

MANDARIN ORIENTAL
INTERNATIONAL LIMITED

ANNUAL REPORT 2004



MANDARIN ORIENTAL HOTEL GROUP is an international hotel investment and management group operating 26 deluxe and first class hotels and resorts worldwide including five under development in Hong Kong, Tokyo, Mexico, Prague and Boston. The Group has equity interests in many of its properties and net assets of approximately US\$1.2 billion at 31st December 2004. Mandarin Oriental now operates, or has under development, close to 8,000 rooms in 13 countries with 12 hotels in Asia, nine in The Americas and five in Europe.

Mandarin Oriental's aim is to be recognized as one of the best global luxury hotel groups, providing exceptional customer satisfaction in each of its hotels. This will be achieved through a strategy of investing in facilities and people, while maximizing profitability and long-term shareholder value. The Group regularly receives recognition and awards for outstanding service and quality management. The growth strategy of the Group is to progress towards operating 10,000 rooms in major business centres and key leisure destinations around the world.

The parent company, Mandarin Oriental International Limited, is incorporated in Bermuda and listed in London, Singapore and Bermuda. Mandarin Oriental Hotel Group International Limited, which operates from Hong Kong, manages the activities of the Group's hotels. Mandarin Oriental is a member of the Jardine Matheson Group.



Jardines

A member of the Jardine Matheson Group

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CORPORATE INFORMATION

Directors

Simon Keswick *Chairman*
Percy Weatherall *Managing Director*
Edouard Ettedgui *Group Chief Executive*
Jonathan Gould
Julian Hui
Brian Keelan
Henry Keswick
R C Kwok *JP*
C G R Leach
Dr Richard Lee
Robert Léon
Sydney S W Leong *JP*
Lord Powell of Bayswater *KCMG*
James Watkins
John R Witt

Company Secretary and Registered Office

C H Wilken
Jardine House
33-35 Reid Street
Hamilton, Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

Percy Weatherall *Chairman*
Edouard Ettedgui *Managing Director*
N Clayton
Jonathan Gould
M H Hobson
W Hültner
Brian Keelan
L C Lim
James Riley
T L Stinson
John R Witt *Finance Director*

Corporate Secretary

N M McNamara

HIGHLIGHTS

MANDARIN ORIENTAL INTERNATIONAL LIMITED

- Recovery in profits led by Hong Kong hotels
- Development strategy gathering momentum
- Hong Kong flagship to be refurbished in 2006/07

Results

	2004 US\$m	Restated 2003 US\$m	Change %
Combined total revenue of hotels under management	667.3	541.2	23
Profit before interest, tax, depreciation and amortization ¹	99.0	68.8	44
Profit before interest and tax ²	56.0	29.0	93
Profit attributable to shareholders	27.8	3.5	694
Funds from operations ³	39.9	12.6	217
	US¢	US¢	%
Earnings per share	3.26	0.41	695
Funds from operations per share ³	4.68	1.48	216
Dividends per share	1.00	–	n/a
	US\$	US\$	%
Net asset value per share	0.81	0.71	14
Net asset value per share with leasehold properties at valuation ⁴	1.38	1.15	20

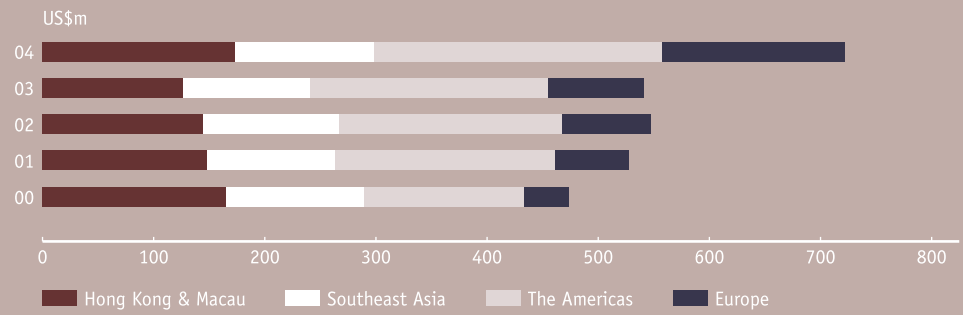
¹ Profit before interest, tax, depreciation and amortization excludes the impact of property revaluations.

² Profit before interest and tax includes the impact of property revaluations.

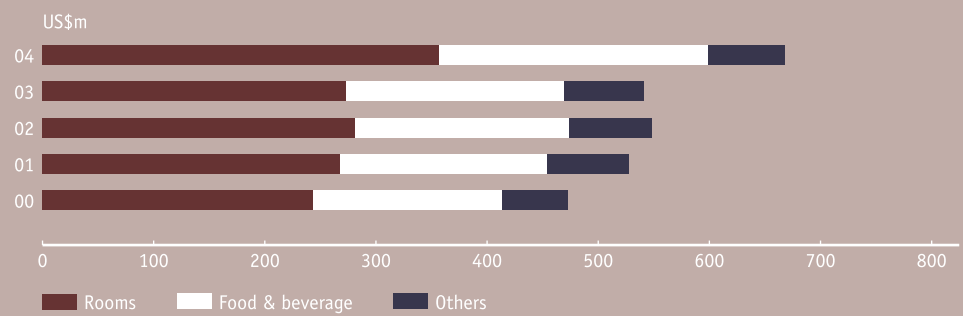
³ Funds from operations ('FFO') figures have been presented to provide additional information to investors to facilitate comparison with other hotel companies with substantial real estate interests, including those in Hong Kong. FFO is defined as profit attributable to shareholders excluding depreciation of hotel buildings, net of relevant deferred tax and minority interests.

⁴ The net asset value per share with leasehold properties at valuation has been presented after adjusting for the market value of the Group's leasehold interests. International Financial Reporting Standards ('IFRS') do not permit leasehold interests of owner-occupied land to be carried at valuation. The Group considers that the IFRS treatment does not reflect the economic substance of its underlying property investments. Therefore, the Group has presented the net asset value per share taking into account the fair market value of leasehold properties as supplementary financial information in addition to the net asset value per share in accordance with IFRS.

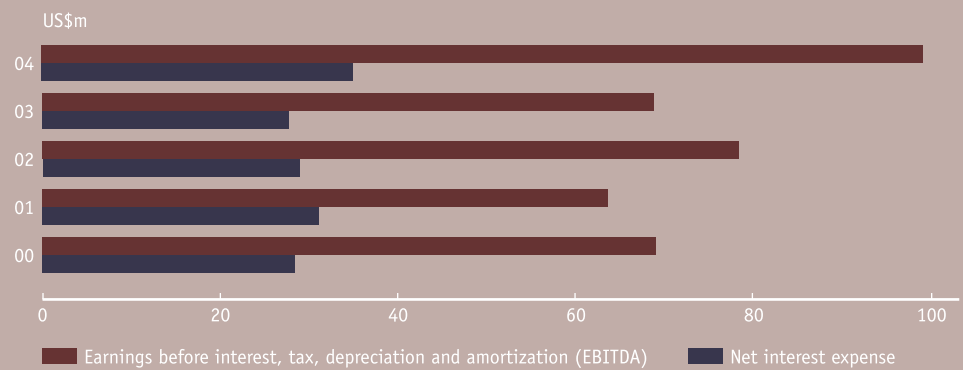
Combined total revenue by geographical area



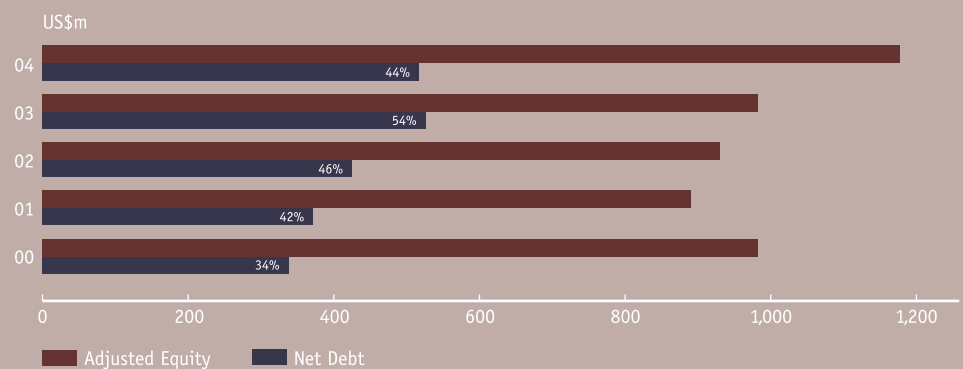
Combined total revenue by type of business



EBITDA and net interest expense



Net debt/adjusted equity



CHAIRMAN'S STATEMENT

OVERVIEW

A sustained recovery in global travel benefited most of the Group's hotels in 2004. At the same time, Mandarin Oriental's growth strategy gathered momentum with several developments announced and a number under negotiation.

PERFORMANCE

In Hong Kong, London, New York and Bangkok, improvements over 2003 were achieved as higher occupancy levels led to better revenues and profit margins. The Group's new hotels in New York and Washington D.C. have been well received, although it is expected that they will take two to three years to realize their full potential.

Earnings before interest, tax, depreciation and amortization for 2004 ('EBITDA') were US\$99 million after some US\$11 million pre-opening costs and initial operating losses in Washington D.C. This compares with EBITDA of US\$69 million in 2003, which included a US\$16 million business interruption insurance claim offset by some US\$8 million pre-opening costs and initial operating losses.

In addition, the 2004 profit and loss account benefited from a US\$10 million partial writeback of an impairment against the Group's interest in its Kuala Lumpur hotel. Although the Group continued to enjoy a low interest rate environment, net financing charges and depreciation expenses increased in 2004 due to the opening of the New York and Washington D.C. properties.

Profit attributable to shareholders in 2004 increased to US\$28 million, compared with US\$3 million in the previous year, and earnings per share for the period were US¢3.26, compared with US¢0.41 per share in 2003 as restated. Funds from operations, being profit attributable to shareholders excluding depreciation on hotel buildings, were US\$40 million in 2004, compared with US\$13 million in 2003.

The Directors are recommending a dividend of US¢1.00 per share. No dividend was paid in 2003.

Following an independent valuation of the Group's hotel properties undertaken at the end of the year, the net asset value per share with leasehold properties at valuation was US\$1.38, compared with US\$1.15 at 31st December 2003.

DEVELOPMENTS

The Group's development strategy is gathering momentum with four new hotels announced in 2004. In June, the Group assumed the management of Hotel Royal Monceau in Paris, which is being renovated. Mandarin Oriental Dhara Dhevi, Chiang Mai in northern Thailand opened in mid-December, and a second resort will open in early 2006 on the Riviera Maya in Mexico. In December, the Group announced that it will manage a 98-room hotel to be opened in Prague in the first half of 2006.

The Group's new hotel development at The Landmark in Hong Kong will open in the third quarter of 2005. Construction of Mandarin Oriental, Tokyo is ahead of schedule and the hotel is now expected to open in late 2005. Work has also begun on Mandarin Oriental, Boston, which is expected to be completed in the second half of 2007.

The Group's 50%-owned hotel in Singapore partially reopened in December 2004 following a renovation, which will be complete in March 2005. The Group also announced a US\$110 million renovation programme for its flagship hotel, Mandarin Oriental, Hong Kong to be carried out in two phases over a 20 month period commencing at the end of 2005.

PEOPLE

The success of the Group depends upon our guests being delighted by the service excellence of our employees. I would like to express my thanks to each of them for their enthusiasm and commitment.

Mr Kenneth Lo retired from the Board in May 2004, we are grateful for the contribution to the Group.

OUTLOOK

Increased activity in both the corporate and leisure travel segments is expected to continue and should have a positive effect on average room rates. As the Group's new hotels mature, Mandarin Oriental is well positioned to benefit from this growing demand and from the more balanced geographic spread of its portfolio.

Simon Keswick

Chairman

16th February 2005

OVERVIEW

Progress was made in 2004 towards achieving Mandarin Oriental's objective of operating 10,000 rooms in key global destinations. During the year, we fully opened our latest flagship properties in New York and in Washington D.C., as well as announcing four new management contracts for hotels in Paris, Prague, Chiang Mai in Thailand and Riviera Maya in Mexico. With 21 hotels in operation and a further five hotels under development, the Group today comprises a portfolio of almost 8,000 rooms with a wide geographic diversification.

Overall, the Group experienced a rebound in results in 2004 as occupancy levels recovered in most markets following a revival in corporate and leisure travel. In most cases, the hotels enhanced or maintained their strong competitive positions in their local market places.

PERFORMANCE IN 2004

Set out below is a review of the performance of the Group in 2004, with reference to the following strategic objectives:

- Consolidating our position as one of the best global luxury hotel groups
- Improving our competitive position
- Increasing the number of rooms under operation to 10,000
- Investing in the brand
- Ensuring a strong cash flow and balance sheet

1) Consolidating our position as one of the best global luxury hotel groups

Mandarin Oriental is enjoying greater global recognition as we work to deliver, in each of our properties, excellent service and a high standard of luxury, enhanced by our unique oriental characteristics. Our guests are responding well to the continued introduction of innovative products and services. In particular, we have invested in two pillars of our brand – spas and creative dining experiences, both of which benefit from a natural affiliation with our oriental roots. In 2004, these areas of expertise provided the Group with an array of awards from respected publications and associations around the world, as well as achieving noteworthy media coverage. The Spa at Mandarin Oriental Hyde Park, London was voted the best spa in the United Kingdom by readers of *Condé Nast Traveller, UK*, and The Oriental Spa in Bangkok won the award for 'Best Urban-Hideaway Spa' in *Luxury Spa Finder, US*. There is also increasing recognition of the Group's excellence in dining, with *Condé Nast Traveler, US* placing Mandarin Oriental in first place in the 'Dining and Restaurants' category of their annual 'Business Travel Awards'.

2) Improving our competitive position

We remain committed to exceeding the expectations of our guests and delighting them with our ability to anticipate and fulfil their wishes. This remains an essential component of improving our competitive position as a global luxury hotel group.

With most markets recovering in 2004, each of the Group's operating hotels concentrated on maintaining or enhancing its competitive position. As revenue levels increased, management focus has been on ensuring that a high percentage of the incremental revenues is retained as profit. The year saw increases in revenue per available room ('RevPAR') across all regions, excluding new hotels, with Europe up 13% over 2003, The Americas up 14% over 2003, and Asia up 33% over 2003 and 16% over 2002. As a result, gross operating margins across the Group have improved significantly from 2003.

The highlights of each region are as follows:

Asia

Hong Kong led the region with a rebound in travel, in particular from the corporate and short haul leisure markets. As a result, Mandarin Oriental, Hong Kong achieved an occupancy of 80% compared with 53% in 2003 and 69% in 2002. Average room rates increased by 9% as the hotel was able to benefit from periods of high demand. Food and beverage revenues also rose with increased occupancy and improved local market sentiment. The Group announced recently a US\$110 million renovation programme for Mandarin Oriental, Hong Kong, designed to ensure its position as one of the world's legendary hotels. This will be carried out in two phases over a twenty-month period from the end of December 2005.

