

MANDARIN ORIENTAL
INTERNATIONAL LIMITED

Annual Report 2019



Mandarin Oriental Hotel Group is an international hotel investment and management group with deluxe and first class hotels, resorts and residences in sought-after destinations around the world. Having grown from its Asian roots into a global brand, the Group now operates 33 hotels and seven residences in 23 countries and territories, with each property reflecting the Group's oriental heritage and unique sense of place. Mandarin Oriental has a strong pipeline of hotels and residences under development. The Group has equity interests in a number of its properties and adjusted net assets worth approximately US\$5.9 billion as at 31st December 2019.

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

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



Jardines

A member of the Jardine Matheson Group

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Corporate Information

Directors

Ben Keswick *Chairman and Managing Director*

James Riley *Group Chief Executive*

Craig Beattie

Jack Yilun Chen

Edouard Ertedgui

Mark Greenberg

Julian Hui

Adam Keswick

Archie Keswick

(joined the Board on 5th December 2019)

Simon Keswick

(stepped down on 1st January 2020)

Lincoln K.K. Leong

Anthony Nightingale

Y.K. Pang

Jeremy Parr

Lord Sassoon, Kt

James Watkins

Percy Weatherall

Company Secretary

Jonathan Lloyd

Registered Office

Jardine House

33-35 Reid Street

Hamilton

Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

Ben Keswick *Chairman*

James Riley *Group Chief Executive*

Craig Beattie *Chief Financial Officer*

Richard Baker

Kieren Barry

Paul Clark

Jan Goessing

(stepped down on 28th February 2019)

Mark Greenberg

Jill Kluge

(joined the board on 14th February 2019)

Christoph Mares

Vincent Marot

Paul Massot

(joined the board on 14th February 2019)

Anne O’Riordan

(joined the board on 1st June 2019)

Y.K. Pang

Jeremy Parr

John Witt

Corporate Secretary

Jonathan Lloyd

Highlights

Mandarin Oriental International Limited

- Lower earnings in Hong Kong
- London hotel fully re-opened
- Commenced redevelopment of The Excelsior site
- Four new hotels opened and seven new management contracts signed

Results

	Year ended 31st December		Change %
	2019 US\$m	2018 US\$m restated ⁶	
Combined total revenue of hotels under management ¹	1,325.1	1,397.6	(5)
Underlying EBITDA (Earnings before interest, tax, depreciation and amortisation) ²	154.5	187.9	(18)
Underlying profit attributable to shareholders ³	41.2	64.9	(37)
(Loss)/profit attributable to shareholders	(55.5)	43.4	N/A
	US¢	US¢	%
Underlying earnings per share ³	3.26	5.15	(37)
(Loss)/earnings per share	(4.39)	3.44	N/A
Dividends per share	3.00	3.00	–
	US\$	US\$	%
Net asset value per share ⁴	3.26	0.98	233
Adjusted net asset value per share ⁵	4.70	4.62	2
Net debt/shareholders' funds ⁴	7%	23%	
Net debt/adjusted shareholders' funds ⁵	5%	5%	

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

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

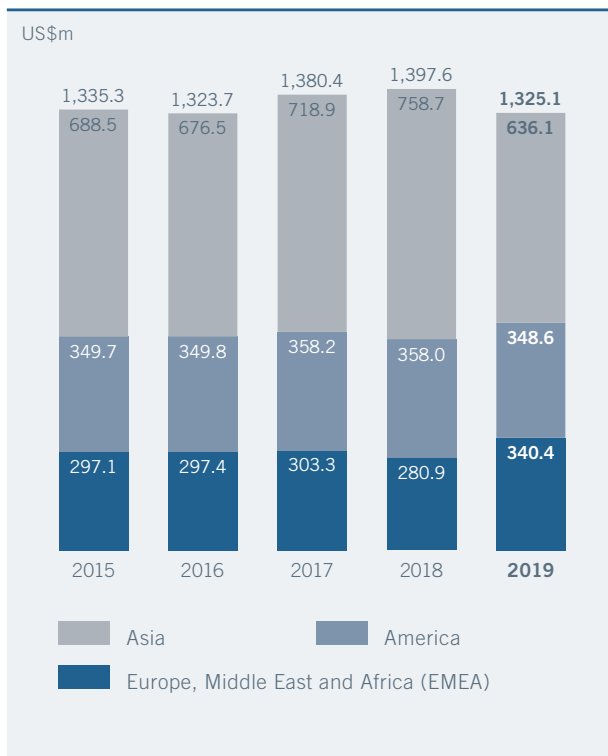
³ The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 34 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

⁴ The net asset value per share and net debt/shareholders' funds at 31st December 2019 included a US\$2.9 billion one-time asset revaluation gain through reserves following the reclassification of The Excelsior site as an investment property under development on 31st March 2019.

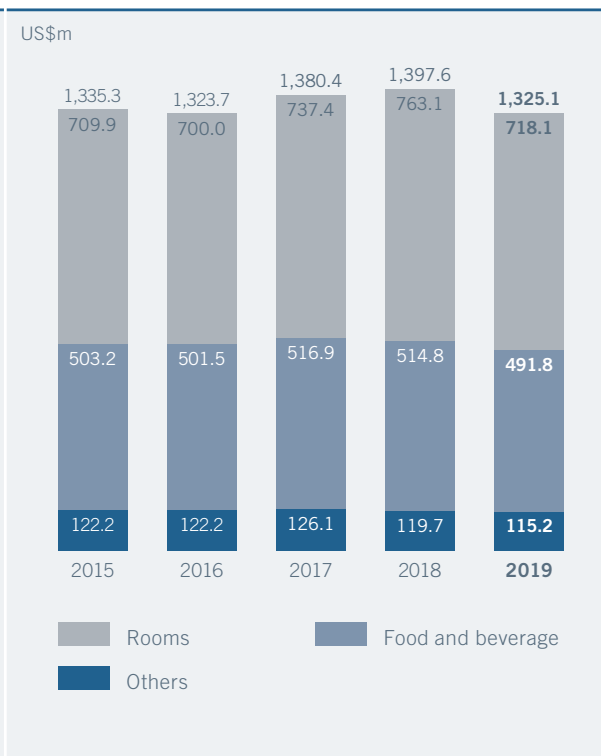
⁵ The Group's investment property under development is carried at fair value on the basis of a valuation carried out by independent valuers at 31st December 2019. The other freehold and leasehold interests are carried at amortised cost in the consolidated balance sheet. Both the adjusted net asset value per share and net debt/adjusted shareholders' funds have included the market value of the Group's freehold and leasehold interests.

⁶ The comparative figures in 2018 have been restated due to changes in accounting policies upon adoption of IFRS 16 'Leases', as set out in note 1 to the financial statements.

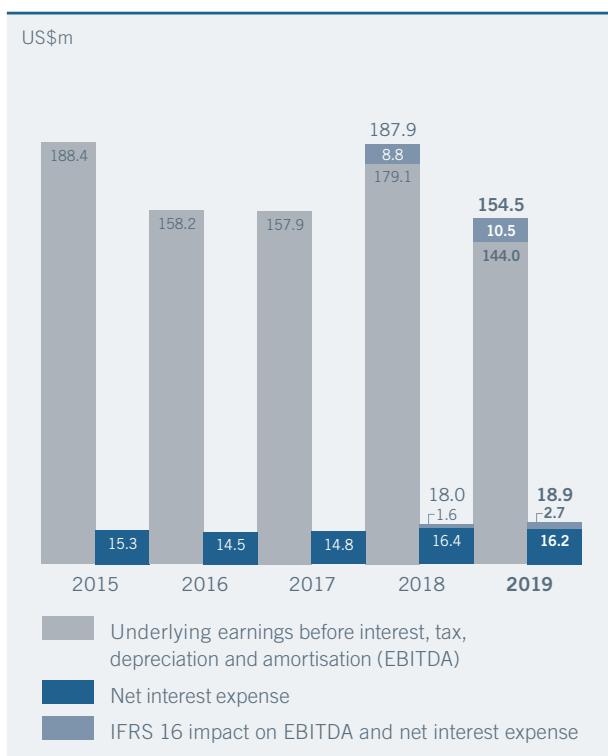
Combined total revenue by geographical area



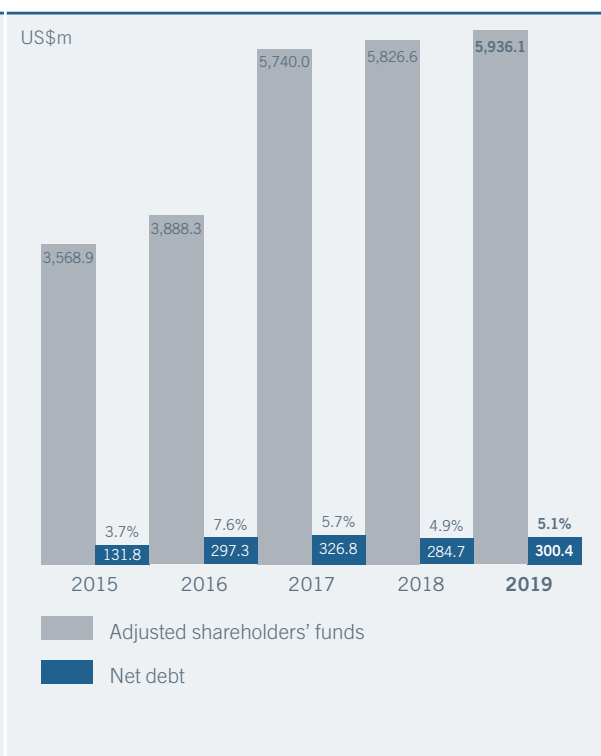
Combined total revenue by type of business



Underlying EBITDA and net interest expense*



Net debt/adjusted shareholders' funds*



* 2018 figures have been restated.

Chairman's Statement

Overview

The Group's underlying profit significantly decreased in 2019, primarily due to the closure of The Excelsior in Hong Kong. While results were also impacted by the social unrest in Hong Kong and the major renovation at the Bangkok hotel, earnings did benefit from the re-opening of the London hotel following the fire in 2018 and the receipt of related insurance proceeds.

Performance

Underlying earnings before interest, tax, depreciation and amortisation ('EBITDA') were US\$155 million, compared to US\$188 million in the prior year. Excluding earnings from The Excelsior, underlying EBITDA were US\$146 million compared to US\$153 million in 2018.

Underlying profit for the year was US\$41 million compared with US\$65 million in 2018. In addition, several non-trading items were recognised, primarily in relation to the redevelopment of The Excelsior as a commercial building and its reclassification as a commercial investment property following the hotel's closure in March 2019. These items included a US\$67 million (1%) decrease in the valuation of The Excelsior site at the end of the year and US\$29 million of accelerated depreciation of hotel assets and closure costs. These items resulted in a loss attributable to shareholders of US\$56 million in the year compared to a profit attributable to shareholders of US\$43 million in 2018.

The adjusted net asset value per share, which reflects an independent valuation of the Group's owned hotel properties and the valuation of The Excelsior site as a commercial development, was US\$4.70 at 31st December 2019, compared with US\$4.62 per share at the end of 2018.

The Directors recommend a final dividend of US¢1.50 per share, resulting in a total annual dividend of US¢3.00 per share, unchanged from 2018.

The Group's net debt at 31st December 2019 was US\$300 million, slightly higher than the US\$285 million at the end of 2018. Gearing as a percentage of adjusted shareholders' funds at 31st December 2019, after taking into account the market value of all of the Group's property interests, was 5%.

Year in review

Several of the Group's owned or partially owned properties reported better earnings in 2019 although overall results were impacted by the redevelopment of The Excelsior site, the social unrest in Hong Kong and the renovation in Bangkok. The Group's London Hyde Park hotel fully re-opened in April 2019 and the hotel is quickly re-establishing its position at the top of the London market. Results at the London property benefited from settlement of the insurance claim relating to the fire in 2018, which included proceeds for business interruption in respect of both 2018 and 2019. The restoration of Mandarin Oriental Ritz, Madrid is on track and the Group is looking forward to the opening of this historic property in late summer of 2020.

The redevelopment of The Excelsior site is progressing well, and the demolition phase commenced in September 2019. The Group expects the redevelopment to take around six years to complete and to cost some US\$650 million.

The Group opened four new hotels in 2019 in Dubai, Doha, Beijing and Lake Como. The Group also continues to build its development pipeline with seven new management contracts signed and announced in 2019, including six new hotels and one standalone *Residences* project. New Mandarin Oriental hotels were announced in Istanbul, Nanjing, Lake Lucerne, Dallas and Tel Aviv and the Group took over management of Emirates Palace in Abu Dhabi at the beginning of 2020.

People

Each and every day our colleagues work tirelessly to provide the legendary service and experiences for which Mandarin Oriental is recognised. On behalf of the Directors, I would like to thank colleagues throughout the Group for their continuing dedication, loyalty and commitment and for how they have performed and responded to, and shown great resilience in the face of, the ongoing challenging conditions for the Group.

Simon Keswick stepped down as a Director with effect from 1st January 2020. On 20th January 2020, it was announced that Lord Sassoon will retire from the Board on 9th April 2020. Edouard Ettedgui will retire from the Board following the Company's AGM on 6th May 2020. The Board would like to record its gratitude to all of them for their significant contributions to the Group over many years. Archie Keswick was appointed as a Director on 5th December 2019 and the Board was pleased to welcome him to the Board.

As separately announced on 5th March 2020, with effect from 15th June 2020 the roles of Chairman and Managing Director, which are currently held on a combined basis by Ben Keswick, will be separated. Ben Keswick will remain as Chairman and John Witt will join the Board and take on the role of Managing Director of the Company.

Outlook

The Group's performance is being significantly impacted by the ongoing coronavirus, particularly in Hong Kong. Results for the remainder of the year will depend on the duration, geographic extent and impact of the coronavirus and the measures taken to control it. The Group's results should, however, benefit from the newly renovated London and Bangkok hotels and the Group looks forward to the re-opening of the iconic Mandarin Oriental Ritz, Madrid in late summer.

Ben Keswick

Chairman

5th March 2020

Group Chief Executive's Review

Key highlights

2019 was an extremely busy year for the Group and I am pleased with the progress we have made on several fronts. We opened four new hotels this year in Dubai, Doha, Beijing and Lake Como, opened a new *Residences* in Bangkok, and announced seven new development projects, including the takeover of the iconic Emirates Palace in Abu Dhabi. Having started 2019 without a presence in the Middle East, we now have three operating hotels in a region which is an important outbound market for many of our properties globally. This is also the first time the Group has opened four hotels in a single year, and I hope signals a new era of growth for the Group – over the last four years we have diligently built a pipeline that currently includes 20 new projects which are scheduled to open in the next five years, in addition to the properties whose management we have already taken over during the period.

Other events of note included the re-opening of our flagship Hyde Park hotel in London after a comprehensive refurbishment, the re-opening of the River Wing at the historic Bangkok hotel following renovation, a completed rooms renovation in Tokyo, and good progress on the renovation of the Madrid hotel which is on track to open in late summer 2020. The redevelopment of The Excelsior site into a commercial building commenced in May and is currently in the demolition phase. The new commercial building is expected to be completed in 2025.

Our guest recognition programme, *Fans of M.O.*, surpassed half a million members in 2019, less than 18 months after launch. We designed *Fans of M.O.* as a unique recognition-based programme to fit the needs of our customers and I am delighted with the response and continued take-up. Further enhancements to the programme are coming in 2020 and I am confident these innovations will continue to differentiate us in the industry.

Fans of M.O. is a key customer-facing element of our digital strategy, but there are also significant investments being made to modernise our core information technology systems that will support our digital and data ambitions. This is a significant endeavour but one which we have been working on for a number of years. We started to replace all our core hotel property management systems in 2018 and we expect this to be complete for all hotels in the first half of 2020. This is a major step as we look to consolidate and to better utilise the rich data available across our business in order to elevate customer luxury experiences to even higher levels.

Sustainability is a central part of our culture and we focus on motivating our colleagues to act responsibly in everything that they do, with a particular emphasis on how they can impact their local communities. In 2019, we set ourselves an ambitious, yet achievable goal of eliminating all single-use plastic from our premises by the end of March 2021. This is a significant challenge but one in which we can provide valuable leadership to industry and more broadly. I am delighted at how our colleagues have wholly embraced this challenge as part of our joint commitment to deliver on the Group's sustainability responsibilities.

The Group's overall performance in 2019 was good considering the difficult trading conditions in Hong Kong. Excluding the Group's hotels in Hong Kong from the second half onwards, when they were impacted by social unrest, overall Revenue Per Available Room¹ ('RevPAR') for the Group was broadly flat in US dollar terms on a like-for-like basis and many of the Group's hotels maintained or improved their competitive positions. Including the Hong Kong hotels, overall RevPAR decreased by 4% compared to 2018.

¹ The like-for-like comparison includes all hotels that were operational for the entire year for both 2018 and 2019. Mandarin Oriental, Bangkok is included up until the closure of the River Wing, comprising 338 of the hotel's 368 keys, for a major renovation at the beginning of March 2019.

