



MANDARIN ORIENTAL
INTERNATIONAL LIMITED

Annual Report 2017

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 31 hotels and eight residences in 21 countries and territories, with each property reflecting the Group's oriental heritage and unique sense of place. Mandarin Oriental has a strong pipeline of hotels and residences under development. The Group has equity interests in a number of its properties and adjusted net assets worth approximately US\$5.7 billion as at 31st December 2017.

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

- Underlying profit slightly lower due to renovation of London property
- Strategic review of The Excelsior, Hong Kong ongoing
- Nine new management contracts signed
- Restoration of Hotel Ritz, Madrid commenced

Results

	Year ended 31st December		Change %
	2017 US\$m	2016 US\$m	
Combined total revenue of hotels under management ¹	1,380.4	1,323.7	4
Underlying EBITDA (Earnings before interest, tax, depreciation and amortization) ²	157.9	158.2	–
Underlying profit attributable to shareholders ³	54.9	57.3	(4)
Profit attributable to shareholders	54.9	55.2	(1)
	US¢	US¢	%
Underlying earnings per share ³	4.37	4.56	(4)
Earnings per share	4.37	4.40	(1)
Dividends per share	3.00	4.00	(25)
	US\$	US\$	%
Net asset value per share	1.01	0.93	9
Adjusted net asset value per share ⁴	4.57	3.10	47
Net debt/shareholders' funds	26%	25%	
Net debt/adjusted shareholders' funds ⁴	6%	8%	

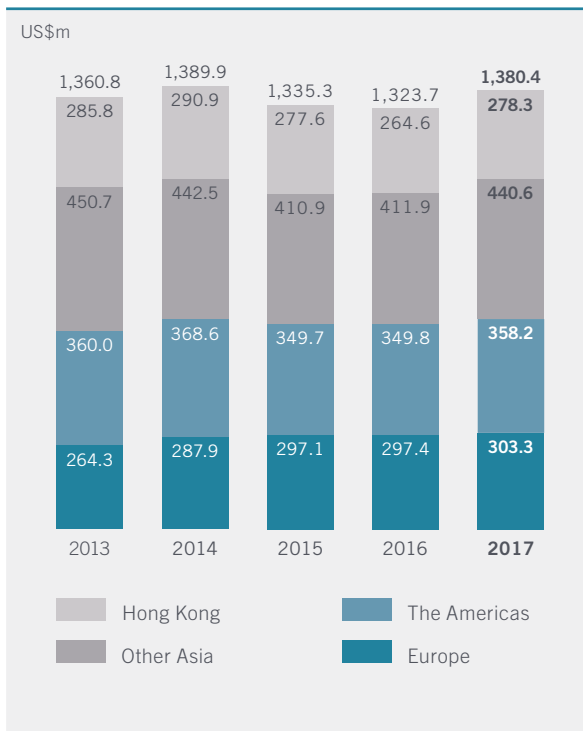
¹ Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate, joint venture and managed hotels.

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

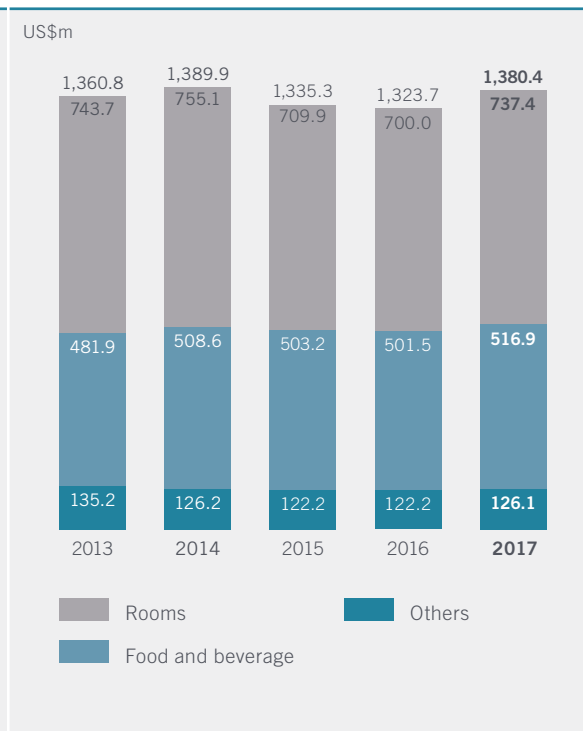
³ The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 7 to the financial statements. Management considers this to be a key measure which provides additional information to enhance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

⁴ The 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.

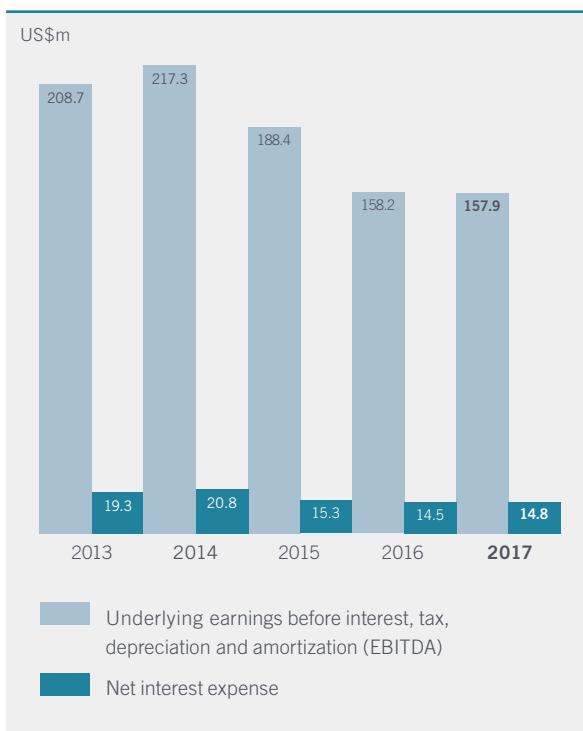
Combined total revenue by geographical area



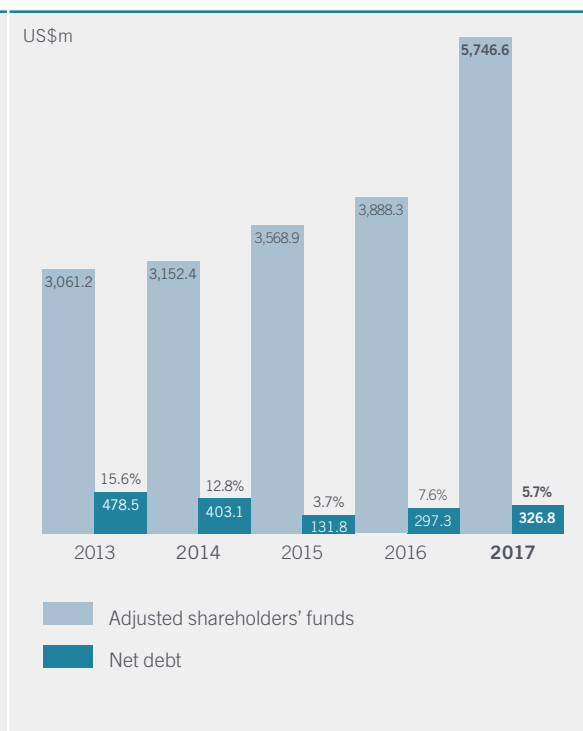
Combined total revenue by type of business



Underlying EBITDA and net interest expense



Net debt/adjusted shareholders' funds



Chairman's Statement

Overview

Underlying profit was slightly lower than the prior year primarily due to the impact of the renovation of the London property. The combined results of the Group's other hotels improved in 2017.

The Group is continuing to review strategic options for The Excelsior, Hong Kong, including the possible redevelopment of the site into a commercial building.

Performance

Underlying earnings before interest, tax, depreciation and amortization were in line with the prior year at US\$158 million, despite the adverse impact of the London renovation. Underlying profit declined from US\$57 million in 2016 to US\$55 million in 2017. Underlying earnings per share were US¢4.37 compared with US¢4.56 in 2016. With no non-trading items during the year, profit attributable to shareholders was also US\$55 million, unchanged from 2016.

Following an independent valuation of the Group's owned properties, the net asset value per share was US\$4.57 at 31st December 2017, compared with US\$3.10 per share at the end of 2016. This increase mainly reflects the higher valuation of The Excelsior, Hong Kong.

In light of the ongoing programme of renovations, the Directors recommend a reduced final dividend of US¢1.50 per share. This, together with the interim dividend of US¢1.50 per share, will make a total annual dividend of US¢3.00 per share, compared to US¢4.00 per share in 2016.

At 31st December 2017, the Group's net debt was US\$327 million, compared to US\$297 million at the end of 2016. Gearing as a percentage of adjusted shareholders' funds at 31st December 2017, after taking into account the market value of the Group's property interests, was 6% compared to 8% at the end of 2016.

Group review

Despite a generally improved performance across the portfolio, notably in Hong Kong, underlying profit was slightly lower, mainly due to the impact of the renovation in London.

The renovation of Mandarin Oriental Hyde Park, London remains on schedule. The first phase was completed in September 2017, and the second phase is expected to complete in the second quarter of 2018.

Hotel Ritz, Madrid closed at the end of February 2018 to commence a €99 million restoration, of which the Group will fund its half share. The renovation will be extensive, covering all guestrooms and public areas, and will include the restoration of many interior architectural features. The hotel is expected to reopen towards the end of 2019.

Strategic review of The Excelsior, Hong Kong

In June 2017, the Group announced that consideration was being given to its strategic options for The Excelsior, Hong Kong. A subsequent review of market interest in a potential sale did not give rise to any acceptable offers. The Group is still considering all options for the site, including possible redevelopment as a commercial property, although no decision has yet been made.

New developments

Seven new management contracts were signed and announced in 2017. Mandarin Oriental hotels, each with branded residences, are scheduled to open in Dubai and Honolulu in 2020, in a second location in London in 2021 and in Melbourne in 2022. A new hotel project in Beijing, which will feature 72 guestrooms located in a traditional hutong quarter, is expected to open in 2019. The Group also took over the management of two existing hotels during the year, in Santiago, Chile and on Canouan in Saint Vincent and the Grenadines. In time both will be rebranded as Mandarin Oriental properties.

In the first two months of 2018, the Group announced two further projects. In Barcelona, it will brand and manage 34 *Residences*, in an existing property close to Mandarin Oriental, Barcelona, opening in 2020. In Viña del Mar, a coastal resort in Chile, the Group will manage a 195-room hotel, also due to open in 2020.

In the next 12 months, the Group expects to open its first hotels in the Middle East, in Doha and Jumeirah Beach, Dubai, as well as Mandarin Oriental Wangfujing in Beijing.

People

On behalf of the Directors, I would like to acknowledge the contribution of all colleagues throughout the Group for continuing to facilitate the exceptional experiences we provide to our guests.

Dr Richard Lee and Lord Powell will step down from the Board at the forthcoming Annual General Meeting and will not seek re-election. We would like to thank them for their contributions to the Company. We are very pleased that Jack Chen, a senior executive of Taikang Insurance Group, Inc., has been invited to join the Board with effect from 9th May 2018.

Outlook

In 2018, profit will be impacted by the final stages of the renovation of Mandarin Oriental Hyde Park, London as well as the commencement of the renovation of Hotel Ritz, Madrid. In the longer term, however, Mandarin Oriental will benefit from these investments as well as the strength of its brand and the opening of new hotels under development.

Ben Keswick

Chairman

8th March 2018

Group Chief Executive's Review

2017 has been a busy year and a considerable amount has been achieved. The Group's hotels generally performed well with Revenue Per Available Room ('RevPAR') increasing by 5% in US dollar terms on a like-for-like basis¹. Underlying EBITDA² also held firm despite the adverse impact from the renovation of our London property. Progress on this renovation, alongside receiving approval from the city authorities for the restoration of Hotel Ritz in Madrid, have been highlights. The Group also embarked on a strategic review of The Excelsior hotel in Hong Kong, which is continuing. Moreover, seven new development properties were announced during the year.

The demand for luxury travel continues to grow strongly, which is encouraging. However, the luxury hotel landscape is evolving at a rapid pace, as global high net worth travellers increasingly look for unique experiences, while competition becomes more intense and diverse. New players are emerging in various forms, whether that be additional luxury brand operators producing new offerings, or disruptors seeking to enter the luxury hospitality space with alternative accommodation facilities. Technology is also increasingly playing its part in the variety of services and facilities on offer to guests and in the way in which brands engage and interact with their customers.

Strategy

Against this volatile background, Mandarin Oriental's vision – to be recognized as the world's best luxury hotel group – keeps us focused on what we do best and positions the Group for growth within the evolving market environment. Having grown from our Asian roots into a global brand, we currently operate 31 hotels and eight residences in 21 countries and territories. The Group holds equity interests in many of its hotels and also manages hotels on behalf of third party owners. As the Group expands, its management business is likely to account for an increasing proportion of the Mandarin Oriental portfolio.