At The Excelsior, occupancy climbed to 89% from 67% in 2003 and 84% in 2002. A 17% increase in the average room rate was achieved with strong demand from all market segments. The hotel benefited from strong visitor arrivals from the Chinese mainland, which now account for 20% of the hotel's room nights sold. The Excelsior's food and beverage operations were also up 17% above 2003 levels.

In Macau, occupancy grew from 59% to 77% as the territory also experienced strong demand from the Chinese mainland and benefited from the prosperity arising from developments in the casino sector. At the end of the year, the hotel's retail space was expanded significantly to feature additional luxury brands, making it the leading high-end retail centre in Macau.

Mandarin Oriental, Manila showed some improvement in occupancy but the overall market remains lacklustre. With limited international visitors, demand is dependent on the local market, which is very rate sensitive. Mandarin Oriental, Jakarta maintained its occupancy despite the continued oversupply of hotel rooms in the city. In Singapore, The Oriental was closed from mid-August to the beginning of December for a renovation programme covering both rooms and public areas. Following full completion of the renovation in March 2005, the hotel will be repositioned among the top luxury hotels in the market.

In Bangkok, The Oriental's occupancy, at 66%, returned to 2002 levels and the hotel was able to achieve a small increase in average room rates. Following an extensive renovation programme over the past few years, The Oriental remains the leading hotel in Bangkok. Similarly in Kuala Lumpur, the Group's hotel continued to outperform the market, with a significant lead in RevPAR which grew 19% over 2003.

Europe

In London, Mandarin Oriental Hyde Park further consolidated its position among the city's leading hotels. Occupancy increased from 73% to 77%, while the average rate, at US\$628, improved 5% in local currency terms compared with 2003. Mandarin Oriental, Munich remains the leading hotel in the city, with a slight improvement in its occupancy from 81% to 82% and a marginal increase in the average rate. The hotel in Geneva, along with the market in general, continued to suffer from declining corporate demand compounded by significantly reduced levels of business from the important Middle-eastern markets.

The Americas

Recognition for the brand in North America increased markedly in 2004 following strong media exposure for our new hotels in New York and Washington D.C. The overall result was, however, adversely affected by start-up costs and initial operating losses in Washington D.C. Nevertheless, the hotel has been well received by the local community, and since October has achieved occupancy of 51% at an average rate of US\$278.

In New York, a general increase in demand from both the corporate and leisure markets enabled The Mark to show some recovery in occupancy at 71% compared to 63% in 2003. Across Central Park, Mandarin Oriental, New York continued to build market share and is rapidly establishing itself as the leading hotel in the city. Overall occupancy, at 55%, reflected the slow start to the year following the hotel's opening in late November 2003 when the Time Warner Center was still under development. The complex was completed in October 2004, with the opening of *Jazz at Lincoln Center*, and has been well received by both the local community and visitors to the city. Since October, the hotel has achieved 72% occupancy at an average rate of US\$690. Sales of *The Residences at Mandarin Oriental* have also been strong, and the Group has benefited from associated branding fees.

In Hawaii, Kahala Mandarin Oriental performed well with RevPAR growing by 17% based on strong leisure demand. Similarly, Mandarin Oriental, Miami consolidated its position as the leading luxury leisure hotel in the market while also attracting high-end corporate demand. RevPAR grew by 20% as occupancy increased to 65%. The market in San Francisco showed some recovery although occupancy and average room rates remain well below 2000 levels. The resort hotel in Bermuda was negatively impacted by a major renovation programme which included the addition of a new spa.

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

We have moved steadily towards our target of at least 10,000 rooms in major cities and resort destinations around the world. With over 7,000 rooms currently in operation and a further 700 rooms under development, we are confident of reaching our goal within the next three to five years.

Most of our recently announced developments are management contracts, requiring limited capital from the Group. This is a clear indication of the growing strength of our brand and bodes well for our ability to attract further management contracts. The Group continues to assess potential new projects in locations around the world with a focus on major international city centres as well as resorts in leisure destinations.

Three new properties were added to our portfolio as operating hotels in 2004:

- In March, the Group opened the 80%-owned Mandarin Oriental, Washington D.C., with 400 rooms and featuring a unique waterfront setting.
- In June, the Group began to manage the prestigious 180-room Hotel Royal Monceau in Paris, which is currently undergoing a thorough refurbishment.
- In December, the Group's first 'hideaway' resort partially opened in Chiang Mai in northern Thailand. A managed property, the luxurious resort will feature 144 large villas and suites together with a spa set in 35 hectares of landscaping, when it fully opens in late 2005.

Progress continues on the construction of a number of new luxury hotels:

- The Landmark Mandarin Oriental, Hong Kong, a 113-room managed hotel, is due to open in the third quarter of 2005.
- Mandarin Oriental, Tokyo, a 179-room hotel which the Group will operate under a long term lease, has made good progress and should now open ahead of schedule in late 2005.
- A second managed 'hideaway' resort, Mandarin Oriental Riviera Maya, Mexico is scheduled to open in early 2006 and will feature 128 villas on the secluded Riviera Maya coastline, south of Cancun.
- A 98-room hotel opening in the first half of 2006 is under development in the heart of the historic centre of Prague in the Czech Republic, which Mandarin Oriental will operate under a management contract.
- Mandarin Oriental, Boston, a 149-room managed hotel which will be housed within a mixed use complex in the heart of the city, is on schedule to open in the second half of 2007.

4) Investing in the brand

Increased recognition for the Mandarin Oriental brand has enhanced our ability to take advantage of new development opportunities. The Group is investing heavily in its core competencies, with particular emphasis on Mandarin Oriental's growing expertise in the areas which define its own style of luxury. We continue to raise the level of our proficiency in hotel design, spa operations, and food and beverage development. Similarly, we have taken advantage of the latest developments in guest-orientated technology including in-room entertainment systems. Brand support is also particularly strong in marketing, sales and communications. Our 12,000 colleagues around the world remain our greatest asset, and their training and development is essential to our future success.

The underlying investment made in developing our core competencies over the past five years has begun to pay off, with increased management fees exceeding corporate overheads by some US\$5 million in 2004. With a strong platform in place, we are well positioned to provide support to the hotels under development in the coming five years.

5) Ensuring a strong cash flow and balance sheet

The Group has achieved a more balanced geographic spread of its portfolio, following the success of our development strategy in the past six years. In 1998, 76% of the Group's total revenue came from Asia, in particular from the Hong Kong properties. In 2004, Asia represented 45% of our total revenue, with Europe making up 16% and The Americas 39%. The recovery of property values in several of our markets also contributed to a strengthening of the Group's balance sheet.

In 2004, the Group's cash flow was US\$19 million before financing activities, including investments of US\$30 million. This compares with a negative cash flow of US\$56 million in 2003, which included the Group's funding in New York and Washington D.C. The Group continued to benefit from a low interest rate environment and its balance sheet remains sound. Debt was re-financed during 2004 at competitive pricing, maintaining the average tenor of our available facilities at around five years.

In January 2005, Mandarin Oriental exercised a put option to require its partner in the Kahala Mandarin Oriental hotel in Hawaii to purchase the Group's 40% interest in the partnership. The put option had been granted to the Group in 1995 to ensure a satisfactory return on its investment, and was only available for exercise between 1st January and 1st March 2005. Under the terms of the agreement, the consideration for the sale is calculated at US\$94 million, which includes the repayment of a US\$10 million partnership debt owed to Mandarin Oriental. The post-tax gain on the disposal of some US\$36 million would only be recognized at such time as satisfactory completion is achieved. If completion is not achieved, there is a variety of possible outcomes and it is too early to foresee the final result.

THE FUTURE

The recovery in international travel in 2004 had a positive impact on our earnings and the continuation of this trend in 2005 should be helped by limited new supply of luxury hotels in most markets. Our results should further benefit from the Group's significant ownership interests in a number of key properties combined with increasing management opportunities. These are promising times in the development of Mandarin Oriental, and we are well on our way to achieving our goal of becoming one of the best global luxury hotel groups.

Edouard Ettegui

Group Chief Executive

16th February 2005

OPERATING SUMMARY

The operating summary includes the hotels in which the Group has a significant equity interest and were operating throughout 2004.

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	541	541	–	Rooms	37.3	22.4	67
Average occupancy (%)	80	53	51	Food & beverage	35.6	26.2	36
Average room rate (US\$)	209	191	9	Other	10.0	8.3	20
RevPAR (US\$)	168	102	65	Total	82.9	56.9	46
				Average exchange rate/US\$	7.8	7.8	

The Excelsior, Hong Kong 100% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	883	883	–	Rooms	35.1	22.3	57
Average occupancy (%)	89	67	33	Food & beverage	20.9	17.9	17
Average room rate (US\$)	109	93	17	Other	3.7	3.6	3
RevPAR (US\$)	97	62	56	Total	59.7	43.8	36
				Average exchange rate/US\$	7.8	7.8	

Mandarin Oriental, Manila 96.2% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	443	448	(1)	Rooms	7.2	6.4	13
Average occupancy (%)	77	68	13	Food & beverage	7.3	6.6	11
Average room rate (US\$)	53	53	–	Other	1.2	1.2	–
RevPAR (US\$)	41	36	14	Total	15.7	14.2	11
				Average exchange rate/US\$	56.1	54.4	

Mandarin Oriental, Jakarta 65.5% ownership (2003: 60.5%*)

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	404	404	–	Rooms	3.8	3.7	3
Average occupancy (%)	39	39	–	Food & beverage	3.4	3.7	(8)
Average room rate (US\$)	65	60	8	Other	0.6	0.5	20
RevPAR (US\$)	25	24	4	Total	7.8	7.9	(1)
				Average exchange rate/US\$	8,984	8,569	

* effective equity interest throughout 2003

ASIA continued

Mandarin Oriental, Macau 50% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	416	435	(4)	Rooms	15.6	11.8	32
Average occupancy (%)	77	59	31	Food & beverage	7.9	7.1	11
Average room rate (US\$)	118	114	4	Other	7.3	6.2	18
RevPAR (US\$)	91	67	36	Total	30.8	25.1	23
				Average exchange rate/US\$	8.0	8.0	

The Oriental, Singapore 50% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	527	527	–	Rooms	6.7	9.2	(27)
Average occupancy (%)	42	58	(28)	Food & beverage	5.2	8.1	(36)
Average room rate (US\$)	83	83	–	Other	1.2	1.3	(8)
RevPAR (US\$)	35	48	(27)	Total	13.1	18.6	(30)
				Average exchange rate/US\$	1.7	1.7	

The Oriental, Bangkok 44.9% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	393	393	–	Rooms	20.1	15.6	29
Average occupancy (%)	66	55	20	Food & beverage	20.5	16.1	27
Average room rate (US\$)	205	194	6	Other	9.1	8.0	14
RevPAR (US\$)	136	106	28	Total	49.7	39.7	25
				Average exchange rate/US\$	40.3	41.5	

Mandarin Oriental, Kuala Lumpur 25% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	632	632	–	Rooms	19.1	15.9	20
Average occupancy (%)	82	73	12	Food & beverage	13.7	12.6	9
Average room rate (US\$)	100	94	6	Other	3.3	3.1	6
RevPAR (US\$)	82	69	19	Total	36.1	31.6	14
				Average exchange rate/US\$	3.8	3.8	

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	200	200	–	Rooms	36.4	28.8	26
Average occupancy (%)	77	73	5	Food & beverage	17.8	14.5	23
Average room rate (US\$)	628	537	17	Other	4.5	3.5	29
RevPAR (US\$)	483	391	24	Total	58.7	46.8	25
				<i>Average exchange rate/US\$</i>	<i>0.55</i>	<i>0.61</i>	

Mandarin Oriental, Munich 100% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	73	73	–	Rooms	8.6	7.7	12
Average occupancy (%)	82	81	1	Food & beverage	3.3	2.8	18
Average room rate (US\$)	388	355	9	Other	0.7	0.6	17
RevPAR (US\$)	320	287	11	Total	12.6	11.1	14
				<i>Average exchange rate/US\$</i>	<i>0.80</i>	<i>0.88</i>	

Mandarin Oriental Hotel du Rhône, Geneva 92.6% ownership (2003: 46.3%*)

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	192	192	–	Rooms	17.3	17.7	(2)
Average occupancy (%)	57	58	(2)	Food & beverage	9.9	9.0	10
Average room rate (US\$)	418	423	(1)	Other	1.7	1.7	–
RevPAR (US\$)	236	246	(4)	Total	28.9	28.4	2
				<i>Average exchange rate/US\$</i>	<i>1.2</i>	<i>1.3</i>	

* effective equity interest throughout 2003

THE AMERICAS

The Mark, New York 100% ownership (2003: 98.7%*)

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	176	176	–	Rooms	17.3	14.8	17
Average occupancy (%)	71	63	13	Food & beverage	7.2	6.4	13
Average room rate (US\$)	377	361	4	Other	4.3	4.0	8
RevPAR (US\$)	266	229	16	Total	28.8	25.2	14

* effective equity interest throughout 2003

Mandarin Oriental, New York (opening date: November 2003) 50% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	251	251	–	Rooms	31.6	1.3	n/a
Average occupancy (%)	55	22	n/a	Food & beverage	25.5	2.6	n/a
Average room rate (US\$)	614	511	n/a	Other	5.2	0.2	n/a
RevPAR (US\$)	339	113	n/a	Total	62.3	4.1	n/a

Kahala Mandarin Oriental, Hawaii 40% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	364	364	–	Rooms	35.3	30.0	18
Average occupancy (%)	72	68	6	Food & beverage	18.6	17.7	5
Average room rate (US\$)	361	330	9	Other	2.9	2.7	7
RevPAR (US\$)	261	224	17	Total	56.8	50.4	13

Mandarin Oriental, Miami 25% ownership

	2004	2003	% Change	Revenue (US\$m)	2004	2003	% Change
Available rooms	327	329	(1)	Rooms	23.5	19.4	21
Average occupancy (%)	65	57	14	Food & beverage	17.5	15.6	12
Average room rate (US\$)	297	284	5	Other	6.4	5.7	12
RevPAR (US\$)	194	162	20	Total	47.4	40.7	16

INTERNATIONAL RECOGNITION

Mandarin Oriental Hotel Group continues to receive global recognition for the luxury services and amenities provided at each hotel. In 2004, the Group collected over 200 international awards of distinction from industry sources and readers of influential publications. Such prestigious titles include *Zagat Travel Guide*; *Condé Nast Traveller, UK*; *Condé Nast Traveler, US*; *Travel + Leisure US*; *Institutional Investor*; *Spa Finder* and *The Robb Report*.

Mandarin Oriental, Miami and Kahala Mandarin Oriental, Hawaii are both recipients of the industry's most prestigious, Five Diamond status given by the American Automobile Association.

Mandarin Oriental continues to receive high acclaim globally within notable publications. The following highlights a selection of these reviews.