Financial performance was significantly affected by three factors: (i) the closure of The Excelsior hotel at the end of March 2019; (ii) the social unrest in Hong Kong; and (iii) the partial closure of the Bangkok hotel for renovation. On the positive side, the Group's financial results benefited from the receipt of business interruption insurance proceeds relating to the fire at the London hotel in 2018, as the Group's claim was settled in 2019.

On an overall basis, underlying EBITDA² fell by 18% compared to the prior year, as better results at several of the Group's properties could not offset the impact of the three factors I referred to earlier. Excluding the results of The Excelsior in both 2018 and 2019, underlying EBITDA fell 5%.

2019 Performance

RevPAR performance

The Group's overall RevPAR decreased 4% compared to the prior year, primarily due to the impact of the social unrest on the Group's two hotels in Hong Kong which were both also coming off a strong base having performed well in 2018.

In **Asia**, excluding the two Hong Kong hotels from the third quarter onwards, RevPAR was slightly lower. Including the two Hong Kong hotels for the whole of 2019, RevPAR for the region decreased by 8%. For the full year, Mandarin Oriental, Hong Kong just slipped below its 2018 average daily rate, while occupancy fell 20 percentage points compared to the prior year. Overall, this was a good performance in the context of what the broader market experienced. The Landmark Mandarin Oriental, which is managed under a long-term contract, experienced a steeper 33% decline in RevPAR for the full year, because of the hotel's higher leisure segment mix. Tokyo delivered an extremely strong performance, buoyed by the Rugby World Cup, with higher average daily rates driving RevPAR up by 15%. Our hotels in Singapore and Kuala Lumpur also performed well against the backdrop of strong performances in 2018. Despite Jakarta's promising results in 2018, weak demand from corporate accounts and continued oversupply in that market led to an 11% decrease in RevPAR.

In **EMEA**³, most hotels improved their RevPAR performance although the strength of the US dollar weighed on results. On a constant currency basis, RevPAR for the region was up 6%, while it was broadly flat in US dollar terms⁴. On a local currency basis, there were notably improved RevPAR performances in Munich, Milan, Marrakech and Bodrum while Paris held on well despite the impact of the ongoing protests there. We were delighted that the Group's London flagship hotel fully re-opened in April 2019 and, as we had hoped, the hotel quickly established a leading position in the city and performed well. The hotel experienced strong demand across all segments at city-leading average daily rates.

RevPAR performances in **America** were mixed and overall the region was slightly up. Miami benefited from increased demand in the leisure and group segments and while market conditions helped Washington D.C. improve, the hotel's competitive position remains sub-par. The Group's hotels in Boston and New York ended the year as market leaders, although RevPAR performance at both was slightly lower.

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

³ Europe, Middle East and Africa.

⁴ Because Mandarin Oriental Hyde Park, London was partially closed during periods of both 2018 and 2019, its performance has been excluded from the regional year-on-year RevPAR comparison.

Group Chief Executive's Review *Continued*

Financial performance

The Group's financial performance is primarily driven by its owned and partially owned properties. Underlying EBITDA was lower at US\$155 million, compared to US\$188 million in the prior year. Underlying profit was US\$41 million, compared to US\$65 million in 2018.

Most of the Group's properties maintained or improved their earnings in 2019 and the lower result was due to a few specific events. The closure of The Excelsior, which contributed underlying EBITDA of US\$9 million in 2019 compared to US\$35 million in 2018, had a material impact. Lower earnings in Bangkok were also expected due to the major renovation there. Taken together with the impact of the ongoing social unrest in Hong Kong on Mandarin Oriental, Hong Kong – the Group's most important hotel from an earnings perspective, these three factors led earnings lower and could not be compensated for by better results at many of the Group's other, albeit smaller, properties. Tokyo produced a notably improved contribution due to a strong top-line performance and cost controls.

Earnings benefited from settlement of the insurance claim in London relating to the fire on 6th June 2018. In addition to business interruption proceeds received for 2019, the hotel's results also included additional compensation for the loss of profits in 2018.

Separately, earnings from the Group's management business were lower compared to the prior year, which had benefited from the one-off termination fees received as the Group ceased to manage the hotels in Las Vegas and Atlanta in 2018.

Strategy

The Group's vision remains unchanged – to be recognised as the world's best luxury hotel group.

We want our guests to recognise us as nothing short of the world's best in our field. With our 13,000 colleagues globally, we want to evolve and innovate our luxury standards to anticipate guest needs. And finally, we want to expand our footprint to offer our guests a truly global portfolio of destinations.

Our vision is underpinned by four key strategic priorities that are at the forefront of our agenda:

- **The Mandarin Oriental brand is the Group's most powerful asset.** Its global reach, despite the relatively modest size of our portfolio, provides us with a strong growth platform as the brand continues to draw interest from owners, developers and guests alike. The growth opportunity is illustrated by the pipeline the Group has today and I expect the pipeline to grow further in the next two to three years.
- **Our people underpin the unique luxury experience that defines Mandarin Oriental.** Meaningful and memorable luxury experiences that keep guests coming back are curated by our colleagues, who must be motivated to co-create and evolve our luxury standards. We empower colleagues by constantly reinforcing our cultural values.

- **Personalisation is the key for competitive differentiation.** Guests now demand completely tailored experiences, which are only possible if we truly understand our guests and their needs. *Fans of M.O.* will greatly enhance our ability to personalise.
- **Implementing the right digital technologies is a major opportunity.** Developments in technology continue to accelerate and the Group must adopt the relevant technologies that will support our portfolio growth and enable better delivery of luxury experiences. Several of the Group's core systems will be replaced in the coming years and we are investing in a range of new digital platforms that will help our colleagues to enhance guest experiences.

Expanding the Mandarin Oriental portfolio, and maintaining our luxury standards, remains a key focus over the coming years. The Group holds equity interests in around half of its 33 hotels, while the remainder are managed on behalf of third-party owners. Our planned future expansion is largely expected to come from new management agreements, although the Group's strong balance sheet remains well-placed to fund selective investment opportunities in strategic destinations that have long-term asset value growth potential. Our target is to consistently grow the overall Mandarin Oriental portfolio by an average of three new properties each year.

The Group's current pipeline of 20 properties, in addition to our demonstrated desire and willingness to rebrand existing hotels, gives me confidence that we are on a sustainable growth trajectory. In addition to new management fees, earnings growth will also come from the branding and management of residential developments. As 12 of the Group's pipeline projects incorporate a residential component, the Group expects to receive significant branding fees. Residences are attractive to guests and developers and are complementary to hotels, so will continue to play an important role in the Group's growth.

Nonetheless, owned assets remain at the heart of our portfolio and will continue to generate the majority of the Group's earnings for the foreseeable future, so it is crucial that we continue to re-invest and drive profitability in these properties. Renovations in Bangkok and Madrid are ongoing, and several more renovations, some major and some minor in nature, are expected in the coming years. These continued investments are crucial to sustain our market leading position.

There are two further areas that cut across all facets of our strategy: sustainability and innovation.

Corporate responsibility values are deeply engrained in Mandarin Oriental's heritage. As the Group grows, its responsibilities to support local communities and drive sustainability in the way that its hotels operate become even more important. Responsible procurement and waste management are two specific issues I expect us to be very active in over the next 12 months, in addition to progressing towards our goal of eliminating all single-use plastic by the end of March 2021.

Group Chief Executive's Review *Continued*

Staying relevant in the pace of today's world necessitates an environment that fosters a culture of innovation, one that encourages new and different behaviours and ideas. By its nature and for good reasons historically, the hotel industry was built on organisational hierarchies which in today's world can inhibit agility and innovation. Building a culture of innovation means we must strive to reduce hierarchies, limit bureaucracy and eliminate the fear of speaking up or making mistakes. On one level, I know that our colleagues innovate every day in order to exceed guest expectations and constantly deliver new moments of surprise and delight. On the other hand, I also know that we must continue to actively support and encourage these behaviours to truly enable a sustained shift in mindset and culture.

Business developments

The Group has 20 announced projects under development which are expected to open in the next five years, comprising eight standalone hotel projects, 10 projects with hotel and residence components and two standalone residence projects.

Over the past four years, we have announced 16 new projects and taken over management of four hotels. This momentum illustrates the continued interest in the brand and highlights the growth opportunity at hand. While I would like this rate of announcements to continue, it is more realistic to expect a slower pace as we reach a pipeline of 20-25 projects, which is optimal. An ongoing pipeline of 20-25 hotels that are expected to open within five years, recognising that some may be delayed or fall away due to circumstances out of our control, will stand us in good stead to open at least three new hotels a year without compromising quality standards.

All of our announced projects are management agreements with no equity participation. We remain flexible to investment in properties of strategic interest, but we also balance this against the need to deploy capital at our owned assets as I have outlined above.

Our expansion is focused on building a presence in major global city-centre and resort locations where the brand is currently absent, while also reinforcing our position in existing markets by opening additional properties as we are doing for example in London.

Seven new management contracts were announced in 2019:

- Standalone residences on Fifth Avenue in New York;
- Hotel and residences in Istanbul, Turkey;
- A hotel in Nanjing, China;
- A hotel re-branding on Lake Lucerne, Switzerland;
- Hotel and residences in Dallas;
- Hotel and residences in Tel Aviv, Israel; and
- Future re-branding of the Emirates Palace, Abu Dhabi, having taken over management of the hotel at the start of 2020.

I am hopeful of several more project announcements this year. While the potential for further reflags is possible, I expect 2020 to be a quieter year for new hotel openings as we gear up for a host of planned openings in 2021 and 2022.

Our people

What differentiates Mandarin Oriental is and always will be our people, their dedication to guests and to delivering exceptional, personalised service with moments of delight and surprise. To be recognised as the world's best luxury hotel group, we rely on the world's best people which means we must provide an environment and culture where they are encouraged to express themselves. I am impressed by the dedication of our colleagues to this vision, the pride with which they carry the Mandarin Oriental brand, and the continuing desire to deliver unique and memorable experiences. As always, I would like to personally thank each and every one of our 13,000 colleagues for their work in keeping Mandarin Oriental as one of the very best brands in luxury hospitality.

The year ahead

Looking ahead to 2020, I am cautious as there continues to be economic and political uncertainties in many of the markets in which we operate. Results for the remainder of the year will depend on the duration, geographic extent and impact of the coronavirus and the measures taken to control it. At this stage, it is difficult to tell how long the situation will persist and whether the impact experienced in East Asia will extend to other parts of the world. Results should benefit however, from re-openings in Bangkok and Madrid, as well as a full year of operations in London.

This is a year where we need to focus on sustaining our performance despite these uncertainties, while also progressing several strategic initiatives relating to digital, our core information technology infrastructure and *Fans of M.O.* The re-opening of Mandarin Oriental Ritz, Madrid will be a significant milestone for the brand and continuing to build our development pipeline remains a key priority. We are also on the lookout for new business opportunities and partnerships and I am hopeful of announcing some of these innovative projects too. So, while there are fewer planned new hotel openings in 2020, there is plenty to look forward to as well as the possibility of some reflagging projects.

Over the last few years we have made significant capital investments in our owned assets, together with a successful effort to rebuild a credible development pipeline that will grow the portfolio. This I believe has set the Group up with a strong platform for growth. The future looks very exciting for Mandarin Oriental.

James Riley

Group Chief Executive

5th March 2020

Operating Summary

Total portfolio RevPAR

US dollar

	2019 US\$	2018 US\$	% Change
Asia	202	220	(8)
Europe, Middle East and Africa	526	532	(1)
America	314	311	1
Total	276	287	(4)

Constant currency

	2019 US\$	2018 US\$	% Change
Asia	205	220	(7)
Europe, Middle East and Africa	565	532	6
America	315	311	1
Total	283	287	(1)

The like-for-like RevPAR presented in the table above includes all hotels that were in the Group's portfolio and operating for the entire year of both 2018 and 2019. As Mandarin Oriental Hyde Park, London and Mandarin Oriental Ritz, Madrid were both closed for part of 2018 and 2019, they have been excluded along with any new openings or closures during the two-year period. Mandarin Oriental, Bangkok was partially closed for renovation at the beginning of March 2019 and the hotel's statistics have been adjusted to only include trading in January and February for both years.

Group's subsidiary hotels RevPAR

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2019	2018	% Change
Available rooms	499	501	0
Average occupancy (%)	61.5	77.1	(20)
Average room rate (US\$)	467	488	(4)
RevPAR (US\$)	287	376	(24)

Mandarin Oriental, Tokyo 100% leasehold

	2019	2018	% Change
Available rooms	179	179	0
Average occupancy (%)	76.8	78.3	(2)
Average room rate (US\$)	732	622	18
RevPAR (US\$)	562	487	15

Mandarin Oriental, Jakarta 96.9% ownership

	2019	2018	% Change
Available rooms	272	272	0
Average occupancy (%)	47.5	51.3	(7)
Average room rate (US\$)	135	140	(4)
RevPAR (US\$)	64	72	(11)

EUROPE, MIDDLE EAST AND AFRICA

Mandarin Oriental Hyde Park, London 100% ownership

	2019	2018	% Change
Available rooms	181	181	0
Average occupancy (%)	65.6	33.3	N/A
Average room rate (US\$)	1,194	857	N/A
RevPAR (US\$)	784	285	N/A

Mandarin Oriental Hyde Park, London closed for repairs following a fire on 6th June 2018 and fully re-opened on 15th April 2019. Year-on-year comparatives are therefore not meaningful.

Mandarin Oriental, Munich 100% ownership

	2019	2018	% Change
Available rooms	73	73	0
Average occupancy (%)	78.0	75.5	3
Average room rate (US\$)	886	902	(2)
RevPAR (US\$)	691	681	1

Mandarin Oriental, Paris 100% ownership

	2019	2018	% Change
Available rooms	135	138	(2)
Average occupancy (%)	58.0	55.1	5
Average room rate (US\$)	989	1,088	(9)
RevPAR (US\$)	574	599	(4)

Mandarin Oriental, Geneva 92.6% ownership

	2019	2018	% Change
Available rooms	181	181	0
Average occupancy (%)	62.7	63.8	(2)
Average room rate (US\$)	605	615	(2)
RevPAR (US\$)	379	392	(3)

AMERICA

Mandarin Oriental, Boston 100% ownership

	2019	2018	% Change
Available rooms	148	148	0
Average occupancy (%)	67.3	69.5	(3)
Average room rate (US\$)	635	629	1
RevPAR (US\$)	427	437	(2)

Mandarin Oriental, Washington D.C. 94.6% ownership

	2019	2018	% Change
Available rooms	373	373	0
Average occupancy (%)	68.7	66.6	3
Average room rate (US\$)	332	334	(1)
RevPAR (US\$)	228	222	3

Development Portfolio

The following 18 hotels and 12 *Residences at Mandarin Oriental* are expected to open in the next five years.

Asia

Mandarin Oriental Qianmen, Beijing

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

Mandarin Oriental, Makati

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

Mandarin Oriental, Nanjing

A 106-room hotel located in a premier mixed-use development on the Qinhuai River and in close proximity to historic landmarks including the Gate of China, which forms part of one of the longest ancient city walls in the world.

Mandarin Oriental, Phuket

A 105-room beachfront resort located on the island's west coast in picturesque Laem Singh Bay on Millionaire's Mile, with panoramic views of the Andaman Sea.

Mandarin Oriental, Saigon

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

Mandarin Oriental, Shenzhen

A 178-room hotel situated on the top of an impressive 400-metre tower with outstanding views of the city skyline and the surrounding city parks.

Europe, Middle East and Africa

The Residences by Mandarin Oriental, Barcelona

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

Mandarin Oriental, Dubai, Sheikh Zayed Road

A 259-room hotel and 266 *Residences at Mandarin Oriental* located on Sheikh Zayed Road with views over downtown Dubai and direct access to the area's business and leisure attractions.

Mandarin Oriental Bosphorus, Istanbul

A 106-room hotel prominently located on the banks of the Bosphorus, with panoramic vistas of the famed strait, surrounding hills and the city's historical sites.

Mandarin Oriental Etiler, Istanbul

A 158-room hotel and 251 luxurious *Residences at Mandarin Oriental*, located within three standalone towers in the prestigious Etiler district of Istanbul.

Mandarin Oriental Mayfair, London

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

Mandarin Oriental Palace, Luzern

A re-branding of the iconic Hotel Palace Luzern, currently closed for renovation. This 146-room hotel is located on the shores of Lake Lucerne with excellent lake and mountain views.

Mandarin Oriental, Moscow

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

Mandarin Oriental, Muscat

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

Mandarin Oriental, Tel Aviv

A 225-room hotel and 231 *Residences at Mandarin Oriental* with an unrivalled waterfront location overlooking one of the city's pristine Mediterranean beaches.

America

Mandarin Oriental, Boca Raton

A 163-room hotel and 88 *Residences at Mandarin Oriental* as part of a mixed-use complex, surrounded by Boca Raton's most affluent, residential neighbourhoods and a short walk from miles of pristine beaches.

Mandarin Oriental, Dallas

A 176-room hotel and 100 *Residences at Mandarin Oriental* located in the exclusive Turtle Creek neighbourhood within close proximity to the central business district and several cultural attractions.

Mandarin Oriental, Grand Cayman

A 100-room beachfront resort with 89 branded *Residences at Mandarin Oriental* situated on 67 acres at St James Point, on the southern shore of the island.

