

MANDARIN ORIENTAL
INTERNATIONAL LIMITED

INTERIM REPORT 2005



MANDARIN ORIENTAL HOTEL GROUP is an international hotel investment and management group operating 28 deluxe and first class hotels and resorts worldwide, including seven under development in Hong Kong, Tokyo, Mexico, Prague, Boston, Grand Cayman and Chicago. The Group has equity interests in many of its properties and net assets of approximately US\$1.2 billion at 30th June 2005. Mandarin Oriental now operates, or has under development, more than 8,000 rooms in 14 countries with 12 hotels in Asia, 11 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 has its primary listing in London, and further listings in Bermuda and Singapore. Mandarin Oriental Hotel Group International Limited, which operates from Hong Kong, manages the activities of the Group's hotels. Mandarin Oriental is a member of the Jardine Matheson Group.



Jardines

A member of the Jardine Matheson Group

HIGHLIGHTS

MANDARIN ORIENTAL INTERNATIONAL LIMITED

- Room rates improving
- Sale of investment in Hawaii hotel completed
- New hotel projects in Chicago and Grand Cayman announced

Results

	(unaudited)		Change %
	2005 US\$m	Restated 2004 US\$m	
Combined total revenue of hotels under management	390.1	304.1	28
Earnings before interest, tax, depreciation and amortization ¹	62.7	41.9	50
Profit attributable to shareholders excluding Hawaii gain	19.2	5.5	249
Profit attributable to shareholders	55.3	5.5	905
Funds from operations ²	62.3	11.2	456
	US¢	US¢	%
Earnings per share excluding Hawaii gain	2.07	0.65	218
Earnings per share	5.96	0.65	817
Funds from operations per share ²	6.71	1.32	408
	US\$	US\$	%
Net asset value per share	0.82	0.72	14
Net asset value per share with leasehold properties at valuation ³	1.32	1.16	14

¹ Earnings before interest, tax, depreciation and amortization excludes the gain on sale recognized on disposal of the Hawaii investment.

² 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.

³ 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 interests as supplementary financial information in addition to the net asset value per share in accordance with IFRS.

CHAIRMAN'S STATEMENT

OVERVIEW

The first half results benefited from strengthening room rates as the recovery in global travel continued. There were improved performances from Mandarin Oriental's new hotels in New York and Washington D.C., and the sale of an interest in its Hawaiian hotel produced a significant gain that enhanced the overall result.

PERFORMANCE

Earnings from operations before interest, tax, depreciation and amortization for the first six months of 2005 were US\$62.7 million compared with US\$41.9 million for the comparable period in 2004, which had included US\$7.3 million of initial operating losses relating to the newly-opened hotel in Washington D.C.

Financing charges were reduced following the conversion of the Group's 6.75% convertible bonds into shares in the early part of the year, and there were continued benefits from the low interest rate environment.

Results from associates and joint ventures included a US\$47.9 million pre-tax gain on disposal of the Group's 40% partnership interest in the Kahala Mandarin Oriental in Hawaii.

Profit attributable to shareholders was US\$55.3 million for the six months, compared with US\$5.5 million in the first half of 2004. Excluding the post-tax gain arising from the Hawaii disposal, profit attributable to shareholders was US\$19.2 million. Earnings per share for the period were US\$5.96 including the Hawaii gain, and US\$2.07 without the gain, a significant increase over 2004 half-year earnings of US\$0.65 per share.

GROUP REVIEW

In Hong Kong, profitability was enhanced by significant increases in room rates in both our wholly-owned hotels. Average room rates at Mandarin Oriental, Hong Kong increased by 29% to US\$254, while occupancy levels remained comparable with the first half of 2004. At The Excelsior average room rates rose by 30%, although occupancy levels decreased to 85%. Rates in Macau increased in line with Hong Kong.

The results from the Group's hotels in Europe were better as both occupancy and room rates strengthened.

In The Americas, the revival in corporate and leisure travel continued to gather pace. The Group's new hotel in Washington D.C., which had recorded significant initial operating losses in the first half of 2004, showed a marked improvement as occupancy rose to 63% at an average room rate of some US\$300. Mandarin Oriental, New York, which opened in late 2003, achieved occupancy of 70% at an average rate of over US\$600. Both hotels are now well positioned in their respective markets and their contribution should continue to rise.