Mandarin Oriental Hotel Group

“Outstanding international properties where superb service is the hallmark. Courtesy of world-class concierges and other staff members who are solicitous yet never ostentatious; they're a business traveler's boon for all the amenities of modern life delivered with an ever-present Eastern sensibility bordering on opulence and some very fine restaurants as well.” – *Zagat, 2004*

Mandarin Oriental, Hong Kong

“Service is the key at this stately granddaddy of Hong Kong hotels in the middle of everything that combines old-fashioned elegance and modern bend-over-backwards coddling; surveyors swoon for the lovely Asian décor and fabulous dining.” – *Zagat, 2004*

The Oriental, Bangkok

“... sumptuous décor and six-star service in a great location on the busy Chao Phraya river.” – *Sunday Times Travel Magazine, 2004*

“The Oriental, Bangkok is a mythical hotel that has managed to combine tradition and modernity...it is a local monument with a unique location.” – *Figaro Magazine, 2004*

Mandarin Oriental Hyde Park, London

“Mandarin Oriental Hyde Park is the top choice for taking a holiday in the UK.” – *Condé Nast Traveller, 2004*

“It's no surprise that the Mandarin Oriental's spa is the one most regularly chosen by beauty editors as their favourite London day spa. The beautiful, discreet luxury of its interiors make you feel as though you are being cocooned in a truly five-star way.” – *Harpers and Queen, January 2005*

“The Spa at Mandarin Oriental Hyde Park is the daddy of urban spas. An immaculate haven within the confines of the impossibly glamorous hotel, this is the place to head if you want to de-stress, but not decamp to the burbs. Rooms are all you would expect them to be, over-sized with huge bathrooms and great views of Knightsbridge or Hyde Park.” – *The Observer, 2004*

Mandarin Oriental, Munich

“The best luxury hotel in Munich. Don't miss a swim or a drink with a view on the rooftop terrace.” – *The World's Best-Top 500, Travel + Leisure, January 2005*

Mandarin Oriental, New York

“The most important hotel to hit the Big Apple in years, with luxe rooms, top-notch restaurants, and views, views, views.” – *Travel + Leisure 2004 World’s Best Awards*

“To the untrained eye, all five-star hotels can look very similar...but what creates a legend, and not just a brand, is one word – service. Situated above the Time Warner Center just steps away from Central Park, Mandarin Oriental offers the ultimate in luxury and service.” – *Fine Living Network, On-Air Special, 2004*

“Asiate – where heart-stopping views of Central Park at dusk come with really lovely food.”
– *FT How To Spend It, 2004*

Mandarin Oriental, Washington D.C.

“In a town known more for its political views than for its scenic ones, the newly opened Mandarin Oriental, Washington D.C. is a cut above: nearly all of the 400 guest rooms have panoramic vistas of the marina, the Tidal Basin, and the monuments of the District.” – *Travel + Leisure, June 2004*

“The recently opened Mandarin Oriental hotel provides a breath of fresh air that’s particularly welcome in Washington D.C...It is a much needed addition to the area’s luxury-hotel scene.”
– *Town & Country, 2004*

Mandarin Oriental, Miami

“Mandarin Oriental, Miami is without question, the greatest hotel in the city.” – *New York Post, 2004*

“This luxury hotel is a tropical oasis, replete with famed in-house restaurants *Azul* and *Café Sambal*, a three-level holistic spa and even its own man-made white sand beach overlooking Biscayne Bay. While it’s perfect for a business trip or a romantic weekend, it will quench just about any traveler’s thirst.” – *Town & Country Travel, 2004*

FINANCIAL REVIEW

ACCOUNTING POLICIES

The Directors continue to review the appropriateness of the accounting policies adopted by the Group having regard to developments in International Financial Reporting Standards ('IFRS'). The accounting policies adopted are consistent with those of the previous year, except that the Group has early adopted certain new IFRS, including revised International Accounting Standards in 2004, in advance of their effective dates, as more fully detailed in the basis of preparation note in the financial statements. There are no accounting policy changes that materially affect profit and shareholders' funds resulting from the adoption of the new and revised standards in the financial statements.

The Directors believe it is appropriate to provide supplementary information in addition to the financial statements prepared under IFRS and this is presented separately in this review.

RESULTS

Overall

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

	2004 US\$m	2003 US\$m
Subsidiaries	74.6	53.4
Associates and joint ventures	24.4	15.4
Total EBITDA	99.0	68.8

Subsidiaries

	2004 US\$m	2003 US\$m
Earnings before interest, tax, depreciation and amortization	74.6	53.4
Property revaluation movement	0.2	-
Less depreciation and amortization	(31.4)	(23.6)
Operating profit	43.4	29.8

EBITDA from subsidiaries increased by 40% to US\$74.6 million in 2004 from US\$53.4 million in 2003.

In Hong Kong, results of both Mandarin Oriental and The Excelsior benefited from a strong rebound in occupancy following the impact of SARS in 2003, with 2004 occupancies also being stronger than in 2002. In addition, both Hong Kong hotels were able to increase their average room rates. Results at the Manila and Jakarta hotels remain below expectation.

In Europe, the performance of the London hotel was strong in local currency terms further magnified by a higher Pound Sterling exchange rate. The 2004 results also included the Geneva hotel which became a subsidiary at the end of 2003 following the Group's acquisition of an additional 46.3% interest in the hotel. While the Group benefited from the increased share of earnings from Geneva, the results of the hotel continue to be impacted by a soft market in the city. The performance of the Munich hotel was slightly up on 2003 levels.

In New York, performance at The Mark improved over 2003 as a result of a stronger market generally in the city. Results for the Washington D.C. hotel which opened in March included the impact of US\$4.8 million of pre-opening costs. In addition the hotel had a negative EBITDA for the period amounting to US\$6.1 million due to insufficient occupancy levels, particularly in the first five months after opening in late March 2004. Full rooms inventory, all food and beverage facilities, and the spa at the hotel were completed by September 2004.

In 2004, as a result of the Group's growing portfolio of hotels, management fees exceeded corporate overheads by US\$4.7 million (2003: nil).

Depreciation and amortization was US\$31.4 million, an increase of 33% over 2003 due to the commencement of depreciation charges on the Washington D.C. hotel following its opening, and due to the Geneva hotel being treated as a subsidiary in 2004.

Associates and Joint Ventures

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

	2004 US\$m	2003 US\$m
Earnings before interest, tax, depreciation and amortization	24.4	15.4
Partial writeback of an impairment in respect of Kuala Lumpur	9.6	-
Less depreciation and amortization	(13.5)	(10.8)
Operating profit	20.5	4.6
Less net financing charges	(7.4)	(3.9)
Less tax	(0.5)	(1.5)
Share of results of associates and joint ventures	12.6	(0.8)

The Group's share of EBITDA increased by 58% to US\$24.4 million in 2004 from US\$15.4 million in 2003. Most of the hotels' results improved as occupancy and average room rates increased over 2003. In addition, the Group benefited in 2004 from a full year's contribution from Mandarin Oriental, New York which opened in mid November 2003. Results for the Singapore hotel in the first half of the year were an improvement over the same period in 2003. However, the hotel was closed for renovations from mid-August to early December 2004, and performance in the second half of the year was adversely affected.

Share of results of associates and joint ventures in 2004 included US\$2.2 million representing the Group's share of profit on the sale of land available for development in Malaysia. The share of results of associates and joint ventures also benefited in 2004 from a US\$9.6 million partial writeback of an impairment previously made against the value of the Group's 25% interest in the Kuala Lumpur hotel.

Depreciation and amortization for associates increased by 26% due to the full year depreciation charge for Mandarin Oriental, New York.

Net financing charges for associates and joint ventures increased from US\$4.0 million to US\$7.4 million due to interest on borrowings for Mandarin Oriental, New York. Prior to the hotel opening in November 2003, interest had been capitalized as part of the construction costs (2003: Group's share of interest capitalized of US\$1.8 million).

Net financing charges

Although net debt decreased to US\$517 million from US\$526 million in 2003, net financing charges increased to US\$27.5 million from US\$23.8 million in 2003, primarily due to increased interest charges on the Washington D.C. hotel borrowings. Prior to the hotel opening in March 2004, interest had been capitalized as part of construction costs. Interest capitalized in respect of the Washington D.C. hotel was US\$1.3 million in 2004 (2003: US\$1.9 million).

On an overall basis, interest cover in 2004, which is calculated as operating profit before interest and tax (including associates) over net financing charges (including associates) was 1.6 times (2003: 1.2 times). The Company also uses EBITDA as an indicator of its ability to service debt and finance its future capital expenditure. Interest cover on this basis (including EBITDA from associates) was 2.8 times in 2004 (2003: 2.5 times).

Tax

The effective tax rate for the year was 35% compared with 47% in 2003. The lower effective tax rate in 2004 results from the fact that the Group has recognized further deferred tax assets arising on tax losses in various jurisdictions including the UK and Germany. However, the Group has not yet recognized full potential deferred tax assets in these jurisdictions. Nor has it provided any deferred tax assets in relation to prior year losses in the US.

Cash flow

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

	2004 US\$m	2003 US\$m
Operating activities	47	28
Investing activities:		
• Capital expenditure on existing properties	(11)	(9)
• Washington D.C. investment	(30)	(70)
• Tax increment financing	-	4
• Investment in Geneva	-	(23)
• Investments in and loans to associates & joint ventures	(6)	(4)
• Repayment of loans to associates & joint ventures	7	7
• Proceeds on disposal	13	13
• Other	1	(1)
Financing activities:		
• Net (repayment)/drawdown of borrowings	(23)	55
• Capital contribution from minority interests	2	-
Net movement in cash in the year	-	-

The cash flows from operating activities increased as performance improved strongly from 2003 levels.

Capital expenditure on existing properties totalled US\$11 million compared with US\$9 million in 2003.

The investment for Washington D.C. of US\$30 million (2003: US\$70 million) primarily consisted of construction costs. In 2003, the final instalment of US\$4 million from the Tax Increment Financing ('TIF') programme was received to partially offset construction costs. In total, US\$34.7 million has been provided by the District of Columbia through the TIF programme with US\$33 million of the proceeds akin to a government grant and treated as a reduction of the carrying cost of the project. The balance of US\$1.7 million from the TIF programme was issued in the form of a long term loan bearing interest at 6% per annum.

On 30th December 2003, the Group completed a restructuring of its interests with Macro Capital Limited. The transaction included the acquisition

of a further 46.3% of the Geneva hotel bringing the Group's interest in the hotel up to 92.6%. This means that the hotel has been accounted for as a subsidiary from this date. After accounting for US\$4 million of cash balances, the Group paid approximately US\$23 million (including acquisition costs) for the additional 46.3% interest.

Investments in and loans to associates and joint ventures included US\$6 million (2003: US\$3 million) of funding for Mandarin Oriental, New York in which the Group has a 50% interest.

Repayment of loans to associates and joint ventures comprised US\$7 million received from the Kuala Lumpur hotel in which the Group has a 25% interest. The 2003 amount included US\$6 million received from the Macau hotel.

During the year, the Group took advantage of favorable market conditions and disposed of some synthetic German bonds for proceeds of US\$13 million. The bonds were acquired as part of the Rafael Group acquisition in May 2000. In 2003, as part of the transaction with Macro Capital Limited, the Group disposed of its 12.6% interest in Turnberry Isle Resort & Club for US\$13 million.

Dividends

The Board is recommending a final dividend of US¢1.00 per share. No scrip alternative is being offered in respect of the dividend.

Property Valuation

In accordance with the Group's accounting policy whereby independent valuations of the Group's hotel property interests are carried out at intervals not exceeding three years, valuations were carried out at 31st December 2004 by independent property appraisers on an open market basis. This review excluded Mandarin Oriental, Washington D.C. and Mandarin Oriental, New York on the basis that these hotels are both within their first three years of operation and have not yet fully established their market position.

The revaluations of the Group's assets have given rise to a revaluation surplus of US\$33.7 million (net of deferred tax) which has been credited to the Group's property revaluation reserves.

In addition, the Group's leaseholds properties have been revalued upwards by US\$112 million with the substantial majority of the increase attributable to the Group's two long leaseholds in Hong Kong. However, this US\$112 million uplift is not recognized in the financial statements as, under IFRS, interests in land held under long term leases must be stated at cost and amortized over the period of the lease.

POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11th January 2005, the Group announced that it had exercised its Put Option to require its partner, Kahala Royal Corporation ('KRC'), to purchase the Group's 40% interest in the partnership that leases the Kahala Mandarin Oriental hotel in Hawaii pursuant to its rights under the partnership agreement.

The Put Option was granted to the Group in 1995 by KRC to ensure a satisfactory return on the Group's investment, and was only available for exercise between 1st January and 1st March 2005. KRC's controlling shareholder is the subject of bankruptcy proceedings in Japan. KRC has six months to complete the purchase, and the Group's rights under the Put Option are secured by KRC's 60% interest in the partnership.

Under the terms of the Put Option agreement, the consideration for the sale is calculated at US\$94 million, which includes the repayment of US\$10 million partnership debt owed to the Group. As the financial position of the Group's partner in the hotel remains uncertain, the post tax gain on the disposal of some US\$36 million will only be recognized at such time as satisfactory completion is achieved.

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 78% 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 2004, the Group's net assets were denominated in the following currencies:

	Net Assets
Hong Kong Dollar	46%
United States Dollar	16%
United Kingdom Sterling	14%
Other	24%
	100%

Investment of the Group's cash resources, which totalled US\$66 million at 31st December 2004, is managed so as to minimize risk while seeking to enhance yield. The treasury function is not permitted to undertake speculative transactions unrelated to underlying financial exposures.

The Group, excluding associates, has committed banking facilities totalling US\$771 million of which US\$498 million were drawn at 31st December 2004. The facilities are due for repayment as follows:

	Facilities committed US\$m	Facilities drawn US\$m
Within one year	13	10
Between one and two years	131	106
Between two and three years	36	26
Between three and four years	178	178
Between four and five years	12	7
Beyond five years	401	171
	771	498

The average tenor of the Group's bank borrowings is approximately five years (2003: five years).

6.75% convertible bonds

The Group's US\$75 million, 6.75% convertible bonds will mature on 23rd March 2005. The last date prior to maturity for conversion by holders of the convertible bonds into ordinary shares of the Company is 23rd February 2005.

Since December 2004, the Company's share price has been trading above the conversion price of 67.1 cents. The Group has in place US\$75 million of seven year stand-by facilities ready to finance redemption should the convertible bonds not be converted to equity.

The Group's weighted average interest rate on its borrowings was 4.7% in 2004 compared to 4.5% in 2003. Excluding the convertible bonds, the weighted average interest rate in 2004 would have been 4.2% (2003: 3.8%).

SUPPLEMENTARY INFORMATION

There are two areas where the Directors believe it is appropriate to present additional information:

Valuation of hotel properties held on leasehold

The Group's policy is to revalue all hotel properties regularly as it considers these properties to be long-term investments. Prior to 2003, all property investments, whether freehold or leasehold, were revalued and carried at fair market value. However, IFRS no longer permits the carrying of leasehold owner-occupied land at fair market valuation. The Group considers that the IFRS treatment does not reflect the economic substance of the underlying investments, particularly the Group's 999 year leases in respect of Mandarin Oriental, Hong Kong and The Excelsior.