Mandarin Oriental, Honolulu

A luxury 125-room hotel and 99 *Residences at Mandarin Oriental*, located on the Hawaiian island of Oahu, in the heart of the Ala Moana District.

Mandarin Oriental Residences at 685 Fifth Avenue, New York

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

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

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

International Brand Recognition

The recognition of Mandarin Oriental as one of the world's best luxury hotel groups continued to be reflected in the awards received from respected travel associations and publications worldwide. Highlights in 2019 included Mandarin Oriental, Bangkok being recognised in *Condé Nast Traveller's*, UK 'Gold List' and in *Condé Nast Traveler*, US 'Readers' Choice Awards' as one of the Best Hotels in the city. Mandarin Oriental Hyde Park, London and the Group's newest resort property, Mandarin Oriental Jumeira, Dubai were also listed in the top three hotel nominations in their respective destinations. Mandarin Oriental, Taipei took the number one spot in *DestinAsian Travel* 'Readers' Choice Awards' with The Landmark Mandarin Oriental, Hong Kong listed as No.3 in 'Best Hotels in Hong Kong'. During its first year of operation, the Group's newest luxury resort Mandarin Oriental Jumeira, Dubai was listed as a winner in the prestigious *Condé Nast Traveler*, US 'Hot List' 2019.

In the 2020 *Michelin* guides, a total of 17 restaurants were honoured, with 27 stars being granted across the Group. Eight of the 17 restaurants have two Michelin stars. The Group's spa operations were also acknowledged as being among the best, with a record 13 hotels once again gaining the prestigious *Forbes* 'Five Star Spa' award.

Mandarin Oriental Hotel Group

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

Country & Town House

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

Pursuitist

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

Spa & Wellness International

Mandarin Oriental, Bangkok

A series of hotels line the banks of the Chao Phraya river, but everyone knows Mandarin Oriental is the only place to stay. It's iconic, having first opened in 1876, and has hosted a library's worth of enthralled writers since. It has been kept elegantly updated, always filling its halls with dramatic floral displays and its restaurants with world-class chefs. At its heart, it is wedded to its river. Every room has views and gazing at life on the water is irresistible, especially the hotel's wooden boats, which drift back and forth to the spa and Thai restaurant.

The Daily Telegraph

I love going to Mandarin Oriental, Bangkok. There is a difference between luxurious and merely expensive, true luxury comes from a sense of history.

Condé Nast Traveller, UK

Mandarin Oriental Wangfujing, Beijing

The newly opened Mandarin Oriental Wangfujing shows a different side to bustling Beijing. Occupying the top two floors of the six-storey WF Central shopping centre, the 73-room boutique hotel manages to feel like a luxurious home away from home.

Prestige

With a soothing colour palette of teal and taupe, each room feels like a personal sanctuary.

Forbes

Mandarin Oriental, Hong Kong

This hotel has legendary status in the city. As the first and flagship Mandarin Oriental hotel, it has built a reputation for its opulence, high level of service and Michelin-starred cuisine. As a result, it's been at the center of Hong Kong's social scene. Guests can spend time in the award-winning Mandarin Spa, swim laps in the indoor pool and dine at internationally renowned restaurants including Cantonese dining spot Man Wah, French fine dining restaurant Pierre and Terence Conran-designed dining room, The Grill.

Forbes

Mandarin Oriental, Hong Kong is my preferred hotel. It's a mix of old-world charm and contemporary luxury, and the service is amazing.

Instyle

The Landmark Mandarin Oriental, Hong Kong

Boasting a sleek, streamlined design and a city-center location, this 111-room Hong Kong hotel has nabbed top honors for its impeccable service.

Forbes

Mandarin Oriental, Singapore

The hotel is far from old-fashioned – but it reminds you of another age when luxury hotels were simpler, less flamboyant, less about appearance than about what really counts, which is comfort and impeccable service.

The Sydney Morning Herald

Mandarin Oriental, Tokyo

Perched atop an office complex in Tokyo's historic Nihonbashi district, Mandarin Oriental delivers world-class decadence with a hefty dose of Japanese sophistication.

Condé Nast Traveller

Perched high above the city in Tokyo's financial district, Mandarin Oriental, Tokyo is a design lover's dream come true.

Travel + Leisure

Mandarin Oriental, Barcelona

Mandarin Oriental, Barcelona is set on the city's fashionable Passeig de Gràcia, within a 5 minutes' walk of Antoni Gaudí's iconic Casa Batlló and La Pedrera – sights you won't want to miss.

Luxury Lifestyle

Mandarin Oriental, Bodrum

It turns out heaven is closer than you'd think. It's located on a charming peninsula named Paradise Bay, where Mandarin Oriental lies nestled beneath the hills of Bodrum.

Glamour

With two beaches of its own, a pool complex, a cutting edge spa, chic restaurants and sounds provided by Istanbul's hip Babylon club, this is the perfect sophisticated holiday hideaway.

The Daily Telegraph

Mandarin Oriental, Doha

The sparkling new Mandarin Oriental, Doha is a veritable oasis in the desert, where every imaginable creature comfort is lustily laid on. As you'd expect from the celebrated hotel brand, staff are unfailingly attentive, outgoing and hospitable. The concierge desk knows all of Doha's best kept-secrets inside-out.

NZ Herald

Mandarin Oriental Jumeira, Dubai

Mandarin Oriental Jumeira is a chic new spot that perfectly frames the shoreline. The resort exudes an oasis feel, complete with luxurious spa, private stretch of beach and excellent choice of restaurants.

Condé Nast Traveller, UK

With Michelin-standard meals created by Portugal's most prominent chef, five stunning pools, a private beach, a deluxe spa and Dubai's first Outrace-fitted gym, Mandarin Oriental has outdone itself with its first foray into the UAE.

The Daily Telegraph

International Brand Recognition *Continued*

Mandarin Oriental, Geneva

There's a palatial new pad in Geneva offering panoramic views over the Old Town, the River Rhone, and the snow-capped Alps beyond. The hotel's highest floor, the new Royal Penthouse is the jewel of Mandarin Oriental, Geneva.

Luxury Travel Advisor

Mandarin Oriental, Lago di Como

Fit for a Diva – Mandarin Oriental's latest offering has become the new centre of gravity of the Italian lake district.

Departures

Mandarin Oriental Hyde Park, London

Mandarin Oriental Hyde Park is classy accommodation with a stylish edge provided by its recent refit. It's an excellent base from which to enjoy London's shopping, entertainment and scenic attractions.

Traveller

In all, without a doubt, a stay at the renovated Mandarin Oriental Hyde Park – be it one night or many – is an experience to remember.

Forbes

Mandarin Oriental Hyde Park, London has kept hold of its historic charm despite the modern makeover. A gracious and unstuffy grande dame.

Condé Nast Traveller

Mandarin Oriental, Marrakech

The possibilities at Mandarin Oriental, Marrakech are as endless as its reflective pools.

Just Luxe

Mandarin Oriental, Marrakech is the perfect urban oasis, designed by brilliant interior architects Patrick Gilles and Dorothee Boissier; it's rustic yet sophisticated, luxurious but relaxed, and stylish in an unostentatious manner.

The Daily Telegraph

Mandarin Oriental, Milan

Mandarin Oriental, Milan mixes timeless Milanese design with Mandarin's signature Oriental charm and legendary hospitality.

Forbes

Mandarin Oriental, Paris

Flanked by designer boutiques on rue Saint-Honoré sits Paris' Mandarin Oriental, a bastion of elegance. The look throughout the hotel is contemporary with subtle 1930s flourishes and a nod to French haute couture. Whimsical touches include the butterfly motif that appears on carpets and artwork and the delightful over-sized bird cage – a folly of French fancy – for see-and-be-seen dining in the garden.

The Daily Telegraph

A tranquil Parisian oasis that has the feeling of a members-only space.

GQ

Mandarin Oriental, Canouan

Mandarin Oriental, Canouan has 26 marble-lined suites with some of the most extravagant rooms in the Caribbean.

The Times

This all-suite resort lies in a Caribbean setting of dreams, overlooking a white sandy bay backed by forested hillside. Service is what sets the resort apart: the team can arrange things you did not know you needed, from room service when you are too sleepy from a day on the beach, to frozen aloe vera if you get sunburnt.

The Daily Telegraph

Mandarin Oriental, Miami

The service is spectacular, and the staff members perform their duties professionally while still being personable and helpful.

Forbes

Mandarin Oriental, New York

With spectacular views of Central Park, the interior's Asian aesthetic – fresh orchids, exotic purple and gold tones – merge with retro elements such as Art Deco chairs and tiled walls. Aside from world-class concierge service, don't miss a treatment in the spa, set over two floors on the Hudson River side.

The Daily Telegraph

Financial Review

Accounting policies

The Directors continue to review the developments in International Financial Reporting Standards ('IFRS') and their impact on the Group's accounting policies.

There are two changes to the accounting policies compared to the 2018 annual financial statements: the adoption of IFRS 16 'Leases' from 1st January 2019 and the application of IAS 40 'Investment Properties' from 31st March 2019 for the redevelopment of The Excelsior site.

Changes to accounting policies on the adoption of IFRS 16 have been applied retrospectively and the comparative financial statements have been restated. The new standard does not have a material effect on the Group's underlying profit but has had a significant impact on the Group's balance sheet as almost all of its leases are now included by capitalising future lease payments into a right-of-use asset offset by a corresponding lease liability. In addition, leasehold land which represents payments to third parties to acquire interests in property, previously included in intangible assets and tangible assets, is now presented under right-of-use assets. The effects of adopting this standard are presented in note 1 to the financial statements.

IAS 40 has been applied following the change of use of The Excelsior, Hong Kong from a hotel property to a commercial property. The long-leasehold site was revalued at 31st March 2019 based on a fair market valuation and transferred from a right-of-use asset held at historical depreciated cost to an investment property under development subject to regular valuation reviews.

The one-time revaluation surplus was recognised in asset revaluation reserves through other comprehensive income. The site was valued again at 31st December 2019 and the fair value change has been recognised as a non-trading item in the profit and loss.

The Group has elected to early adopt the 'Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7' (effective 1st January 2020) in relation to hedge accounting from 1st January 2019. Early adoption of these amendments has no impact to the financial statements in 2019.

Results

Overall

The Group uses underlying¹ earnings before interest, tax, depreciation and amortisation ('EBITDA') to analyse operating performance. Total underlying EBITDA including the Group's share of underlying EBITDA from associates and joint ventures is shown below:

	2019 US\$m	2018 US\$m restated
Subsidiaries	137.5	161.3
Associates and joint ventures	17.0	26.6
Underlying EBITDA	154.5	187.9

Subsidiaries

	2019 US\$m	2018 US\$m restated
Underlying EBITDA from subsidiaries	137.5	161.3
Less: underlying depreciation and amortisation	(66.5)	(69.6)
Underlying operating profit	71.0	91.7

¹ The Group uses 'underlying' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 34 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

Financial Review *Continued*

In 2019, underlying EBITDA from subsidiaries decreased by US\$23.8 million, or 15%, to US\$137.5 million. This lower result was largely due to the Group's decision to close The Excelsior and redevelop the site as a commercial property, impacting underlying EBITDA by US\$26.2 million compared to the prior year. Earnings at the Group's Hong Kong hotel were lower due to the social unrest in the city, although the impact was broadly offset by increased profitability at the London hotel and insurance compensation received for loss of profits in respect of the fire there. In 2019, the Group recognised US\$4.9 million of insurance compensation for loss of profits in 2018. There was a notably improved performance in Tokyo, where underlying EBITDA increased by more than a third compared to the prior year. Underlying EBITDA of the Paris property was lower due to a one-off termination payment to an existing retail tenant, as the Group entered into a new lease with an alternative luxury brand for significantly higher rent. Taken together, the remainder of the Group's portfolio of subsidiaries performed in-line with the previous year.

Management business

The management business, which comprises income from the management fees earned on all hotels and residences branding fees less a deduction for corporate overheads, contributed US\$30.5 million in underlying EBITDA, US\$2.6 million lower than the previous year. Despite higher residences branding fees in 2019, the prior year benefited from one-off termination fees for the Las Vegas and Atlanta hotels and a full year of management fees from The Excelsior, leading to a year-on-year decrease.

Associates and joint ventures

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

	2019 US\$m	2018 US\$m restated
EBITDA from associates and joint ventures	17.0	26.6
Less: depreciation and amortisation	(14.2)	(14.1)
Operating profit	2.8	12.5
Less: net financing charges	(4.2)	(3.8)
tax	(0.3)	(3.0)
Share of results of associates and joint ventures	(1.7)	5.7

The Group's share of EBITDA from associates and joint ventures decreased by US\$9.6 million to US\$17.0 million in 2019. The decrease was primarily due to the major renovation of the Bangkok hotel, as the River Wing and several public facilities were closed from 1st March 2019 for most of the year. The Group's remaining associates and joint ventures performed broadly in-line with the previous year.

Depreciation and amortisation and the Group's share of net financing charges of associates and joint ventures were broadly in-line with the prior year. Tax decreased from US\$3.0 million in 2018 to US\$0.3 million in 2019 primarily due to lower earnings at the Bangkok hotel.

Net financing charges

Net financing charges for the Group's subsidiaries slightly increased to US\$14.7 million in 2019, from US\$14.2 million in 2018, as higher bank deposit rates helped to offset an increase in market-based reference rates. During the year, the Group refinanced its two principal debt facilities in Hong Kong and London at a lower cost.

Interest cover

EBITDA is used as an indicator of the Group's ability to service debt and finance its future capital expenditure. Interest cover² in 2019 was 8.6 times compared with 10.7 times in 2018.

Tax

Taxation for 2019 of US\$13.5 million, excluding tax credits on non-trading items of US\$3.3 million, was lower than the US\$18.5 million charge in 2018 primarily due to the closure of The Excelsior. The underlying effective tax rate for 2019 slightly increased to 22% from 21% in 2018.

Non-trading items

	2019 US\$m	2018 US\$m restated
Fire at Mandarin Oriental Hyde Park, London – repair expenses and write-off of tangible assets and other incidental expenses	(8.3)	(28.6)
– insurance recovery for replacement of tangible assets and other incidental expenses	9.0	29.6
Closure of The Excelsior, Hong Kong – accelerated depreciation and amortisation and other costs	(28.6)	(26.9)
Change in fair value of investment property under development	(67.3)	–
Change in fair value of other investments	(1.5)	4.4
	(96.7)	(21.5)

Net non-trading losses of US\$96.7 million were recorded in 2019. These losses primarily related to The Excelsior site, now classified as an investment property under development, and IAS 40 requires that any changes in the appraised market value of the site be recorded in the profit and loss account. The valuation of The Excelsior site decreased by circa 1% when compared to when it was reclassified as an

investment property at 31st March 2019. In addition, the balance of accelerated asset write-down and other costs related to the closure of The Excelsior hotel were also recognised. Non-trading expenses relating to the repair expenses and write-off of tangible assets due to the fire at the London hotel were fully covered by insurance compensation.

Cash flow

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

	2019 US\$m	2018 US\$m restated
Operating activities	113	153
Investing activities		
Net capital expenditure on existing properties	(42)	(53)
Additions to investment property under development	(15)	–
Payment on Munich expansion	(1)	–
Net advances to associates and joint ventures	(13)	(8)
Purchase of intangible assets	(8)	(7)
Other	(1)	(1)
Financing activities		
Net drawdown of borrowings	34	28
Dividends paid	(38)	(38)
Other	(7)	(7)
Net increase in cash	22	67
Cash and cash equivalents at 1st January	247	184
Effect of exchange rate changes	2	(4)
Cash and cash equivalents at 31st December	271	247
Gross debt at 31st December	(571)	(532)
Closing net debt at 31st December	(300)	(285)

The Group's cash flows from operating activities were US\$113 million in 2019, a decrease of US\$40 million from the US\$153 million inflow in 2018, primarily due to lower operating cash inflows in Hong Kong.

² Interest cover is calculated as underlying EBITDA (including the Group's share of underlying EBITDA from associates and joint ventures) before the deduction of amortisation/depreciation of right-of-use assets and net of actual lease payments, divided by net financing charges (including the Group's share of net financing charges from associates and joint ventures) before the deduction of capitalised interest and excluding interest on lease liabilities.

Financial Review *Continued*

Under investing activities, capital expenditure on existing properties was US\$42 million in 2019, compared to US\$53 million in 2018. The decrease was primarily due to the completion of the renovation at Mandarin Oriental Hyde Park, London in April 2019. US\$15 million of capital expenditure was invested into the redevelopment of The Excelsior site in 2019, primarily related to demolition works. Net advances to associates and joint ventures primarily related to the Group's 50% share of funding for the restoration of Mandarin Oriental Ritz, Madrid.

Fire at Mandarin Oriental Hyde Park, London

In 2019, the Group received insurance payments covering both property damage and business interruption, totalling US\$31.1 million. This amount was recognised in the financial statements as follows:

- US\$4.9 million for the reimbursement of operating expenditures and loss of profits in 2018 was recorded as underlying business performance;
- US\$17.2 million for the reimbursement of operating expenditures and loss of profits in 2019 was recorded as underlying business performance;
- US\$9.0 million for the replacement of damaged tangible assets and other incidental expenses incurred as a result of the fire was recognised as non-trading income.