Nonetheless, owned assets remain at the heart of the Group's portfolio and if we are to sustain our market position it is crucial that we invest appropriately in these owned properties. Mandarin Oriental's strong balance sheet makes it well placed to do this, while providing the means to consider selective investment opportunities in strategic destinations that have long-term asset growth potential.

Historically, the Group has been highly dependent upon corporate business with many of its properties being located at the heart of business districts. However, leisure travel is an increasingly important segment for us and we must adapt to offer a broader range of luxury leisure experiences, as well as business ones. At the same time, we will need to build further our reputation as an operator of resort properties.

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

¹ The like-for-like comparison includes all hotels that were operational for the entire year of both 2016 and 2017. As Mandarin Oriental Hyde Park, London was only partially closed as a result of the renovation during the period, the hotel is included in the like-for-like comparison. All references to RevPAR are in US dollar terms, unless stated otherwise.

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

The Group remains focused on ensuring that its hotels are positioned amongst the leaders in their individual markets. We continue to invest in the core brand attributes of exceptional design and architecture, restaurant and bar concepts, spa and wellness facilities, all of which are underpinned by intuitive personalized service. We stay alert to new trends and opportunities, ensuring the brand remains relevant to today's multi-generational audience. Recent new concepts include the opening of *The Aviary NYC* at Mandarin Oriental, New York and *PDT Hong Kong* at The Landmark Mandarin Oriental.

The Group's global recognition continues to be reflected in numerous awards from respected associations, and in 2018, Group restaurant outlets were awarded 21 *Michelin* stars across the portfolio, more than any other hotel brand in the world.

2017 Performance

Underlying EBITDA of US\$158 million were in line with the prior year, despite the disruption of the London renovation throughout 2017. Underlying profit was US\$55 million in 2017, compared to US\$57 million in 2016.

In **Asia**, RevPAR was up 8% overall in 2017 on a like-for-like basis as demand trends improved generally across the region. Several properties delivered double-digit RevPAR growth and an improved performance from the Group's wholly-owned Hong Kong hotels was particularly notable.

Mandarin Oriental, Hong Kong achieved a 6% increase in RevPAR over the previous year. The hotel experienced improved leisure demand, while corporate demand was broadly stable, which helped the hotel to maintain its overall competitive position in the market. Its wide range of restaurants and bars attracted more hotel guests and the local community, with food and beverage revenues up 5% over the previous year.

The Excelsior, Hong Kong also benefited from improved city-wide demand, with increased occupancy leading to a 7% uplift in RevPAR. The Group continues to review a variety of strategic options for the site, including possible redevelopment as a commercial property, and a further announcement will be made once a decision is reached.

Mandarin Oriental, Bangkok benefited from improved visitor arrivals to the city in 2017, which led to an increase in RevPAR of 8% in local currency terms, or 14% in US dollar terms, as a result of a stronger baht. The 2016 renovation of the Garden Wing was also a positive factor in the property's overall performance.

Mandarin Oriental, Jakarta had another difficult year with RevPAR down 16%. Increased competition, together with very weak corporate demand, put pressure on average rates and occupancy levels.

In **Europe**, while the renovation of the London property negatively impacted the Group's overall results, improved performances across the rest of the region led to a RevPAR increase of 4% on a like-for-like basis.

Mandarin Oriental Hyde Park, London's performance was affected by the phased renovation and by ongoing security concerns in the city. Consequently, RevPAR was down 37%. The first phase of the renovation was completed in September 2017, and the new Knightsbridge wing rooms have been well received. The second phase, involving the Hyde Park wing, is now underway. When complete in the second quarter of 2018, the hotel will be in a strong position to reassert its claim to be the leader in luxury hospitality in the city.

Group Chief Executive's Review *Continued*

Mandarin Oriental, Munich and Mandarin Oriental, Geneva delivered strong performances, with RevPAR up 12% and 10% respectively. Both hotels reinforced their market-leading positions in their individual markets.

Hotel Ritz, Madrid closed at the end of February 2018 for the start of a long-awaited restoration, which will involve the careful renovation of the hotel's many fine interior architectural features and the significant upgrade of its facilities and services, while maintaining its unique character. The hotel is expected to reopen in late 2019.

In **The Americas**, overall trading conditions were broadly in line with the prior year with RevPAR for the region up 1% on a like-for-like basis. Notably, Mandarin Oriental, Washington D.C. benefited from the Presidential Inauguration and stronger city-wide demand, which led to RevPAR growth of 19%. Mandarin Oriental, New York had a weaker year in 2017 with RevPAR down 6%, primarily due to lower leisure demand, although the hotel was able to maintain its competitive position in the market.

Development

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

Additional resources have been added to the Group's development effort with a view to building a stronger pipeline of new openings over the coming years. While the Group has achieved a global reach, its strong reputation belies the modest size of its current hotel portfolio. This gives us a large and wide-ranging number of possible locations in which new properties can be considered. During the course of 2017, this was exemplified by the announcement of seven new management contracts as follows:

A new 125-room hotel and 107 branded residences in Honolulu on the Hawaiian island of Oahu, and a second property in Dubai, comprising 259 rooms and 158 branded residences. Both projects are scheduled to open in 2020.

A new 197-room hotel and 146 branded residences in Melbourne, Australia, due to open in 2022, will mark the Group's first entry into Australia.

A second, luxury hotel project in Beijing comprising 72 rooms located within the Qianmen East Hutong Quarter, close to Tiananmen Square. The hotel, which is due to open in 2019, will provide guests with a rare opportunity to experience luxury living in traditional and authentic Beijing surroundings.

A second London property on Hanover Square in the heart of London's Mayfair district, with 50 rooms and 80 branded residences. Mandarin Oriental Mayfair is expected to open in 2021.

Also during the year, the Group took over the management of two operating hotels. One is located in the city centre of Santiago, Chile, and the other is a luxury resort on Canouan in Saint Vincent and the Grenadines. Both projects will be rebranded as Mandarin Oriental properties in due course, thereby introducing the brand to two new important markets.

Since the start of 2018, the Group has announced a new management agreement for a 195-room beach front resort in Viña del Mar in Chile. Most recently, the Group announced an agreement to brand and manage 34 *Residences by Mandarin Oriental*, close to Mandarin Oriental, Barcelona. Both projects are due to open in 2020.

In the next 12 months, the Group expects to open its first hotels in the Middle East, in Doha and Dubai, as well as Mandarin Oriental Wangfujing in Beijing.

Structure

To date the Group has been organized in geographic segments with senior executives holding management responsibility for Asia, Europe and The Americas. With effect from 1st January 2018 a Chief Operating Officer has been appointed with all operating hotels reporting to him either directly or indirectly. This will help to ensure that consistent operating standards are maintained across our global portfolio as we grow. A Chief Relationship Officer has also been appointed to manage many of the Group's key owner relationships as well as to oversee the development of new properties in the period prior to their ramp up for opening by an operating team.

Culture

At the heart of Mandarin Oriental's reputation as a luxury hotel group is its culture, derived from its oriental heritage and an unwavering focus on exceptional service that delivers personal experiences and moments of delight. I would like to personally thank our 12,000 colleagues for their dedication, commitment and loyalty in providing this exemplary service and to ensuring the smooth operation of our properties around the world. Sustaining and building upon the strong culture and professionalism of our colleagues is key to our present and future success. As we grow, so too does the challenge of sustaining this culture and point of differentiation, but I am confident that our colleagues will continue to rise to the task.

Outlook

In 2018, the Group will focus on building its development pipeline in both existing and new markets. At the same time, the continued investment behind our core attributes as well as new, innovative concepts and services will ensure that the Mandarin Oriental brand remains relevant to today's multi-generational audience. Earnings will be held back by the final months of the renovation of Mandarin Oriental Hyde Park, London as well as the commencement of the restoration of Hotel Ritz, Madrid. Looking forward however, the Group's results will benefit from enhanced contributions from these renovated flagship properties and from the growing pipeline of new hotels and residences as they open.

James Riley

Group Chief Executive

8th March 2018

Operating Summary

Total portfolio RevPAR

US dollar

	2017 US\$	2016 US\$	% Change
Asia	192	177	8
Europe	419	402	4
The Americas	331	328	1
Total	257	244	5

Constant currency

	2017 US\$	2016 US\$	% Change
Asia	192	177	8
Europe	419	402	4
The Americas	331	328	1
Total	257	244	5

The like-for-like RevPAR presented in the table above includes all hotels that were operational for the entire year of both 2016 and 2017. As Mandarin Oriental Hyde Park, London was only partially closed as a result of the renovation during the period, the hotel is included in the like-for-like comparison.

Group's subsidiary hotels RevPAR

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2017	2016	% Change
Available rooms	501	501	0
Average occupancy (%)	70.8	62.3	14
Average room rate (US\$)	476	509	(7)
RevPAR (US\$)	337	317	6

Mandarin Oriental, Tokyo 100% leasehold

	2017	2016	% Change
Available rooms	179	179	0
Average occupancy (%)	80.3	79.4	1
Average room rate (US\$)	585	578	1
RevPAR (US\$)	469	459	2

The Excelsior, Hong Kong 100% ownership

	2017	2016	% Change
Available rooms	869	869	0
Average occupancy (%)	79.1	74.5	6
Average room rate (US\$)	197	196	0
RevPAR (US\$)	156	146	7

Mandarin Oriental, Jakarta 96.9% ownership

	2017	2016	% Change
Available rooms	272	272	0
Average occupancy (%)	43.4	45.2	(4)
Average room rate (US\$)	152	175	(13)
RevPAR (US\$)	66	79	(16)

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2017	2016	% Change
Available rooms	181	193	(6)
Average occupancy (%)	36.3	64.4	(44)
Average room rate (US\$)	847	760	11
RevPAR (US\$)	307	490	(37)

* Mandarin Oriental Hyde Park, London was partially closed for renovation from September 2016.

Mandarin Oriental, Munich 100% ownership

	2017	2016	% Change
Available rooms	73	73	0
Average occupancy (%)	76.1	67.4	13
Average room rate (US\$)	877	878	0
RevPAR (US\$)	667	593	12

Mandarin Oriental, Paris 100% ownership

	2017	2016	% Change
Available rooms	138	138	0
Average occupancy (%)	50.0	51.5	(3)
Average room rate (US\$)	1,021	956	7
RevPAR (US\$)	511	493	4

Mandarin Oriental, Geneva 92.6% ownership

	2017	2016	% Change
Available rooms	189	189	0
Average occupancy (%)	63.9	58.1	10
Average room rate (US\$)	634	632	0
RevPAR (US\$)	405	367	10

THE AMERICAS

Mandarin Oriental, Boston 100% ownership

	2017	2016	% Change
Available rooms	148	148	0
Average occupancy (%)	70.4	67.6	4
Average room rate (US\$)	602	593	2
RevPAR (US\$)	424	401	6

Mandarin Oriental, Washington D.C. 83.6% ownership

	2017	2016	% Change
Available rooms	373	373	0
Average occupancy (%)	64.9	60.0	8
Average room rate (US\$)	352	320	10
RevPAR (US\$)	229	192	19

* Comparatives for 2016 have been restated based on 373 available rooms to conform with the current year's presentation.

Development Portfolio

The following 15 hotels and 9 *Residences at Mandarin Oriental* are expected to open in the next five years.

Asia

Mandarin Oriental, Bali

An 88-room resort and 89 *Residences at Mandarin Oriental* located on Bali's southern Bukit peninsula. Perched on a cliffside plateau, the resort will offer dramatic views with direct access to a secluded and protected white-sand beach.

The Residences at Mandarin Oriental, Bangkok

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

Mandarin Oriental Qianmen, Beijing

72 courtyard suites located in a traditional hutong quarter, providing a rare opportunity to experience living in an authentic Beijing residential district, close to Tiananmen Square.

Mandarin Oriental Wangfujing, Beijing

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

Mandarin Oriental, 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, Melbourne

A 197-room hotel and 146 *Residences at Mandarin Oriental* located on Collins Street in the heart of the city's 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 & Africa

The Residences by Mandarin Oriental, Barcelona

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

Mandarin Oriental, 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, Sheikh Zayed Road

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

Mandarin Oriental Jumeira, 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

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

Mandarin Oriental Mayfair, London

A 50-room boutique hotel and 80 *Residences at Mandarin Oriental* located on Hanover Square in the heart of London's Mayfair district.

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.

Mandarin Oriental, Viña del Mar

A 195-room luxury urban resort located on Chile's Pacific coast, with an oceanfront position and direct beach access.