In its financial statements, the Group has presented leasehold land payments at cost less accumulated

amortization over the period of the lease which is the recommended IFRS treatment. However, as there is a significant difference between the fair market value of the Group's two Hong Kong properties and their value as presented in the financial statements, the Group has also presented supplementary financial information which takes into account the fair market value of these leasehold interests.

The two key measurements affected by the recognition of the fair market value of these leasehold interests are net asset value per share and gearing. The necessary adjustment to shareholders' funds/net assets is set out below:

	2004		2003	
	US\$m	Per share US\$	US\$m	Per share US\$
Shareholders' funds/net assets	691	0.81	604	0.71
Add revaluation surplus relating to hotel properties held on leasehold	487	0.57	375	0.44
Adjusted shareholders' funds/net assets	1,178	1.38	979	1.15

Net debt of US\$517 million was 44% of adjusted shareholders' funds at the end of 2004 compared with 54% at 31st December 2003. Assuming conversion of the Group's convertible bonds into equity, gearing would have been 35%. On an IFRS basis, gearing was 75% at 31st December 2004 (2003: 87%).

Depreciation of hotel buildings

The Group's policy on depreciation differs from the treatment currently adopted by other hotel groups reporting under Hong Kong generally accepted accounting principles, who typically have not depreciated their hotel buildings. The Directors have therefore presented funds from operations ('FFO') figures to enable ready comparison with other hotel groups who do not charge depreciation on their hotel buildings. FFO is defined as net profit excluding

depreciation of hotel buildings, net of relevant deferred tax and minority interests. FFO for the year ended 31st December 2004 was US\$39.9 million (2003: US\$12.6 million). A reconciliation of profit attributable to shareholders to FFO is as follows:

	2004		2003	
	Per share US\$m	Per share US¢	Per share US\$m	Per share US¢
Profit attributable to shareholders	27.8	3.26	3.5	0.41
Depreciation of buildings, net of deferred tax and minority interests	12.1	1.42	9.1	1.07
Funds from operations	39.9	4.68	12.6	1.48

John R Witt

Finance Director

16th February 2005

DIRECTORS' PROFILES

Simon Keswick *Chairman*

Mr Simon Keswick joined the Board and became Chairman in 1986. He joined the Jardine Matheson group in 1962 and is also chairman of Dairy Farm, Hongkong Land Holdings, and a director of Jardine Lloyd Thompson, Jardine Matheson and Jardine Strategic. He is also a director of Hanson and The Fleming Mercantile Investment Trust.

Percy Weatherall *Managing Director*

Mr Weatherall was appointed as Managing Director in 2000. He has been with the Jardine Matheson group since 1976. He is chairman of Jardine Matheson Limited, and managing director of Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic.

Edouard Ettegui *Group Chief Executive*

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

John R Witt *Finance Director*

Mr Witt was appointed as Finance Director in 2000, having first joined the Group in 1998. He is a Chartered Accountant and has an MBA from INSEAD. He has extensive international experience in financial planning, treasury control and business development in a variety of consumer industries.

Jonathan Gould

Mr Gould joined the Board in January 2004. He was previously a senior corporate partner of Allen & Overy, and was based in Hong Kong between 1988 and 1996. Mr Gould is also a director of Jardine Matheson Limited and Dairy Farm.

Julian Hui

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

Brian Keelan

Mr Keelan joined the Board in 2001. He had worked for the preceding 25 years as an investment banker in London and New York, the last 12 years at UBS Warburg where he was a board member and managing director of corporate finance. He is also a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land Holdings, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic and MCL Land; and a commissioner of Astra International. Mr Keelan is chairman of the City Disputes Panel in London, of which he has been a director since 1994.

Henry Keswick

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

R C Kwok *JP*

Mr Kwok is a Chartered Accountant and joined the Board in 1987. He joined the Jardine Matheson group in 1964 and is a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic.

C G R Leach

Mr Leach joined the Board in 1987. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Hongkong Land Holdings, Jardine Matheson and Jardine Strategic. He joined the Jardine Matheson group in 1983 after a career in banking and merchant banking.

Dr Richard Lee

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

Robert Léon

Mr Léon joined the Board in 1994. He is a manager of Qualis and a director of Anzon Energy Ltd.

Sydney S W Leong JP

Mr Leong is a Solicitor of both the Supreme Courts of Hong Kong and England and Wales and joined the Board in 1989. He is chairman and a director of a number of companies, including chairman of Henry G Leong Estates Ltd.

Lord Powell of Bayswater KCMG

Lord Powell joined the Board in 1992. He was previously Private Secretary and adviser on foreign affairs and defence to British Prime Ministers, Baroness Thatcher and Rt Hon John Major. He is a director of Caterpillar, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Sagitta Asset Management, British Mediterranean Airways, Textron Corporation, Schindler and Yell Group. He is also president of the China-Britain Business Council and former chairman of the Singapore-British Business Council.

James Watkins

Mr Watkins joined the Board in 1997. He was general counsel of the Jardine Matheson group from 1997 to 2003. Mr Watkins qualified as a solicitor in 1969 and was formerly a partner of the English law firm, Linklaters & Paines. He is also a director of Jardine Cycle & Carriage and MCL Land.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2004

	Note	2004 US\$m	Restated 2003 US\$m
Revenue	1	336.8	218.1
Cost of sales		(224.7)	(150.1)
Gross profit		112.1	68.0
Selling & distribution costs		(22.4)	(16.2)
Administration expenses		(46.3)	(38.0)
Other operating income	2	–	16.0
Operating profit	2	43.4	29.8
Net financing charges	3	(27.5)	(23.8)
Share of results of associates and joint ventures excluding writeback of impairment of an associate		3.0	(0.8)
Writeback of impairment of an associate		9.6	–
Share of results of associates and joint ventures	4	12.6	(0.8)
Profit before tax		28.5	5.2
Tax	5	(5.6)	(2.8)
Profit after tax		22.9	2.4
Profit attributable to shareholders	22	27.8	3.5
Loss attributable to minority interests	23	(4.9)	(1.1)
		22.9	2.4
		US¢	US¢
Earnings per share	6		
– basic and diluted		3.26	0.41

CONSOLIDATED BALANCE SHEET

as at 31st December 2004

	Note	2004 US\$m	Restated 2003 US\$m
Net assets			
Goodwill	7	21.0	18.0
Tangible assets	8	752.1	687.1
Leasehold land payments	9	192.8	193.4
Associates and joint ventures	10	255.5	240.2
Other investments	11	6.4	18.2
Pension assets	12	22.9	19.2
Deferred tax assets	13	9.5	6.4
Non-current assets		1,260.2	1,182.5
Stocks		2.9	2.1
Debtors and prepayments	14	57.9	44.9
Cash at bank	25e	65.7	66.1
Current assets		126.5	113.1
Creditors and accruals	15	(65.1)	(63.2)
Current borrowings	16	(85.7)	(7.3)
Current tax liabilities		(8.0)	(6.8)
Current liabilities		(158.8)	(77.3)
Net current (liabilities)/assets		(32.3)	35.8
Long-term borrowings	16	(497.1)	(584.9)
Deferred tax liabilities	13	(22.3)	(10.2)
Pension liabilities	12	(1.7)	(1.7)
Other non-current liabilities	26	(6.0)	(4.1)
		700.8	617.4
Total equity			
Share capital	19	42.6	42.6
Share premium	20	89.0	88.7
Revenue and other reserves	22	559.1	473.0
Shareholders' funds		690.7	604.3
Minority interests	23	10.1	13.1
		700.8	617.4

Approved by the Board of Directors

Percy Weatherall
Edouard Ettetdgui
Directors
16th February 2005

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

for the year ended 31st December 2004

	2004 US\$m	Restated 2003 US\$m
Surplus on revaluation of properties	51.1	2.0
Actuarial gains on defined benefit pension plans	4.4	14.0
Net exchange translation differences	21.1	25.4
(Loss)/Gain on financial assets	(1.3)	0.1
(Loss)/Gain on cash flow hedges	(1.9)	1.5
Tax on items taken directly to equity	(18.2)	(2.4)
Net income recognized directly in equity	55.2	40.6
Profit for the year	22.9	2.4
Total recognized income and expense for the year	78.1	43.0
Attributable to:		
Shareholders of the Company	83.1	43.8
Minority interests	(5.0)	(0.8)
	78.1	43.0
Effect of changes in accounting policy:		
Shareholders of the Company		11.6
Minority interests		-
		11.6

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2004

	Note	2004 US\$m	Restated 2003 US\$m
Operating activities			
Operating profit		43.4	29.8
Depreciation	8	30.7	21.6
Amortization of leasehold land payments	9	0.6	0.4
Amortization of goodwill	7	–	1.3
Non-cash items	25a	0.4	0.6
Movements in working capital	25b	(1.8)	1.6
Provision for guarantee paid		–	(4.6)
Interest received		0.6	0.7
Interest and other financing charges paid		(27.4)	(24.2)
Tax paid		(8.0)	(4.3)
		38.5	22.9
Dividends and interest from associates and joint ventures		8.6	5.4
Cash flows from operating activities		47.1	28.3
Investing activities			
Purchase of tangible assets		(41.2)	(79.1)
Tax increment financing	17	–	3.6
Purchase of a subsidiary	25c	–	(22.6)
Investments in and loans to associates and joint ventures	25d	(5.7)	(3.7)
Loan to other investments		–	(1.4)
Increase in other investments	11	(1.4)	(0.8)
Purchase of minority interests		(0.5)	(0.3)
Leasehold land premium payments	9	–	–
Proceeds on disposal of other investments		13.2	12.7
Repayment of loans to associates and joint ventures		7.2	6.9
Cash flows from investing activities		(28.4)	(84.7)
Financing activities			
Issue of shares		0.1	–
Drawdown of borrowings		28.6	78.5
Repayment of borrowings		(51.6)	(23.2)
Dividends paid by the Company	24	–	–
Capital contribution from minority interests	23	2.2	0.3
Cash flows from financing activities		(20.7)	55.6
Effect of exchange rate changes		1.7	1.0
Net (decrease)/increase in cash and cash equivalents		(0.3)	0.2
Cash and cash equivalents at 1st January		66.0	65.8
Cash and cash equivalents at 31st December	25e	65.7	66.0

PRINCIPAL ACCOUNTING POLICIES

A Basis of preparation

These 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 Standard Board.

The accounting policies adopted are consistent with those of the previous financial year except that the Group has early adopted the following IFRS in 2004, in advance of their effective dates:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IAS 19 (amended 2004)	Employee Benefits
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IAS 39 (amended 2004)	Financial Instruments: Recognition and Measurement

With the exception of IFRS 2, IFRS 3, and IAS 19 (amended 2004), there are no accounting policies that affect profit and shareholders' funds resulting from the adoption of the above standards in these financial statements, as the Group was already following the recognition and measurement principles in those other standards.

IFRS 2 Share-based Payment

On 1st January 2004, the Group early adopted the requirements of IFRS 2 Share-based Payment. Until 31st December 2003, the provision of share options to employees did not result in a charge in the profit and loss account. In accordance with the transitional provisions, IFRS 2 has been applied to all grants after 7th November 2002 that had not vested on or before 31st December 2003. Subsequent to that date, the cost of share options is charged to the profit and loss account. The comparative figures for 2003 have been restated to reflect the change in policy.

IFRS 3 Business Combinations, IAS 36 Impairment of Assets and IAS 38 Intangible Assets

The early adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. Until 31st December 2003, goodwill was amortized on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date. In accordance with the provisions of IFRS 3, the Group ceased amortization of goodwill from 1st January 2004. Accumulated amortization as at 31st December 2003 has been eliminated with a corresponding decrease in the carrying value of goodwill. The carrying amount of negative goodwill as at 31st December 2003 has been derecognized with a corresponding adjustment to the opening equity. From the year ended 31st December 2004 onwards, goodwill is tested annually for impairment, and when there are indications of impairment.

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The early adoption of IFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sale which must be disclosed separately from other assets (or liabilities) in the balance sheet. Previously, the non-current assets (or disposal groups) held for sale were neither classified nor presented as current assets or liabilities. The application of IFRS 5 does not impact on the prior year financial statements.

IAS 19 (Amended 2004) Employee Benefits

The Group has changed its accounting policy for defined benefit pension plans to recognize actuarial gains and losses in full in the year in which they occur, outside profit or loss, in the Statement of Recognized Income and Expense as permitted by IAS 19 (amended 2004). Previously, actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets, were recognized in the consolidated profit and loss account over the average remaining service lives of employees. The comparative figures for 2003 have been restated to reflect the change in policy.

The impact of the above changes in accounting policies on the Group's financial statements is as follows:

	2004 US\$m	2003 US\$m
The adoption of IFRS 2 resulted in:		
Increase in administration expenses	0.3	0.2
Decrease in basic and diluted earnings per share (US¢)	(0.03)	(0.02)
The adoption of IFRS 3 resulted in:		
Decrease in administration expenses	(1.2)	-
Increase in total equity at 31st December	3.9	-
Increase in basic and diluted earnings per share (US¢)	0.14	-
The change in IAS 19 (amended 2004) resulted in:		
Increase/(Decrease) in administration expenses	0.2	(0.6)
Increase in total equity at 31st December	8.0	4.6
(Decrease)/Increase in basic and diluted earnings per share (US¢)	(0.02)	0.07

In view of the international nature of the Group's operations, the amounts shown in the financial statements are presented in United States Dollars, which represents the Company's functional currency.

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, on the basis set out in (ii) below, its associates and joint ventures. Subsidiaries are companies over which the Company has control. Control is the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal respectively. All material intercompany transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated.
- ii) Associates are companies, not being subsidiaries or joint ventures, over which the Group exercises significant influence. Joint ventures are entities which the Group jointly controls with one or more other venturers. Associates and joint ventures are included on the equity basis of accounting.
- iii) Minority interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.
- iv) The results of companies other than subsidiaries, associates and joint ventures are included only to the extent of dividends received.

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.

Net exchange differences arising from the translation of the financial statements of subsidiaries, associates and joint ventures expressed in foreign currencies are taken directly to exchange reserves. On the disposal of these investments, such exchange differences are recognized in the consolidated profit and loss account as part of the profit or loss on disposal. All other exchange differences are dealt with in the consolidated profit and loss account.

D Impairment

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment.

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. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

E Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary undertaking, the excess of the cost of acquisition over the carrying amount of the proportion of the minority interests acquired. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in the consolidated profit and loss account. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets.

Goodwill on acquisitions which occurred prior to 1st January 1995 was taken directly to reserves. Goodwill on acquisitions occurring on or after 1st January 1995 is carried in the balance sheet. In accordance with IFRS 3, goodwill already carried in the balance sheet is not amortized after 1st January 2004.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicated that the carrying value may be impaired. Goodwill is carried at cost less accumulated amortization and impairment losses.

F Tangible assets and depreciation

Freehold land and buildings, and the building component of leasehold properties are stated at valuation. Independent valuations are performed at intervals not exceeding three years on an open market basis and, in the case of the building component of leasehold properties, on the basis of depreciated replacement cost. Depreciated replacement cost is used, as open market value cannot be reliably allocated to the building component. In the intervening years, the Directors review the carrying value of properties and adjustment is made where there has been a material change. Revaluation surpluses and deficits are dealt with in property revaluation reserves except for movements on individual properties below depreciated cost which are dealt with in the consolidated profit and loss account. Grants related to tangible fixed assets are deducted in arriving at the carrying amount of the assets.