In addition, US\$5.6 million received in advance in 2018, for the reimbursement of operating expenditures expected in 2019, was recognised as underlying business performance.

Significant capital commitments, as previously announced

Looking ahead, the Group is committed to investing US\$742 million into previously announced significant capital projects:

	US\$m	Timing
Madrid renovation (Group's 50% share)	30	2020
Munich extension	137	2020-24
Redevelopment of The Excelsior site	575	2020-25
	742	

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

Dividends

The Board is recommending a final dividend of US¢1.50 per share for a full-year dividend of US¢3.00 per share (2018: US¢3.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 13th May 2020 to shareholders on the register of members at the close of business on 20th March 2020.

Supplementary information

Although the Group's accounting policy in respect of its freehold land and buildings and the building component of owner-occupied leasehold properties is based on the cost model, the Directors continue to review the fair market values in conjunction with independent appraisers on an annual basis. The fair market value of both freehold and leasehold land and buildings is used by the Group to calculate adjusted net assets, which the Directors believe gives important supplementary information regarding net asset value per share and gearing as shown in the table below.

Following the closure of The Excelsior hotel, the site was revalued and transferred from a right-of-use asset held at historical depreciated cost to an investment property under development subject to regular valuation review. The initial revaluation gain of some US\$2.9 billion was recognised in the asset revaluation reserves through other comprehensive income and the US\$2.9 billion gain was reclassified from adjusted shareholders' funds to shareholders' funds.

	2019		2018 restated	
	US\$m	Per share US\$	US\$m	Per share US\$
Shareholders' funds/net assets at amortised cost	4,113	3.26	1,233	0.98
Add: surplus for fair market value of freehold and leasehold land and buildings	1,823	1.44	4,594	3.64
Adjusted shareholders' funds/net assets	5,936	4.70	5,827	4.62

Treasury activities

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objective is to manage exchange and interest rate risks and to provide a degree of certainty in respect of costs. The Group has fixed or capped interest rates on 47% of its gross borrowings.

In respect of specific hotel financing, borrowings are normally taken in local currency to hedge partially the investment and the projected income. At 31st December 2019, the Group's net assets were denominated in the following currencies:

	Net assets		Adjusted net assets*	
	US\$m	%	US\$m	%
Hong Kong dollar	2,762	67	3,863	65
Euro	517	12	702	12
United Kingdom sterling	230	6	434	7
United States dollar	354	8	414	7
Singapore dollar	64	2	237	4
Thai baht	26	1	99	2
Swiss franc	89	2	89	1
Indonesian rupiah	20	1	40	1
Others	51	1	58	1
	4,113	100	5,936	100

* See supplementary information section above.

The Group, excluding associates and joint ventures, had committed borrowing facilities totalling US\$820 million, of which US\$571 million was drawn at 31st December 2019. The principal amounts due for repayment are as follows:

	Facilities committed US\$m	Facilities drawn US\$m	Unused facilities US\$m
Within one year	2	2	–
Between one and two years	57	20	37
Between two and three years	–	–	–
Between three and four years	–	–	–
Between four and five years	760	548	212
Beyond five years	1	1	–
	820	571	249

On an IFRS basis, the Group's consolidated net debt of US\$300 million at 31st December 2019 was 7% of shareholders' funds, compared with consolidated net debt of US\$285 million at 31st December 2018 which was 23% of shareholders' funds.

The decrease in gearing as a percentage of shareholders' funds was due to the reclassification of The Excelsior site referred to earlier. Taking into account the fair market value of the Group's interests in other freehold and leasehold land, gearing was 5% of adjusted shareholders' funds at 31st December 2019, unchanged from the prior year.

With US\$249 million of committed, undrawn facilities in addition to its cash balances of US\$271 million, the Group remains well financed. The average tenor of the Group's borrowings was 4.2 years (2018: 0.8 years). In 2019, the Group completed the refinancing of its two major five-year facilities in Hong Kong and London.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 115 and 116.

Craig Beattie

Chief Financial Officer

5th March 2020

Directors' Profiles

Ben Keswick* *Chairman and Managing Director*

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

James Riley* *Group Chief Executive*

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

Craig Beattie* *Chief Financial Officer*

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

Jack Yilun Chen

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

Edouard Ettetdgui

Mr Ettetdgui joined the Board in 1998 and was Group Chief Executive until he stepped down from executive office in 2016. He was formerly group finance director of Dairy Farm, prior to which he was business development director of British American Tobacco. He is also a director of Yum China Holdings. As announced on 5th March 2020, Edouard Ettetdgui will be retiring as a Director on 6th May 2020.

Mark Greenberg

Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land and Jardine Cycle & Carriage, and a commissioner of Astra and Permata Bank.

Julian Hui

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

Adam Keswick

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

* Executive Director

Archie Keswick

Mr Keswick joined the Board in December 2019. Having joined the Jardine Matheson group in 2007, he held a number of senior executive positions within the group, including most recently CEO, Pizza Hut Vietnam and the general manager of The Landmark Mandarin Oriental, Hong Kong.

Lincoln K.K. Leong

Mr Leong joined the Board in 2012. He is a Chartered Accountant and has extensive experience in the accountancy and investment banking industries. Mr Leong is a director of Jardine Strategic. He was previously the chief executive officer of MTR Corporation.

Anthony Nightingale

Mr Nightingale joined the Board in 2006 and was Managing Director of the Company from 2006 to 2012. He is also a director of Dairy Farm, Hongkong Land, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic, Prudential, Schindler, Shui On Land and Vitasoy, and a commissioner of Astra. He is chairperson of The Sailors Home and Missions to Seafarers in Hong Kong.

Y.K. Pang

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

Jeremy Parr

Mr Parr joined the Board in 2015. He is general counsel of the Jardine Matheson group. He was previously a senior corporate partner with Linklaters, where he was the global head of the firm's corporate division, based in London. Mr Parr is also a director of Jardine Matheson Limited, Dairy Farm and Jardine Matheson.

Lord Sassoon, KC

Lord Sassoon joined the Board in 2013. He began his career at KPMG, before joining SG Warburg (later UBS Warburg) in 1985. From 2002 to 2006 he served as a civil servant in the United Kingdom Treasury, where he had responsibility for financial services and enterprise policy. He subsequently chaired the Financial Action Task Force and conducted a review of the UK's system of financial regulation. From 2010 to 2013 Lord Sassoon was the first Commercial Secretary to the Treasury and acted as the Government's Front Bench Treasury spokesman in the House of Lords. He is a director of Dairy Farm, Hongkong Land and Jardine Matheson. He is also President of the China-Britain Business Council. As announced on 20th January 2020, Lord Sassoon will be retiring as a Director on 9th April 2020.

James Watkins

Mr Watkins joined the Board in 1997. He was a director and group general counsel of Jardine Matheson from 1997 to 2003. Mr Watkins qualified as a solicitor in 1969 and was formerly a partner of Linklaters. He is also a director of Hongkong Land.

Percy Weatherall

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

Consolidated Profit and Loss Account

for the year ended 31st December 2019

	Note	Underlying business performance US\$m	2019 Non-trading items (Note 8) US\$m	Total US\$m	Underlying business performance US\$m restated	2018 Non-trading items (Note 8) US\$m restated	Total US\$m restated
Revenue	2	566.5	–	566.5	613.7	–	613.7
Cost of sales		(364.7)	–	(364.7)	(388.2)	–	(388.2)
Gross profit		201.8	–	201.8	225.5	–	225.5
Selling and distribution costs		(38.8)	–	(38.8)	(42.3)	–	(42.3)
Administration expenses		(117.2)	–	(117.2)	(122.1)	–	(122.1)
Other operating (expense)/income		25.2	(32.7)	(7.5)	30.6	(21.0)	9.6
Change in fair value of investment property under development	12	–	(67.3)	(67.3)	–	–	–
Operating (loss)/profit	3	71.0	(100.0)	(29.0)	91.7	(21.0)	70.7
Financing charges		(18.1)	–	(18.1)	(16.4)	–	(16.4)
Interest income		3.4	–	3.4	2.2	–	2.2
Net financing charges	4	(14.7)	–	(14.7)	(14.2)	–	(14.2)
Share of results of associates and joint ventures	5	(1.7)	–	(1.7)	5.7	–	5.7
(Loss)/profit before tax		54.6	(100.0)	(45.4)	83.2	(21.0)	62.2
Tax	6	(13.5)	3.3	(10.2)	(18.5)	(0.5)	(19.0)
(Loss)/profit after tax		41.1	(96.7)	(55.6)	64.7	(21.5)	43.2
Attributable to:							
Shareholders of the Company	7&8	41.2	(96.7)	(55.5)	64.9	(21.5)	43.4
Non-controlling interests		(0.1)	–	(0.1)	(0.2)	–	(0.2)
		41.1	(96.7)	(55.6)	64.7	(21.5)	43.2
		US¢		US¢	US¢		US¢
(Loss)/earnings per share	7						
– basic		3.26		(4.39)	5.15		3.44
– diluted		3.26		(4.39)	5.14		3.43

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2019

	Note	2019 US\$m	2018 US\$m restated
(Loss)/profit for the year		(55.6)	43.2
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	16	3.4	(3.0)
Revaluation surplus of right-of-use assets before transfer to investment property under development	11	2,943.4	–
Tax on items that will not be reclassified	6	(0.6)	0.5
		2,946.2	(2.5)
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net gains/(losses) arising during the year		25.0	(39.7)
Cash flow hedges			
– net (losses)/gains arising during the year		(0.4)	0.6
Tax relating to items that may be reclassified	6	0.1	(0.1)
Share of other comprehensive income/(expense) of associates and joint ventures		3.1	(1.8)
		27.8	(41.0)
Other comprehensive income/(expense) for the year, net of tax		2,974.0	(43.5)
Total comprehensive income/(expense) for the year		2,918.4	(0.3)
Attributable to:			
Shareholders of the Company		2,918.4	–
Non-controlling interests		–	(0.3)
		2,918.4	(0.3)

Consolidated Balance Sheet

at 31st December 2019

	Note	At 31st December 2019 US\$m	2018 US\$m restated	At 1st January 2018 US\$m restated
Net assets				
Intangible assets	9	53.0	49.3	43.8
Tangible assets	10	1,174.6	1,205.9	1,272.0
Right-of-use assets	11	300.3	342.9	284.2
Investment property under development	12	2,967.7	–	–
Associates and joint ventures	13	203.1	196.1	195.7
Other investments	14	15.9	15.2	11.0
Deferred tax assets	15	10.6	11.5	11.0
Pension assets	16	1.3	0.2	4.9
Non-current debtors	17	6.2	5.1	0.5
Non-current assets		4,732.7	1,826.2	1,823.1
Stocks		6.2	6.6	6.4
Current debtors	17	97.2	95.9	100.2
Current tax assets		1.9	3.5	4.0
Bank and cash balances	18	270.7	246.8	183.9
Current assets		376.0	352.8	294.5
Current creditors	19	(166.0)	(168.3)	(149.1)
Current borrowings	20	(2.5)	(524.2)	(2.6)
Current lease liabilities	21	(7.0)	(5.7)	(6.5)
Current tax liabilities		(19.1)	(14.0)	(17.8)
Current liabilities		(194.6)	(712.2)	(176.0)
Net current assets/(liabilities)		181.4	(359.4)	118.5
Long-term borrowings	20	(568.6)	(7.3)	(508.1)
Non-current lease liabilities	21	(168.4)	(161.3)	(100.6)
Deferred tax liabilities	15	(59.4)	(61.6)	(58.6)
Pension liabilities	16	(0.2)	(0.4)	(0.6)
Non-current creditors	19	(0.9)	–	(0.2)
		4,116.6	1,236.2	1,273.5
Total equity				
Share capital	24	63.2	63.1	62.9
Share premium	25	499.7	497.8	493.9
Revenue and other reserves		3,550.1	671.5	710.6
Shareholders' funds		4,113.0	1,232.4	1,267.4
Non-controlling interests		3.6	3.8	6.1
		4,116.6	1,236.2	1,273.5

Approved by the Board of Directors

James Riley
Craig Beattie

Directors

5th March 2020

Consolidated Statement of Changes in Equity

for the year ended 31st December 2019

Note	Share capital US\$m	Share premium US\$m	Capital reserves US\$m	Revenue reserves US\$m	Asset revaluation reserves US\$m	Hedging reserves US\$m	Exchange reserves US\$m	Attributable to shareholders of the Company US\$m	Attributable to non-controlling interests US\$m	Total equity US\$m
2019										
At 1st January										
– as previously reported	63.1	497.8	262.5	531.8	–	0.6	(116.6)	1,239.2	3.8	1,243.0
– changes in accounting policies	1	–	–	(6.8)	–	–	–	(6.8)	–	(6.8)
– as restated	63.1	497.8	262.5	525.0	–	0.6	(116.6)	1,232.4	3.8	1,236.2
Total comprehensive income	–	–	–	(52.6)	2,943.4	(0.6)	28.2	2,918.4	–	2,918.4
Dividends paid by the Company	27	–	–	(37.9)	–	–	–	(37.9)	–	(37.9)
Issue of shares	0.1	0.1	–	–	–	–	–	0.2	–	0.2
Share-based long-term incentive plans	–	–	(0.3)	–	–	–	–	(0.3)	–	(0.3)
Change in interest in a subsidiary	–	–	–	0.2	–	–	–	0.2	(0.2)	–
Transfer	–	1.8	(1.9)	0.1	–	–	–	–	–	–
At 31st December	63.2	499.7	260.3	434.8	2,943.4	–	(88.4)	4,113.0	3.6	4,116.6
2018										
At 1st January										
– as previously reported	62.9	493.9	265.9	526.5	–	0.1	(75.3)	1,274.0	6.1	1,280.1
– changes in accounting policies	1	–	–	(6.6)	–	–	–	(6.6)	–	(6.6)
– as restated	62.9	493.9	265.9	519.9	–	0.1	(75.3)	1,267.4	6.1	1,273.5
Total comprehensive income	–	–	–	40.8	–	0.5	(41.3)	–	(0.3)	(0.3)
Dividends paid by the Company	27	–	–	(37.8)	–	–	–	(37.8)	–	(37.8)
Issue of shares	0.2	0.1	–	–	–	–	–	0.3	–	0.3
Share-based long-term incentive plans	–	–	0.5	–	–	–	–	0.5	–	0.5
Change in interest in a subsidiary	–	–	–	2.0	–	–	–	2.0	(2.0)	–
Transfer	–	3.8	(3.9)	0.1	–	–	–	–	–	–
At 31st December	63.1	497.8	262.5	525.0	–	0.6	(116.6)	1,232.4	3.8	1,236.2

Consolidated Cash Flow Statement

for the year ended 31st December 2019

	Note	2019 US\$m	2018 US\$m restated
Operating activities			
Operating (loss)/profit	3	(29.0)	70.7
Depreciation and amortisation		91.9	93.2
Other non-cash items	28a	69.0	(4.0)
Movements in working capital	28b	(3.1)	17.5
Interest received		3.4	1.9
Interest and other financing charges paid		(19.2)	(15.7)
Tax paid		(6.0)	(18.8)
		107.0	144.8
Dividends and interest from associates and joint ventures		5.9	7.8
Cash flows from operating activities		112.9	152.6
Investing activities			
Purchase of tangible assets		(41.7)	(61.2)
Additions to investment property under development		(15.1)	–
Purchase of intangible assets		(8.3)	(7.4)
Payment on Munich expansion	28c	(1.1)	–
Purchase of other investments		(1.1)	(1.1)
Advance to associates and joint ventures	28d	(16.7)	(9.1)
Repayment of loans to associates and joint ventures	28e	3.6	1.2
Repayment of intangible assets		–	0.8
Insurance recovery received for purchase of tangible assets	28f	–	7.8
Cash flows from investing activities		(80.4)	(69.0)
Financing activities			
Issue of shares		0.1	0.1
Drawdown of borrowings	20	555.8	27.6
Repayment of borrowings	20	(522.3)	(0.2)
Principal elements of lease payments	28g	(6.4)	(6.5)
Dividends paid by the Company	27	(37.9)	(37.8)
Cash flows from financing activities		(10.7)	(16.8)
Net increase in cash and cash equivalents		21.8	66.8
Cash and cash equivalents at 1st January		246.8	183.9
Effect of exchange rate changes		2.1	(3.9)
Cash and cash equivalents at 31st December	28h	270.7	246.8

Notes to the Financial Statements

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and Interpretations adopted by the International Accounting Standards Board. The financial statements have been prepared on a going concern basis and under the historical cost convention except as disclosed in the accounting policies.

Details of the Group's principal accounting policies are included in note 34.

The Group has applied IFRS 16 'Leases' for the first time for the Group's annual reporting period commencing 1st January 2019 and IAS 40 'Investment Properties' from 31st March 2019 at the time of the closure of The Excelsior, Hong Kong in order for the site to be redeveloped as a commercial building. Changes to principal accounting policies are described below. There are no other amendments or interpretations relating to existing accounting standards, which are effective in 2019 and relevant to the Group's operations, that have a significant effect on the Group's accounting policies.