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

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

International Brand Recognition

The recognition of Mandarin Oriental as one of the world's best luxury hotel groups continued to be reflected in the awards received from respected travel associations and publications worldwide. Highlights in 2017 include the Group being ranked in the 'Top Five Best Luxury Hotel Brands' in the *USA Today* 'Readers' Choice Awards'. *Condé Nast Traveller*, UK 'Readers' Travel Awards' voted Mandarin Oriental, Bangkok as the 'World's Best Hotel', and Mandarin Oriental Hyde Park, London as the UK's 'Best Business Hotel'. *Condé Nast Traveler*, US 'Readers' Choice Awards' features 13 Mandarin Oriental hotels with Mandarin Oriental, Bangkok highlighted once again as 'Best Hotel' in the city, while *Travel + Leisure* 'World's Best Hotels' featured seven properties in 2017, with three hotels ranked within the top five in their respective destinations. In the recently released 2018 'Gold List', *Condé Nast Traveller*, UK nominated Mandarin Oriental, Tokyo as the 'Best City Hotel'.

In the 2018 *Michelin* guides, a total of 14 restaurants were honoured, with 21 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.

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

This grande dame remains Bangkok's destination hotel: the facilities are second to none – riverside restaurants, outdoor pools, award-winning spa and the historic Author's Wing, where pinkies are raised over afternoon tea and champagne glasses clink at evening soirees.

National Geographic Traveller

The grand Royal Suite is fit for a king, while 12 new suites have been added to the adjacent Garden Wing. They are fresh, elegant, comfortable; a beautiful mash-up of exotic wood and pale silks. And the staff, some of whom have been with the hotel for over 50 years, are faultless: they will greet you and treat you like a long-lost family member, only with far better manners.

Tatler

Mandarin Oriental, Hong Kong

Returning here after 20 years confirms it is one of my favourite places on the planet. Refurbished, re-energised, but still an enduring symbol of what Hong Kong endeavours to be, it remains a unique blend of Chinese and British style.

High Life (British Airways)

The Landmark Mandarin Oriental, Hong Kong

Compared to the soaring towers housing the most famous Hong Kong hotels, the Mandarin sibling The Landmark Mandarin Oriental has always seemed like a secret. Sophisticated, intimate, elegant and quiet, it's a hideaway in a noisy, fast paced place. With the opening of the Entertainment Suite, the refuge element has gone even higher.

Forbes Travel Guide

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, Taipei

Mandarin Oriental, Taipei has done much to enhance the city's appeal to high-end travellers. Inspired by the grandest of French chateaux, it is undoubtedly one of the most beautiful properties in the entire Mandarin Oriental portfolio. Its lobby is unexpectedly majestic and the attention to detail throughout is superb.

The Telegraph

International Brand Recognition *Continued*

Mandarin Oriental, Tokyo

Naturally, Mandarin Oriental, Tokyo offers a sumptuous hotel experience, superlative service and designed environs that ooze contemporary Japanese elegance.

Forbes Travel Guide

Mandarin Oriental, Barcelona

Ideal location aside, the hotel itself is a work of art. Set in a former banking headquarters, Mandarin Oriental, Barcelona is a sleek, airy space where guests can find tranquillity in a city that is constantly in transit.

GQ

Mandarin Oriental, Bodrum

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

The Telegraph

Mandarin Oriental Hyde Park, London

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, Milan

Since opening two years ago, Mandarin Oriental has come into Milan with a bang. There's Seta, its two-Michelin star restaurant, overseen by chef Antonio Guida, who specializes in modern Italian cooking. The hotel embodies a key strain of Milan's DNA with extraordinary suites designed by two of the city's most famous designers: Piero Fornasetti and Gio Ponti. The Fornasetti suite is nothing short of a masterpiece – and is worth a trip to the Mandarin just to live amidst his exuberant pieces, even for a few days.

Town and Country Magazine

Mandarin Oriental, Paris

If rue Saint-Honoré, where this hotel is situated, is all about conspicuous consumption, Mandarin Oriental, Paris itself is a haven of elegance and understated luxury.

The Telegraph

We have to make a hot fuss over the 138-room Mandarin Oriental, Paris, an ultramodern temple of style on the rue St-Honore. Behind the Art Deco facade of this vaguely Asian-influenced, perceptibly feminine palace, you'll find a sleek sumptuousness.

Condé Nast Traveler

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, Las Vegas

If you want to be closer to the action, your ideal spot is really Mandarin Oriental, which is so zen you'll basically never want to leave.

Marie Claire

Mandarin Oriental, Miami

Mandarin Oriental, Miami is out of this world. Your every wish is granted at this five-star stunner, whether you are completing an important business transaction or simply looking for the ultimate experience in relaxation.

USA Today

Mandarin Oriental, New York

Imagine a place in New York City where you can watch all of it unfold, while still relaxing in exquisite, luxurious surroundings. That is Mandarin Oriental, New York, an escape located directly in the center of it all. With impeccable service as icing on the cake, the Mandarin Oriental is a must-stay in NYC.

Pursuitist

Mandarin Oriental, Washington D.C.

The hotel is perfectly situated for both leisure and business travelers. Whatever time of year you decide to visit, Mandarin Oriental, Washington D.C. is a sanctuary in elegance for travellers from around the world. If you want to totally relax and rejuvenate while you are here, visit the spa for some proper pampering. This is an urban oasis.

Passport Magazine

Financial Review

Accounting policies

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

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:

	2017 US\$m	2016 US\$m
Subsidiaries	127.8	129.6
Associates and joint ventures	30.1	28.6
Underlying EBITDA	157.9	158.2

Subsidiaries

	2017 US\$m	2016 US\$m
Underlying EBITDA from subsidiaries	127.8	129.6
Non-trading items:		
Less: acquisition costs related to Mandarin Oriental, Boston	-	(1.8)
EBITDA from subsidiaries	127.8	127.8
Less: depreciation and amortization	(58.8)	(59.8)
Operating profit	69.0	68.0

In 2017, underlying EBITDA from subsidiaries decreased by US\$1.8 million, or 1%, to US\$127.8 million, despite the adverse impact of the ongoing renovation at the London property. After deduction of non-trading items, EBITDA from subsidiaries in 2017 was US\$127.8 million. This compares to US\$127.8 million in 2016, which included a US\$1.8 million deduction for non-trading expenses related to the acquisition of Mandarin Oriental, Boston.

In Hong Kong, improved city-wide demand, notably from the leisure segment, led to higher EBITDA contributions from both Mandarin Oriental, Hong Kong and The Excelsior. In Tokyo, performance in local currency terms was generally in-line with that achieved in 2016, however a weaker Japanese yen meant that when translated into US dollars, the hotel's contribution was slightly lower than the prior year. Jakarta had another challenging year due to increased competition from new supply in the city, as well as continued weak demand from the corporate segment. Both factors led to a significant decline in earnings compared to the prior year.

In Europe, the results of Mandarin Oriental Hyde Park, London were substantially affected by the partial closure of the hotel throughout 2017 due to the ongoing renovation. Following completion of the first phase in September 2017, the second phase is now underway and is expected to be completed by the second quarter of 2018. In Paris, whilst the hotel's performance improved in 2017, earnings in 2016 were particularly weak as a result of overall market conditions in the city. The Group's hotels in Munich and Geneva performed well, primarily due to strong leisure demand.

Financial Review *Continued*

Subsidiaries continued

In The Americas, Mandarin Oriental, Washington D.C. made a significantly higher contribution to the Group as the hotel benefited from a return to full inventory and generally improved trading conditions. The inclusion for the first time of a traditionally weak first quarter led to lower earnings at Mandarin Oriental, Boston following the Group's acquisition of the equity interest in the hotel in April 2016.

In 2017, the contribution from management activities increased by US\$0.2 million, or 1%, to US\$22.6 million, broadly in line with US\$22.4 million in 2016.

Associates and joint ventures

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

	2017 US\$m	2016 US\$m
Underlying EBITDA from associates and joint ventures	30.1	28.6
Non-trading items: Less: provision for litigation	–	(0.3)
EBITDA from associates and joint ventures	30.1	28.3
Less: depreciation and amortization	(12.1)	(11.5)
Operating profit	18.0	16.8
Less: net financing charges tax	(3.8) (2.7)	(3.7) (2.2)
Share of results of associates and joint ventures	11.5	10.9

In total, the Group's share of underlying EBITDA from associates and joint ventures increased by US\$1.5 million, or 5%, to US\$30.1 million in 2017. The increase was primarily due to improved performances in Bangkok and Madrid.

In Bangkok, improved city-wide visitor arrivals resulted in increased earnings. There was also a higher contribution from the Group's hotel in Singapore, driven by stronger leisure demand. The performance in Kuala Lumpur was broadly in-line with the prior year.

Hotel Ritz, Madrid had a good performance in 2017 with strong demand from both the corporate and leisure segment. The hotel closed at the end of February 2018 for the start of a €99 million restoration and is expected to reopen at the end of 2019. In The Americas, results at the Group's hotel in New York were significantly affected by a decline in demand from overseas guests. The EBITDA contribution from Mandarin Oriental, Miami was in-line with the previous year.

Depreciation and amortization of associates and joint ventures was 5% higher in 2017. The Group's share of net financing charges from associates and joint ventures was broadly in-line with the prior year, while taxation increased due to higher deferred taxation at the Group's hotels in Miami and New York.

Non-trading items

There were no non-trading items in 2017. 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.

Net financing charges

Net financing charges for the Group's subsidiaries slightly increased to US\$11.0 million in 2017, from US\$10.8 million in 2016.

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 2017, calculated as underlying EBITDA (including the Group's share of underlying EBITDA from associates and joint ventures) over net financing charges (including capitalized interest and the Group's share of net financing charges from associates and joint ventures), was 10.6 times compared with 10.9 times in 2016.

Tax

The tax charge for 2017 of US\$15.0 million was higher than the US\$13.7 million charge in 2016, reflecting an improved performance in the Group's subsidiary hotels, notably in Hong Kong and Munich. The underlying effective tax rate for 2017 was 20%, broadly in line with the prior year.

Cash flow

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

	2017 US\$m	2016 US\$m
Operating activities	120	108
Investing activities:		
• Capital expenditure on existing properties	(83)	(77)
• Payment on Munich expansion	(3)	–
• Acquisition of Mandarin Oriental, Boston	–	(140)
• Advances to associates and joint ventures	(11)	(3)
• Repayment of loans to associates and joint ventures	1	1
• Purchase of intangible assets	(6)	(3)
Financing activities:		
• Net drawdown of borrowings	28	50
• Dividends paid	(50)	(57)
Net decrease in cash	(4)	(121)
Cash and cash equivalents at 1st January	183	308
Effect of exchange rate changes	5	(4)
Cash and cash equivalents at 31st December	184	183

The Group's cash flows from operating activities were US\$120 million in 2017, an increase of US\$12 million from the US\$108 million inflow in 2016.

Under investing activities, capital expenditure on existing properties was US\$83 million in 2017, compared to US\$77 million in 2016, with the US\$6 million increase primarily due to the major hotel renovation in London.

No significant acquisitions were made by the Group in 2017. In April 2016, the Group acquired 100% of the equity interest in Mandarin Oriental, Boston for US\$140 million.

Looking ahead, the Group is committed to investing over US\$230 million into previously announced significant capital projects planned over the next five years:

Significant capital commitments, as previously announced

	US\$m	Timing
London renovation*	30	2018
Madrid renovation [†] (Group's 50% share)	55	2018-19
Munich extension [#]	146	2018-22
Total	231	

* Excludes US\$96 million already spent up to 31st December 2017.

[†] Excludes US\$4 million already spent up to 31st December 2017.

[#] Excludes US\$20 million already spent up to 31st December 2017.

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

Financial Review *Continued*

Dividends

The Board is recommending a final dividend of US¢1.50 per share for a full-year dividend of US¢3.00 per share (2016: US¢4.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 16th May 2018 to shareholders on the register of members at the close of business on 23rd March 2018.

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:

	2017		2016	
	US\$m	Per share US\$	US\$m	Per share US\$
Shareholders' funds/net assets at amortized cost	1,274	1.01	1,169	0.93
Add: surplus for fair market value of freehold and leasehold land and buildings	4,473	3.56	2,719	2.17
Adjusted shareholders' funds/net assets	5,747	4.57	3,888	3.10

The increase in adjusted shareholders' funds/net assets in 2017 mainly reflects the higher valuation of The Excelsior, Hong Kong.

On an IFRS basis, the Group's consolidated net debt of US\$327 million at 31st December 2017 was 26% of shareholders' funds, compared with consolidated net debt of US\$297 million at 31st December 2016 which was 25% of shareholders' funds. Taking into account the fair market value of the Group's interests in freehold and leasehold land, gearing was 6% of adjusted shareholders' funds at 31st December 2017, compared with 8% at 31st December 2016.