Other tangible assets are stated at cost less amounts provided for depreciation.

Depreciation is calculated on the straight-line basis at annual rates estimated to write down the cost of each asset over its estimated useful life to its residual value. The residual value and the useful lives of tangible assets are reviewed at each balance sheet date. The principal rates in use are as follows:

Freehold land	–
Freehold and long leasehold buildings	21 years to 150 years
Properties on leases with less than 20 years	over unexpired period of lease
Surface finishes and services	4 years to 30 years
Leasehold improvements	10%
Plant and machinery	6.7% – 10%
Furniture and equipment	10 – 33.3%

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

F Tangible assets and depreciation (continued)

Tangible fixed assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately or derecognized, as appropriate.

The cost of maintenance and repairs of the buildings is charged to the consolidated profit and loss account as incurred.

G Accounting for leases

Leases in respect of leasehold buildings, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased building or the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term borrowings. The interest element of the finance charge is charged to the profit and loss account over the lease period. Buildings, plant and equipment acquired through finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of assets under which all the benefits and risks of ownership are effectively retained by the lessor are classified as operating leases.

Leasehold land payments are up-front payments to acquire long-term interests in property. These payments are stated at cost and are amortized over the period of the lease.

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

H Investments

- i) Investments which are classified as available-for-sale are shown at fair value. Unrecognized gains and losses arising from changes in the fair value of other investments are dealt with in reserves. On disposal of such an investment, or when an investment is determined to be impaired, the cumulative gain or loss previously recognized in reserves is included in the consolidated profit and loss account.
- ii) All purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the investment.

I Development costs

Costs directly attributable to development projects, including borrowing costs, 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.

J Stocks

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

K Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. 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 within borrowings in current liabilities.

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.

M Borrowings and borrowing costs

Borrowings are initially stated at the amount of the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method.

On the issue of convertible bonds, the fair value of the liability portion is calculated using a market interest rate for an equivalent non-convertible bond and is included in long-term borrowings on the amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and is recognized and presented in revenue and other reserves.

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.

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 Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Provision for deferred tax is made on the revaluation of certain non-current tangible assets. Provision for withholding tax which could arise on the remittance of retained earnings relating to subsidiaries is only made where there is a current intention to remit such earnings.

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. The carrying value of deferred tax assets is reviewed at each balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax to be utilized.

P Employee benefits

i) Retirement plans

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

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

In accordance with IAS 19 (Amended 2004) Employee Benefits, actuarial gains and losses are recognized in the Statement of Recognized Income and Expense in full in the year in which they occur. Previously, actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets were recognized in the consolidated profit and loss account over the average remaining service lives of employees.

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

ii) Share-based compensation

The Group has a Senior Executive Share Incentive Scheme in order to provide selected executives with options to purchase ordinary shares in the Company.

The fair value of the employee services received in exchange for the grant of the options in respect of shares in the Company or in its subsidiary undertakings and associates is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as determined by an external valuation model. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Q Dividends

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

R Revenue

Revenue consists of gross inflow of economic benefits associated with a transaction and is recognized when services are performed.

Revenue from hotel ownership comprises amounts earned in respect of services, facilities and goods supplied by the subsidiary hotels.

Revenue from hotel management comprises gross fees earned from the management of all the hotels operated by the Group.

Intra-Group revenue represents elimination of management fees charged to the subsidiary hotels.

S 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 the 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 either as a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of a forecast 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 fair value hedges and that are highly effective, are recorded in the consolidated profit and loss account, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in hedging reserves. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in hedging reserves are transferred from hedging reserves and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserves are transferred to the consolidated profit and loss account and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the consolidated profit and loss account.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in hedging reserves at that time remains in hedging reserves and is transferred from hedging reserves and included in the initial measurement of the cost of the asset or liability, or is recognized in the consolidated profit and loss account when the committed or forecast transaction occurs. However, if a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to the consolidated profit and loss account.

Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in exchange reserves; the gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

T Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders and on the weighted average number of shares in issue during the year. The weighted average number excludes the shares held by the Trustee under the Senior Executive Share Incentive Schemes. Diluted earnings per share are calculated on the weighted average number of shares after adjusting for the number of shares which are deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes based on the average share price during the year.

U Critical accounting estimates and assumptions

Estimates and judgements used in preparing the financial statements of the Company are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The key areas requiring estimates and assumptions to be made are:

i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates, which may vary.

ii) Property valuation

In arriving at the fair value of the properties, the independent valuers have to make assumptions and economic estimates. Should these assumptions and estimates change, or not be met, the valuation as adopted in the financial statements will be affected.

iii) Useful lives of tangible assets

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

iv) Income taxes

The Group is subject to income taxes in several 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. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

v) Pension obligations

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2004 US\$m	2003 US\$m
Analysis by geographical area		
– Hong Kong and Macau	143.9	101.5
– Southeast Asia	28.9	26.3
– Europe	100.6	59.3
– The Americas	63.4	31.0
	336.8	218.1
Analysis by activity		
– Hotel ownership	320.7	205.6
– Hotel management	32.1	23.5
– Less Intra-Group revenue	(16.0)	(11.0)
	336.8	218.1

The Group considers its primary reporting segment to be geographic. The Group is operated on a worldwide basis in four regions: Hong Kong and Macau, Southeast Asia, Europe and The Americas. In addition, the Group has two distinct business segments: hotel ownership and hotel management.

2 Operating profit

Analysis by geographical area		
– Hong Kong and Macau	33.7	21.4
– Southeast Asia	1.7	(0.2)
– Europe	15.6	9.4
– The Americas	(7.6)	(0.8)
	43.4	29.8
Analysis by activity		
– Hotel ownership	38.7	29.8
– Hotel management	4.7	–
	43.4	29.8

2 Operating profit continued

	2004 US\$m	2003 US\$m
The following items have been (credited)/charged in arriving at operating profit:		
Insurance claims for losses arising on business interruption caused by the outbreak of SARS	-	(16.0)
Gain on disposal of other investments	(0.4)	-
Rental income	(8.9)	(8.0)
Loss on disposal of fixed assets	-	0.2
Amortization of goodwill	-	1.3
Depreciation of tangible assets (refer note 8)		
- Owned assets	29.9	20.8
- Leased assets	0.8	0.8
Revaluation surplus of tangible assets	(0.2)	-
Amortization of leasehold land payments (refer note 9)	0.6	0.4
Directors' remuneration	2.8	3.2
Operating lease payments	2.3	2.3
Development costs	0.3	0.5
Repairs and maintenance	13.6	10.9
Staff costs		
- Salaries and benefits in kind	136.1	83.5
- Defined benefit pension costs (refer note 12)	2.1	2.9
- Defined contribution pension costs	0.6	0.6
- Share-based payments	0.3	0.2
	139.1	87.2
Average number of persons employed by the Company and its subsidiaries during the year:		
	2004 Number	2003 Number
Full time	3,784	3,138
Part time	166	72
	3,950	3,210

3 Net financing charges

	2004 US\$m	2003 US\$m
Company and subsidiaries		
Interest income	0.6	0.6
Interest expense		
– Bank loans	(19.2)	(15.7)
– Convertible bonds (refer note 16a)	(6.5)	(6.5)
– Finance leases	(1.6)	(1.6)
	(27.3)	(23.8)
Commitment and other fees	(0.8)	(0.6)
	(27.5)	(23.8)

4 Share of results of associates and joint ventures

	Operating profit/(loss) US\$m	Net finance charges US\$m	Tax US\$m	Net profit/(loss) US\$m
2004				
Analysis by geographical area				
– Hong Kong and Macau	2.7	(0.1)	–	2.6
– Southeast Asia	18.4	(2.3)	(0.5)	15.6
– Europe	–	–	–	–
– The Americas	(0.6)	(5.0)	–	(5.6)
	20.5	(7.4)	(0.5)	12.6
Analysis by activity				
– Hotel ownership	17.3	(7.5)	(0.1)	9.7
– Other	3.2	0.1	(0.4)	2.9
	20.5	(7.4)	(0.5)	12.6
2003				
Analysis by geographical area				
– Hong Kong and Macau	2.2	(0.1)	0.1	2.2
– Southeast Asia	6.8	(2.1)	(1.3)	3.4
– Europe	1.1	(0.3)	(0.3)	0.5
– The Americas	(5.5)	(1.4)	–	(6.9)
	4.6	(3.9)	(1.5)	(0.8)
Analysis by activity				
– Hotel ownership	3.6	(3.9)	(1.2)	(1.5)
– Other	1.0	–	(0.3)	0.7
	4.6	(3.9)	(1.5)	(0.8)

4 Share of results of associates and joint ventures continued

Share of results of associates and joint ventures is stated after crediting a US\$9.6 million (2003: nil) partial writeback of an impairment previously made against the Group's interest in Mandarin Oriental, Kuala Lumpur.

Share of results of associates and joint ventures is stated after charging depreciation and amortization of US\$13.5 million (2003: US\$10.8 million).

5 Tax

	2004 US\$m	2003 US\$m
Company and subsidiaries		
- Current tax	9.1	4.4
- Deferred tax	(3.5)	(1.6)
	5.6	2.8
Analysis by geographical area		
- Hong Kong and Macau	6.5	2.9
- Southeast Asia	0.6	0.8
- Europe	(1.7)	(1.1)
- The Americas	0.2	0.2
	5.6	2.8
Analysis by activity		
- Hotel ownership	3.9	2.3
- Hotel management	1.7	0.5
	5.6	2.8
Reconciliation between tax expense and tax at the applicable tax rate:		
Tax at applicable tax rate	(4.1)	(4.2)
Expenses not deductible for tax purposes	1.7	0.1
Tax losses not recognized	8.3	5.0
Temporary differences not recognized	3.2	3.8
Utilization of previously unrecognized tax losses	(0.4)	(1.6)
Utilization of previously unrecognized temporary differences	(2.2)	-
Recognition of previously unrecognized deferred tax assets	(2.4)	(1.0)
Withholding tax	1.4	1.2
Under/(Over) provision for prior years	0.1	(1.0)
Change in tax rates	-	0.5
	5.6	2.8

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

6 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US\$27.8 million (2003: US\$3.5 million) and on the weighted average number of 851.6 million (2003: 851.5 million) shares in issue during the year. The weighted average number excludes shares held by the Trustee of the Senior Executive Share Incentive Schemes (refer note 21).

Diluted earnings per share are calculated on the weighted average number of shares of 854.1 million (2003: 851.5 million) shares after adjusting for the number of shares which are deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes based on the average share price during the year. The convertible bonds are anti-dilutive and therefore ignored in calculating diluted earnings per share. The number of shares for basic and diluted earnings per share is reconciled as follows:

	Ordinary shares in millions	
	2004	2003
Weighted average number of shares in issue	851.6	851.5
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	2.5	–
Weighted average number of shares for diluted earnings per share	854.1	851.5

7 Goodwill

	Positive goodwill US\$m	Negative goodwill US\$m	Net US\$m
2004			
Net book value at 1st January	20.7	(2.7)	18.0
Change in accounting policy	-	2.7	2.7
Addition	0.3	-	0.3
Net book value at 31st December	21.0	-	21.0
At 31st December			
Cost and net book value	21.0	-	21.0
2003			
Net book value at 1st January	22.0	-	22.0
Acquisition of subsidiary	-	(2.7)	(2.7)
Amortization	(1.3)	-	(1.3)
Net book value at 31st December	20.7	(2.7)	18.0
At 31st December			
Cost	25.2	(2.7)	22.5
Accumulated amortization	(4.5)	-	(4.5)
Net book value	20.7	(2.7)	18.0

As at 1st January 2004, goodwill is no longer amortized and is tested for impairment annually. Goodwill acquired has been allocated to the respective hotels and is tested for impairment based on individual hotel operating performance. Cash flow projections are based on individual hotel budgets and discounted appropriately. Management considers the assumptions used to be reflective of the prevailing market conditions.

The negative goodwill of US\$2.7 million as at 31st December 2003 has been derecognized with a corresponding adjustment to the opening equity in accordance with IFRS 3.

The addition during the year represents goodwill arising on the acquisition of a further 5% interest in Mandarin Oriental, Jakarta.

8 Tangible assets

	Freehold land & buildings US\$m	Leasehold buildings & improvements US\$m	Plant & machinery US\$m	Furniture & equipment US\$m	Total US\$m
2004					
Net book value at 1st January	342.7	276.5	22.7	45.2	687.1
– reclassification	(20.6)	–	20.6	–	–
– as restated	322.1	276.5	43.3	45.2	687.1
Translation differences	20.7	5.7	1.2	0.8	28.4
Additions	9.9	2.6	6.9	12.6	32.0
Disposals	–	–	–	–	–
Depreciation charge (refer note 2)	(4.2)	(9.2)	(4.9)	(12.4)	(30.7)
Revaluation surplus/(deficit)	37.8	(2.5)	–	–	35.3
Net book value at 31st December	386.3	273.1	46.5	46.2	752.1
Cost or valuation	392.9	395.9	93.4	151.8	1,034.0
Accumulated depreciation	(6.6)	(122.8)	(46.9)	(105.6)	(281.9)
	386.3	273.1	46.5	46.2	752.1
2003					
Net book value at 1st January					
– as previously reported	257.7	235.6	19.8	35.0	548.1
– change in accounting policy	(1.1)	(34.7)	–	–	(35.8)
– as restated	256.6	200.9	19.8	35.0	512.3
Translation differences	27.8	1.9	0.9	1.3	31.9
Acquisition of subsidiary (refer note 25c)	–	78.9	4.1	2.7	85.7
Additions	59.7	2.2	0.9	16.2	79.0
Disposals	–	–	–	(0.2)	(0.2)
Depreciation charge (refer note 2)	(1.4)	(7.4)	(3.0)	(9.8)	(21.6)
Net book value at 31st December	342.7	276.5	22.7	45.2	687.1
Cost or valuation	345.2	390.1	65.8	151.0	952.1
Accumulated depreciation	(2.5)	(113.6)	(43.1)	(105.8)	(265.0)
	342.7	276.5	22.7	45.2	687.1

The Group's freehold properties and the building component of leasehold properties were revalued at 31st December 2004 by independent professionally qualified valuers. Fair value is determined by using the income capitalization approach and having reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The Group's share of the resultant surplus has been dealt with in the profit and loss account to the extent of US\$0.2 million (2003: nil); and in the capital reserves to the extent of US\$23.1 million (2003: nil) which is net of deferred tax of US\$12.2 million (2003: nil).

8 Tangible assets continued

Freehold land & buildings include a property of US\$115.6 million (2003: US\$102.8 million), which is stated net of tax incremental financing of US\$32.4 million (2003: US\$33.0 million) (refer note 17). Interest capitalized on the property during the year was US\$1.3 million (2003: US\$1.9 million), based on rates ranging from 4.3% to 6.0%.

If the freehold properties and the building component of leasehold properties had been included in the financial statements at cost, the carrying value would have been US\$595.6 million (2003: US\$591.2 million).

