Chief Executive. The Memorandum of Association of the Company, however, provides for the chairman of Jardine Matheson to be, or to appoint, the Managing Director of the Company. Reflecting this, and the Jardine Matheson group's 77% interest in the Company's share capital, the Group Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Mandarin Oriental Hotel Group International Limited ('MOHG'), and its finance committee are chaired by the Managing Director and include Group executives as well as Jardine Matheson's deputy managing director, group finance director, group strategy director and group general counsel.

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

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

The Board

The Company currently has a Board of 18 Directors. Their names and brief biographies appear on pages 22 and 23 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 2017 and ad hoc procedures are adopted to deal with urgent matters. In 2016 one meeting was held in Bermuda and three were held in Asia. The Board receives high quality, up to date information for each of its meetings. In addition, certain Directors of the Company who do not serve on the board of MOHG and who are based outside Asia regularly visit Asia and Bermuda to discuss the Group's business, as well as to participate in the four strategic reviews that precede the regular Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs reinforces the process by which business is reviewed before consideration at Board meetings.

Directors' appointment, retirement, remuneration and service contracts

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

Each new Director is appointed by the Board and, in accordance with the Company's Bye-laws, each new Director so appointed is subject to retirement at the first annual general meeting after appointment. Thereafter, Directors are subject to retirement by rotation under the Bye-laws whereby one-third of the Directors retire at the annual general meeting each year. These provisions apply to both executive and non-executive Directors, but the requirement to retire by rotation does not extend to the Chairman or Managing Director.

On 31st March 2016 Edouard Ettedgui stepped down as Group Chief Executive and James Riley joined the Board in his place on 1st April 2016. Edouard Ettedgui remains as a non-executive Director. Y.K. Pang joined the Board on 1st August 2016.

Corporate Governance *Continued*

In accordance with Bye-law 85, Mark Greenberg, Julian Hui, Simon Keswick, Dr Richard Lee and James Watkins retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Y.K. Pang will also retire and, being eligible, offers himself for re-election. None of the Directors proposed for re-election has a service contract with the Company or its subsidiaries.

Lord Leach of Fairford, who had been a Director of the Company since 1987, passed away on 12th June 2016.

The Company's policy is to offer competitive remuneration packages to its senior executives. It is recognized that, due to the nature of the Group and its diverse geographic base, a number of its senior executives are required to be offered international terms and the nature of the remuneration packages is designed to reflect this. Executive Directors joining from outside the Group may be offered an initial fixed-term service contract to reflect any requirement for them to relocate.

Recommendations and decisions on remuneration and other benefits payable or made available to executive Directors result from consultations between the Chairman and other Directors as he considers appropriate. Directors' fees, which are payable to all Directors other than the Group Chief Executive and the Chief Financial Officer, are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws. A motion to increase the Directors' fees to US$50,000 each per annum and the fee for the Chairman and Managing Director to US$60,000 per annum with effect from 1st January 2017 will be proposed at the forthcoming Annual General Meeting.

For the year ended 31st December 2016, the Directors received from the Group US$8.2 million (2015: US$7.3 million) in Directors' fees and employee benefits, being US$0.7 million (2015: US$0.7 million) in Directors' fees, US$6.9 million (2015: US$5.9 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.2 million (2015: US$0.2 million) in post-employment benefits and US$0.4 million (2015: US$0.5 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, 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 organizational structure with defined lines of responsibility and delegation of authority. There are established policies and procedures for financial planning and budgeting; for information and reporting systems; for assessment of risk; and for monitoring the Group's operations and performance. The information systems in place are designed to ensure that the financial information reported is reliable and up to date.

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

The Audit Committee has also been given the responsibility to oversee the effectiveness of the formal procedures for employees to raise any matters of serious concern, and is required to review any reports made under those procedures that are referred to it by the internal audit function.

The principal risks and uncertainties facing the Company are set out on pages 89 and 90.

Directors' responsibilities in respect of the financial statements

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

Code of Conduct

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

Directors' share interests

The Directors of the Company in office on 2nd March 2017 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
Stuart Dickie	341,083
Edouard Ettedgui	13,507,229
Julian Hui	10,294
Lincoln K.K. Leong	129,756

In addition, Edouard Ettedgui held share options in respect of 8,693,974 ordinary shares, and Stuart Dickie held share options in respect of 2,385,540 ordinary shares and share awards in respect of 734,156 ordinary shares, issued pursuant to the Company's share-based long-term incentive plans.

Substantial shareholders

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

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic Holdings Limited ('Jardine Strategic'), which is directly interested in 972,087,226 ordinary shares carrying 77.37% 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 2nd March 2017.

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 29 to the financial statements on page 75.

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 2017 Annual General Meeting will be held at Rosewood Tucker's Point, Bermuda on 3rd May 2017. 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 85 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 Risk Management section in the Financial Statements on pages 38 to 43.

Commercial and market risk

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

The Group operates within the global hotel industry which is highly competitive. Failure to compete effectively in terms of quality of product, levels of service or price can have an adverse effect on earnings. Significant 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 breaches, 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 Group's business is subject to a number of regulatory environments in the territories in which it operates. Changes in the regulatory approach to such matters as employment legislation, tax rules, foreign ownership of assets, planning controls and exchange controls have the potential to impact the operations and profitability of the Group's business. Changes in the political environment, including prolonged civil unrest, could also affect the Group's business.