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 47% 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 2017, 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	(75)	(6)	3,820	66
Euro	542	43	706	12
United States dollar	321	25	365	6
United Kingdom sterling	212	17	345	6
Singapore dollar	57	4	200	4
Swiss franc	115	9	115	2
Thai baht	30	2	100	2
Indonesian rupiah	24	2	44	1
Others	48	4	52	1
	1,274	100	5,747	100

* See supplementary information section above.

The Group, excluding associates and joint ventures, had committed borrowing facilities totalling US\$560 million, of which US\$511 million was drawn at 31st December 2017. 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	556	507	49
Between two and three years	–	–	–
Between three and four years	–	–	–
Between four and five years	–	–	–
Beyond five years	1	1	–
	560	511	49

At 31st December 2017, the Group had US\$49 million of committed, undrawn facilities in addition to its net cash balances of US\$184 million. The average tenor of the Group's borrowings was 1.6 years (2016: 2.6 years), with only US\$3 million of committed facilities due to mature before the end of 2018.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 95 and 96.

Stuart Dickie

Chief Financial Officer

8th March 2018

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 2016. He has previously held a number of senior executive positions in the Jardine Matheson group since joining from Kleinwort Benson in 1993. A Chartered Accountant, he was group finance director of Jardine Matheson from 2005 to 2016. He has been a director of Mandarin Oriental Hotel Group International since 2005.

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 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 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. He is chairman of The Sailors Home and Missions to Seamen in Hong Kong.

Y.K. Pang

Mr Pang joined the Board in 2016. He is deputy managing director of Jardine Matheson, chairman of Jardine Pacific, and chairman and chief executive of Jardine Motors. He previously held a number of senior executive positions in the Jardine Matheson group, which he joined in 1984, including chief executive of Hongkong Land between 2007 and 2016. Mr Pang is also deputy chairman of Jardine Matheson Limited, and a director of Dairy Farm, Hongkong Land, Jardine Matheson (China), Jardine Strategic, Yonghui Superstores and Zhongsheng. He is chairman of the General Committee 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 and Northern Trust 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, KC

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 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 2017

	Note	2017			2016		
		Underlying business performance US\$m	Non-trading items US\$m	Total US\$m	Underlying business performance US\$m	Non-trading items US\$m	Total US\$m
Revenue	1	610.8	–	610.8	597.4	–	597.4
Cost of sales		(389.7)	–	(389.7)	(383.4)	–	(383.4)
Gross profit		221.1	–	221.1	214.0	–	214.0
Selling and distribution costs		(38.2)	–	(38.2)	(39.7)	–	(39.7)
Administration expenses		(113.9)	–	(113.9)	(104.5)	(1.8)	(106.3)
Operating profit	2	69.0	–	69.0	69.8	(1.8)	68.0
Financing charges		(12.3)	–	(12.3)	(12.1)	–	(12.1)
Interest income		1.3	–	1.3	1.3	–	1.3
Net financing charges	3	(11.0)	–	(11.0)	(10.8)	–	(10.8)
Share of results of associates and joint ventures	4	11.5	–	11.5	11.2	(0.3)	10.9
Profit before tax		69.5	–	69.5	70.2	(2.1)	68.1
Tax	5	(15.0)	–	(15.0)	(13.7)	–	(13.7)
Profit after tax		54.5	–	54.5	56.5	(2.1)	54.4
Attributable to:							
Shareholders of the Company	6&7	54.9	–	54.9	57.3	(2.1)	55.2
Non-controlling interests		(0.4)	–	(0.4)	(0.8)	–	(0.8)
		54.5	–	54.5	56.5	(2.1)	54.4
		US¢		US¢	US¢		US¢
Earnings per share	6						
– basic		4.37		4.37	4.56		4.40
– diluted		4.35		4.35	4.54		4.38

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2017

	Note	2017 US\$m	2016 US\$m
Profit for the year		54.5	54.4
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	12	7.7	(3.1)
Tax on items that will not be reclassified	5	(1.2)	0.5
		6.5	(2.6)
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net gains/(losses) arising during the year		87.1	(56.1)
Cash flow hedges			
– net gains arising during the year		0.8	2.5
Tax relating to items that may be reclassified	5	(0.2)	(0.4)
Share of other comprehensive income/(expense) of associates and joint ventures		8.4	(1.7)
		96.1	(55.7)
Other comprehensive income/(expense) for the year, net of tax		102.6	(58.3)
Total comprehensive income/(expense) for the year		157.1	(3.9)
Attributable to:			
Shareholders of the Company		157.3	(3.0)
Non-controlling interests		(0.2)	(0.9)
		157.1	(3.9)

Consolidated Balance Sheet

at 31st December 2017

	Note	2017 US\$m	2016 US\$m
Net assets			
Intangible assets	8	47.7	44.3
Tangible assets	9	1,453.2	1,352.1
Associates and joint ventures	10	196.6	163.8
Other investments		11.0	10.7
Deferred tax assets	11	11.0	2.6
Pension assets	12	4.9	–
Other non-current debtors	24	0.5	–
Non-current assets		1,724.9	1,573.5
Stocks		6.4	5.9
Debtors and prepayments	13	100.2	94.2
Current tax assets		4.0	5.2
Bank and cash balances	14	183.9	182.6
Current assets		294.5	287.9
Creditors and accruals	15	(151.4)	(140.1)
Current borrowings	16	(2.6)	(2.5)
Current tax liabilities		(17.8)	(8.7)
Current liabilities		(171.8)	(151.3)
Net current assets		122.7	136.6
Long-term borrowings	16	(508.1)	(477.4)
Deferred tax liabilities	11	(58.6)	(56.1)
Pension liabilities	12	(0.6)	(3.2)
Other non-current liabilities	24	(0.2)	–
		1,280.1	1,173.4
Total equity			
Share capital	19	62.9	62.8
Share premium	20	493.9	490.4
Revenue and other reserves		717.2	616.2
Shareholders' funds		1,274.0	1,169.4
Non-controlling interests		6.1	4.0
		1,280.1	1,173.4

Approved by the Board of Directors

Ben Keswick

James Riley

Directors

8th March 2018

Consolidated Statement of Changes in Equity

for the year ended 31st December 2017

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
2017									
At 1st January	62.8	490.4	286.2	501.2	(0.6)	(170.6)	1,169.4	4.0	1,173.4
Total comprehensive income	-	-	-	61.3	0.7	95.3	157.3	(0.2)	157.1
Dividends paid by the Company	22	-	-	(50.3)	-	-	(50.3)	-	(50.3)
Issue of shares	0.1	0.6	-	-	-	-	0.7	-	0.7
Share-based long-term incentive plans	-	-	(0.8)	-	-	-	(0.8)	-	(0.8)
Change in interest in a subsidiary	-	-	-	(2.3)	-	-	(2.3)	2.3	-
Transfer	-	2.9	(19.5)	16.6	-	-	-	-	-
At 31st December	62.9	493.9	265.9	526.5	0.1	(75.3)	1,274.0	6.1	1,280.1
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	22	-	-	(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

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US\$54.9 million (2016: US\$55.2 million) and net actuarial gain on employee defined benefit plans of US\$6.4 million (2016: net actuarial loss of US\$2.6 million). There was no net fair value loss on other investments in 2017 (2016: nil).

Change in interest in a subsidiary includes the Group's increase in attributable interest in Portals Hotel Site LLC, the owner of Mandarin Oriental, Washington D.C., from 80% to 83.6% as a result of a non-controlling member of the subsidiary failing to fund an additional capital contribution during the year.

Consolidated Cash Flow Statement

for the year ended 31st December 2017

	Note	2017 US\$m	2016 US\$m
Operating activities			
Operating profit	2	69.0	68.0
Depreciation	9	56.7	57.7
Amortization of intangible assets	8	2.1	2.1
Other non-cash items	23a	0.2	2.7
Movements in working capital	23b	9.6	(3.8)
Interest received		1.3	1.3
Interest and other financing charges paid		(12.3)	(10.4)
Tax paid		(13.3)	(19.0)
		113.3	98.6
Dividends and interest from associates and joint ventures		6.6	9.1
Cash flows from operating activities		119.9	107.7
Investing activities			
Purchase of tangible assets		(82.6)	(77.0)
Purchase of intangible assets		(5.7)	(2.7)
Payment on Munich expansion	23c	(3.1)	–
Acquisition of Mandarin Oriental, Boston	23d	–	(140.0)
Purchase of other investments		(0.9)	(1.3)
Advance to associates and joint ventures	23e	(11.4)	(2.8)
Repayment of loans to associates and joint ventures	23f	1.3	0.9
Sale of tangible assets		–	0.1
Sale of other investments		0.4	–
Cash flows from investing activities		(102.0)	(222.8)
Financing activities			
Issue of shares		0.6	–
Drawdown of borrowings	16	30.8	51.5
Repayment of borrowings	16	(2.5)	(1.6)
Dividends paid by the Company	22	(50.3)	(56.5)
Dividends paid to non-controlling interests		–	(0.1)
Cash flows from financing activities		(21.4)	(6.7)
Net decrease in cash and cash equivalents		(3.5)	(121.8)
Cash and cash equivalents at 1st January		182.5	308.6
Effect of exchange rate changes		4.9	(4.3)
Cash and cash equivalents at 31st December	23g	183.9	182.5

Notes to the Financial Statements

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.

There are no new standards or amendments, which are effective in 2017 and relevant to the Group's operations, that have a material impact on the Group's accounting policies and disclosures.

New standards and amendments effective after 2017 which are relevant to the Group's operations and yet to be adopted:

A number of new standards and amendments, which are effective for accounting periods beginning after 2017, have been published and will be adopted by the Group from their effective dates. The Group's assessment of the impact of these standards and amendments is set out below.

IFRS 9 Financial Instruments (effective from 1st January 2018)

The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', addresses the classification, measurement and derecognition 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.

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. At 31st December 2017, the Group had investments in equity securities classified as available-for-sale with a fair value of US\$9.3 million. Under IFRS 9, the gains and losses arising from changes in fair value of these investments will be recognized in profit and loss, instead of through other comprehensive income. Such fair value gains or losses on revaluation of these investments will be classified as non-trading items. The above change will not have any impact on the Group's underlying profit attributable to shareholders and shareholders' funds. Based on the assessments undertaken to date, the impact from the new loan impairment model to the Group's impairment provisions and earnings is expected to be insignificant.

The new hedge accounting rules will align the accounting for hedging instruments closely with the Group's risk management practices. The Group does not expect a significant impact on the accounting for its hedging relationships.

IFRS 15 Revenue from Contracts with Customers (effective from 1st January 2018)

The standard establishes a comprehensive framework for the recognition of revenue. It replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' which covers contracts for good and services. The core principle in the framework is that revenue is recognized when control of a good or service transfers to a customer. Based on the Group's assessment, the impact of IFRS 15 on the Group's businesses is expected to be insignificant.

Notes to the Financial Statements *Continued*

Principal accounting policies *continued*

A *Basis of preparation continued*

IFRS 16 Leases (effective from 1st January 2019)

The standard 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 and a lease liability, 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. As at 31st December 2017, the Group had total commitments under operating leases of US\$107.6 million (*refer note 25*).

The Group is currently finalizing the detailed assessment on its lease portfolio and at the date of this report, it is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Apart from the above, there are no other standards or amendments that are not yet effective and that would be expected to have a material impact to the Group.

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

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

B *Basis of consolidation*

- i) The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the Group's interests in associates and joint ventures.
- ii) A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

Principal accounting policies *continued*

B *Basis of consolidation continued*

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

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

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

- iv)* Non-controlling interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.
- v)* The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal, respectively. The results of entities other than subsidiaries, associates and joint ventures are included to the extent of dividends received when the right to receive such dividend is established.

C *Foreign currencies*

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

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

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

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

Notes to the Financial Statements *Continued*

Principal accounting policies *continued*

D *Impairment of non-financial assets*

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

E *Intangible assets*

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

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

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.

Principal accounting policies *continued*

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 *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.

Notes to the Financial Statements *Continued***Principal accounting policies** *continued***H 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.

I 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.

J 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.

K 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.

L 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.

Principal accounting policies *continued*

M 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.

N 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.

O 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Notes to the Financial Statements *Continued***Principal accounting policies** *continued***P 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.

Principal accounting policies *continued*

Q *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.

Notes to the Financial Statements *Continued***Principal accounting policies** *continued***R 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.

S 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.

T 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.

U 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.

Principal accounting policies *continued*

V Dividends

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

W 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.

X Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Notes to the Financial Statements *Continued*

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 2017 are disclosed in note 24.

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 2017 and 2016, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2017, 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 (2016: 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 (2016: 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 2017 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.