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

	2004 US\$m	2003 US\$m
Leasehold land and buildings include a hotel property held under a finance lease as follows:		
Cost or valuation	70.2	69.2
Accumulated depreciation	(1.6)	(0.8)
Net book value	68.6	68.4
Analysis of additions by geographical area		
– Hong Kong and Macau	6.1	3.0
– Southeast Asia	0.9	1.5
– Europe	5.0	2.7
– The Americas	20.0	71.8
	32.0	79.0
Analysis of additions by activity		
– Hotel ownership	31.4	78.2
– Hotel management	0.6	0.8
	32.0	79.0
Analysis of depreciation by geographical area		
– Hong Kong and Macau	9.1	10.2
– Southeast Asia	3.1	3.1
– Europe	9.7	6.2
– The Americas	8.8	2.1
	30.7	21.6
Analysis of depreciation by activity		
– Hotel ownership	29.8	20.5
– Hotel management	0.9	1.1
	30.7	21.6

9 Leasehold land payments

	2004 US\$m	2003 US\$m
At 1st January	193.4	187.6
Acquisition of subsidiary (refer note 25c)	–	6.2
Additions	–	–
Amortization (refer note 2)	(0.6)	(0.4)
At 31st December	192.8	193.4

The above represents the upfront payments to acquire long-term interests in property leased by the principal subsidiaries listed on pages 72 and 73.

10 Associates and joint ventures

Listed investment in The Oriental Hotel (Thailand) PCL	56.7	54.2
Unlisted investments in other associates	115.2	98.6
Group share of attributable net assets of associates	171.9	152.8
Joint ventures	53.6	57.4
	225.5	210.2
Amount due from joint venture	30.0	30.0
	255.5	240.2
Market value of listed investment in The Oriental Hotel (Thailand) PCL	56.1	54.7

The Group has a 40% interest in the partnership that owns and operates Kahala Mandarin Oriental, Hawaii. In addition, the Group also held a Put Option which had been granted to the Group in 1995 to ensure a satisfactory return to the Group on its investment which was only available for exercise between 1st January and 1st March 2005; with the exercise price determined based on the higher of an 'Eight Percent Method' or 'Market Value Method' as defined in the underlying Partnership Agreement. The Eight Percent Method is the Group's contributions plus an 8% return on capital of US\$40 million and the Market Value Method uses the fair market value of the group's interests as agreed between the parties, or failing agreement as determined by arbitrators. Subsequent to the balance sheet date, in January 2005, the Group announced that it had exercised its Put Option to require its partner, Kahala Royal Corporation ('KRC'), to purchase the Group's 40% interest in the partnership. KRC has six months to complete the purchase, and the Group's rights under the Put Option are secured by KRC's 60% interest in the partnership. Under the terms of the Put Option agreement, the consideration for the sale is calculated at US\$94 million, which includes the repayment of a US\$10 million partnership debt owed to the Group.

10 Associates and joint ventures continued

The land and buildings owned by associates and joint ventures were revalued at 31st December 2004 by independent professionally qualified valuers on an open market basis. As a result, the consolidated profit and loss account includes a US\$9.6 million (2003: nil) partial writeback of an impairment previously made against the Group's interest in Mandarin Oriental, Kuala Lumpur. The Group's share of the underlying net revaluation surplus of US\$10.7 million has been dealt with in the capital reserves (2003: nil).

The amount due from joint venture represents a mezzanine loan of US\$30.0 million (2003: US\$30.0 million) to Mandarin Oriental, New York, which is interest bearing at 13.5% per annum as from the opening of the hotel.

Mandarin Oriental Hotel du Rhône, Geneva became a subsidiary during 2003. Accordingly, the Group's share of attributable net assets at the date on which the Group obtained control were reclassified and included in the separate assets and liabilities of the Group.

	2004 US\$m	2003 US\$m
The Group's share of assets and liabilities and results of associates and joint ventures is summarized below:		
Non-current assets	433.2	401.4
Current assets	30.6	29.8
Current liabilities	(47.2)	(34.0)
Non-current liabilities	(191.1)	(187.0)
	225.5	210.2
Revenue	121.3	96.4
Profit before tax	13.1	0.7
Net profit/(loss)	12.6	(0.8)
Capital commitments	3.5	1.0
Contingent liabilities	-	-

11 Other investments

	2004 US\$m	2003 US\$m
Bonds – 4.17% due 24th September 2008	–	13.2
Others	6.4	5.0
	6.4	18.2
Movements for the year		
At 1st January	18.2	26.3
Translation differences	–	2.3
Additions	1.4	0.8
Disposals	(13.2)	(11.3)
Changes in fair value	–	0.1
At 31st December	6.4	18.2

12 Pension plans

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

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

	Weighted average %	Weighted average %
Discount rate applied to pension obligations	5.5	5.9
Expected return on plan assets	6.0	6.1
Future salary increases	5.0	5.2

The expected return on plan assets is determined based on the expected long-term average returns on global equities of 6% to 9% per annum and global bonds of 3.5% to 5.5% per annum, and the long-term benchmark allocation of assets between equities and bonds in each plan.

12 Pension plans continued

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

	2004 US\$m	2003 US\$m
Fair value of plan assets	58.4	52.8
Present value of funded obligations	(36.9)	(34.9)
	21.5	17.9
Unrecognized past service cost	(0.3)	(0.4)
Net pension assets	21.2	17.5
Analysis of net pension assets		
Pension assets	22.9	19.2
Pension liabilities	(1.7)	(1.7)
	21.2	17.5
Movements in the fair value of plan assets for the year		
At 1st January	52.8	42.7
Expected return on plan assets	3.3	3.0
Actuarial gains and losses	3.8	9.1
Contributions from company	1.3	2.5
Contributions from plan members	1.0	1.0
Benefits paid	(3.5)	(5.5)
Transfer-out of assets	(0.3)	-
At 31st December	58.4	52.8
Movements in the present value of defined benefit obligations		
At 1st January	(34.9)	(38.4)
Current service cost	(3.3)	(3.7)
Interest cost	(2.0)	(2.2)
Contributions from plan members	(1.0)	(1.0)
Actuarial gains and losses	0.6	4.9
Translation difference	(0.1)	-
Benefits paid	3.5	5.5
Transfer-in of liabilities	0.3	-
At 31st December	(36.9)	(34.9)

12 Pension plans continued

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

	Fair value of assets	
	2004 US\$m	2003 US\$m
Equity instruments	44.0	40.2
Debt instruments	13.1	11.3
Other assets	1.3	1.3
	58.4	52.8

The five year history of experience adjustments is as follows:

	2004 US\$m	2003 US\$m	2002 US\$m	2001 US\$m	2000 US\$m
Fair value of plan assets	58.4	52.8	42.5	46.9	52.0
Present value of funded obligations	(36.9)	(34.9)	(38.3)	(32.9)	(30.6)
Plan surplus	21.5	17.9	4.2	14.0	21.4
Experience adjustments on plan assets	3.8	9.1	(7.0)	(8.5)	8.7
Percentage of plan assets (%)	6.6	17.2	(16.4)	(17.9)	16.7
Experience adjustments on plan obligations	0.4	3.4	2.3	0.4	3.9
Percentage of plan obligations (%)	1.2	9.8	6.1	1.1	12.7

The net cumulative actuarial gains recorded in the Statement of Recognized Income and Expense is US\$10.1 million.

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

	2004 US\$m	2003 US\$m
Current service cost	3.3	3.7
Interest cost	2.0	2.2
Expected return on plan assets	(3.3)	(3.0)
Past service cost	0.1	-
	2.1	2.9
Actual return on plan assets in the year	7.1	12.1

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

It is estimated that the Group will make contributions of up to 9% of pensionable salaries into the pension plans in 2005.

13 Deferred tax

	Accelerated tax depreciation US\$m	Property revaluation US\$m	Unremitted earnings in associates & joint ventures US\$m	Other temporary differences US\$m	Losses US\$m	Total US\$m
2004						
At 1st January						
– as previously reported	(1.7)	6.3	1.0	2.1	(4.7)	3.0
– change in accounting policy	–	–	–	0.8	–	0.8
– as restated	(1.7)	6.3	1.0	2.9	(4.7)	3.8
Translation differences	–	(0.6)	–	0.1	–	(0.5)
Credited to consolidated profit and loss account	(0.8)	–	–	(0.4)	(2.3)	(3.5)
Debited to reserves	–	12.2	–	0.8	–	13.0
At 31st December	(2.5)	17.9	1.0	3.4	(7.0)	12.8
2003						
At 1st January						
– as previously reported	(0.3)	6.0	1.0	1.4	(3.7)	4.4
– change in accounting policy	–	–	–	(1.6)	–	(1.6)
– as restated	(0.3)	6.0	1.0	(0.2)	(3.7)	2.8
Translation differences	(0.1)	0.3	–	–	–	0.2
Charged/(Credited) to consolidated profit and loss account	(1.3)	–	–	0.7	(1.0)	(1.6)
Debited to reserves	–	–	–	2.4	–	2.4
At 31st December	(1.7)	6.3	1.0	2.9	(4.7)	3.8
					2004 US\$m	2003 US\$m
Deferred tax assets					(9.5)	(6.4)
Deferred tax liabilities					22.3	10.2
					12.8	3.8

13 Deferred tax continued

Deferred tax assets of US\$31.2 million (2003: US\$25.5 million) have not been recognized in relation to tax losses in subsidiaries as it is uncertain when these losses will be utilized.

Expiry dates for deferred tax assets not recognized in relation to tax losses:

	2004 US\$m	2003 US\$m
Within one year	0.6	0.6
Between two and five years	1.8	1.8
Over five years	13.1	9.0
With no expiry dates	15.7	14.1
	31.2	25.5

Deferred tax assets of US\$6.3 million (2003: US\$5.3 million) have not been recognized in relation to temporary differences in subsidiaries as it is uncertain when these temporary differences will be utilized.

Deferred tax liabilities have not been established for withholding taxes that would be payable on the unremitted earnings of certain subsidiaries as there is no current intention of remitting the retained earnings to the holding companies. Such unremitted earnings totalled US\$3.8 million as at 31st December 2004 (2003: US\$4.7 million).

14 Debtors and prepayments

Trade debtors	20.9	15.0
Provision for doubtful debts	(0.5)	(0.8)
Trade debtors – net	20.4	14.2
Other debtors	12.0	15.6
Prepayments	11.1	7.4
Amounts due from associates and joint ventures	13.4	6.6
Rental and other deposits	1.0	1.1
	57.9	44.9

15 Creditors and accruals

Trade creditors	21.6	18.3
Accruals	35.8	39.4
Deposits accepted	6.6	4.4
Other creditors	1.1	1.1
	65.1	63.2

16 Borrowings

	2004 Carrying amount US\$m	2004 Fair value US\$m	2003 Carrying amount US\$m	2003 Fair value US\$m
Current				
- Bank overdrafts	-	-	0.1	0.1
Current portion of long-term borrowings				
- Bank loans	10.1	11.2	7.0	8.0
- Convertible bonds (refer note 16a)	75.3	79.1	-	-
- Other borrowings	0.3	0.3	0.2	0.2
	85.7	90.6	7.3	8.3
Long-term borrowings				
- Bank loans	478.7	479.7	493.0	494.0
- Convertible bonds (refer note 16a)	-	-	74.1	79.4
- Finance lease (refer note 16b)	8.0	8.0	8.0	8.0
- Other borrowings	8.7	8.7	8.1	8.1
- Tax increment financing (refer note 17)	1.7	1.7	1.7	1.7
	497.1	498.1	584.9	591.2
	582.8	588.7	592.2	599.5
			2004 US\$m	2003 US\$m
Secured			485.1	467.8
Unsecured			97.7	124.4
			582.8	592.2
Due dates of repayment				
Within one year			85.7	7.3
Between one and two years			106.4	83.3
Between two and three years			24.3	101.6
Between three and four years			178.3	23.0
Between four and five years			7.1	190.8
Beyond five years			181.0	186.2
			582.8	592.2

16 Borrowings continued

	Weighted average interest rates %	Fixed rate borrowings		Floating rate borrowings US\$m	Total US\$m
		Weighted average period Years	US\$m		
2004					
Euro	5.9	3.7	16.7	–	16.7
Hong Kong Dollar	2.9	4.2	146.6	84.2	230.8
Swiss Franc	3.0	27.0	2.3	25.6	27.9
United Kingdom Sterling	6.1	1.3	33.2	88.1	121.3
United States Dollar	7.1	12.4	77.1	109.0	186.1
			275.9	306.9	582.8
2003					
Euro	5.8	4.7	16.3	–	16.3
Hong Kong Dollar	2.3	4.8	96.6	145.2	241.8
Swiss Franc	3.2	8.0	15.4	25.2	40.6
United Kingdom Sterling	5.2	2.3	30.7	86.8	117.5
United States Dollar	6.4	13.5	75.8	100.2	176.0
			234.8	357.4	592.2

Borrowings of US\$485.1 million (2003: US\$467.8 million) are secured against the fixed assets of certain subsidiaries. The book value of these fixed assets as at 31st December 2004 was US\$847.4 million (2003: US\$780.8 million).

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

16 Borrowings continued

a) Convertible bonds

6.75% convertible bonds are due in 2005 and convertible up to and including 23rd February 2005 into fully paid ordinary shares of the Company at an initial conversion price of US\$0.671 per ordinary share. The fair values of the liability component and equity conversion component are determined on issue of the bond. The fair value of the liability component, included in long-term borrowings, is calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in revenue and other reserves. In subsequent periods, the liability component continues to be presented on the amortized cost basis, until extinguished on conversion or maturity of the bonds. The equity conversion component is determined on issue of the bonds and is not changed in subsequent periods.

Unless previously redeemed, purchased and cancelled or converted, the convertible bonds will be redeemed on 23rd March 2005 at their principal amount together with accrued interest. In the event that the convertible bonds are not converted by the bondholders, the Group has put in place bank facilities of US\$75 million for the purpose of refinancing the convertible bonds. These facilities have maturity dates in August 2011 and are interest bearing based on prevailing market interest rates.

As at the balance sheet date, 34 convertible bonds have been converted into shares in accordance with the terms of the convertible bonds. As a result, 253,352 ordinary shares of the Company have been allotted pursuant to such conversion.

Subsequent to the balance sheet date, up to 16th February 2005, an additional 643 convertible bonds have been converted into shares during the conversion period. Accordingly, 4,791,351 ordinary shares of the Company have been allotted pursuant to such conversion.

As at 16th February 2005, the date of these financial statements, a total of 677 convertible bonds have been converted, resulting in the issue of 5,044,703 ordinary shares.

The convertible bonds are recognized in the consolidated balance sheet as follows:

	2004 US\$m	2003 US\$m
At 1st January	74.1	72.7
Interest expense (refer note 3)	6.5	6.5
Interest paid	(5.1)	(5.1)
Conversion of convertible bonds	(0.2)	-
Liability component at 31st December	75.3	74.1

Interest on the bond is calculated on the effective yield basis by applying the coupon interest rate of 8.25% for an equivalent non-convertible bond to the liability component of the convertible bonds.