The Group has elected to early adopt the 'Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7' (effective 1st January 2020) in relation to hedge accounting for the Group's annual reporting period commencing 1st January 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively with respect to hedging relationships that existed at the start of the reporting period or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships which are directly affected by the uncertainty arising from the reforms and replacement of the existing benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBOR reform'). The forthcoming IBOR reform may take effect at different times and may have a different impact on hedged items (the floating rate borrowings) and the hedging instruments (the interest rate swaps used to hedge the borrowings). The reliefs have the effect that the IBOR reform should not generally cause hedge accounting to terminate. The reliefs under the amendments will end when the uncertainty arising from the IBOR reform are no longer present; or the hedging relationship is discontinued. Note 29 provides the nominal amounts and maturities of the hedging derivative financial instruments which are impacted by the IBOR reform. Early adoption of these amendments has no impact to the Group's consolidated financial statements in 2019.

Apart from the above, the Group has not early adopted any standard, interpretation or amendments that have been issued but not yet effective (*refer note 35*).

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

The Group's reportable segments are set out in note 2.

Changes in principal accounting policies

IFRS 16 'Leases'

The standard replaces IAS 17 'Leases' and related interpretations, and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a lease liability and a corresponding right-of-use asset have to be recognised on the balance sheet for almost all leases by the lessees. The Group's recognised right-of-use assets primarily relate to property leases, which are entered into for use as hotels or offices. Prior to 2019, payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease. Upon the adoption of IFRS 16, each lease payment is allocated between settlement of the lease liability and finance cost. The finance cost is charged to profit and loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Notes to the Financial Statements *Continued*

1 Basis of preparation *continued*

Changes in principal accounting policies continued

IFRS 16 'Leases' continued

In addition, leasehold land which represents payments to third parties to acquire interests in property, previously included in intangible assets and tangible assets, is now presented under right-of-use assets. Leasehold land is amortised over the useful life of the lease, which includes the renewal period if the lease is likely to be renewed by the Group without significant cost.

The accounting for lessors does not change significantly.

Changes to accounting policies on adoption of IFRS 16 have been applied retrospectively, and the comparative financial statements have been restated.

The effects of adopting IFRS 16 were as follows:

a) On the consolidated profit and loss account for the year ended 31st December 2018:

	Increase/(decrease) in profit US\$m
Cost of sales	0.9
Selling and distribution costs	0.1
Administration expenses	0.1
Net financing charges	(1.3)
Share of results of associates and joint ventures	(0.1)
Tax	0.1
Underlying profit attributable to shareholders	(0.2)
Non-trading items	–
Profit attributable to shareholders of the company	(0.2)
Basic underlying earnings per share (US¢)	(0.01)
Diluted underlying earnings per share (US¢)	(0.01)
Basic earnings per share (US¢)	(0.02)
Diluted earnings per share (US¢)	(0.02)

b) On the consolidated statement of comprehensive income for the year ended 31st December 2018:

	Increase/(decrease) in profit US\$m
Profit and total comprehensive income for the year	(0.2)

1 Basis of preparation *continued*

Changes in principal accounting policies continued

IFRS 16 'Leases' continued

c) On the consolidated balance sheet at 1st January:

	Increase/(decrease)	
	2019 US\$m	2018 US\$m
Assets		
– Intangible assets	(3.7)	(3.9)
– Tangible assets	(180.6)	(181.2)
– Right-of-use assets	342.9	284.2
– Associates and joint ventures	(1.0)	(0.9)
– Deferred tax assets	0.1	–
Total assets	157.7	98.2
Equity and liabilities		
– Revenue and other reserves	(6.8)	(6.6)
– Non-current lease liabilities	161.3	100.6
– Current creditors	(2.5)	(2.3)
– Current lease liabilities	5.7	6.5
Total equity and liabilities	157.7	98.2

d) On the consolidated cash flow statement for the year ended 31st December 2018:

	Inflows/(outflows) US\$m
Operating activities	
– Operating profit	1.1
– Depreciation and amortisation	6.7
– Interest and other financing charges paid	(1.3)
Financing activities	
– Principal elements of lease payments	(6.5)
Net change in cash and cash equivalents	–

IAS 40 'Investment Properties'

Properties including those under operating leases which are held for long-term rental yields or capital gains are classified and accounted for as investment properties, but the business model does not necessarily envisage that the properties will be held for their entire useful lives. Investment properties are carried at fair value, representing estimated open market value determined annually by independent qualified valuers who have recent experience in the location and segment of the investment property being valued.

The market value of investment property under development is derived using the direct comparison method, with reference to the residual method where appropriate. The direct comparison method is based on market evidence of transaction prices for similar properties which recently transacted and adjusted to reflect the conditions of the subject property including property site and location. The residual method is based on the estimated capital value of the proposed development assuming completion as at the date of valuation, after deducting development costs together with developer's profit and risk. Changes in fair value are recognised in profit and loss.

Notes to the Financial Statements *Continued*

2 Revenue

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive Directors of the Company for the purpose of resource allocation and performance assessment. The Group is operated on a worldwide basis in three (2018: four) regions: Asia, Europe, Middle East and Africa ('EMEA'), and America which form the basis of its reportable segments. There were Hong Kong and Other Asia segments presented separately in the prior years. These two segments were combined to form the Asia segment in 2019. No operating segments have been aggregated to form the reportable segments.

In addition, the Group has three (2018: two) distinct business activities: Hotel ownership, Hotel & Residences branding and management, and Property development. The Property development segment represents the redevelopment of The Excelsior site as a commercial building following the closure of The Excelsior, Hong Kong on 31st March 2019. The Group's segmental information for non-current assets is set out in note 23.

	2019 US\$m	2018 US\$m
Analysis by geographical area		
– Asia	272.2	357.0
– EMEA	189.5	143.7
– America	104.8	113.0
	566.5	613.7
Analysis by activity		
– Hotel ownership	526.9	570.3
– Hotel & Residences branding and management	69.0	74.6
– Less: intra-segment revenue	(29.4)	(31.2)
	566.5	613.7
From contracts with customers		
– Recognised at a point in time	207.3	222.5
– Recognised over time	339.4	370.1
	546.7	592.6
From other sources		
– Rental income	19.8	21.1
	566.5	613.7

Contract balances

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

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

Contract liabilities are further analysed as follows:

	2019 US\$m	2018 US\$m
Contract liabilities (<i>refer note 19</i>)		
– Gift cards	10.9	12.3
– Advance customer deposits and other	20.2	11.1
	31.1	23.4

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

2 Revenue *continued*

Revenue recognised in relation to contract liabilities

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

	2019 US\$m	2018 US\$m
Gift cards	10.9	7.1
Advance customer deposits and other	7.1	7.5
	18.0	14.6

Revenue expected to be recognised on unsatisfied contracts with customers

Timing of revenue to be recognised on unsatisfied performance obligations:

	Gift cards US\$m	Advance customer deposits and other US\$m	Total US\$m
2019			
Within one year	4.2	28.4	32.6
Between one and two years	4.5	0.5	5.0
Between two and three years	1.4	–	1.4
Between three and four years	0.5	–	0.5
Between four and five years	0.3	–	0.3
	10.9	28.9	39.8
2018			
Within one year	4.8	15.1	19.9
Between one and two years	5.1	8.5	13.6
Between two and three years	1.6	–	1.6
Between three and four years	0.6	–	0.6
Between four and five years	0.2	–	0.2
	12.3	23.6	35.9

Notes to the Financial Statements *Continued***3 EBITDA (earnings before interest, tax, depreciation and amortisation) and operating (loss)/profit from subsidiaries**

	2019 US\$m	2018 US\$m
Analysis by geographical area		
– Asia	75.1	113.8
– EMEA	55.6	34.1
– America	6.8	13.4
Underlying EBITDA from subsidiaries	137.5	161.3
Non-trading items (refer note 8)		
Fire at Mandarin Oriental Hyde Park, London		
– repair expenses and write-off of tangible assets and other incidental expenses	(8.3)	(28.6)
– insurance recovery for replacement of tangible assets and other incidental expenses	9.0	29.6
Closure of The Excelsior, Hong Kong – other costs	(6.5)	(2.8)
Change in fair value of investment property under development	(67.3)	–
Change in fair value of other investments	(1.5)	4.4
	(74.6)	2.6
EBITDA from subsidiaries	62.9	163.9
Underlying depreciation and amortisation from subsidiaries	(66.5)	(69.6)
Non-trading items (refer note 8)		
Closure of The Excelsior, Hong Kong		
– accelerated depreciation and amortisation	(25.4)	(23.6)
Operating (loss)/profit	(29.0)	70.7
Analysis by activity		
– Hotel ownership	99.7	130.8
– Hotel & Residences branding and management	30.5	33.1
– Property development	(67.3)	–
EBITDA from subsidiaries	62.9	163.9
– Hotel ownership	15.0	44.8
– Hotel & Residences branding and management	23.3	25.9
– Property development	(67.3)	–
Operating (loss)/profit	(29.0)	70.7

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

	2019 US\$m	2018 US\$m
The following items have been credited/(charged) in arriving at operating (loss)/profit:		
Rental income (<i>refer note 10</i>)	19.8	21.1
Amortisation of intangible assets (<i>refer note 9</i>)	(3.6)	(4.7)
Depreciation of tangible assets (<i>refer note 10</i>)	(79.9)	(81.3)
Amortisation/depreciation of right-of-use assets (<i>refer note 11</i>)	(8.4)	(7.2)
Employee benefit (expense)/credit		
– salaries and benefits in kind	(256.2)	(271.0)
– share options and share awards granted	0.4	(0.8)
– defined benefit pension plans (<i>refer note 16</i>)	–	(4.6)
– defined contribution pension plans	(1.9)	(1.6)
	(257.7)	(278.0)
Net foreign exchange (losses)/gains	(1.1)	0.2
Expenses relating to short-term leases	(0.7)	(0.8)
Expenses relating to variable lease payments not included in lease liabilities	(6.4)	(6.2)
Subleases income	0.5	0.3
Auditors' remuneration		
– audit	(1.7)	(1.7)
– non-audit services	(0.9)	(0.9)
	(2.6)	(2.6)

Notes to the Financial Statements *Continued*

4 Net financing charges

	2019 US\$m	2018 US\$m
Interest expense		
– bank loans	(13.7)	(13.3)
– interest on lease liabilities	(2.4)	(1.3)
Commitment and other fees	(2.0)	(1.8)
Financing charges	(18.1)	(16.4)
Interest income	3.4	2.2
Net financing charges	(14.7)	(14.2)

5 Share of results of associates and joint ventures

	EBITDA US\$m	Depreciation and amortisation US\$m	Operating profit/ (loss) US\$m	Net financing charges US\$m	Tax US\$m	Net profit/ (loss) US\$m
2019						
Analysis by geographical area						
– Asia	16.7	(11.1)	5.6	(1.8)	(0.3)	3.5
– EMEA	(4.0)	(0.4)	(4.4)	–	–	(4.4)
– America	4.3	(2.7)	1.6	(2.4)	–	(0.8)
	17.0	(14.2)	2.8	(4.2)	(0.3)	(1.7)
Analysis by activity						
– Hotel ownership	15.8	(13.5)	2.3	(4.1)	(0.2)	(2.0)
– Other	1.2	(0.7)	0.5	(0.1)	(0.1)	0.3
	17.0	(14.2)	2.8	(4.2)	(0.3)	(1.7)
2018						
Analysis by geographical area						
– Asia	26.7	(9.3)	17.4	(1.6)	(3.0)	12.8
– EMEA	(4.2)	(1.9)	(6.1)	–	–	(6.1)
– America	4.1	(2.9)	1.2	(2.2)	–	(1.0)
	26.6	(14.1)	12.5	(3.8)	(3.0)	5.7
Analysis by activity						
– Hotel ownership	25.4	(13.5)	11.9	(3.7)	(2.9)	5.3
– Other	1.2	(0.6)	0.6	(0.1)	(0.1)	0.4
	26.6	(14.1)	12.5	(3.8)	(3.0)	5.7

6 Tax

	2019 US\$m	2018 US\$m
Tax (charged)/credited to profit and loss is analysed as follows:		
– current tax	(12.7)	(15.4)
– deferred tax (<i>refer note 15</i>)	2.5	(3.6)
	(10.2)	(19.0)
Analysis by geographical area		
– Asia	(4.0)	(14.9)
– EMEA	(5.0)	(2.3)
– America	(1.2)	(1.8)
	(10.2)	(19.0)
Analysis by activity		
– Hotel ownership	(6.0)	(14.7)
– Hotel & Residences branding and management	(4.2)	(4.3)
	(10.2)	(19.0)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	10.6	(7.1)
Income not subject to tax		
– change in fair value of other investments	–	0.7
– other items	1.5	0.9
Expenses not deductible for tax purposes		
– change in fair value of investment property under development	(11.1)	–
– change in fair value of other investments	(0.2)	–
– closure of The Excelsior, Hong Kong	(1.9)	(4.8)
– other items	(3.3)	(3.4)
Tax losses and temporary differences not recognised	(7.1)	(4.9)
Utilisation of previously unrecognised tax losses and temporary differences	0.7	0.1
Recognition of previously unrecognised tax losses	0.7	1.4
Deferred tax assets written off	–	(0.3)
Withholding tax	(2.9)	(2.2)
Over provision in prior years	2.1	0.6
Other	0.7	–
	(10.2)	(19.0)
Tax relating to components of other comprehensive income is analysed as follows:		
Remeasurements of defined benefit plans	(0.6)	0.5
Cash flow hedges	0.1	(0.1)
	(0.5)	0.4

Share of tax charge of associates and joint ventures of US\$0.3 million (2018: US\$3.0 million) is included in share of results of associates and joint ventures (*refer note 5*).

*The applicable tax rate for the year was 24% (2018: 13%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

Notes to the Financial Statements *Continued*

7 Earnings per share

Basic loss/earnings per share are calculated on loss attributable to shareholders of US\$55.5 million (2018: profit of US\$43.4 million) and on the weighted average number of 1,262.9 million (2018: 1,260.6 million) shares in issue during the year.

Diluted loss/earnings per share are calculated on loss attributable to shareholders of US\$55.5 million (2018: profit of US\$43.4 million) and on the weighted average number of 1,263.2 million (2018: 1,263.3 million) shares in issue after adjusting for the numbers of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on average share price during the year.

The weighted average number of shares is arrived at as follows:

	Ordinary shares in millions	
	2019	2018
Weighted average number of shares for basic earnings per share calculation	1,262.9	1,260.6
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	0.3	2.7
Weighted average number of shares for diluted earnings per share calculation	1,263.2	1,263.3

Additional basic and diluted earnings per share are also calculated based on underlying profit attributable to shareholders. A reconciliation of earnings is set out below:

	2019			2018		
	US\$m	Basic (loss)/earnings per share US¢	Diluted (loss)/earnings per share US¢	US\$m	Basic earnings per share US¢	Diluted earnings per share US¢
(Loss)/profit attributable to shareholders	(55.5)	(4.39)	(4.39)	43.4	3.44	3.43
Non-trading items (<i>refer note 8</i>)	96.7			21.5		
Underlying profit attributable to shareholders	41.2	3.26	3.26	64.9	5.15	5.14

8 Non-trading items

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

	2019 US\$m	2018 US\$m
Fire at Mandarin Oriental Hyde Park, London*		
– repair expenses and write-off of tangible assets and other incidental expenses	(8.3)	(28.6)
– insurance recovery for replacement of tangible assets and other incidental expenses	9.0	29.6
Closure of The Excelsior, Hong Kong†		
– accelerated depreciation and amortisation	(22.8)	(24.3)
– other costs	(5.8)	(2.6)
Change in fair value of investment property under development	(67.3)	–
Change in fair value of other investments	(1.5)	4.4
	(96.7)	(21.5)

*On 15th April 2019, Mandarin Oriental Hyde Park, London fully re-opened following the necessary repairs caused by the fire on 6th June 2018. The repair expenses and write-off of damaged tangible assets, and other incidental expenses were recognised as non-trading expenses. The Group received cash payments from the insurers in 2018 and 2019. The insurance compensation for the replacement of tangible assets and other incidental expenses was recognised as non-trading income. The insurance compensation for the reimbursement of operating expenditure and loss of profit of US\$31.1 million and US\$27.7 million was recorded as underlying business performance in 2018 and 2019 respectively.

† Following an announcement on 9th October 2018, The Excelsior, Hong Kong closed on 31st March 2019 and demolition work has commenced ahead of the planned construction of a commercial building on the site. An accelerated depreciation and amortisation charge as a result of the revision of the estimated useful lives of the non-leasehold land assets of the hotel, together with additional costs in respect of the hotel closure, were recognised as non-trading expenses in 2018 and 2019.