Financial risk management *continued*

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 2017, the Group's interest rate hedge was 47% (2016: 49%), with an average tenor of 1.6 years (2016: 2.0 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 16.

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

At 31st December 2017, 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\$2.4 million (2016: US\$1.9 million) lower/higher, and hedging reserves would have been US\$2.8 million (2016: US\$1.5 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.

Notes to the Financial Statements *Continued***Financial risk management** *continued***A Financial risk factors** *continued***ii) Credit risk**

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

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2017, 85% (2016: 83%) 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 2017, total available borrowing facilities amounted to US\$560 million (2016: US\$556 million) of which US\$511 million (2016: US\$480 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US\$49 million (2016: US\$76 million), in addition to cash balances of US\$184 million (2016: US\$183 million).

Financial risk management *continued*

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 2017 and 2016 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
2017							
Borrowings	15.6	513.6	0.2	0.2	0.2	1.7	531.5
Creditors	146.3	–	–	–	–	–	146.3
Net settled derivative financial instruments	0.5	–	–	–	–	–	0.5
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

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 including capitalized interest. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2017 and 2016 are as follows:

	2017	2016
Gearing ratio		
– based on shareholders' funds	26%	25%
– based on adjusted shareholders' funds	6%	8%
Interest cover	7.2 times	7.5 times

Notes to the Financial Statements *Continued*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 2017 and 2016, by the levels in the fair value measurement hierarchy.

	Observable current market transactions US\$m	Unobservable inputs US\$m	Total US\$m
2017			
Assets			
Available-for-sale financial assets			
– unlisted investments	1.7	9.3	11.0
Derivatives designated at fair value			
– through other comprehensive income	0.5	–	0.5
	2.2	9.3	11.5
Liabilities			
Derivatives designated at fair value			
– through other comprehensive income	(0.2)	–	(0.2)
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)

There were no transfers among the two categories during the year ended 31st December 2017 and 2016.

Financial risk management *continued*

C Fair value estimation *continued*

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

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

	2017 US\$m	Available-for-sale financial assets 2016 US\$m
At 1st January	8.6	8.1
Additions	0.7	0.5
At 31st December	9.3	8.6

ii) Financial instruments that are not measured at fair value

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

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

D Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2017 and 2016 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
2017						
Assets						
Other investments	–	–	11.0	–	11.0	11.0
Other non-current assets	–	0.5	–	–	0.5	0.5
Debtors	65.5	–	–	–	65.5	65.5
Bank and cash balances	183.9	–	–	–	183.9	183.9
	249.4	0.5	11.0	–	260.9	260.9
Liabilities						
Other non-current liabilities	–	(0.2)	–	–	(0.2)	(0.2)
Borrowings	–	–	–	(510.7)	(510.7)	(510.7)
Trade and other payables excluding non-financial liabilities	–	–	–	(146.3)	(146.3)	(146.3)
	–	(0.2)	–	(657.0)	(657.2)	(657.2)
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)

Notes to the Financial Statements *Continued*

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.

Critical accounting estimates and judgements *continued*

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 *Continued*

1 Revenue

	2017 US\$m	2016 US\$m
Analysis by geographical area		
– Hong Kong	235.8	224.5
– Other Asia	107.9	106.4
– Europe	163.8	177.8
– The Americas	103.3	88.7
	610.8	597.4
Analysis by activity		
– Hotel ownership	577.6	565.4
– Hotel & Residences branding and management	62.1	60.7
– Less: intra-segment revenue	(28.9)	(28.7)
	610.8	597.4

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 18.

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

	2017 US\$m	2016 US\$m
Analysis by geographical area		
– Hong Kong	74.0	69.3
– Other Asia	29.6	29.2
– Europe	17.0	25.2
– The Americas	7.2	5.9
Underlying EBITDA from subsidiaries	127.8	129.6
Non-trading items		
– acquisition-related costs (<i>refer note 7</i>)	–	(1.8)
EBITDA from subsidiaries	127.8	127.8
Less: depreciation and amortization	(58.8)	(59.8)
Operating profit	69.0	68.0
Analysis by activity		
– Hotel ownership	105.2	105.4
– Hotel & Residences branding and management	22.6	22.4
EBITDA from subsidiaries	127.8	127.8
– Hotel ownership	49.2	48.5
– Hotel & Residences branding and management	19.8	19.5
Operating profit	69.0	68.0
The following items have been credited/(charged) in arriving at operating profit:		
Rental income (<i>refer note 9</i>)	22.1	22.5
Amortization of intangible assets (<i>refer note 8</i>)	(2.1)	(2.1)
Depreciation of tangible assets (<i>refer note 9</i>)	(56.7)	(57.7)
Employee benefit expense		
– salaries and benefits in kind	(248.9)	(239.5)
– share options and share awards granted	(2.3)	(2.2)
– defined benefit pension plans (<i>refer note 12</i>)	(4.7)	(4.9)
– defined contribution pension plans	(1.4)	(1.2)
	(257.3)	(247.8)
Net foreign exchange gains	0.6	0.5
Operating leases		
– minimum lease payments	(8.7)	(9.0)
– contingent rents	(6.0)	(5.6)
– subleases	0.2	0.3
	(14.5)	(14.3)
Auditors' remuneration		
– audit	(1.6)	(1.5)
– non-audit services	(1.1)	(1.0)
	(2.7)	(2.5)

Notes to the Financial Statements *Continued***3 Net financing charges**

	2017 US\$m	2016 US\$m
Interest expense		
– bank loans	(10.4)	(10.0)
Commitment and other fees	(1.9)	(2.1)
Financing charges	(12.3)	(12.1)
Interest income	1.3	1.3
Net financing charges	(11.0)	(10.8)

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
2017						
Analysis by geographical area						
– Other Asia	23.5	(8.3)	15.2	(1.4)	(2.3)	11.5
– Europe	2.7	(0.8)	1.9	–	(0.1)	1.8
– The Americas	3.9	(3.0)	0.9	(2.4)	(0.3)	(1.8)
	30.1	(12.1)	18.0	(3.8)	(2.7)	11.5
Analysis by activity						
– Hotel ownership	28.9	(11.6)	17.3	(3.6)	(2.6)	11.1
– Other	1.2	(0.5)	0.7	(0.2)	(0.1)	0.4
	30.1	(12.1)	18.0	(3.8)	(2.7)	11.5
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 (<i>refer note 7</i>)	(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

5 Tax

	2017 US\$m	2016 US\$m
Tax (charged)/credited to profit and loss is analyzed as follows:		
– current tax	(23.6)	(14.9)
– deferred tax (refer note 11)	8.6	1.2
	(15.0)	(13.7)
Analysis by geographical area		
– Hong Kong	(10.3)	(8.8)
– Other Asia	3.9	(3.5)
– Europe	(7.2)	(0.9)
– The Americas	(1.4)	(0.5)
	(15.0)	(13.7)
Analysis by activity		
– Hotel ownership	(9.1)	(8.1)
– Hotel & Residences branding and management	(5.9)	(5.6)
	(15.0)	(13.7)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	(4.3)	(3.6)
Income not subject to tax	0.8	0.6
Expenses not deductible for tax purposes	(3.6)	(3.8)
Tax losses and temporary differences not recognized	(6.8)	(9.7)
Utilization of previously unrecognized tax losses and temporary differences	3.9	3.9
Recognition of previously unrecognized tax losses	3.8	–
Withholding tax	(8.3)	(1.8)
(Under)/over provision in prior years	(0.5)	0.7
	(15.0)	(13.7)
Tax relating to components of other comprehensive income is analyzed as follows:		
Remeasurements of defined benefit plans	(1.2)	0.5
Cash flow hedges	(0.2)	(0.4)
	(1.4)	0.1

Share of tax charge of associates and joint ventures of US\$2.7 million (2016: US\$2.2 million) is included in share of results of associates and joint ventures (refer note 4).

*The applicable tax rate for the year was 7% (2016: 6%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The increase in applicable tax rate was mainly caused by a change in the geographic mix of the Group's profits.

Notes to the Financial Statements *Continued***6 Earnings per share**

Basic earnings per share are calculated on profit attributable to shareholders of US\$54.9 million (2016: US\$55.2 million) and on the weighted average number of 1,257.7 million (2016: 1,255.9 million) shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US\$54.9 million (2016: US\$55.2 million) and on the weighted average number of 1,262.0 million (2016: 1,261.5 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	
	2017	2016
Weighted average number of shares for basic earnings per share calculation	1,257.7	1,255.9
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	4.3	5.6
Weighted average number of shares for diluted earnings per share calculation	1,262.0	1,261.5

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:

	US\$m	2017 Basic earnings per share US¢	Diluted earnings per share US¢	US\$m	2016 Basic earnings per share US¢	Diluted earnings per share US¢
Profit attributable to shareholders	54.9	4.37	4.35	55.2	4.40	4.38
Non-trading items (<i>refer note 7</i>)	–			2.1		
Underlying profit attributable to shareholders	54.9	4.37	4.35	57.3	4.56	4.54

7 Non-trading items

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

	2017 US\$m	2016 US\$m
Acquisition-related costs		
– administration expenses	–	1.8
Provision for litigation		
– share of results of associates and joint ventures	–	0.3
	–	2.1

8 Intangible assets

	Goodwill US\$m	Leasehold land US\$m	Computer software US\$m	Development costs US\$m	Total US\$m
2017					
Cost	23.9	6.3	17.8	16.3	64.3
Amortization and impairment	–	(2.2)	(15.1)	(2.7)	(20.0)
Net book value at 1st January	23.9	4.1	2.7	13.6	44.3
Exchange differences	–	–	–	0.4	0.4
Additions	–	–	3.4	2.5	5.9
Transfer to tangible assets	–	–	(0.2)	–	(0.2)
Amortization charge	–	(0.2)	(1.5)	(0.4)	(2.1)
Impairment charge	–	–	–	(0.6)	(0.6)
Net book value at 31st December	23.9	3.9	4.4	15.5	47.7
Cost	23.9	6.4	23.5	18.6	72.4
Amortization and impairment	–	(2.5)	(19.1)	(3.1)	(24.7)
	23.9	3.9	4.4	15.5	47.7
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

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2017. 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 3% to 9% to project 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 exists.

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	20 to 40 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
2017					
Cost	733.3	743.3	139.4	260.2	1,876.2
Depreciation	(85.4)	(182.6)	(75.1)	(181.0)	(524.1)
Net book value at 1st January	647.9	560.7	64.3	79.2	1,352.1
Exchange differences	57.0	10.5	5.4	2.3	75.2
Additions	34.8	25.2	2.7	19.8	82.5
Disposals	–	–	–	(0.1)	(0.1)
Transfer from intangible assets	–	–	–	0.2	0.2
Reclassification	22.1	(34.0)	3.1	8.8	–
Depreciation charge	(10.7)	(18.2)	(7.1)	(20.7)	(56.7)
Net book value at 31st December	751.1	544.2	68.4	89.5	1,453.2
Cost	841.4	744.0	155.0	291.6	2,032.0
Depreciation	(90.3)	(199.8)	(86.6)	(202.1)	(578.8)
	751.1	544.2	68.4	89.5	1,453.2
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

Freehold properties include a property of US\$108.5 million (2016: US\$111.6 million), which is stated net of tax increment financing of US\$21.3 million (2016: US\$22.2 million) (*refer note 17*).

Net book value of leasehold properties acquired under finance leases amounted to US\$181.2 million (2016: US\$183.0 million).

Rental income from properties and other tangible assets amounted to US\$22.1 million (2016: US\$22.5 million) (*refer note 2*).

9 Tangible assets *continued*

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

	2017 US\$m	2016 US\$m
Within one year	18.6	19.1
Between one and two years	16.8	14.9
Between two and five years	38.0	28.9
Beyond five years	1.2	4.4
	74.6	67.3

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

10 Associates and joint ventures

	2017 US\$m	2016 US\$m
Associates		
Listed associate – OHTL	20.1	17.0
Unlisted associates	89.4	71.0
Share of attributable net assets	109.5	88.0
Notional goodwill	5.5	5.5
	115.0	93.5
Joint ventures		
Share of attributable net assets of unlisted joint ventures	75.0	64.5
Goodwill on acquisition	6.6	5.8
	81.6	70.3
	196.6	163.8

	Associates		Joint ventures	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
Movements of associates and joint ventures during the year:				
At 1st January	93.5	93.6	70.3	70.8
Exchange differences	–	–	9.4	(2.6)
Share of results after tax and non-controlling interests	9.7	9.8	1.8	1.1
Share of other comprehensive income/(expense) after tax and non-controlling interests	8.4	(1.7)	–	–
Dividends received	(5.2)	(7.3)	–	–
Interest received	–	–	(1.4)	(1.8)
Advance to associates and joint ventures (refer note 23e)	9.1	–	2.3	2.8
Repayment of loans to associates and joint ventures (refer note 23f)	(0.5)	(0.9)	(0.8)	–
At 31st December	115.0	93.5	81.6	70.3
Fair value of listed associate	207.3	193.2	N/A	N/A

Notes to the Financial Statements *Continued*10 Associates and joint ventures *continued**a) Investment in associates*

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

Nature of investments in material associates in 2017 and 2016:

Name of entity	Nature of business	Country of incorporation and principal place of business/place of listing	% of ownership interest	
			2017	2016
OHTL PCL ('OHTL')	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	47.6%	47.6%
Marina Bay Hotel Private Ltd. ('Marina Bay Hotel')	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	50.0%	50.0%

At 31st December 2017, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US\$207.3 million (2016: US\$193.2 million) and the carrying amount of the Group's interest was US\$25.6 million (2016: US\$22.6 million).