16 Borrowings continued**b) Finance lease**

	2004 US\$m	2003 US\$m
Minimum lease payments		
Within one year	1.4	1.4
Between two and five years	6.6	6.6
Beyond five years	314.4	316.0
	322.4	324.0
Less: Future finance charges on finance lease	(314.4)	(316.0)
Present value of finance lease liabilities	8.0	8.0
The present value of finance lease liabilities may be analysed as follows:		
Within one year	0.1	0.1
Between two and five years	0.3	0.3
Beyond five years	7.6	7.6
	8.0	8.0

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

17 Tax increment financing

	2004 US\$m	2003 US\$m
At 1st January	34.7	31.1
Drawn in the year	–	3.6
Amortization in the year	(0.6)	–
At 31st December	34.1	34.7
Netted off against the net book value of the property (refer note 8)	32.4	33.0
Loan (refer note 16)	1.7	1.7
	34.1	34.7

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

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

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property (refer note 8). The loan of US\$1.7 million (2003: US\$1.7 million) is included in long-term borrowings (refer note 16).

18 Segment information

Analysis by geographical area

	Capital expenditure US\$m	Segment assets US\$m	Associates and joint ventures US\$m	Segment liabilities US\$m
2004				
Hong Kong and Macau	6.1	344.2	13.5	(30.7)
Southeast Asia	1.2	31.8	117.8	(6.2)
Europe	5.0	435.1	–	(16.6)
The Americas	20.0	238.5	124.2	(19.3)
Segment capital expenditure	32.3	–	–	–
Segment assets/(liabilities)	–	1,049.6	255.5	(72.8)
Unallocated assets/(liabilities)	–	81.6	–	(613.1)
	32.3	1,131.2	255.5	(685.9)
2003				
Hong Kong and Macau	3.0	344.6	12.3	(24.5)
Southeast Asia	1.5	35.1	105.4	(6.3)
Europe	94.6	370.5	–	(15.7)
The Americas	71.8	214.5	122.5	(22.5)
Segment capital expenditure	170.9	–	–	–
Segment assets/(liabilities)	–	964.7	240.2	(69.0)
Unallocated assets/(liabilities)	–	90.7	–	(609.2)
	170.9	1,055.4	240.2	(678.2)

Capital expenditure comprises of additions of goodwill, tangible assets, investment properties and leasehold land payments, including those arising from subsidiary undertakings. Unallocated assets and liabilities comprise other investments, tax assets and liabilities, cash and cash equivalents and borrowings. Associates and joint ventures include the Group's share of attributable net assets.

Analysis by activity

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

19 Share capital

	Ordinary shares in millions		2004 US\$m	2003 US\$m
	2004	2003		
Authorized				
Shares of US¢5 each	1,500.0	1,500.0	75.0	75.0
Issued and fully paid				
At 1st January	876.9	884.1	43.9	44.2
Repurchase of shares under share incentive schemes	–	(8.5)	–	(0.4)
Issued under share incentive schemes	1.0	1.3	–	0.1
Conversion of convertible bonds	0.2	–	–	–
At 31st December	878.1	876.9	43.9	43.9
Outstanding under share incentive schemes	(26.1)	(25.4)	(1.3)	(1.3)
At 31st December	852.0	851.5	42.6	42.6

20 Share premium

	2004 US\$m	2003 US\$m
At 1st January	103.7	110.0
Repurchase of shares under share incentive schemes	–	(6.8)
Issued under share incentive schemes	0.5	0.5
Conversion of convertible bonds	0.2	–
At 31st December	104.4	103.7
Outstanding under share incentive schemes	(15.4)	(15.0)
At 31st December	89.0	88.7

21 Senior Executive Share Incentive Schemes

The Senior Executive Share Incentive Schemes were set up in order to provide selected executives with options to purchase ordinary shares in the Company. Under the Schemes, ordinary shares are issued to the Trustee of the Schemes, Mandarin Oriental Trustees Limited, a wholly-owned subsidiary which holds the ordinary shares until the options are exercised. Ordinary shares are issued at prices based on the average closing price for the five trading days immediately preceding the date of grant of the options. The options are exercisable at any time for up to 10 years following the date of grant.

21 Senior Executive Share Incentive Schemes continued

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

Movements for the year

	2004			2003		
	Weighted average exercise price US\$	Ordinary shares in millions	US\$m	Weighted average exercise price US\$	Ordinary shares in millions	US\$m
At 1st January	0.64	25.4	16.3	0.70	32.6	22.9
Granted	0.57	1.0	0.5	0.46	1.3	0.6
Exercised	0.52	(0.3)	(0.1)	-	-	-
Repurchased and cancelled	-	-	-	0.85	(8.5)	(7.2)
At 31st December	0.64	26.1	16.7	0.64	25.4	16.3

The weighted average share price during the year was US\$0.60 (2003: US\$0.45) per share.

Outstanding at 31st December

Expiry date	Exercise price US\$	Ordinary shares in millions	
		2004	2003
2004	1.3 - 1.4	-	0.5
2005	1.2	0.7	0.8
2006	1.4	0.9	1.0
2007	1.2	0.3	0.3
2008	0.5 - 0.8	6.3	6.5
2009	0.6 - 0.8	3.7	3.9
2010	0.5 - 0.7	6.2	6.8
2011	0.6	2.1	2.2
2012	0.4 - 0.5	2.1	2.1
2013	0.3 - 0.4	1.3	1.3
2014	0.6	1.0	-
Unallocated		1.5	-
		26.1	25.4

The fair value of options granted during the year determined using the Trinomial valuation model was US\$0.3 million (2003: US\$0.2 million). The significant inputs into the model were share price of US\$0.60 (2003: US\$0.40), at the grant date, exercise price shown above, expected volatility of 42% (2003: 41%), dividend yield of 0% (2003: nil), option life disclosed above, and annual risk-free interest rate of 4.2% (2003: 3.6%).

22 Revenue and other reserves

	Revenue reserves US\$m	Capital reserves US\$m	Hedging reserves US\$m	Exchange reserves US\$m	Total US\$m
2004					
At 1st January					
– as previously reported	181.9	378.5	(4.1)	(87.9)	468.4
– effect of adopting IFRS 2	(0.2)	0.2	–	–	–
– effect of adopting IFRS 3	2.7	–	–	–	2.7
– change in accounting policy for defined benefit pension plans	4.6	–	–	–	4.6
– as restated	189.0	378.7	(4.1)	(87.9)	475.7
Revaluation of properties					
– net revaluation surplus	–	51.1	–	–	51.1
– deferred tax	–	(17.4)	–	–	(17.4)
Defined benefit pension plans					
– actuarial gain	4.4	–	–	–	4.4
– deferred tax	(0.8)	–	–	–	(0.8)
Net exchange translation differences	–	–	–	21.2	21.2
Fair value loss on financial assets	(1.3)	–	–	–	(1.3)
Fair value loss on cash flow hedges	–	–	(1.9)	–	(1.9)
Share-based payments	–	0.3	–	–	0.3
Profit attributable to shareholders	27.8	–	–	–	27.8
Transfer between reserves	2.9	(2.9)	–	–	–
Dividends (refer note 24)	–	–	–	–	–
At 31st December 2004	222.0	409.8	(6.0)	(66.7)	559.1
Of which:					
– Company	61.2	5.0	–	–	66.2
– Associates and joint ventures	(15.0)	100.9	(0.4)	(71.8)	13.7

22 Revenue and other reserves

	Revenue reserves US\$m	Capital reserves US\$m	Hedging reserves US\$m	Exchange reserves US\$m	Total US\$m
2003					
At 1st January					
– as previously reported	178.7	376.5	(5.6)	(113.0)	436.6
– change in accounting policy	(7.6)	–	–	–	(7.6)
– as restated	171.1	376.5	(5.6)	(113.0)	429.0
Revaluation of properties					
– net revaluation surplus	–	2.0	–	–	2.0
– deferred tax	–	–	–	–	–
Defined benefit pension plans					
– actuarial gain	14.0	–	–	–	14.0
– deferred tax	(2.4)	–	–	–	(2.4)
Net exchange translation differences	–	–	–	25.1	25.1
Fair value gain on financial assets	0.1	–	–	–	0.1
Fair value gain on cash flow hedges	–	–	1.5	–	1.5
Share-based payments	–	0.2	–	–	0.2
Profit attributable to shareholders	3.5	–	–	–	3.5
Dividends (refer note 24)	–	–	–	–	–
At 31st December 2003	186.3	378.7	(4.1)	(87.9)	473.0
Of which:					
– Company	50.4	4.8	–	–	55.2
– Associates and joint ventures	(23.4)	93.1	(0.8)	(75.8)	(6.9)

Revenue reserves include US\$0.1 million of fair value losses in respect of financial assets (2003: gains of US\$1.2 million).

Capital reserves include property revaluation reserves of US\$150.8 million net of attributable deferred tax of US\$40.0 million (2003: US\$120.0 million net of attributable deferred tax of US\$22.6 million) which are not distributable in certain jurisdictions in which the Group operates.

23 Minority interests

	2004 US\$m	2003 US\$m
At 1st January	13.1	9.6
Net exchange translation differences	(0.1)	0.3
Acquisition of subsidiary (refer note 25c)	-	4.7
Capital contribution	2.2	0.3
Change in holding	(0.2)	(0.7)
Attributable losses	(4.9)	(1.1)
At 31st December	10.1	13.1

24 Dividends

No interim dividend has been paid in respect of 2004. A final dividend of US\$1.00 per share has been proposed in respect of 2004. There were no dividends paid in respect of 2003.

25 Notes to consolidated cash flow statement

a) Non-cash items

Pension expenses	0.7	0.4
Other	(0.3)	0.2
	0.4	0.6

b) (Decrease)/Increase in working capital

(Increase)/Decrease in stocks	(0.7)	0.6
Increase in debtors and prepayments	(10.7)	(5.8)
Increase in creditors and accruals	9.6	6.8
	(1.8)	1.6

c) Purchase of a subsidiary

On 30th December 2003, the Group acquired a further 46.3% interest in Mandarin Oriental Hotel du Rhône, Geneva for a total consideration of US\$26.4 million. Including the cash and cash equivalents in the acquired subsidiary of US\$3.8 million, the net cash outflow arising on the acquisition was US\$22.6 million. As a consequence, the Group's interest in the hotel increased to 92.6%, and the hotel has been accounted for as a subsidiary from this date.

d) Increase in investments in and loans to associates and joint ventures includes the Group's investment in Mandarin Oriental, New York, Mandarin Oriental, Miami and Mandarin Oriental, Kuala Lumpur.

25 Notes to consolidated cash flow statement continued**e) Analysis of cash and cash equivalents**

	2004 US\$m	2003 US\$m
Cash at bank	65.7	66.1
Bank overdrafts	-	(0.1)
	65.7	66.0

The weighted average effective interest rate on short-term bank deposits included in cash at bank was 1.7% (2003: 1.5%).

26 Financial instruments

The Group manages its exposure to financial risks using a variety of techniques and instruments. Entering into speculative transactions is specifically prohibited.

Foreign exchange risk

Material foreign currency transaction exposures are covered by forward contracts and options.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through the use of derivative financial instruments such as interest rate swaps and caps. 78% of Group borrowings (2003: 66%) are either fixed rate or hedged by qualifying interest rate swaps and caps.

Funding risk

The Group's ability to fund its existing and prospective debt requirements is managed by maintaining adequate cash or adequate committed funding lines from high quality lenders.

Counterparty risk

The Group's ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

26 Financial instruments continued

Fair values

The fair value of listed investments is based on market prices. Unlisted investments have been valued by reference to the market prices of the underlying investments, or by reference to the current market value of similar investments or by reference to the discounted cash flows of the underlying net assets.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair values of debtors, bank balances, creditors and accruals and floating rate borrowings are assumed to approximate their carrying amount due to short-term maturities of these assets and liabilities. An estimate is made for doubtful debts based on review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

The fair values of fixed rate borrowings are estimated using the expected future payments discounted at market interest rates.

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

	2004 Negative fair value US\$m	2003 Negative fair value US\$m
Interest rate swaps and caps – designated as cash flow hedges		
At 1st January	4.1	5.4
Translation difference	–	0.4
Changes in fair value in the year	1.9	(1.7)
At 31st December	6.0	4.1

The notional principal amounts of the outstanding derivative financial instruments at 31st December 2004 were US\$362.3 million (2003: US\$334.0 million).

The due dates of outstanding derivative financial instruments at 31st December were as follows:

	2004 US\$m	2003 US\$m
– Within one year	117.1	–
– Between two and five years	195.0	210.8
– Over five years	50.2	123.2
	362.3	334.0

At 31st December 2004, the fixed interest rates relating to interest rate swaps and caps ranged from 3.2% to 6.0% (2003: 3.6% to 6.0%).

27 Contingent liabilities

	2004 US\$m	2003 US\$m
Guarantees in respect of facilities made available to associates and joint ventures	68.5	69.0

28 Commitments

Capital commitments:

Authorized not contracted	138.0	43.8
Contracted not provided	2.4	1.6
	140.4	45.4

Operating lease commitments:

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Within one year	2.6	2.6
Between two and five years	10.7	10.9
Over five years	453.4	455.8
	466.7	469.3

29 Related party transactions

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

In the normal course of business, the Group undertakes a variety of transactions with its associates and with Jardine Matheson Holdings Limited and its subsidiaries and associates. In addition, the Group paid a management fee of US\$0.1 million (2003: US\$0.02 million) to Jardine Matheson Limited, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by Jardine Matheson Limited.

During 2004, the Group managed seven associate and joint venture hotels and received management fees based on long-term management agreements on normal commercial terms.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 78 under the heading of 'Directors' appointments, retirement, remuneration and service contracts'.

30 Summarized balance sheet of the Company

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

	2004 US\$m	2003 US\$m
Subsidiaries at cost	291.8	278.6
Net current liabilities	(1.9)	(1.7)
Long-term borrowings	(75.4)	(74.1)
Net operating assets	214.5	202.8
Share capital (refer note 19)	43.9	43.9
Share premium (refer note 20)	104.4	103.7
Revenue reserves (refer note 22)	61.2	50.4
Other reserves (refer note 22)	5.0	4.8
Shareholders' funds	214.5	202.8

31 Post balance sheet events

Apart from those post balance sheet events as disclosed in note 10 with respect to the Put Option, and note 16(a) with respect to the convertible bonds, there were no other material subsequent events.