DEVELOPMENTS

Progress continued on the Group's development strategy with two new projects recently announced. In Chicago, Mandarin Oriental will manage a 250-room luxury hotel together with 80 branded residences located in an exclusive mixed-use development in Chicago's business district. The hotel is projected to open in early 2008. On Grand Cayman Island, the Group will manage a 114-room 'hideaway' resort that will open in early 2007.

Mandarin Oriental's next addition is the contemporary new hotel at The Landmark in Hong Kong, which the Group will manage when it opens in late August this year. This will be followed by the opening of Mandarin Oriental, Tokyo in December 2005, which will be operated under a long term lease. Pre-opening expenses, including lease costs, in the second half of the year are expected to be some US\$10 million.

Preparation for the renovation of the Group's flagship hotel, Mandarin Oriental, Hong Kong, continues with a planned temporary closure from the end of 2005.

Mandarin Oriental now has over 8,000 rooms under operation or planned as it continues to develop one of the world's leading luxury hotel brands.

OUTLOOK

Market conditions remain generally favourable and Mandarin Oriental's second-half results should benefit from rising room rates, although this will be offset by pre-opening costs associated with the Group's new hotel in Tokyo.

Simon Keswick

Chairman

26th July 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(unaudited)		Year ended
		2005 US\$m	Six months ended 30th June Restated 2004 US\$m	31st December 2004 US\$m
Revenue	2	192.7	151.2	336.8
Cost of sales		(121.0)	(97.4)	(224.7)
Gross profit		71.7	53.8	112.1
Selling and distribution costs		(11.4)	(10.6)	(22.4)
Administration expenses		(27.6)	(25.4)	(46.3)
Operating profit	3	32.7	17.8	43.4
Net financing charges		(12.1)	(12.7)	(27.5)
Share of results of associates and joint ventures excluding gain on disposal and writeback of impairment		2.5	1.0	3.0
Writeback of impairment of an associate		–	–	9.6
Share of results of associates and joint ventures	4	2.5	1.0	12.6
Gain on disposal of an associate	9	47.9	–	–
Profit before tax		71.0	6.1	28.5
Tax	5	(17.0)	(2.9)	(5.6)
Profit after tax		54.0	3.2	22.9
Profit attributable to shareholders		55.3	5.5	27.8
Loss attributable to minority interests		(1.3)	(2.3)	(4.9)
		54.0	3.2	22.9
		US¢	US¢	US¢
Earnings per share	6			
– basic		5.96	0.65	3.26
– diluted		5.91	0.65	3.26

CONSOLIDATED BALANCE SHEET

	Note	(unaudited) At 30th June		At 31st December
		2005 US\$m	Restated 2004 US\$m	2004 US\$m
Net assets				
Goodwill		21.0	20.7	21.0
Tangible assets	7	715.5	694.8	752.1
Leasehold land payments		191.9	192.1	192.8
Associates and joint ventures		202.6	229.2	255.5
Other investments		20.0	5.0	6.4
Pension assets		22.7	18.9	22.9
Deferred tax assets		9.5	7.4	9.5
Other non-current assets		1.5	-	-
Non-current assets		1,184.7	1,168.1	1,260.2
Stocks		2.8	2.7	2.9
Debtors and prepayments		57.6	51.3	57.9
Cash at bank		146.7	59.4	65.7
Current assets		207.1	113.4	126.5
Creditors and accruals		(54.4)	(57.2)	(65.1)
Current borrowings	8	(7.5)	(7.1)	(85.7)
Current tax liabilities		(10.2)	(9.0)	(8.0)
Current liabilities		(72.1)	(73.3)	(158.8)
Net current assets/(liabilities)		135.0	40.1	(32.3)
Long-term borrowings	8	(479.6)	(572.9)	(497.1)
Deferred tax liabilities		(34.1)	(10.3)	(22.3)
Pension liabilities		(1.7)	(1.7)	(1.7)
Other non-current liabilities		(0.8)	(0.6)	(6.0)
		803.5	622.7	700.8
Total equity				
Share capital		48.3	42.6	42.6
Share premium		158.7	89.0	89.0
Revenue and other reserves		589.2	480.1	559.1
Shareholders' funds		796.2	611.7	690.7
Minority interests		7.3	11.0	10.1
		803.5	622.7	700.8