Summarized financial information for material associates

Summarized balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
Non-current assets	69.1	65.8	127.9	118.7	197.0	184.5
Current assets						
Cash and cash equivalents	2.5	5.1	4.8	6.2	7.3	11.3
Other current assets	5.5	4.3	4.0	2.8	9.5	7.1
Total current assets	8.0	9.4	8.8	9.0	16.8	18.4
Non-current liabilities						
Financial liabilities*	(10.7)	(11.7)	(6.7)	(20.1)	(17.4)	(31.8)
Other non-current liabilities*	(4.2)	(3.5)	(3.3)	(2.7)	(7.5)	(6.2)
Total non-current liabilities	(14.9)	(15.2)	(10.0)	(22.8)	(24.9)	(38.0)
Current liabilities						
Financial liabilities*	(16.4)	(21.0)	(11.1)	(8.7)	(27.5)	(29.7)
Other current liabilities*	(3.6)	(3.1)	(5.8)	(5.5)	(9.4)	(8.6)
Total current liabilities	(20.0)	(24.1)	(16.9)	(14.2)	(36.9)	(38.3)
Net assets	42.2	35.9	109.8	90.7	152.0	126.6

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

10 Associates and joint ventures *continued*

a) Investment in associates continued

Summarized financial information for material associates *continued*

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

	OHTL		Marina Bay Hotel		Total	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
Revenue	63.0	58.0	77.6	73.3	140.6	131.3
Depreciation and amortization	(6.6)	(6.2)	(6.3)	(5.8)	(12.9)	(12.0)
Interest expense	(0.4)	(0.5)	(0.3)	(0.6)	(0.7)	(1.1)
Profit from underlying business performance	9.5	7.1	17.5	16.2	27.0	23.3
Income tax expense	(1.4)	(1.4)	(3.0)	(3.0)	(4.4)	(4.4)
Profit after tax from underlying business performance	8.1	5.7	14.5	13.2	22.6	18.9
Non-trading items	–	(0.6)	–	–	–	(0.6)
Profit after tax	8.1	5.1	14.5	13.2	22.6	18.3
Other comprehensive income/(expense)	3.5	0.4	9.4	(2.6)	12.9	(2.2)
Total comprehensive income	11.6	5.5	23.9	10.6	35.5	16.1
Dividends received from associates	5.3	5.6	4.8	9.1	10.1	14.7

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:

	2017 US\$m	OHTL 2016 US\$m	Marina Bay Hotel 2017 US\$m	2016 US\$m	2017 US\$m	Total 2016 US\$m
Net assets at 1st January	35.9	36.0	90.7	89.2	126.6	125.2
Profit for the year	8.1	5.1	14.5	13.2	22.6	18.3
Other comprehensive income/(expense)	3.5	0.4	9.4	(2.6)	12.9	(2.2)
Dividends paid	(5.3)	(5.6)	(4.8)	(9.1)	(10.1)	(14.7)
Net assets at 31st December	42.2	35.9	109.8	90.7	152.0	126.6
Effective interest in associates (%)*	47.6	47.6	50.0	50.0		
Group's share of net assets in associates	20.1	17.0	54.9	45.4	75.0	62.4
Notional goodwill*	5.5	5.5	–	–	5.5	5.5
Carrying value	25.6	22.5	54.9	45.4	80.5	67.9
Fair value	207.3	193.2	N/A	N/A	207.3	193.2

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.

	2017 US\$m	2016 US\$m
Share of (loss)/profit	(1.3)	0.8
Share of other comprehensive income/(expense)	2.1	(0.6)
Share of total comprehensive income	0.8	0.2
Carrying amount of interests in these associates	34.5	25.6

*OHTL repurchased some of its own shares in 2013 which were subsequently cancelled in 2016. The number of OHTL shares held by the Group remained unchanged. As a result of the share repurchase, notional goodwill of US\$5.5 million was recognized and the Group's effective interest increased to 47.6%.

Contingent liabilities relating to the Group's interest in associates

	2017 US\$m	2016 US\$m
Financial guarantee in respect of facilities made available to an associate	20.4	20.8

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 2017 and 2016:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest	
			2017	2016
Ritz Madrid, S.A. (‘Ritz Madrid’)	Owner of Hotel Ritz, Madrid	Spain	50.0%	50.0%

Summarized financial information for material joint venture

Summarized balance sheet at 31st December

	Ritz Madrid	
	2017 US\$m	2016 US\$m
Non-current assets	186.3	162.4
Current assets		
Cash and cash equivalents	7.8	4.6
Other current assets	2.4	2.0
Total current assets	10.2	6.6
Non-current liabilities		
Financial liabilities*†	(154.6)	(133.8)
Other non-current liabilities*	(38.5)	(34.2)
Total non-current liabilities	(193.1)	(168.0)
Current liabilities		
Other current liabilities*	(8.1)	(5.8)
Total current liabilities	(8.1)	(5.8)
Net liabilities	(4.7)	(4.8)

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

† Including shareholders’ loans from joint venture partners of US\$154.6 million (2016: US\$133.8 million).

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*

	2017 US\$m	Ritz Madrid 2016 US\$m
Revenue	30.3	27.0
Depreciation and amortization	(1.6)	(1.3)
Profit after tax	3.5	2.2
Other comprehensive (expense)/income	(0.6)	0.1
Total comprehensive income	2.9	2.3
Interest received from joint venture	2.8	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:

	2017 US\$m	Ritz Madrid 2016 US\$m
Net liabilities at 1st January	(4.8)	(3.5)
Profit for the year	3.5	2.2
Other comprehensive (expense)/income	(0.6)	0.1
Interest paid	(2.8)	(3.6)
Net liabilities at 31st December	(4.7)	(4.8)
Effective interest in joint venture (%)	50.0	50.0
Group's share of net liabilities in joint venture	(2.3)	(2.4)
Goodwill on acquisition	6.6	5.8
Shareholders' loans	77.3	66.9
Carrying value	81.6	70.3

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

Commitments and contingent liabilities in respect of joint ventures

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

	2017 US\$m	2016 US\$m
Commitment to provide funding if called	55.1	36.6

There were no contingent liabilities relating to the Group's interest in its joint ventures at 31st December 2017 and 2016.

11 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
2017							
At 1st January	(52.6)	0.1	1.1	0.5	(1.4)	(1.2)	(53.5)
Exchange differences	(1.2)	–	0.1	–	(0.1)	(0.1)	(1.3)
(Charged)/credited to profit and loss	(0.4)	–	6.6	–	–	2.4	8.6
Charged to other comprehensive income	–	(0.2)	–	(1.2)	–	–	(1.4)
At 31st December	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)
Deferred tax assets	0.3	–	7.8	0.4	–	2.5	11.0
Deferred tax liabilities	(54.5)	(0.1)	–	(1.1)	(1.5)	(1.4)	(58.6)
	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)
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)

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\$48.8 million (2016: US\$48.7 million) arising from unused tax losses of US\$198.2 million (2016: US\$186.7 million) have not been recognized in the financial statements. Included in the unused tax losses, US\$165.5 million have no expiry date and the balance will expire at various dates up to and including 2037.

Deferred tax assets of US\$1.1 million (2016: US\$3.4 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 2017 and 2016.

Notes to the Financial Statements *Continued***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:

	2017 US\$m	2016 US\$m
Fair value of plan assets	73.1	65.6
Present value of funded obligations	(68.2)	(68.8)
	4.9	(3.2)
Present value of unfunded obligations	(0.6)	–
Net pension assets/(liabilities)	4.3	(3.2)
Analysis of net pension assets/(liabilities)		
Pension assets	4.9	–
Pension liabilities	(0.6)	(3.2)
	4.3	(3.2)

12 Pension plans *continued*

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

	Fair value of plan assets US\$m	Present value of obligation US\$m	Total US\$m
2017			
At 1st January	65.6	(68.8)	(3.2)
Current service cost	–	(4.5)	(4.5)
Past service cost-plan amendments	–	–	–
Interest income/(expense)	2.1	(2.3)	(0.2)
	2.1	(6.8)	(4.7)
	67.7	(75.6)	(7.9)
Exchange differences	(0.5)	0.5	–
Remeasurements			
– return on plan assets, excluding amounts included in interest income/(expense)	8.9	–	8.9
– change in financial assumptions	–	(1.8)	(1.8)
– experience gains	–	0.5	0.5
– demographic assumption changes	–	0.1	0.1
	8.9	(1.2)	7.7
Contributions from employers	4.5	–	4.5
Contributions from plan participants	0.8	(0.8)	–
Benefit payments	(8.5)	8.5	–
Transfer from other plans	0.2	(0.2)	–
At 31st December	73.1	(68.8)	4.3
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 to other plans	3.7	(3.7)	–
At 31st December	65.6	(68.8)	(3.2)

Notes to the Financial Statements *Continued***12 Pension plans** *continued*

The weighted average duration of the defined benefit obligation at 31st December 2017 is 5.6 years (2016: 5.3 years).

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

	2017 US\$m	2016 US\$m
Less than a year	9.6	9.5
Between one and two years	11.3	11.3
Between two and five years	21.6	20.6
Beyond five years	106.8	94.6
	149.3	136.0

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

	2017 %	Hong Kong 2016 %
Discount rate	2.90	3.30
Salary growth rate	4.75	4.75

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

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

	Change in assumption	Increase/(decrease) on defined benefit obligation	
		Increase in assumption US\$m	Decrease in assumption US\$m
Discount rate	1%	(3.7)	4.1
Salary growth rate	1%	3.6	(3.3)

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.

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
2017					
Quoted investments					
– Equity instruments	5.1	–	–	–	5.1
– Investment funds	16.0	4.4	13.3	10.1	43.8
	21.1	4.4	13.3	10.1	48.9
Unquoted investments					
– Investment funds	0.6	0.5	0.8	21.9	23.8
Total investments	21.7	4.9	14.1	32.0	72.7
Cash and cash equivalents					0.4
					73.1
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

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

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

Notes to the Financial Statements *Continued*

12 Pension plans *continued*

At 31st December 2017, the Hong Kong plans had assets of US\$73.1 million (2016: US\$65.6 million). These assets were invested 30% in Asia Pacific, 7% in Europe, 19% in North America with the balance of 44% invested in Global (2016: 26%, 7%, 19% and 48%, respectively). Within Asia Pacific, 30% was invested in Hong Kong equities. In 2017, 67% and 33% of the investments were in quoted and unquoted instruments respectively. In 2016, the split was 62% and 38% 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 consumer goods with a combined fair value of US\$3.8 million. In 2016, the top three sectors were financials, technology and industrials with a combined fair value of US\$3.4 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 2017, 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 2017 were US\$4.5 million and the estimated amount of contributions expected to be paid to all its plans in 2018 is US\$4.8 million.

13 Debtors and prepayments

	2017 US\$m	2016 US\$m
Trade debtors		
– third parties	41.3	38.5
– associates and joint ventures	4.6	4.0
	45.9	42.5
– provision for impairment	(1.5)	(1.8)
	44.4	40.7
Other debtors		
– third parties*	55.1	53.6
– associates and joint ventures	2.8	2.1
	57.9	55.7
– provision for impairment	(2.1)	(2.2)
	55.8	53.5
	100.2	94.2
Analysis by geographical area		
– Hong Kong	21.4	20.1
– Other Asia	12.2	17.0
– Europe	48.5	39.6
– The Americas	18.1	17.5
	100.2	94.2

*Included deposit of US\$17.1 million (2016: US\$12.1 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.

	2017 US\$m	2016 US\$m
Fair value		
– trade debtors	44.4	40.7
– other debtors [†]	21.1	25.1
	65.5	65.8

[†] 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 determined by reference to past default experience.