Notes to the Financial Statements *Continued*

9 Intangible assets

	Goodwill US\$m	Leasehold land US\$m	Computer software US\$m	Development project contract costs US\$m	Total US\$m
2019					
Cost					
– as previously reported	23.9	6.4	28.1	21.8	80.2
– change in accounting policies (<i>refer note 1</i>)	–	(6.4)	–	–	(6.4)
– as restated	23.9	–	28.1	21.8	73.8
Amortisation and impairment					
– as previously reported	–	(2.7)	(18.7)	(5.8)	(27.2)
– change in accounting policies (<i>refer note 1</i>)	–	2.7	–	–	2.7
– as restated	–	–	(18.7)	(5.8)	(24.5)
Net book value at 1st January	23.9	–	9.4	16.0	49.3
Exchange differences	–	–	–	(0.1)	(0.1)
Additions	–	–	3.3	4.1	7.4
Amortisation charge	–	–	(1.8)	(1.8)	(3.6)
Net book value at 31st December	23.9	–	10.9	18.2	53.0
Cost	23.9	–	28.0	25.7	77.6
Amortisation and impairment	–	–	(17.1)	(7.5)	(24.6)
	23.9	–	10.9	18.2	53.0
2018					
Cost					
– as previously reported	23.9	6.4	23.5	18.6	72.4
– change in accounting policies (<i>refer note 1</i>)	–	(6.4)	–	–	(6.4)
– as restated	23.9	–	23.5	18.6	66.0
Amortisation and impairment					
– as previously reported	–	(2.5)	(19.1)	(3.1)	(24.7)
– change in accounting policies (<i>refer note 1</i>)	–	2.5	–	–	2.5
– as restated	–	–	(19.1)	(3.1)	(22.2)
Net book value at 1st January	23.9	–	4.4	15.5	43.8
Exchange differences	–	–	–	(0.2)	(0.2)
Additions	–	–	5.5	4.3	9.8
Disposals	–	–	–	(0.8)	(0.8)
Transfer from tangible assets	–	–	1.4	–	1.4
Amortisation charge	–	–	(1.9)	(2.8)	(4.7)
Net book value at 31st December	23.9	–	9.4	16.0	49.3
Cost	23.9	–	28.1	21.8	73.8
Amortisation and impairment	–	–	(18.7)	(5.8)	(24.5)
	23.9	–	9.4	16.0	49.3

9 Intangible assets *continued*

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2019. For the purpose of impairment review, goodwill acquired has been allocated to the respective hotels and is reviewed for impairment based on individual hotel forecast operating performance and cash flows. Cash flow projections for the impairment reviews are based on updated individual hotel forecasts (including the following year's individual hotel budgets) with assumptions updated for the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of 3% to 7% to project cash flows over a five-year period after which the growth rate is assumed to be up to 4% in perpetuity. Individual growth assumptions vary across the Group's geographical locations, and are based on management expectations for each market's development. Pre-tax discount rates of 6% to 13% are applied to each cash flow projections. The discount rates used reflect business specific risks relating to the business life-cycle and geographical location. On the basis of these reviews, management concluded that no impairment exists.

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

The amortisation periods for intangible assets are as follows:

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

Notes to the Financial Statements *Continued*

10 Tangible assets

	Freehold properties US\$m	Properties on leasehold land* & leasehold improvements US\$m	Plant & machinery US\$m	Furniture, equipment & motor vehicles US\$m	Total US\$m
2019					
Cost					
– as previously reported	837.1	726.1	132.0	273.6	1,968.8
– change in accounting policies (refer note 1)	–	(186.7)	–	–	(186.7)
– as restated	837.1	539.4	132.0	273.6	1,782.1
Depreciation					
– as previously reported	(87.4)	(235.6)	(71.7)	(187.6)	(582.3)
– change in accounting policies (refer note 1)	–	6.1	–	–	6.1
– as restated	(87.4)	(229.5)	(71.7)	(187.6)	(576.2)
Net book value at 1st January	749.7	309.9	60.3	86.0	1,205.9
Exchange differences	0.1	5.5	(0.1)	0.9	6.4
Additions	1.6	17.6	1.5	21.6	42.3
Disposals	–	–	–	(0.1)	(0.1)
Reclassification	1.5	(4.0)	0.5	2.0	–
Depreciation charge	(7.2)	(40.1)	(8.1)	(24.5)	(79.9)
Net book value at 31st December	745.7	288.9	54.1	85.9	1,174.6
Cost	840.6	462.7	114.1	250.5	1,667.9
Depreciation	(94.9)	(173.8)	(60.0)	(164.6)	(493.3)
	745.7	288.9	54.1	85.9	1,174.6
2018					
Cost					
– as previously reported	841.4	744.0	155.0	291.6	2,032.0
– change in accounting policies (refer note 1)	–	(187.0)	–	–	(187.0)
– as restated	841.4	557.0	155.0	291.6	1,845.0
Depreciation					
– as previously reported	(90.3)	(199.8)	(86.6)	(202.1)	(578.8)
– change in accounting policies (refer note 1)	–	5.8	–	–	5.8
– as restated	(90.3)	(194.0)	(86.6)	(202.1)	(573.0)
Net book value at 1st January	751.1	363.0	68.4	89.5	1,272.0
Exchange differences	(27.5)	(6.8)	(2.4)	(1.8)	(38.5)
Additions	17.4	8.8	3.5	32.4	62.1
Disposals and write-off	(3.8)	–	(0.8)	(2.4)	(7.0)
Transfer to intangible assets	–	–	–	(1.4)	(1.4)
Reclassification	19.8	(13.5)	0.2	(6.5)	–
Depreciation charge	(7.3)	(41.6)	(8.6)	(23.8)	(81.3)
Net book value at 31st December	749.7	309.9	60.3	86.0	1,205.9
Cost	837.1	539.4	132.0	273.6	1,782.1
Depreciation	(87.4)	(229.5)	(71.7)	(187.6)	(576.2)
	749.7	309.9	60.3	86.0	1,205.9

*In previous years, the total net book value of leasehold land and buildings was reported, and in 2019, the net book value of leasehold land was reclassified to right-of-use assets upon the adoption of IFRS 16.

10 Tangible assets *continued*

Freehold properties include a hotel property of US\$102.1 million (2018: US\$105.0 million), which is stated net of tax increment financing of US\$19.7 million (2018: US\$20.5 million) (*refer note 22*).

Rental income from properties and other tangible assets amounted to US\$19.8 million (2018: US\$21.1 million) (*refer note 3*).

The maturity analysis of the undiscounted lease payments to be received after the balance sheet date are as follows:

	2019 US\$m	2018 US\$m
Within one year	21.0	18.4
Between one and two years	18.4	18.0
Between two and five years	21.4	24.8
Beyond five years	36.8	–
	97.6	61.2

At 31st December 2019, the carrying amount of hotel properties pledged as security for bank borrowings amounted to US\$441.2 million (2018: US\$367.4 million) (*refer note 20*).

Notes to the Financial Statements *Continued*

11 Right-of-use assets

	Leasehold land US\$m	Properties US\$m	Total US\$m
2019			
Cost			
– as previously reported	–	–	–
– change in accounting policies (<i>refer note 1</i>)	196.6	233.2	429.8
– as restated	196.6	233.2	429.8
Amortisation/depreciation			
– as previously reported	–	–	–
– change in accounting policies (<i>refer note 1</i>)	(10.5)	(76.4)	(86.9)
– as restated	(10.5)	(76.4)	(86.9)
Net book value at 1st January	186.1	156.8	342.9
Exchange differences	0.6	2.6	3.2
Additions	–	12.8	12.8
Revaluation surplus before transfer to investment property under development	2,943.4	–	2,943.4
Transfer to investment property under development	(2,993.6)	–	(2,993.6)
Amortisation/depreciation charge	(0.5)	(7.9)	(8.4)
Net book value at 31st December	136.0	164.3	300.3
Cost	145.9	249.7	395.6
Amortisation/depreciation	(9.9)	(85.4)	(95.3)
	136.0	164.3	300.3
2018			
Cost			
– as previously reported	–	–	–
– change in accounting policies (<i>refer note 1</i>)	196.6	167.0	363.6
– as restated	196.6	167.0	363.6
Amortisation/depreciation			
– as previously reported	–	–	–
– change in accounting policies (<i>refer note 1</i>)	(9.6)	(69.8)	(79.4)
– as restated	(9.6)	(69.8)	(79.4)
Net book value at 1st January	187.0	97.2	284.2
Exchange differences	(0.3)	–	(0.3)
Additions	–	66.2	66.2
Amortisation/depreciation charge	(0.6)	(6.6)	(7.2)
Net book value at 31st December	186.1	156.8	342.9
Cost	196.6	233.2	429.8
Amortisation/depreciation	(10.5)	(76.4)	(86.9)
	186.1	156.8	342.9

11 Right-of-use assets *continued*

At 31st December 2019, the carrying amount of leasehold land pledged as security for bank borrowings amounted to US\$126.3 million (2018:US\$125.9 million) (*refer note 20*). None of the other right-of-use assets have been pledged at 31st December 2019 and 2018.

The typical lease term associated with the right-of-use assets are as follows:

Leasehold land	20 to 895 years
Properties	2 to 30 years

12 Investment property under development

	Under development leasehold commercial property US\$m
2019	
Transfer from right-of-use assets on 31st March	2,993.6
Exchange differences	25.5
Additions	15.9
Change in fair value	(67.3)
	2,967.7

The Group measures its investment property at fair value. The fair value of the Group's investment property under development at 31st December 2019 has been determined on the basis of a valuation carried out by independent valuers who hold a recognised relevant professional qualification and have recent experience in the location and segment of the investment property valued. The Group employed Jones Lang LaSalle to value its commercial investment property in Hong Kong which is held under leases with unexpired lease terms of more than 20 years. The valuation, which conforms to the International Valuation Standards issued by the International Valuation Standards Council and the HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors, was derived using the direct comparison method. The Report of the Valuers is set out on page 105. The valuation is comprehensively reviewed by the Group.

Fair value measurements of under development leasehold commercial property using significant unobservable inputs

Fair value of investment property under development is derived using the direct comparison method. This valuation method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Information about fair value measurements of the Group's under development leasehold commercial property using significant unobservable inputs as 31st December 2019:

	Fair value US\$m	Valuation method	Unobservable inputs	Relationship of unobservable inputs of fair value
Hong Kong	2,967.7	Direct comparison	Average unit price: US\$4,338.7 per square foot	The higher the unit price, the higher the fair value

Notes to the Financial Statements *Continued*

13 Associates and joint ventures

	2019 US\$m	2018 US\$m
Associates		
Listed associate – OHTL	14.4	19.9
Unlisted associates	60.0	57.8
Share of attributable net assets	74.4	77.7
Notional goodwill	5.5	5.5
	79.9	83.2
Amounts due from associates	34.1	33.3
	114.0	116.5
Joint ventures		
Share of attributable net assets of unlisted joint ventures	(12.3)	(8.1)
Goodwill on acquisition	6.2	6.3
	(6.1)	(1.8)
Amounts due from joint ventures	95.2	81.4
	89.1	79.6
	203.1	196.1

Amounts due from associates are interest free, unsecured and have no fixed terms of repayment.

Amounts due from joint ventures bear interest at rates ranging from approximately 1.15% to 5.00% per annum and are repayable within one to six years.

The Group's share of the carrying value of hotel properties (including properties, plant and equipment, and leasehold land) owned by the Group's associates and joint ventures amounted to US\$312.9 million (2018: US\$283.8 million).

	Associates		Joint ventures	
	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m
Movements of associates and joint ventures during the year:				
At 1st January				
– as previously reported	117.5	115.0	79.6	81.6
– change in accounting policies (refer note 1)	(1.0)	(0.9)	–	–
– as restated	116.5	114.1	79.6	81.6
Exchange differences	–	–	(1.6)	(3.6)
Share of results after tax and non-controlling interests	2.7	11.8	(4.4)	(6.1)
Share of other comprehensive income/(expense) after tax and non-controlling interests	3.1	(1.9)	–	0.1
Dividends received	(5.9)	(7.7)	–	–
Interest received	–	–	–	(0.1)
Advance to associates and joint ventures (refer note 28d)	0.8	0.9	15.9	8.2
Repayment of loans to associates and joint ventures (refer note 28e)	(3.2)	(0.7)	(0.4)	(0.5)
At 31st December	114.0	116.5	89.1	79.6
Fair value of listed associate	214.1	198.5	N/A	N/A

13 Associates and joint ventures *continued*

a) Investment in associates

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

Nature of investments in material associates in 2019 and 2018:

Name of entity	Nature of business	Country of incorporation and principal place of business/ place of listing	% of ownership interest	
			2019	2018
OHTL PCL ('OHTL')	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	47.6%	47.6%
Marina Bay Hotel Private Ltd. ('Marina Bay Hotel')	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	50.0%	50.0%

At 31st December 2019, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US\$214.1 million (2018: US\$198.5 million) and the carrying amount of the Group's interest was US\$19.9 million (2018: US\$25.4 million).

Summarised financial information for material associates

Summarised balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m
Non-current assets	141.9	93.2	118.9	121.8	260.8	215.0
Current assets						
Cash and cash equivalents	3.7	3.5	23.1	9.9	26.8	13.4
Other current assets	5.4	5.4	5.1	5.7	10.5	11.1
Total current assets	9.1	8.9	28.2	15.6	37.3	24.5
Non-current liabilities						
Financial liabilities*	(57.9)	(10.8)	–	–	(57.9)	(10.8)
Other non-current liabilities*	(33.6)	(30.1)	(3.2)	(3.4)	(36.8)	(33.5)
Total non-current liabilities	(91.5)	(40.9)	(3.2)	(3.4)	(94.7)	(44.3)
Current liabilities						
Financial liabilities*	(26.9)	(15.7)	(11.5)	(12.2)	(38.4)	(27.9)
Other current liabilities*	(2.4)	(3.7)	(6.7)	(7.1)	(9.1)	(10.8)
Total current liabilities	(29.3)	(19.4)	(18.2)	(19.3)	(47.5)	(38.7)
Net assets	30.2	41.8	125.7	114.7	155.9	156.5

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

Notes to the Financial Statements *Continued*13 Associates and joint ventures *continued**a) Investment in associates continued*Summarised financial information for material associates *continued**Summarised statement of comprehensive income for the year ended 31st December*

	OHTL		Marina Bay Hotel		Total	
	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m
Revenue	42.1	68.2	85.0	86.0	127.1	154.2
Depreciation and amortisation	(12.3)	(7.8)	(6.7)	(6.3)	(19.0)	(14.1)
Interest expense	(2.3)	(0.9)	–	(0.1)	(2.3)	(1.0)
(Loss)/profit from underlying business performance	(13.9)	10.8	20.4	20.4	6.5	31.2
Income tax credit/(expense)	3.3	(1.7)	(3.7)	(4.0)	(0.4)	(5.7)
(Loss)/profit after tax from underlying business performance	(10.6)	9.1	16.7	16.4	6.1	25.5
Non-trading items	–	(0.1)	–	–	–	(0.1)
(Loss)/profit after tax	(10.6)	9.0	16.7	16.4	6.1	25.4
Other comprehensive income/(expense)	3.3	–	2.1	(3.1)	5.4	(3.1)
Total comprehensive (expense)/income	(7.3)	9.0	18.8	13.3	11.5	22.3
Dividends received from associates	4.3	7.5	7.8	8.4	12.1	15.9

The information contained in the summarised balance sheet and statement of comprehensive income reflects the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates, and fair value of the associates at the time of acquisition. 2018 information was restated, where appropriate, for changes in accounting policies upon adoption of IFRS 16 'Leases'.

13 Associates and joint ventures *continued*

a) Investment in associates continued

Reconciliation of the summarised financial information

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

	2019 US\$m	OHTL 2018 US\$m	Marina Bay Hotel 2019 US\$m	2018 US\$m	2019 US\$m	Total 2018 US\$m
Net assets at 1st January	41.8	40.3	114.7	109.8	156.5	150.1
(Loss)/profit for the year	(10.6)	9.0	16.7	16.4	6.1	25.4
Other comprehensive income/(expense)	3.3	–	2.1	(3.1)	5.4	(3.1)
Dividends paid	(4.3)	(7.5)	(7.8)	(8.4)	(12.1)	(15.9)
Net assets at 31st December	30.2	41.8	125.7	114.7	155.9	156.5
Effective interest in associates (%)	47.6	47.6	50.0	50.0		
Group's share of net assets in associates	14.4	19.9	62.9	57.4	77.3	77.3
Notional goodwill*	5.5	5.5	–	–	5.5	5.5
Carrying value	19.9	25.4	62.9	57.4	82.8	82.8
Fair value	214.1	198.5	N/A	N/A	214.1	198.5

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

	2019 US\$m	2018 US\$m
Share of loss	(0.5)	(0.7)
Share of other comprehensive income	0.4	0.1
Share of total comprehensive expense	(0.1)	(0.6)
Carrying amount of interests in these associates	31.2	33.7

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

Contingent liabilities relating to the Group's interest in associates

	2019 US\$m	2018 US\$m
Financial guarantee in respect of facilities made available to an associate	20.3	20.3

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

Notes to the Financial Statements *Continued*13 Associates and joint ventures *continued**b) Investment in joint ventures*

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

Nature of investment in material joint venture in 2019 and 2018:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest	
			2019	2018
Ritz Madrid, S.A. (‘Ritz Madrid’)	Owner of Mandarin Oriental Ritz, Madrid	Spain	50.0%	50.0%

Summarised financial information for material joint venture

Summarised balance sheet at 31st December

	2019 US\$m	Ritz Madrid 2018 US\$m
Non-current assets	204.9	184.5
Current assets		
Cash and cash equivalents	11.2	6.7
Other current assets	1.0	0.7
Total current assets	12.2	7.4
Non-current liabilities		
Financial liabilities*†	(190.4)	(162.8)
Other non-current liabilities*	(35.9)	(37.0)
Total non-current liabilities	(226.3)	(199.8)
Current liabilities		
Other current liabilities*	(15.4)	(8.3)
Total current liabilities	(15.4)	(8.3)
Net liabilities	(24.6)	(16.2)

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

† Including shareholders’ loans from joint venture partners of US\$190.4 million (2018: US\$162.8 million).