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	(unaudited)		Year ended
	2005	2004	2004
	US\$m	US\$m	US\$m
		Restated	31st December
		2004	
		US\$m	
Surplus on revaluation of properties	-	-	51.1
Actuarial gains on defined benefit pension plans	-	-	4.4
Net exchange translation differences	(22.8)	(3.9)	21.1
Loss on financial assets	-	(1.3)	(1.3)
Gain/(Loss) on cash flow hedges	6.8	3.4	(1.9)
Tax on items taken directly to equity	-	-	(18.2)
Net income recognized directly in equity	(16.0)	(1.8)	55.2
Profit for the period/year	54.0	3.2	22.9
Total recognized income and expense for the period/year	38.0	1.4	78.1
Attributable to:			
Shareholders of the Company	37.4	2.6	83.1
Minority interests	0.6	(1.2)	(5.0)
	38.0	1.4	78.1

CONSOLIDATED CASH FLOW STATEMENT

	Note	(unaudited)		Year ended
		2005	Six months ended 30th June 2004 Restated US\$m	31st December 2004 US\$m
Operating activities				
Operating profit		32.7	17.8	43.4
Depreciation		14.3	12.7	30.7
Amortization of leasehold land payments		0.3	0.3	0.6
Non-cash items		0.6	(1.4)	0.4
Decrease in working capital		(9.9)	(6.6)	(1.8)
Interest received		0.5	0.2	0.6
Interest and other financing charges paid		(13.9)	(12.4)	(27.4)
Tax paid		(3.0)	(1.8)	(8.0)
		21.6	8.8	38.5
Dividends and interest from associates and joint ventures		3.7	4.3	8.6
Cash flows from operating activities		25.3	13.1	47.1
Investing activities				
Purchase of tangible assets		(11.2)	(27.8)	(41.2)
Investments in and loans to associates and joint ventures		(0.5)	(0.6)	(5.7)
Loan to other investments		(12.0)	-	-
Increase in other investments		(1.6)	(0.1)	(1.4)
Purchase of minority interests		(0.2)	(0.5)	(0.5)
Proceeds on disposal of other investments		-	13.2	13.2
Proceeds on disposal of associates		94.9	-	-
Repayment of loan to associates and joint ventures		4.1	6.6	7.2
Cash flows from investing activities		73.5	(9.2)	(28.4)
Financing activities				
Issue of shares		0.3	-	0.1
Drawdown of borrowings		104.0	24.5	28.6
Repayment of borrowings		(112.3)	(36.6)	(51.6)
Dividends paid by the Company	10	(9.7)	-	-
Capital contribution from minority interests		0.6	1.6	2.2
Cash flows from financing activities		(17.1)	(10.5)	(20.7)
Effect of exchange rate changes		(0.7)	-	1.7
Net increase/(decrease) in cash and cash equivalents		81.0	(6.6)	(0.3)
Cash and cash equivalents at 1st January		65.7	66.0	66.0
Cash and cash equivalents at 30th June/31st December		146.7	59.4	65.7

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies and basis of preparation

The unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

There have been no changes to the accounting policies described in the 2004 annual financial statements. In 2005, the Group early adopted two amendments to IAS 39, Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, and The Fair Value Option, neither of which has had a significant impact on the Group's financial statements.

The comparative figures for the six months ended 30th June 2004 have been restated to reflect a change in accounting policy for defined benefit pension plans which was adopted in the preparation of the 2004 annual financial statements.