Notes to the Financial Statements *Continued***13 Debtors and prepayments** *continued*

At 31st December 2017, trade debtors of US\$1.5 million (2016: US\$2.3 million) and other debtors of US\$2.1 million (2016: US\$2.5 million) were impaired. The amounts of the provision were US\$1.5 million (2016: US\$1.8 million) and US\$2.1 million (2016: US\$2.2 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	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
Below 30 days	0.1	0.7	0.6	0.3
Between 31 and 60 days	0.2	–	0.4	–
Between 61 and 90 days	–	–	0.3	–
Over 90 days	1.2	1.6	0.8	2.2
	1.5	2.3	2.1	2.5

At 31st December 2017, trade debtors of US\$9.7 million (2016: US\$13.9 million) and other debtors of US\$2.7 million (2016: US\$2.1 million), respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
Below 30 days	6.8	7.9	2.5	1.0
Between 31 and 60 days	1.6	1.9	0.2	0.5
Between 61 and 90 days	0.8	0.8	–	0.2
Over 90 days	0.5	3.3	–	0.4
	9.7	13.9	2.7	2.1

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2017 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	
	2017 US\$m	2016 US\$m	2017 US\$m	2016 US\$m
At 1st January	(1.8)	(1.6)	(2.2)	(2.4)
Additional provisions	–	(0.6)	(0.8)	–
Unused amounts reversed	–	0.3	–	0.2
Amounts written off	0.3	0.1	0.9	–
At 31st December	(1.5)	(1.8)	(2.1)	(2.2)

13 Debtors and prepayments *continued*

Other debtors are further analyzed as follows:

	2017 US\$m	2016 US\$m
Other amounts due from associates and joint ventures	2.8	2.1
Other receivables	18.3	23.0
Financial assets	21.1	25.1
Prepayments	13.8	12.1
Rental and other deposits	20.8	16.2
Other	0.1	0.1
	55.8	53.5

No debtors and prepayments have been pledged as security.

14 Bank and cash balances

	2017 US\$m	2016 US\$m
Deposits with banks and financial institutions	75.0	96.7
Bank balances	107.8	84.9
Cash balances	1.1	1.0
	183.9	182.6
Analysis by currency		
– Euro	26.9	12.2
– Hong Kong dollar	16.1	16.9
– Indonesian rupiah	13.4	13.8
– Japanese yen	19.0	16.7
– Swiss franc	4.4	3.1
– United Kingdom sterling	15.1	25.6
– United States dollar	81.8	89.0
– Other	7.2	5.3
	183.9	182.6

The weighted average interest rate on deposits with banks and financial institutions is 1.1% (2016: 0.9%) per annum.

Notes to the Financial Statements *Continued*

15 Creditors and accruals

	2017 US\$m	2016 US\$m
Trade creditors	33.8	32.9
Accruals	76.5	64.8
Rental and other refundable deposits	12.2	12.1
Derivative financial instruments (refer note 24)	–	0.6
Other creditors	23.8	24.3
Financial liabilities	146.3	134.7
Rental income received in advance	3.0	3.4
Other income received in advance	2.1	2.0
	151.4	140.1
Analysis by currency		
– Euro	17.8	16.6
– Hong Kong dollar	49.0	47.6
– Japanese yen	12.3	11.9
– Swiss franc	5.2	5.1
– United Kingdom sterling	11.4	8.6
– United States dollar	50.5	46.0
– Other	5.2	4.3
	151.4	140.1

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

16 Borrowings

	2017 Carrying amount US\$m	2017 Fair value US\$m	2016 Carrying amount US\$m	2016 Fair value US\$m
Current				
– bank overdrafts	–	–	0.1	0.1
Current portion of long-term borrowings				
– bank loans	–	–	0.6	0.6
– other borrowings	2.6	2.6	0.1	0.1
– tax increment financing (<i>refer note 17</i>)	–	–	1.7	1.7
	2.6	2.6	2.4	2.4
Current borrowings	2.6	2.6	2.5	2.5
Long-term borrowings				
– bank loans	506.5	506.5	473.3	473.3
– other borrowings	1.6	1.6	4.1	4.1
Long-term borrowings	508.1	508.1	477.4	477.4
	510.7	510.7	479.9	479.9

The fair values are estimated using the expected future payments discounted at market interest rate less than 0.1% (2016; 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.

	2017 US\$m	2016 US\$m
Secured	508.2	475.6
Unsecured	2.5	4.3
	510.7	479.9

Borrowings of US\$508.2 million (2016: US\$475.6 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets at 31st December 2017 was US\$477.7 million (2016: US\$457.9 million).

Notes to the Financial Statements *Continued*16 Borrowings *continued*

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

	Weighted average interest rates %	Fixed rate borrowings		Floating rate borrowings US\$m	Total US\$m
		Weighted average period outstanding Years	US\$m		
2017					
Hong Kong dollar	2.7	1.5	118.3	302.5	420.8
Swiss franc	2.6	14.0	1.7	2.5	4.2
United Kingdom sterling	1.5	–	–	85.7	85.7
			120.0	390.7	510.7
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

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account of hedging transactions (*refer note 24*).

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:

	2017 US\$m	2016 US\$m
Within one year	390.7	413.8
Between one and two years	118.3	–
Between two and three years	–	64.4
Between three and four years	–	–
Between four and five years	–	–
Beyond five years	1.7	1.7
	510.7	479.9

16 Borrowings *continued*

The movement in borrowings are as follows:

	Bank overdrafts US\$m	Long-term borrowings US\$m	Total US\$m
2017			
At 1st January	0.1	479.8	479.9
Exchange differences	–	2.6	2.6
Change in bank overdrafts	(0.1)	–	(0.1)
Drawdown of borrowings	–	30.8	30.8
Repayment of borrowings	–	(2.5)	(2.5)
At 31st December	–	510.7	510.7
2016			
At 1st January	–	440.4	440.4
Exchange differences	–	(10.5)	(10.5)
Change in bank overdrafts	0.1	–	0.1
Drawdown of borrowings	–	51.5	51.5
Repayment of borrowings	–	(1.6)	(1.6)
At 31st December	0.1	479.8	479.9

17 Tax increment financing

	2017 US\$m	2016 US\$m
Netted off against the net book value of the property (<i>refer note 9</i>)	21.3	22.2
Loan (<i>refer note 16</i>)	–	1.7
	21.3	23.9

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

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

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property.

Notes to the Financial Statements *Continued***18 Segment information**

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

	2017 US\$m	2016 US\$m
Analysis by geographical area		
– Hong Kong	372.3	380.8
– Other Asia	121.2	105.5
– Europe	937.8	810.3
– The Americas	266.2	263.6
	1,697.5	1,560.2

19 Share capital

	Ordinary shares in millions		2017 US\$m	2016 US\$m
	2017	2016		
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	1,255.9	62.8	62.8
Issued under share-based long-term incentive plans	2.7	–	0.1	–
At 31st December	1,258.6	1,255.9	62.9	62.8

20 Share premium

	2017 US\$m	2016 US\$m
At 1st January	490.4	490.3
Issued under share-based long-term incentive plans	0.6	–
Transfer from capital reserves	2.9	0.1
At 31st December	493.9	490.4

21 Share-based long-term incentive plans

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

- i) The Mandarin Oriental Share-based Long-term Incentive Plan (the '2014 Plan') was adopted by the Company on 6th March 2014. Under these awards, the free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. During 2017, no conditional share awards (2016: 1,976,000 shares) were awarded under the 2014 Plan. The fair value of the share awards granted in 2016 was US\$2.2 million. The inputs into the discounted cash flow valuation model were share price of US\$1.30 per share at the grant date, dividend yield of 4.6% and annual risk-free interest rate of 1.2%.

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2017	2016
At 1st January	5.3	3.5
Granted	–	2.0
Released	(1.7)	–
Cancelled	(0.1)	(0.2)
At 31st December	3.5	5.3

Outstanding conditional awards at 31st December:

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

Notes to the Financial Statements *Continued***21 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:

	2017		2016	
	Weighted average exercise price US\$	Options in millions	Weighted average exercise price US\$	Options in millions
At 1st January	1.61	31.4	1.61	32.5
Exercised	1.45	(7.8)	1.20	(0.3)
Cancelled	1.66	(15.3)	1.82	(0.8)
At 31st December	1.67	8.3	1.61	31.4

The average share price during the year was US\$1.78 (2016: US\$1.36) per share.

Outstanding options at 31st December:

Expiry date	Exercise price US\$	Ordinary shares in millions	
		2017	2016
2017		–	3.6
2018	1.08-1.63	0.5	6.8
2019	0.66	0.2	1.2
2020	1.36	0.7	3.0
2021	1.99	2.8	4.3
2022	1.61	2.5	6.7
2023	1.57	1.6	5.8
Total outstanding		8.3	31.4
of which exercisable		8.3	31.4

22 Dividends

	2017 US\$m	2016 US\$m
Final dividend in respect of 2016 of US¢2.50 (2015: US¢3.00) per share	31.4	37.7
Interim dividend in respect of 2017 of US¢1.50 (2016: US¢1.50) per share	18.9	18.8
	50.3	56.5

A final dividend in respect of 2017 of US¢1.50 (2016: US¢2.50) per share amounting to a total of US\$18.9 million (2016: US\$31.4 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2018 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2018.

23 Notes to consolidated cash flow statement

a) Other non-cash items

	2017 US\$m	2016 US\$m
Share-based payment	2.3	2.2
Others	(2.1)	0.5
	0.2	2.7

b) Movements in working capital

	2017 US\$m	2016 US\$m
Increase in stocks	(0.2)	(0.2)
Increase in debtors and prepayments	(0.3)	(8.2)
Increase in creditors and accruals	9.9	4.6
Increase in pension obligations	0.2	–
	9.6	(3.8)

- c) The Group paid a further US\$3.1 million instalment in respect of the land purchase price and related cost for the expansion of Mandarin Oriental, Munich in 2017 (2016: nil). Cumulative costs paid by the Group amounted to US\$20.0 million (2016: US\$16.9 million), the majority of which have been included within Other Debtors pending transfer of title in the underlying land.
- d) In 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.
- e) During 2017, the Group provided shareholder loans to Mandarin Oriental, New York of US\$9.1 million (2016: nil) and Hotel Ritz, Madrid of US\$2.3 million (2016: US\$2.8 million).
- f) During 2017, the Group received repayment on its shareholder loan previously provided to Hotel Ritz, Madrid of US\$0.8 million (2016: nil) and Mandarin Oriental, Miami of US\$0.5 million (2016: US\$0.9 million).

g) Analysis of balances of cash and cash equivalents

	2017 US\$m	2016 US\$m
Bank and cash balances (refer note 14)	183.9	182.6
Bank overdrafts (refer note 16)	–	(0.1)
	183.9	182.5

Notes to the Financial Statements *Continued***24 Derivative financial instruments**

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

	2017		2016	
	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	0.5	0.2	–	0.6
At 31st December	0.5	0.2	–	0.6
Non-current	0.5	0.2	–	–
Current (<i>refer note 15</i>)	–	–	–	0.6
At 31st December	0.5	0.2	–	0.6

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2017 were US\$236.1 million (2016: US\$232.9 million).

At 31st December 2017, the fixed interest rates relating to interest rate swaps and caps varied from 1.8% to 2.5% (2016: 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 1.3% to 1.7% (2016: 0.7% to 1.9%) per annum.

25 Commitments

	2017 US\$m	2016 US\$m
Capital commitments		
Authorized not contracted		
– other	147.6	134.4
Contracted not provided		
– joint ventures	55.1	36.6
– other	51.6	99.9
	106.7	136.5
	254.3	270.9
Operating lease commitments		
Total commitments under operating leases		
– due within one year	7.2	7.0
– due between one and two years	6.7	6.6
– due between two and three years	6.4	6.5
– due between three and four years	5.8	6.3
– due between four and five years	5.8	6.2
– due beyond five years	75.7	81.7
	107.6	114.3

No future sublease payments are receivable relating to the above operating leases (2016: 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.

26 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 2017, the Group managed six (2016: six) associate and joint venture hotels and received management fees of US\$13.6 million (2016: 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 2017 to JLT amounted to US\$1.2 million (2016: US\$0.9 million).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2017 amounted to US\$2.5 million (2016: US\$2.1 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US\$0.3 million (2016: US\$0.3 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group did not have any amount payable to JML as at 31st December 2017 (2016: nil).

The outstanding balances with associates and joint ventures are set out in debtors and prepayments in note 13.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 90 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

27 Summarized balance sheet of the Company

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

	2017 US\$m	2016 US\$m
Subsidiaries	964.3	949.3
Net current liabilities	(2.2)	(1.9)
Net assets	962.1	947.4
Share capital (refer note 19)	62.9	62.8
Share premium (refer note 20)	493.9	490.4
Revenue and other reserves	405.3	394.2
Shareholders' funds	962.1	947.4

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

Notes to the Financial Statements *Continued*

28 Principal subsidiaries, associates, joint ventures and managed hotels

The principal subsidiaries, associates, joint ventures and managed hotels of the Group at 31st December 2017 are set out below.