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

	2019 US\$m	Ritz Madrid 2018 US\$m
Revenue	0.3	3.5
Depreciation and amortisation	(0.9)	(3.8)
Loss after tax	(8.8)	(12.2)
Other comprehensive income	0.4	0.9
Total comprehensive expense	(8.4)	(11.3)
Interest received from joint venture	–	0.2

The information contained in the summarised balance sheet and statement of comprehensive income reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures, fair value of the joint ventures at the time of acquisition, and elimination of interest on shareholders’ loan. 2018 information was restated, where appropriate, for changes in accounting policies upon adoption of IFRS 16 ‘Leases’.

13 Associates and joint ventures *continued*

b) Investment in joint ventures continued

Reconciliation of the summarised financial information

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

	2019 US\$m	Ritz Madrid 2018 US\$m
Net liabilities at 1st January	(16.2)	(4.7)
Loss for the year	(8.8)	(12.2)
Other comprehensive income	0.4	0.9
Interest paid	–	(0.2)
Net liabilities at 31st December	(24.6)	(16.2)
Effective interest in joint venture (%)	50.0	50.0
Group's share of net liabilities in joint venture	(12.3)	(8.1)
Goodwill on acquisition	6.2	6.3
Shareholders' loans	95.2	81.4
Carrying value	89.1	79.6

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

Commitments and contingent liabilities in respect of joint venture

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

	2019 US\$m	2018 US\$m
Commitment to provide funding if called	30.3	44.1

There were no contingent liabilities relating to the Group's interest in its joint venture at 31st December 2019 and 2018.

14 Other investments

	2019 US\$m	2018 US\$m
Investment measured at fair value through profit and loss		
– unlisted investments	15.9	15.2

Movements of these investments which were valued based on unobservable inputs during the year are disclosed in note 36.

Notes to the Financial Statements *Continued*

15 Deferred tax assets/(liabilities)

	Accelerated tax depreciation US\$m	Fair value gains/losses US\$m	Losses US\$m	Employee benefits US\$m	Unremitted earnings in associates/ joint ventures US\$m	Provisions and other temporary differences US\$m	Total US\$m
2019							
At 1st January							
– as previously reported	(57.5)	(0.1)	9.0	(0.1)	(1.6)	0.1	(50.2)
– change in accounting policies (refer note 1)	–	–	–	–	–	0.1	0.1
– as restated	(57.5)	(0.1)	9.0	(0.1)	(1.6)	0.2	(50.1)
Exchange differences	(0.8)	(0.1)	0.2	0.1	(0.1)	–	(0.7)
(Charged)/credited to profit and loss	2.3	–	(1.1)	0.3	0.8	0.2	2.5
(Charged)/credited to other comprehensive income	–	0.1	–	(0.6)	–	–	(0.5)
At 31st December	(56.0)	(0.1)	8.1	(0.3)	(0.9)	0.4	(48.8)
Deferred tax assets	0.3	0.1	8.1	0.3	–	1.8	10.6
Deferred tax liabilities	(56.3)	(0.2)	–	(0.6)	(0.9)	(1.4)	(59.4)
	(56.0)	(0.1)	8.1	(0.3)	(0.9)	0.4	(48.8)
2018							
At 1st January							
– as previously reported	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)
– change in accounting policies (refer note 1)	–	–	–	–	–	–	–
– as restated	(54.2)	(0.1)	7.8	(0.7)	(1.5)	1.1	(47.6)
Exchange differences	0.8	0.1	(0.2)	–	(0.1)	0.1	0.7
(Charged)/credited to profit and loss	(4.1)	–	1.4	0.1	–	(1.0)	(3.6)
(Charged)/credited to other comprehensive income	–	(0.1)	–	0.5	–	–	0.4
At 31st December	(57.5)	(0.1)	9.0	(0.1)	(1.6)	0.2	(50.1)
Deferred tax assets	0.3	–	9.0	0.6	–	1.6	11.5
Deferred tax liabilities	(57.8)	(0.1)	–	(0.7)	(1.6)	(1.4)	(61.6)
	(57.5)	(0.1)	9.0	(0.1)	(1.6)	0.2	(50.1)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

Deferred tax assets of US\$47.1 million (2018: US\$42.9 million) arising from unused tax losses of US\$224.0 million (2018: US\$203.2 million) have not been recognised in the financial statements. Included in the unused tax losses, US\$199.2 million have no expiry date and the balance will expire at various dates up to and including 2037.

Deferred tax assets of US\$1.7 million (2018: US\$1.5 million) have not been recognised in relation to temporary differences in subsidiaries.

The Group has no unrecognised deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2019 and 2018.

16 Pension plans

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

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

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

	2019 US\$m	2018 US\$m
Fair value of plan assets	49.8	62.9
Present value of funded obligations	(48.5)	(62.7)
	1.3	0.2
Present value of unfunded obligations	(0.2)	(0.4)
Net pension assets/(liabilities)	1.1	(0.2)
Analysis of net pension assets/(liabilities)		
Pension assets	1.3	0.2
Pension liabilities	(0.2)	(0.4)
	1.1	(0.2)

Notes to the Financial Statements *Continued*16 Pension plans *continued*

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

	Fair value of plan assets US\$m	Present value of obligation US\$m	Total US\$m
2019			
At 1st January	62.9	(63.1)	(0.2)
Current service cost	–	(3.7)	(3.7)
Past service income*	–	4.0	4.0
Interest income/(expense)	1.7	(1.6)	0.1
Administration expenses	(0.4)	–	(0.4)
	1.3	(1.3)	–
	64.2	(64.4)	(0.2)
Exchange differences	0.2	(0.3)	(0.1)
Remeasurements			
– return on plan assets, excluding amounts included in interest income	4.0	–	4.0
– change in financial assumptions	–	(1.0)	(1.0)
– experience gains	–	0.4	0.4
	4.0	(0.6)	3.4
Contributions from employers	3.2	–	3.2
Contributions from plan participants	0.6	(0.6)	–
Benefit payments	(17.1)	17.1	–
Transfer to other plans	(0.1)	0.1	–
Surplus distribution to an employer*	(5.2)	–	(5.2)
At 31st December	49.8	(48.7)	1.1
2018			
At 1st January	73.1	(68.8)	4.3
Current service cost	–	(4.6)	(4.6)
Interest income/(expense)	2.1	(1.8)	0.3
Administration expenses	(0.3)	–	(0.3)
	1.8	(6.4)	(4.6)
	74.9	(75.2)	(0.3)
Exchange differences	(0.1)	0.1	–
Remeasurements			
– return on plan assets, excluding amounts included in interest income	(4.6)	–	(4.6)
– change in financial assumptions	–	1.7	1.7
– experience losses	–	(0.1)	(0.1)
	(4.6)	1.6	(3.0)
Contributions from employers	3.1	–	3.1
Contributions from plan participants	0.8	(0.8)	–
Benefit payments	(11.0)	11.0	–
Transfer to other plans	(0.2)	0.2	–
At 31st December	62.9	(63.1)	(0.2)

*The surplus from the defined benefit plan of The Excelsior, Hong Kong was distributed to the Group upon its liquidation.

16 Pension plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2019 is 5.7 years (2018: 5.8 years).

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

	2019 US\$m	2018 US\$m
Within one year	6.5	8.5
Between one and two years	5.1	8.3
Between two and five years	4.7	25.6
Between five and ten years	25.8	35.7
Between ten and fifteen years	18.3	25.5
Between fifteen and twenty years	15.9	19.1
Beyond twenty years	17.7	21.2
	94.0	143.9

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

	2019 %	Hong Kong 2018 %
Discount rate	3.00	3.30
Salary growth rate	4.75	4.75

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

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

	Change in assumption %	Increase/(decrease) on defined benefit obligation	
		Increase in assumption US\$m	Decrease in assumption US\$m
Discount rate	1	(2.6)	2.9
Salary growth rate	1	2.5	(2.3)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

Notes to the Financial Statements *Continued***16 Pension plans** *continued*

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

	2019 US\$m	2018 US\$m
Equity investments		
– Asia-Pacific	4.0	2.4
– Europe	4.0	–
– North America	8.0	–
– Global	0.4	–
	16.4	2.4
Investment funds		
– Asia-Pacific	9.9	14.7
– Europe	7.5	6.8
– North America	12.7	16.8
– Global	4.3	12.9
	34.4	51.2
Total investments	50.8	53.6
Cash and cash equivalents	0.9	9.3
Benefits payable	(1.9)	–
	49.8	62.9

As at 31st December 2019, 100% of equity investments and 98% of investment funds were quoted on active markets (2018: 100% and 71% respectively).

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

As at 31st December 2019, the Hong Kong plans had assets of US\$49.8 million (2018: US\$62.9 million).

The Group maintains an active and regular contribution schedule across all the plans. The contribution to all its plans in 2019 were US\$3.2 million and the estimated amount of contributions expected to be paid to all its plans in 2020 is US\$3.8 million.

17 Debtors

	2019 US\$m	2018 US\$m
Trade debtors		
– third parties	40.6	38.9
– associates and joint ventures	3.8	4.1
	44.4	43.0
– provision for impairment	(3.6)	(3.4)
	40.8	39.6
Other debtors		
– third parties*	61.7	60.3
– associates and joint ventures	2.4	2.5
	64.1	62.8
– provision for impairment	(1.5)	(1.4)
	62.6	61.4
	103.4	101.0
Non-current	6.2	5.1
Current	97.2	95.9
	103.4	101.0
Analysis by geographical area		
– Asia	34.2	39.1
– EMEA	54.1	45.5
– America	15.1	16.4
	103.4	101.0

*Included deposit of US\$16.6 million (2018: US\$16.3 million) in respect of the expansion project of Mandarin Oriental, Munich, pending transfer of title in the underlying land.

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

	2019 US\$m	2018 US\$m
Fair value		
– trade debtors	40.8	39.6
– other debtors [†]	22.1	22.5
	62.9	62.1

[†] Excluding prepayments, rental and other deposits.

Notes to the Financial Statements *Continued***17 Debtors** *continued****Trade and other debtors***

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

Other debtors are further analysed as follows:

	2019 US\$m	2018 US\$m
Derivatives financial instruments (<i>refer note 29</i>)	1.5	0.9
Other amounts due from associates and joint ventures	2.4	2.5
Other receivables	18.2	19.1
Financial assets	22.1	22.5
Prepayments	18.7	18.5
Rental and other deposits	21.7	20.3
Other	0.1	0.1
	62.6	61.4

No debtors and prepayments have been pledged as security.

Impairment of trade debtors

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

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

The Group applied the simplified approach to measure expected credit loss, that is a lifetime expected loss allowance for trade debtors. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Changes in certain macroeconomic information such as GDP and inflation rate, are relevant for determining expected credit loss rates.

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

17 Debtors *continued*

Impairment of trade debtors continued

The loss allowances for trade debtors at 31st December 2019 and 2018 were determined as follows:

	Below 30 days	Between 31 and 60 days	Between 61 and 120 days	More than 120 days	Total
2019					
Expected loss rate	–	–	3%	100%	8%
Gross carrying amount – trade debtors (US\$m)	28.2	9.0	3.7	3.5	44.4
Loss allowance (US\$m)	–	–	0.1	3.5	3.6
2018					
Expected loss rate	–	2%	5%	51%	8%
Gross carrying amount – trade debtors (US\$m)	30.0	4.9	2.0	6.1	43.0
Loss allowance (US\$m)	0.1	0.1	0.1	3.1	3.4

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2019 US\$m	2018 US\$m	2019 US\$m	2018 US\$m
At 1st January	(3.4)	(1.5)	(1.4)	(2.0)
Additional provisions	(0.7)	(2.0)	(0.3)	–
Unused amounts reversed	0.5	0.1	0.2	0.4
Amounts written off	–	–	–	0.2
At 31st December	(3.6)	(3.4)	(1.5)	(1.4)

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

Notes to the Financial Statements *Continued***18 Bank and cash balances**

	2019 US\$m	2018 US\$m
Deposits with banks and financial institutions	146.4	137.8
Bank balances	123.3	107.8
Cash balances	1.0	1.2
	270.7	246.8
Analysis by currency		
– Euro	39.1	30.1
– Hong Kong dollar	13.9	15.6
– Indonesian rupiah	13.3	13.4
– Japanese yen	25.4	15.0
– Swiss franc	4.7	1.7
– United Kingdom sterling	40.8	28.7
– United States dollar	126.2	135.2
– Other	7.3	7.1
	270.7	246.8

The weighted average interest rate on deposits with banks and financial institutions at 31st December 2019 was 2.3% (2018: 1.8%) per annum.

19 Creditors

	2019 US\$m	2018 US\$m
Trade creditors	21.6	22.7
Accruals	75.5	85.1
Rental and other refundable deposits	6.4	7.0
Derivative financial instruments (refer note 29)	0.9	–
Other creditors	28.9	21.5
Financial liabilities	133.3	136.3
Contract liabilities (refer note 2)	31.1	23.4
Rental income received in advance	2.5	3.0
Other income received in advance	–	5.6
	166.9	168.3
Non-current	0.9	–
Current	166.0	168.3
	166.9	168.3
Analysis by currency		
– Euro	17.5	17.4
– Hong Kong dollar	45.7	58.8
– Japanese yen	21.3	9.9
– Swiss franc	6.0	6.1
– United Kingdom sterling	20.3	21.9
– United States dollar	50.6	49.0
– Other	5.5	5.2
	166.9	168.3

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

Provision for reinstatement and restoration costs comprised the estimated costs, to be incurred by the Group as lessees, in dismantling and removing the underlying assets, restoring the sites on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the leases. The costs of US\$0.8 million (2018: nil) were included in accruals at 31st December 2019.

Notes to the Financial Statements *Continued*

20 Borrowings

	2019		2018	
	Carrying amount US\$m	Fair value US\$m	Carrying amount US\$m	Fair value US\$m
Current portion of long-term borrowings				
– bank loans	–	–	521.6	521.6
– other borrowings	2.5	2.5	2.6	2.6
Current borrowings	2.5	2.5	524.2	524.2
Long-term borrowings				
– bank loans	567.2	567.2	5.8	5.8
– other borrowings	1.4	1.4	1.5	1.5
Long-term borrowings	568.6	568.6	7.3	7.3
	571.1	571.1	531.5	531.5

The Group entered into new committed facilities of US\$760 million in 2019, comprising a US\$118 million facility in London and a US\$642 million facility in Hong Kong. Both facilities have a tenor of five-year period and are secured against Mandarin Oriental Hyde Park, London and Mandarin Oriental, Hong Kong respectively. The new facilities were used to refinance bank loans which were matured and fully repaid in 2019.

The fair values are estimated using the expected future payments discounted at market interest rate from 0.3% to 3.5% (2018: 0.3% to 3.6%) per annum. This is in line with the definition of ‘observable current market transactions’ under the fair value measurement hierarchy. The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

	2019 US\$m	2018 US\$m
Secured	549.1	523.2
Unsecured	22.0	8.3
	571.1	531.5

Borrowings of US\$549.1 million (2018: US\$523.2 million) are secured against the tangible fixed assets and right-of-use assets of certain subsidiaries. The book value of these tangible fixed assets and right-of-use assets at 31st December 2019 was US\$567.5 million (2018: US\$493.3 million).

20 Borrowings *continued*

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

	Weighted average interest rates %	Fixed rate borrowings		Floating rate borrowings US\$m	Total US\$m
		Weighted average period outstanding Years	US\$m		
2019					
Euro	0.5	–	–	19.5	19.5
Hong Kong dollar	2.9	3.7	215.2	226.8	442.0
Swiss franc	2.4	12.0	1.5	2.4	3.9
United Kingdom sterling	1.9	4.4	52.5	53.2	105.7
			269.2	301.9	571.1
2018					
Euro	0.5	–	–	5.8	5.8
Hong Kong dollar	3.4	0.5	118.1	302.0	420.1
Swiss franc	2.4	13.0	1.6	2.5	4.1
United Kingdom sterling	1.8	–	–	101.5	101.5
			119.7	411.8	531.5

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions (*refer note 29*).