2 Revenue

	Six months ended 30th June	
	2005 US\$m	2004 US\$m
By geographical area		
– Hong Kong & Macau	78.7	66.7
– Other Asia	15.6	13.8
– Europe	52.4	46.5
– The Americas	46.0	24.2
	192.7	151.2

3 Operating profit

By geographical area		
– Hong Kong & Macau	22.7	14.4
– Other Asia	(1.2)	0.5
– Europe	7.9	5.3
– The Americas	3.3	(2.4)
	32.7	17.8

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
Six months ended 30th June 2005				
By geographical area				
- Hong Kong & Macau	2.1	(0.1)	(0.1)	1.9
- Other Asia	3.7	(1.3)	(0.9)	1.5
- The Americas	2.1	(3.0)	-	(0.9)
	7.9	(4.4)	(1.0)	2.5
Six months ended 30th June 2004				
By geographical area				
- Hong Kong & Macau	1.1	(0.1)	0.1	1.1
- Other Asia	4.4	(1.1)	-	3.3
- The Americas	(1.0)	(2.4)	-	(3.4)
	4.5	(3.6)	0.1	1.0

5 Tax

Tax on profits has been calculated at rates of taxation prevailing in the territories in which the Group operates and includes a tax charge of US\$11.8 million (2004: nil) arising on disposal of the Group's 40% investment in Kahala Mandarin Oriental, Hawaii.

This tax charge is calculated after utilizing brought forward tax losses in the United States of approximately US\$71.4 million and comprises current tax of US\$1.3 million and deferred tax of US\$10.5 million on temporary differences.

6 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US\$55.3 million (2004: US\$5.5 million) and on the weighted average number of 927.5 million (2004: 851.5 million) shares in issue during the period. The weighted average number excludes shares held by the Trustee under the Senior Executive Share Incentive Schemes.

Diluted earnings per share are calculated on the weighted average number of 935.1 million (2004: 853.2 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 period.

	Ordinary shares in millions	
	2005	2004
Weighted average number of shares in issue	927.5	851.5
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	7.6	1.7
Weighted average number of shares for diluted earnings per share	935.1	853.2

The Directors consider funds from operations ('FFO') to be a supplemental measure of the Group's performance and believe this should be considered along with, but not as an alternative to, profit attributable to shareholders as a measure of the operating performance.

FFO is defined as profit attributable to shareholders excluding depreciation of hotel buildings, net of relevant deferred tax and minority interests.

	Six months ended 30th June			
	2005		2004	
	US\$m	Per share US¢	US\$m	Per share US¢
Profit attributable to shareholders	55.3	5.96	5.5	0.65
Depreciation of buildings, net of deferred tax and minority interests	7.0	0.75	5.7	0.67
Funds from operations	62.3	6.71	11.2	1.32

7 Tangible assets and capital commitments

	Year ended		
	Six months ended 30th June		31st December
	2005 US\$m	2004 US\$m	2004 US\$m
Opening net book value	752.1	687.1	687.1
Exchange rate adjustments	(33.4)	(1.4)	28.4
Additions	11.2	21.8	32.0
Disposals	(0.1)	-	-
Depreciation	(14.3)	(12.7)	(30.7)
Revaluation surplus	-	-	35.3
Closing net book value	715.5	694.8	752.1
Capital commitments	135.5	32.9	140.4

8 Borrowings

	At 30th June 2005 US\$m	2004 US\$m	At 31st December 2004 US\$m
Bank loans	469.6	487.5	488.8
6.75% convertible bonds	–	74.8	75.3
Other borrowings	9.5	9.7	10.7
Finance lease	8.0	8.0	8.0
	487.1	580.0	582.8
Current	7.5	7.1	85.7
Long-term	479.6	572.9	497.1
	487.1	580.0	582.8

The 6.75% convertible bonds of the Company have been converted into ordinary shares in accordance with their terms resulting in the issue of a total of 113,062,580 ordinary shares of the Company.

9 Sale of 40% investment in Kahala Mandarin Oriental, Hawaii

On 8th June 2005, the Company announced that it has completed the sale of its 40% investment in the partnership that leases the Kahala Mandarin Oriental hotel in Hawaii to its 60% partner, Kahala Royal Corporation ('KRC').

The Group had exercised its put option in January 2005 pursuant to its rights under its partnership agreement with KRC. On completion, the Group received a gross consideration of US\$97.1 million, which included the repayment of US\$10.4 million partnership debt owed to the Group. The pre-tax gain on this disposal is approximately US\$47.9 million. After utilization of brought forward US tax losses, the post-tax gain on this disposal is approximately US\$36.1 million.

10 Dividends

No interim dividend in respect of 2005 is proposed (2004: nil). A final dividend of US¢1.00 per share has been paid in respect of 2004.

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

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