Principal place of business	Name of entity	Nature of business	Attributable interest %		Proportion of ordinary shares and voting powers at 31st December 2017 held by		Hotel profile
			2017	2016	the Group %	non-controlling interests %	
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	–	181 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genève) 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 (Genève) SA		100	100	100	–	–
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	100	100	100	–	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	100	100	100	–	138 rooms. Freehold
United States	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston	100	100	100	–	148 rooms. Freehold
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	83.6	80	83.6	16.4	373 rooms. Freehold
Associates and joint ventures							
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	50	50	50	50	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	47.6	47.6	47.6	52.4	368 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	25	25	25	75	630 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	49	49	49	51	–
Spain	Ritz Madrid, S.A.	Owner: Hotel Ritz, Madrid	50	50	50	50	162 rooms. Freehold
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	25	25	25	75	244 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	25	25	25	75	326 rooms. Freehold
Managed hotels							
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		–	–	–	–	111 rooms
Macau	Mandarin Oriental, Macau		–	–	–	–	213 rooms
China	Mandarin Oriental, Sanya		–	–	–	–	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
Chile	Hotel Santiago		–	–	–	–	310 rooms
Saint Vincent and the Grenadines	Pink Sands Club, Canouan		–	–	–	–	38 rooms

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's affairs as at 31st December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

What we have audited

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet as at 31st December 2017; the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Certain required disclosures have been presented in the Corporate Governance section of the Annual Report on page 90, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality

- Overall Group materiality: US\$3.5 million.
- Based on 5% of profit before tax.

Audit scope

- A full scope audit of twelve of the Mandarin Oriental hotels was performed. These hotels accounted for 93% of the Group's revenue and 89% of the Group's profit before tax.

Key audit matters

- Recoverability of the carrying amounts of hotel properties.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Recoverability of the carrying amounts of hotel properties</i></p> <p>Refer to note E and F (Principal accounting policies), note B (Critical accounting estimates and judgements), note 9 (Tangible assets) and note 10 (Associates and joint ventures) of the financial statements.</p> <p>The Group's hotel properties are stated at cost less depreciation and impairment. As at 31st December 2017, the carrying value of the hotel properties held through the Group's subsidiaries was US\$1,453.2 million. The Group also has interests in a number of hotel properties held through its associates and joint ventures. Given the different political and economic environments in which the Group operates, the trading performance of these hotels varies.</p> <p>Management considers each hotel to be a separate cash-generating unit ('CGU') and performs an impairment assessment, where impairment indicators exist, to determine the recoverable amount of the hotel properties. The recoverable amount is determined as the higher of the CGU's value-in-use and fair value less costs to sell. In determining the fair value less cost to sell, management involved third party valuers ('valuers') to perform valuation of the hotel properties. Management concluded that no impairment of hotel properties was required as at 31st December 2017.</p> <p>We focused on this area as the impairment assessment involves significant judgements and estimation uncertainty in respect of future business performance and key assumptions including discount rates, terminal yield, occupancy rate, sales growth rate and capital expenditure necessary to maintain the service standard.</p>	<p>We discussed triggering events and indicators of potential impairment of hotel properties with management and inspected the operating results and forecasts of the respective hotels.</p> <p>We evaluated management's future cash flow forecasts and the process by which they were prepared including testing the mathematical accuracy of the underlying calculations and compared the future cash flow forecasts to the Board approved budgets.</p> <p>We assessed the assumptions used by the valuers and management in the calculations of the recoverable amounts, such as the country specific discount rate and terminal yield with reference to market data. We assessed the reasonableness of the occupancy rate, sales growth rate and capital expenditure by comparing them to historical results and latest economic and industry forecasts.</p> <p>We assessed the qualifications, competence and objectivity of the valuers and read the valuation reports prepared by the valuers and considered the appropriateness and consistency of valuation methodologies.</p> <p>We performed sensitivity analyses where there were indicators of impairment. This was undertaken by making adjustments to the key assumptions in management's impairment assessments and considered whether, in isolation or as a combination, any reasonably possible adjustments would result in a material impairment.</p> <p>Based on our work and the evidence obtained, we found that the methodologies were applied consistently and appropriately, and the significant judgements and estimates adopted by management were appropriate.</p>

How we tailored the audit scope

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

Independent Auditors' Report *Continued*

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

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

A full scope audit of twelve of the Mandarin Oriental hotels was performed. These hotels accounted for 93% of the Group's revenue and 89% of the Group's profit before tax. This, together with procedures performed on centralized functions and at the Group level (on the consolidation and other areas of significant judgement), gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

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

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

Overall Group materiality	US\$3.5 million.
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Profit is the primary measure used by shareholders in assessing the performance of the Group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was US\$0.9 million to US\$2.0 million.

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

Conclusions relating to going concern

In accordance with ISAs (UK) we are required to report if the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorized for issue. We have nothing to report.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 87, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Baker

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants

London

8th March 2018

- 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

	2013 US\$m	2014 US\$m	2015 US\$m	2016 US\$m	2017 US\$m
Revenue	668.6	679.9	607.3	597.4	610.8
Operating profit	111.8	120.8	107.3	68.0	69.0
Net financing charges	(15.8)	(17.3)	(11.8)	(10.8)	(11.0)
Share of results of associates and joint ventures	20.6	12.3	10.5	10.9	11.5
Profit before tax	116.6	115.8	106.0	68.1	69.5
Tax	(19.8)	(19.0)	(16.6)	(13.7)	(15.0)
Profit after tax	96.8	96.8	89.4	54.4	54.5
Profit attributable to shareholders	96.3	97.0	89.3	55.2	54.9
Underlying profit attributable to shareholders	93.2	97.0	90.3	57.3	54.9
Earnings per share (US¢)*	9.23	9.29	7.44	4.40	4.37
Underlying earnings per share (US¢)*	8.93	9.29	7.53	4.56	4.37
Dividends per share (US¢)	7.00	7.00	5.00	4.00	3.00

Consolidated Balance Sheet

	2013 US\$m	2014 US\$m	2015 US\$m	2016 US\$m	2017 US\$m
Intangible assets	42.6	45.6	44.1	44.3	47.7
Tangible assets	1,440.5	1,315.1	1,255.0	1,352.1	1,453.2
Associates and joint ventures	110.8	101.6	164.4	163.8	196.6
Other investments	9.3	10.5	10.2	10.7	11.0
Deferred tax assets	3.1	2.2	2.8	2.6	11.0
Pension assets	14.4	7.3	–	–	4.9
Other non-current debtors	–	–	–	–	0.5
Net current assets/(liabilities)	(317.7)	55.1	254.2	136.6	122.7
Long-term borrowings	(238.7)	(510.7)	(436.2)	(477.4)	(508.1)
Deferred tax liabilities	(65.5)	(62.3)	(59.8)	(56.1)	(58.6)
Pension liabilities	(0.6)	–	–	(3.2)	(0.6)
Other non-current liabilities	(3.5)	(3.0)	(3.0)	–	(0.2)
Net assets	994.7	961.4	1,231.7	1,173.4	1,280.1
Share capital	50.2	50.2	62.8	62.8	62.9
Share premium	186.6	188.2	490.3	490.4	493.9
Revenue and other reserves	752.2	718.0	673.6	616.2	717.2
Shareholders' funds	989.0	956.4	1,226.7	1,169.4	1,274.0
Non-controlling interests	5.7	5.0	5.0	4.0	6.1
Total equity	994.7	961.4	1,231.7	1,173.4	1,280.1
Net asset value per share (US\$)*	0.95	0.92	0.98	0.93	1.01

Consolidated Cash Flow Statement

	2013 US\$m	2014 US\$m	2015 US\$m	2016 US\$m	2017 US\$m
Cash flows from operating activities	156.9	159.5	140.2	107.7	119.9
Cash flows from investing activities	(422.3)	(45.6)	(124.4)	(222.8)	(102.0)
Net cash flow before financing activities	(265.4)	113.9	15.8	(115.1)	17.9
Cash flow per share from operating activities (US¢)*	15.04	15.27	11.69	8.58	9.53

*The comparative figures in 2013 and 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

8th March 2018

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-trying 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 78% interest in the Company's share capital, the Group Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Mandarin Oriental Hotel Group International Limited ('MOHG'), and its finance committee are chaired by the Managing Director and include Group executives as well as Jardine Matheson's deputy managing director, group finance director, group strategy director and group general counsel.

The presence of Jardine Matheson representatives on the Board 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 2018 and ad hoc procedures are adopted to deal with urgent matters. In 2017 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.

Corporate Governance *Continued*

At this year's Annual General Meeting to be held on 9th May 2018, Dr Richard Lee and Lord Powell of Bayswater are to retire and will not seek re-election. It is proposed that Jack Chen will join the Board following the Annual General Meeting. In accordance with Bye-law 85, Edouard Ettedgui, Sir Henry Keswick and Percy Weatherall retire by rotation and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election has a service contract with the Company or its subsidiaries.

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

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

For the year ended 31st December 2017, the Directors received from the Group US\$5.9 million (2016: US\$8.2 million) in Directors' fees and employee benefits, being US\$0.8 million (2016: US\$0.7 million) in Directors' fees, US\$4.7 million (2016: US\$6.9 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US\$0.2 million (2016: US\$0.2 million) in post-employment benefits and US\$0.2 million (2016: US\$0.4 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 95 and 96.

Corporate Governance *Continued*

Directors' responsibilities in respect of the financial statements

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

Code of Conduct

The Group conducts business in a professional, ethical and even-handed manner. Its ethical standards are clearly set out in its Code of Conduct, which is modelled on the Jardine Matheson group's code of conduct. The Code of Conduct requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. The Code of Conduct prohibits the giving or receiving of illicit payments, and requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organizations.

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

The Group has in place procedures by which employees can raise, in confidence, matters of serious concern in areas such as financial reporting or compliance.

Directors' share interests

The Directors of the Company in office on 8th March 2018 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	995,807
Edouard Ettedgui	13,507,229
Julian Hui	10,294
Lincoln K.K. Leong	129,756

In addition, Stuart Dickie held share options in respect of 742,168 ordinary shares and share awards in respect of 485,000 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 975,842,926 ordinary shares carrying 77.53% 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 8th March 2018.

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.

Corporate Governance *Continued*

Related party transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 26 to the financial statements on page 79.

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 2018 Annual General Meeting will be held on 9th May 2018. 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 91 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 40 to 45.

Commercial and market risk

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

The Group operates within the global hotel industry which is highly competitive. Failure to compete effectively in terms of quality of product, levels of service or price can have an adverse effect on earnings. This may also include failure to adapt to rapidly evolving customer preferences and expectations. Significant competitive pressure or the oversupply of hotel rooms in a specific market can lead to reduced margins. Advances in technology creating new or disruptive competitive pressures might also negatively affect the trading environment.

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

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

Pandemic, terrorism and natural disasters

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

Principal Risks and Uncertainties *Continued*

Key agreements

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

Reputational risk and value of the brand

The Group's brand equity and global reputation is fundamental in supporting its ability to offer premium products and services and to achieving acceptable revenues and profit margins. Any damage to the Group's brand equity or reputation, including as a result of negative effects relating to health and safety, acts or omissions by Group personnel, information system 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

2017 full-year results announced	8th March 2018
Shares quoted ex-dividend on the Singapore Exchange	21st March 2018
Shares quoted ex-dividend on the London Stock Exchange	22nd March 2018
Share registers closed	26th to 30th March 2018
Annual General Meeting to be held	9th May 2018
2017 final dividend payable	16th May 2018
2018 half-year results to be announced	26th July 2018*
Shares quoted ex-dividend on the Singapore Exchange	15th August 2018*
Shares quoted ex-dividend on the London Stock Exchange	16th August 2018*
Share registers to be closed	20th to 24th August 2018*
2018 interim dividend payable	10th October 2018*

* 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 2017 final dividend by notifying the United Kingdom transfer agent in writing by 27th April 2018. The sterling equivalent of dividends declared in United States dollars will be calculated by reference to a rate prevailing on 2nd May 2018.

Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends in sterling only. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive their cash dividends in United States dollars unless they elect, through CDP, to receive Singapore dollars.

Registrars and transfer agent

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

Principal Registrar

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

Jersey Branch Registrar

Link Market Services (Jersey) Limited, 12 Castle Street, St Helier, Jersey JE2 3RT, Channel Islands

Singapore Branch Registrar

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

United Kingdom Transfer Agent

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

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

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MANDARIN ORIENTAL
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