PRINCIPAL SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND MANAGED HOTELS

as at 31st December 2004

Principal country	Company name	Main activities
Subsidiaries		
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management
Hong Kong	Mandarin Oriental Hotel Group Limited	Management
Hong Kong	Mandarin Oriental, Hong Kong Limited Excelsior Hotel (BVI) Limited	Owner: Mandarin Oriental, Hong Kong Owner: The Excelsior, Hong Kong
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London
Germany	Dinvest International Holdings B.V.	Owner: Mandarin Oriental, Munich
United States	Mark Hotel Investors, L.P.	Owner: The Mark, New York
Philippines	Manila Mandarin Hotel Incorporated	Owner: Mandarin Oriental, Manila
Switzerland	Soci�t� Immobil�re de Mandarin Oriental Hotel du Rh�ne SA Soci�t� pour l'Exploitation de Mandarin Oriental Hotel du Rh�ne SA	Owner: Mandarin Oriental Hotel du Rh�ne, Geneva
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta
Associates		
Singapore	Marina Bay Hotel Private Limited	Owner: The Oriental, Singapore
Thailand	The Oriental Hotel (Thailand) PCL	Owner: The Oriental, Bangkok
United States	Kahala Hotel Associates Limited Partnership	Owner: Kahala Mandarin Oriental, Hawaii
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur
Indonesia	P.T. Sekman Wisata	Owner: Hotel Majapahit, Surabaya
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex
Joint Ventures		
Macau	Excelsior Hoteis E Investimentos Limitada	Owner: Mandarin Oriental, Macau
United States	Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York
Managed Hotels		
United States		Mandarin Oriental, San Francisco
Bermuda		Elbow Beach, Bermuda
France		Royal Monceau Hotel, Paris
Thailand		Mandarin Oriental Dhara Dhevi, Chiang Mai

Notes

1. Preference shares

2. Including a renewal option of 25 years exercisable in 2007

Attributable interest %		Issued share capital	Hotel profile
2004	2003		
100	100	US\$12,000	-
100	100	HK\$60,000,000	-
100	100	HK\$33,000,000	541 rooms. Lease expiry 2895
100	100	US\$100	883 rooms. Lease expiry 2842
100	100	GBP 4,493,484 GBP 1,578,791 (note 1)	200 rooms. Freehold
100	100	Euro 3,632,000	73 rooms. Freehold
100	100	-	176 rooms. Lease expiry 2131
96.2	96.2	Peso 288,918,400	443 rooms. Lease expiry 2026
85.3	85.3	CHF 6,800,000	192 rooms. Lease expiry 2040
100	100	CHF10,800,000	-
80	80	-	400 rooms. Freehold
65.5	60.5	Rup 8,196,250,000	404 rooms. Lease expiry 2023
50	50	S\$141,500,000	527 rooms. Lease expiry 2079
44.9	44.9	Baht 160,000,000	393 rooms. Various freehold/leasehold
40	40	-	364 rooms. Lease expiry 2043
25	25	RM 130,000,000	632 rooms. Freehold
25	25	Rup 28,252,000,000	143 rooms. Lease expiry 2008
25	25	-	327 rooms. Freehold
49	49	Baht 120,000,000	-
50	50	Ptc 20,000,000	416 rooms. Lease expiry 2032 (note 2)
50	50	-	251 rooms. Freehold
-	-	-	158 rooms
-	-	-	236 rooms
-	-	-	180 rooms
-	-	-	144 rooms on completion

INDEPENDENT AUDITORS' REPORT

To the members of Mandarin Oriental International Limited

We have audited the accompanying consolidated balance sheet of Mandarin Oriental International Limited and its subsidiaries ('the Group') as at 31st December 2004, and the related consolidated profit and loss account, cash flows, statement of recognized income and expense and related notes for the year then ended. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Bermuda Companies Act.

PricewaterhouseCoopers LLP

London
United Kingdom

16th February 2005

FIVE YEAR SUMMARY

	2000 US\$m	2001 US\$m	2002 US\$m	2003 US\$m	2004 US\$m
Consolidated Profit and Loss Account					
Revenue	227.0	227.9	233.7	218.1	336.8
Operating profit	34.1	23.7	37.7	29.8	43.4
Net financing charges	(24.0)	(26.4)	(24.9)	(23.8)	(27.5)
Share of operating results of associates and joint ventures	4.3	6.9	8.0	(0.8)	12.6
Profit before tax	14.4	4.2	20.8	5.2	28.5
Tax	(4.5)	(3.7)	(5.3)	(2.8)	(5.6)
Profit after tax	9.9	0.5	15.5	2.4	22.9
Profit attributable to shareholders	10.0	0.9	15.7	3.5	27.8
Loss attributable to minority interests	(0.1)	(0.4)	(0.2)	(1.1)	(4.9)
	9.9	0.5	15.5	2.4	22.9
Earnings per share (US¢)	1.22	0.11	1.84	0.41	3.26
Dividends per share (US¢)	1.35	0.50	–	–	1.00
Consolidated Balance Sheet					
Goodwill	24.5	23.3	22.0	18.0	21.0
Tangible assets	482.8	458.4	512.3	687.1	752.1
Leasehold land payments	188.1	187.7	187.6	193.4	192.8
Associates and joint ventures	199.5	216.1	271.2	240.2	255.5
Other investments	22.0	23.5	26.3	18.2	6.4
Pension assets	22.2	14.6	5.4	19.2	22.9
Deferred tax assets	2.0	2.9	4.1	6.4	9.5
Net current assets/(liabilities)	75.8	69.6	37.6	35.8	(32.3)
Long-term borrowings	(431.7)	(448.1)	(483.0)	(584.9)	(497.1)
Deferred tax liabilities	(11.1)	(6.9)	(6.8)	(10.2)	(22.3)
Pension liabilities	(0.8)	(0.9)	(1.5)	(1.7)	(1.7)
Other non-current liabilities	–	(4.6)	(5.4)	(4.1)	(6.0)
Net operating assets	573.3	535.6	569.8	617.4	700.8
Share capital	42.6	42.6	42.6	42.6	42.6
Share premium	88.7	88.7	88.7	88.7	89.0
Revenue and other reserves	436.0	399.7	428.9	473.0	559.1
Shareholders' fund	567.3	531.0	560.2	604.3	690.7
Minority interests	6.0	4.6	9.6	13.1	10.1
Capital employed	573.3	535.6	569.8	617.4	700.8
Net assets value per share (US\$)	0.67	0.62	0.66	0.71	0.81
Consolidated Cash Flow Statement					
Cash flows from operating activities	30.8	13.7	33.5	28.3	47.1
Cash flows from investing activities	(200.5)	(38.7)	(76.1)	(84.7)	(28.4)
Net cash flow before financing activities	(169.7)	(25.0)	(42.6)	(56.4)	18.7
Cash flow per share from operating activities (US¢)	3.75	1.60	3.93	3.32	5.53

Directors' responsibilities in respect of the financial statements

The Directors are required under the Bermuda Companies Act 1981 to prepare financial statements for each financial year and to present them annually to the Company's shareholders at the Annual General Meeting.

The financial statements, prepared in accordance with International Financial Reporting Standards ('IFRS'), must give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year, and of the profit or loss and cash flows for the year then ended.

The Directors consider that suitable accounting policies, applied on a consistent basis and supported by prudent and reasonable judgements and estimates, have been selected in preparing the financial statements and that the applicable IFRS have been followed.

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, an important set of guidelines to which every employee must adhere. This Code requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. It also requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organizations. These requirements are reinforced and monitored by an annual compliance certification process.

Internal controls and accountability

The Board is responsible for maintaining proper accounting records and a system of internal financial control designed to enable the Directors to monitor the Group's overall financial position, to help safeguard its assets against fraud and other irregularities and to give reasonable, but not absolute, assurance against material financial misstatement or loss.

The Audit Committee of Mandarin Oriental Hotel Group International Limited comprises of Percy Weatherall (Chairman), Jonathan Gould, Brian Keelan and James Riley in their capacity as non-executive directors. The Audit Committee receives reports from the external auditors, reviews issues raised with regard to the interim and annual financial statements, and reports its findings to the Board of the Company. The Audit Committee reviews the operation and effectiveness of the Group's internal controls and procedures. In addition, there is an internal audit function which is outside the operating businesses and reports directly to the Audit Committee. The Group Chief Executive and Finance Director and representatives of the internal and external auditors attend the Audit Committee meetings by invitation.

The Board 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 the 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 Board has delegated to executive management the implementation of the systems of internal financial control. These systems are monitored by the internal audit function which reports its findings and recommendations for any corrective action required to the Audit Committee.

The systems of internal control include:

- An ongoing process to identify and evaluate business risks faced by the Group and to monitor such risks.
- The use of internal controls self assessment questionnaires by the management of the major business units within the Group.
- Approval by the Board of annual revenue, expenditure and investment budgets.
- Agreed treasury policies including those for exposures to both currency and interests rates, and procedures for monitoring thereof.
- Regular consideration by the Board of performance to date compared with budgets and year-end forecasts.
- Clearly defined capital investment guidelines and procedures set by the Board.
- Regular reporting of fiscal, legal and accounting developments to the Audit Committee and the Board.
- Post event reviews of major investments by the executive management.

Prior to completion and announcement of the half-year and year-end results, a detailed analysis of the Company's financial information is reviewed 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, Finance Director and other senior executives.

The Audit Committee keeps under review the nature, scope and results of the external audit and the audits conducted by the internal audit department. The independence and objectivity of the external auditors is also considered on a regular basis.

Directors' share interests

The Directors of the Company as at 1st April 2005, being the date of this Report, had the interests set out below in the ordinary share capitals of the Company and its holding companies, Jardine Strategic Holdings Limited ('Jardine Strategic') and Jardine Matheson Holdings Limited ('Jardine Matheson'), and fellow subsidiary Dairy Farm International Holdings Limited ('Dairy Farm') at 31st December 2004. These interests were beneficial except where otherwise indicated.

	The Company	Jardine Strategic	Jardine Matheson	Dairy Farm
Simon Keswick	19,858	7,181	9,249,822 [#]	66,087
		19,661*	2,722,552*	
Percy Weatherall	–	78,750	32,765,173 [#]	579,981
			227,072*	
Edouard Ettedgui	–	–	–	24,000
Brian Keelan	115,000	250,000	40,768	163,800
Henry Keswick	–	–	11,412,758 [#]	–
			55,366*	
R C Kwok	45,898	72,015	75,817	94,424
C G R Leach	–	52,962	911,298	–
Sydney S W Leong	467,577	227,428	544,870	1,025,571
		12,696*		
James Watkins	–	–	100,000	–

* Non-beneficial.

[#] Includes 2,269,585 ordinary shares held by a family trust in which Simon Keswick, Percy Weatherall and Henry Keswick each has a discloseable interest.

Directors' share interests (continued)

In addition:

- a) At 31st December 2004, Edouard Ettedgui and John R Witt held options in respect of 5,400,000 and 1,700,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.
- b) At 31st December 2004, Percy Weatherall, Jonathan Gould, Brian Keelan and John R Witt held options in respect of 270,000, 150,000, 850,000 and 10,000 ordinary shares, respectively, in Jardine Matheson issued pursuant to that company's senior executive share incentive schemes.
- c) At 31st December 2004, Simon Keswick, Percy Weatherall, Jonathan Gould, Brian Keelan, Henry Keswick, R C Kwok, C G R Leach and Lord Powell had deemed interests in 35,915,991 ordinary shares in Jardine Matheson as discretionary objects under a trust, the income of which is available for distribution to senior executive officers and employees of Jardine Matheson and its wholly-owned subsidiaries.
- d) On 8th March 2005, Edouard Ettedgui and John R Witt were granted options in respect of a further 1,200,000 and 500,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.

Save as disclosed, there were no changes in the above interests between the end of the financial year and 18th March 2005.

Directors' appointments, retirement, remuneration and service contracts

In accordance with Bye-Law 85, Edouard Ettedgui, Brian Keelan, Dr Richard Lee and Robert Léon retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election has a service contract with any Group company which has a notice or contract period of one year or more or which provides for compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

For the year ended 31st December 2004, the Directors received from the Group US\$2.80 million (2003: US\$3.2 million) in employee benefits, being US\$2.76 million (2003: US\$3.0 million) in short-term employee benefits including salary, bonus, accommodation and deemed benefits in kind and US\$0.04 million (2003: US\$0.2 million) in post-employment benefits. The information set out in this paragraph forms part of the audited financial statements.

Substantial shareholders

The Company has been informed pursuant to the share interest disclosure obligations incorporated in Part XVII of the statutory Bermuda Takeover Code governing the Company of the following notifiable interests in the ordinary shares of the Company: Jardine Strategic and its subsidiary undertakings were interested directly and indirectly in 749,137,281 ordinary shares representing 75.31% of the Company's current issued ordinary share capital. By virtue of its interest in Jardine Strategic, Jardine Matheson was deemed to be interested in the same number of ordinary shares. Apart from these shareholdings, the Company is not aware of any notifiable interest in 3% or more of the issued ordinary share capital of the Company as at 18th March 2005.

The Bermuda Takeover Code provides for the disclosure of interests in shares of the Company. The obligation to disclose arises if and when a person is interested in 3% (or, in certain circumstances, 10%) or more of the shares of the same class. The higher limit of 10% applies, in broad terms, to a person authorized to manage investments under an investment management agreement or where such person is the operator of an authorized collective investment scheme.

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

Securities purchase arrangements

At the Annual General Meeting held on 5th May 2004, shareholders renewed the approval of a general mandate authorizing the Directors to effect purchases of the Company's own ordinary shares of less than 15% in aggregate of its issued share capital.

Conversion of 6.75% Convertible Bonds due 2005

On 18th March 2005 the Trustee of 6.75% Convertible Bonds due 2005 (the 'Bonds') of the Company converted the remaining outstanding Bonds into ordinary shares in accordance with their terms. Following that conversion all 15,173 Bonds have been converted resulting in the issue of a total of 113,062,580 ordinary shares of the Company.

Arrangements under which shareholders have agreed to waive dividends

Mandarin Oriental Trustees Limited has undertaken to waive the recommended final dividend for 2004 in respect of ordinary shares in which it is interested as trustee of the Company's Senior Executive Share Incentive Schemes.

Related party transactions

During the course of the year, the Company did not enter into any transactions to which the UK Listing Authority related party transaction rules apply.

Annual and Special General Meetings

The full text of the resolutions and explanatory notes in respect of the 2005 Annual General Meeting to be held on 4th May 2005 are contained in the Notice of Meeting which accompanies this Report.

A Special General Meeting is being convened to be held immediately after the Annual General Meeting on 4th May 2005 to consider amendments to and the adoption of a new employee share option plan under the Mandarin Oriental Employee Share Purchase Trust (1995) as share options may no longer be granted under the existing employee share option plans after 5th June 2005. Details are contained in the Notice of Meeting which accompanies this Report.

SHAREHOLDER INFORMATION

Financial calendar

2004 full-year results announced	16th February 2005
Share registers closed	21st to 24th March 2005
Annual General Meeting to be held	4th May 2005
2004 final dividend payable	11th May 2005
2005 half-year results to be announced	26th July 2005*
Share registers to be closed	22nd to 26th August 2005*
2005 interim dividend payable	12th October 2005*

* *Subject to change*

Dividends

Shareholders will receive their dividends in United States Dollars, unless they are registered on the Jersey branch register where they will have the option to elect for Sterling. These shareholders may make new currency elections by notifying the United Kingdom transfer agent in writing by 22nd April 2005. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 27th April 2005. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

Registrars and transfer agent

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

Principal Registrar

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

Jersey Branch Registrar

Capita IRG (Offshore) Limited, PO Box 378, St Helier, Jersey JE4 0FF, Channel Islands

Singapore Branch Registrar

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

United Kingdom Transfer Agent

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

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

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