Shareholder Information

Financial calendar

2016 full-year results announced	2nd March 2017
Shares quoted ex-dividend on the Singapore Exchange	15th March 2017
Shares quoted ex-dividend on the London Stock Exchange	16th March 2017
Share registers closed	20th to 24th March 2017
Annual General Meeting to be held	3rd May 2017
2016 final dividend payable	11th May 2017
2017 half-year results to be announced	3rd August 2017*
Shares quoted ex-dividend on the Singapore Exchange	23rd August 2017*
Shares quoted ex-dividend on the London Stock Exchange	24th August 2017*
Share registers to be closed	28th August to 1st September 2017*
2017 interim dividend payable	19th October 2017*

* Subject to change

Dividends

Shareholders will receive their cash dividends in United States dollars, unless they are registered on the Jersey branch register where they will have the option to elect for sterling. These shareholders may make new currency elections for the 2016 final dividend by notifying the United Kingdom transfer agent in writing by 21st April 2017. The sterling equivalent of dividends declared in United States dollars will be calculated by reference to a rate prevailing on 26th April 2017. 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

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

Singapore Branch Registrar

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

United Kingdom Transfer Agent

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

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

Mandarin Oriental Hotel Group Contact Addresses

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

Asia-Pacific

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

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

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

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

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

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

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

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

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

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

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

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

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

Europe, Middle East & North Africa

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

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

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

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

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

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

Mandarin Oriental Hotel Group Contact Addresses *Continued*

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

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

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

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

The Americas

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

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

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

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

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

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

Sales and Reservations Offices

Mandarin Oriental Hotel Group

Sales Offices

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

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

Singapore
5 Raffles Avenue
Marina Square, Singapore 039797
Telephone +65 6335 1800

Dubai
PO Box 500717, Office No. 5
Floor No. 7, Al Thuraya Tower No. 2
Dubai Media City, Dubai
United Arab Emirates
Telephone +971(4) 428 0721

France
21 rue Cambon, 75001 Paris, France
Telephone +33(1) 7098 7053

Germany
8th floor, Dreieichstrasse 59
60594 Frankfurt, Germany
Telephone +49(69) 610 631

United Kingdom
Kings Court, 2-16 Goodge Street
London W1T 2QA
United Kingdom
Telephone +44(0) 20 7908 7817

United States
900 North Kingsbury #1131
Chicago, IL 60610, USA
Telephone +1(312) 661 1887

1625 S Federal Highway, Suite 406
Fort Lauderdale, FL 33062, USA
Telephone +1(954) 941 6151

3249 Breckenridge Way
Riva, MD 21140, USA
Telephone +1(410) 956 2842

315 South Beverly Drive, Suite 215
Beverly Hill, CA 90212, USA
Telephone +1(424) 354 1714

250 West 57th Street, Suite 1917
New York, NY 10107, USA
Telephone +1(212) 207 8880

Representative Offices

China
Room 529, China World Office 1
No. 1 Jian Guo Men Wai Avenue
Chaoyang District
Beijing 100004, China
Telephone +86(10) 6505 2806

Chengdu Square One Centre
Office 1109, 11/F, Square One
No. 18 Dongyu Street
Jinjiang District
Chengdu 610016, China
Telephone +86(28) 6466 3823

389 Tianhe Road, Tianhe District
Guangzhou 510620, China
Telephone +86(20) 3808 8733

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

Sales and Reservations Offices *Continued*

Reservations Offices

Asia-Pacific

Australia
Tollfree 1 800 123 693

China
Tollfree 4001 205 314

Hong Kong
Tollfree 800 961 632

Indonesia
Tollfree 001 803 65 6520

Japan
Tollfree 00531 650 487
Tollfree 0120 663 230

Malaysia
Tollfree 00 800 2828 3838

New Zealand
Tollfree 00 800 2828 3838

Singapore
Telephone +65 6222 4722

Taiwan
Tollfree 00 800 2828 3838

Europe & Middle East

Austria
Tollfree 00 800 2828 3838

Bahrain
Tollfree 800 00 403

Belgium
Tollfree 00 800 2828 3838

France
Tollfree 00 800 2828 3838

Germany
Tollfree 00 800 2828 3838

Italy
Tollfree 00 800 2828 3838

Netherlands
Tollfree 00 800 2828 3838

Saudi Arabia
Tollfree 800 865 6043

Spain
Tollfree 00 800 2828 3838

Switzerland
Tollfree 00 800 2828 3838

United Arab Emirates
Tollfree 800 065 0539

United Kingdom
Tollfree 00 800 2828 3838

For other European countries
Telephone +1(817) 567 9774

United States, Canada & Central America

Mexico
Tollfree 001 800 526 6566

USA / Canada
Tollfree 1 800 526 6566

South America

Argentina
Tollfree 0800 444 2659

Brazil
Tollfree 0800 891 3578

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THE HOTEL GROUP

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