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

	2019 US\$m	2018 US\$m
Floating rate borrowings		
– Within one year	301.9	411.8
Fixed rate borrowings		
– Within one year	–	118.1
– Between two and three years	54.6	–
– Between four and five years	213.1	–
– Beyond five years	1.5	1.6
	269.2	119.7
	571.1	531.5

Notes to the Financial Statements *Continued***20 Borrowings** *continued*

The movements in borrowings are as follows:

	Long-term borrowings US\$m	Short-term borrowings US\$m	Total US\$m
2019			
At 1st January	7.3	524.2	531.5
Exchange differences	5.6	0.5	6.1
Transfer	(0.1)	0.1	–
Drawdown of borrowings	555.8	–	555.8
Repayment of borrowings	–	(522.3)	(522.3)
At 31st December	568.6	2.5	571.1
2018			
At 1st January	508.1	2.6	510.7
Exchange differences	(2.1)	(4.5)	(6.6)
Transfer	(526.3)	526.3	–
Drawdown of borrowings	27.6	–	27.6
Repayment of borrowings	–	(0.2)	(0.2)
At 31st December	7.3	524.2	531.5

21 Lease liabilities

	2019 US\$m	2018 US\$m
At 1st January		
– as previously reported	–	–
– change in accounting policies (<i>refer note 1</i>)	167.0	107.1
– as restated	167.0	107.1
Exchange differences	2.8	0.2
Additions	12.0	66.2
Lease payments	(8.8)	(7.8)
Interest expense	2.4	1.3
At 31st December	175.4	167.0
Non-current	168.4	161.3
Current	7.0	5.7
	175.4	167.0

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

The Group is not exposed to any residual guarantees in respect of the leases entered into at 31st December 2019 and 2018.

There is no lease contract entered but not commenced at 31st December 2019. At 31st December 2018, the Group had entered into a lease contract of US\$10.8 million which had not commenced at 31st December 2018.

22 Tax increment financing

	2019 US\$m	2018 US\$m
Netted off against the net book value of the property (refer note 10)	19.7	20.5

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

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

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

23 Segment information

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

	2019 US\$m	2018 US\$m
Analysis by geographical area		
– Asia	3,506.7	610.2
– EMEA	934.9	924.0
– America	261.8	265.1
	4,703.4	1,799.3

24 Share capital

	Ordinary shares in millions		2019 US\$m	2018 US\$m
	2019	2018		
Authorised				
Shares of US\$5.00 each	1,500.0	1,500.0	75.0	75.0
Issued and fully paid				
At 1st January	1,261.4	1,258.6	63.1	62.9
Issued under share-based long-term incentive plans	1.8	2.8	0.1	0.2
At 31st December	1,263.2	1,261.4	63.2	63.1

Notes to the Financial Statements *Continued***25 Share premium**

	2019 US\$m	2018 US\$m
At 1st January	497.8	493.9
Issued under share-based long-term incentive plans	0.1	0.1
Transfer from capital reserves	1.8	3.8
At 31st December	499.7	497.8

26 Share-based long-term incentive plans

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

- i) The Mandarin Oriental Share-based Long-term Incentive Plan (the '2014 Plan') was adopted by the Company on 6th March 2014. Under these awards, the free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. No conditional share awards were awarded in 2019 and 2018 under the 2014 Plan.

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2019	2018
At 1st January	1.5	3.5
Released	(1.5)	(1.9)
Cancelled	–	(0.1)
At 31st December	–	1.5

Outstanding conditional awards at 31st December:

Awards vest date	Ordinary shares in millions	
	2019	2018
2019	–	1.5

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

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

Movements of the outstanding options during the year:

	2019		2018	
	Weighted average exercise price US\$	Options in millions	Weighted average exercise price US\$	Options in millions
At 1st January	1.66	4.7	1.67	8.3
Exercised	1.20	(0.5)	1.70	(3.5)
Cancelled	–	–	1.57	(0.1)
At 31st December	1.72	4.2	1.66	4.7

The average share price during the year was US\$1.77 (2018: US\$2.21) per share.

Outstanding options at 31st December:

Expiry date	Exercise price US\$	Ordinary shares in millions	
		2019	2018
2019	0.66	–	0.3
2020	1.36	–	0.1
2021	1.99	1.3	1.4
2022	1.61	1.9	1.9
2023	1.57	1.0	1.0
Total outstanding		4.2	4.7
of which exercisable		4.2	4.7

Notes to the Financial Statements *Continued*

27 Dividends

	2019 US\$m	2018 US\$m
Final dividend in respect of 2018 of US¢1.50 (2017: US¢1.50) per share	18.9	18.9
Interim dividend in respect of 2019 of US¢1.50 (2018: US¢1.50) per share	19.0	18.9
	37.9	37.8

A final dividend in respect of 2019 of US¢1.50 (2018: US¢1.50) per share amounting to a total of US\$18.9 million (2018: US\$18.9 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2020 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2020.

28 Notes to consolidated cash flow statement

a) Other non-cash items

	2019 US\$m	2018 US\$m
Share-based payment	0.9	1.4
Fair value loss on investment property under development	67.3	–
Fair value loss/(gain) on other investments	1.5	(4.4)
Others	(0.7)	(1.0)
	69.0	(4.0)

b) Movements in working capital

	2019 US\$m	2018 US\$m
Decrease/(increase) in stocks	0.4	(0.3)
Increase in debtors	(0.7)	(2.1)
(Decrease)/increase in creditors	(4.9)	18.4
Increase in pension obligations	2.1	1.5
	(3.1)	17.5

28 Notes to consolidated cash flow statement *continued*

- c) The Group paid a further US\$1.1 million (2018: nil) instalment in respect of the land purchase price and related cost for the expansion of Mandarin Oriental, Munich in 2019. As at 31st December 2019, cumulative costs paid by the Group amounted to US\$21.1 million (2018: US\$20.0 million), the majority of which have been included within Other Debtors (*refer note 17*) pending transfer of title in the underlying land.
- d) During 2019, the Group provided shareholder loans to Mandarin Oriental, New York of US\$0.8 million (2018: US\$0.9 million) and Mandarin Oriental Ritz, Madrid of US\$15.9 million (2018: US\$8.2 million).
- e) During 2019, the Group received repayments on its shareholder loans previously provided to Mandarin Oriental Ritz, Madrid of US\$0.4 million (2018: US\$0.5 million) and Mandarin Oriental, Miami of US\$3.2 million (2018: US\$0.7 million).
- f) The Group received insurance payments of US\$66.3 million and US\$31.1 million in 2018 and 2019 respectively, covering both property damage and business interruption caused by the fire at Mandarin Oriental Hyde Park, London on 6th June 2018. Of this US\$97.4 million, US\$7.8 million was to cover the remedial capital expenditure of the tangible assets which was recorded under investing activities in 2018. The remaining balance was recorded under operating activities.

g) Cash outflows for leases

	2019 US\$m	2018 US\$m
Lease rentals paid	(15.9)	(14.8)
The above cash outflows are included in		
– operating activities	(9.5)	(8.3)
– financing activities	(6.4)	(6.5)
	(15.9)	(14.8)

h) Analysis of balances of cash and cash equivalents

	2019 US\$m	2018 US\$m
Bank and cash balances (<i>refer note 18</i>)	270.7	246.8

Notes to the Financial Statements *Continued***29 Derivative financial instruments**

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

	2019		2018	
	Positive fair value US\$m	Negative fair value US\$m	Positive fair value US\$m	Negative fair value US\$m
Designated as cash flow hedges				
– interest rate swaps and caps	1.5	(0.9)	0.9	–

The nominal principal amounts of the outstanding interest rate swap contracts at 31st December 2019 were US\$267.7 million (2018: US\$232.7 million, including interest rate cap contracts). All the outstanding contracts at 31st December 2019 are impacted by the IBOR reform and will mature after 2021.

At 31st December 2019, the fixed interest rates relating to interest rate swaps and caps varied from 1.2% to 1.8% (2018: 1.8% to 2.5%) per annum.

The fair values of interest rate swaps at 31st December 2019 were based on the estimated cash flows discounted at market rates ranging from 0.7% to 2.9% (2018: 2.2% to 2.4%) per annum.

30 Commitments

	2019 US\$m	2018 US\$m
Capital commitments		
Authorised not contracted		
– other	713.9	742.5
Contracted not provided		
– joint ventures	30.3	44.1
– other	21.4	29.9
	51.7	74.0
	765.6	816.5

Capital commitment included commitment for the redevelopment of The Excelsior, Hong Kong as a commercial building following the hotel closure on 31st March 2019. The redevelopment is expected to take up to six years to complete.

	2019 US\$m	2018 US\$m
Operating lease commitments for short-term leases		
Total commitments		
– due within one year	0.1	0.2

No future sublease payments are receivable relating to the above operating leases (2018: nil).

31 Related party transactions

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

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

During 2019, the Group managed six (2018: six) associate and joint venture hotels and received management fees of US\$14.5 million (2018: US\$14.8 million) based on long-term management agreements on normal commercial terms.

The Group provided hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2019 amounted to US\$1.9 million (2018: US\$2.7 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US\$0.1 million (2018: US\$0.2 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group did not have any amount payable to JML as at 31st December 2019 (2018: nil).

The Group appointed HKL to provide project management consultancy services and Gammon Construction Limited ('GCL'), an associate of JMH, to provide construction works in relation to the redevelopment of The Excelsior site. In 2019, the Group paid consultancy fees to HKL amounted to US\$2.0 million (2018: nil) and value of works carried out by GCL amounted to US\$8.0 million (2018: nil). The agreement and contract were arranged on normal commercial terms.

The outstanding balances with associates and joint ventures are set out in debtors in note 17.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 110 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

32 Summarised balance sheet of the Company

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

	2019 US\$m	2018 US\$m
Subsidiaries	982.2	975.5
Net current liabilities	(2.6)	(2.4)
Net assets	979.6	973.1
Share capital (refer note 24)	63.2	63.1
Share premium (refer note 25)	499.7	497.8
Revenue and other reserves	416.7	412.2
Shareholders' funds	979.6	973.1

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

Notes to the Financial Statements *Continued***33 Principal subsidiaries, associates, joint ventures and managed hotels**

The principal subsidiaries, associates, joint ventures and managed hotels of the Group at 31st December 2019 are set out below.

Principal place of business	Name of entity	Nature of business	Attributable interest %		Proportion of ordinary shares and voting powers at 31st December 2019 held by		Hotel profile
			2019	2018	the Group %	non-controlling interests %	
Subsidiaries							
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management	100	100	100	–	–
Hong Kong	Mandarin Oriental Hotel Group Limited	Management	100	100	100	–	–
Hong Kong	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong	100	100	100	–	499 rooms. Lease expiry 2895
Hong Kong	Excelsior Hotel (BVI) Limited	Redevelopment of The Excelsior site	100	100	100	–	–
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	100	100	100	–	179 rooms. Lease expiry 2050
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta	96.9	96.9	96.9	3.1	272 rooms. Lease expiry 2023
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London	100	100	100	–	181 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genève) SA	Owner: Mandarin Oriental, Geneva	85.3	85.3	85.3	14.7	Lease expiry 2040
Switzerland	Société pour l' Exploitation de Mandarin Oriental (Genève) SA		100	100	100	–	181 rooms
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	100	100	100	–	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	100	100	100	–	135 rooms. Freehold
United States	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston	100	100	100	–	148 rooms. Freehold
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	94.6	89.1	94.6	5.4	373 rooms. Freehold
Associates and joint ventures							
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	50	50	50	50	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	47.6	47.6	47.6	52.4	331 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	25	25	25	75	629 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	49	49	49	51	–
Spain	Ritz Madrid, S.A.	Owner: Mandarin Oriental Ritz, Madrid	50	50	50	50	153 rooms. Freehold
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	25	25	25	75	244 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	25	25	25	75	326 rooms. Freehold
Managed hotels							
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		–	–	–	–	111 rooms
Macau	Mandarin Oriental, Macau		–	–	–	–	213 rooms
China	Mandarin Oriental, Sanya		–	–	–	–	281 rooms
China	Mandarin Oriental, Guangzhou		–	–	–	–	263 rooms
China	Mandarin Oriental Pudong, Shanghai		–	–	–	–	362 rooms
China	Mandarin Oriental Wangfujing, Beijing		–	–	–	–	73 rooms
Taiwan	Mandarin Oriental, Taipei		–	–	–	–	294 rooms
Czech Republic	Mandarin Oriental, Prague		–	–	–	–	99 rooms
Spain	Mandarin Oriental, Barcelona		–	–	–	–	120 rooms
Turkey	Mandarin Oriental, Bodrum		–	–	–	–	137 rooms
Italy	Mandarin Oriental, Milan		–	–	–	–	104 rooms
Italy	Mandarin Oriental, Lago di Como		–	–	–	–	75 rooms
Morocco	Mandarin Oriental, Marrakech		–	–	–	–	63 rooms
Qatar	Mandarin Oriental, Doha		–	–	–	–	249 rooms
United Arab Emirates	Mandarin Oriental Jumeira, Dubai		–	–	–	–	256 rooms
Chile	Mandarin Oriental, Santiago		–	–	–	–	310 rooms
Saint Vincent and the Grenadines	Mandarin Oriental, Canouan		–	–	–	–	38 rooms

On 1st January 2020, the Group has taken over the management of 394-room Emirates Palace hotel in Abu Dhabi, United Arab Emirates.

Notes to the Financial Statements *Continued*

34 Principal accounting policies

Basis of consolidation

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

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

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

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

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

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

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

Foreign currencies

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

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

34 Principal accounting policies *continued*

Foreign currencies continued

Exchange differences arising from the retranslation of the net investment in foreign subsidiaries, associates and joint ventures, and of financial instruments which are designated as hedges of such investments, are recognised in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments, such exchange differences are recognised in profit and loss. Exchange differences on other investments measured at fair value through other comprehensive income are recognised in other comprehensive income as part of the gains and losses arising from changes in their fair value. All other exchange differences are recognised in profit and loss.

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

Impairment of non-financial assets

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

Intangible assets

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

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

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

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

Notes to the Financial Statements *Continued*

34 Principal accounting policies *continued*

Tangible fixed assets and depreciation

Freehold properties comprised land and buildings. Freehold land is stated at cost less any impairment. No depreciation is provided on freehold land as it is deemed to have an indefinite life. Properties on freehold and leasehold land are stated at cost less any accumulated depreciation and impairment. Grants related to tangible assets are deducted in arriving at the carrying amount of the assets. Other tangible fixed assets are stated at cost less amounts provided for depreciation.

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

Properties on freehold land and under leases more than 20 years	21 years to 150 years
Properties under leases less than 20 years	over unexpired period of lease
Surfaces, finishes and services of hotel properties	20 years to 30 years
Leasehold improvements	shorter of unexpired period of the lease or useful life
Plant and machinery	5 years to 15 years
Furniture, equipment and motor vehicles	3 years to 10 years

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

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

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease contracts may contain lease and non-lease components. The Group allocates the consideration in the contract to lease and non-lease component based on their relative stand-alone prices. For property leases where the Group is a lessee, it has elected not to separate lease and immaterial non-lease components and accounts for these items as a single lease component.

i) As a lessee

The Group enters into property leases for use as hotels or offices.

The Group recognises right-of-use assets and lease liabilities at the lease commencement dates, that is the dates the underlying assets are available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment, and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes amounts of the initial measurement of lease liabilities recognised, lease payments made at or before the commencement dates less any lease incentives received, initial direct costs incurred and restoration costs. Right-of-use assets are depreciated using the straight-line method over the shorter of their estimated useful lives and the lease terms.

When right-of-use assets meet the definition of investment properties, they are presented in investment properties, and are initially measured at cost and subsequently measured at fair value, in accordance with the Group's accounting policy.

34 Principal accounting policies *continued*

Leases continued

i) *As a lessee continued*

The Group also has interests in leasehold land for use in its operations. Lump sum payments were made upfront to acquire these land interests from their previous registered owners or governments in the jurisdictions where the land is located. There are no ongoing payments to be made under the term of the land leases, other than insignificant lease renewal costs or payments based on rateable value set by the relevant government authorities. These payments are stated at cost and are amortised over the term of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

Lease liabilities are measured at the present value of lease payments to be made over the lease terms. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the Group exercising that option. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Lease liabilities are measured at amortised cost using the effective interest method. After the commencement date, the amount of lease liabilities is increased by the interest costs on the lease liabilities and decreased by lease payments made.

The carrying amount of lease liabilities is remeasured when there is a change in the lease term, or there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise an extension or a termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets (i.e. US\$5,000 or less) and short-term leases. Low value assets comprised office equipment. Short-term leases are leases with a lease term of 12 months or less. Lease payments associated with these leases are recognised on a straight-line basis as an expense in profit and loss over the lease term.

Lease liabilities are classified as non-current liabilities unless payments are within 12 months from the balance sheet date.

ii) *As a lessor*

The Group enters into contracts with lease components as a lessor primarily on its properties. These leases are operating leases as they do not transfer the risk and rewards incidental to the underlying properties. The Group recognises the lease payments received under these operating leases on a straight-line basis over the lease term as part of revenue in the profit and loss.

Notes to the Financial Statements *Continued*

34 Principal accounting policies *continued*

Investment properties

Properties including those under operating leases which are held for long-term rental yields or capital gains are classified and accounted for as investment properties, but the business model does not necessarily envisage that the properties will be held for their entire useful life. Investment properties are carried at fair value, representing estimated open market value determined annually by independent qualified valuers who have recent experience in the location and segment of the investment property being valued.

The market value of investment property under development is derived using the direct comparison method, with reference to the residual method where appropriate. The direct comparison method is based on market evidence of transaction prices for similar properties which recently transacted and adjusted to reflect the conditions of the subject property including property site and location. The residual method is based on the estimated capital value of the proposed development assuming completion as at the date of valuation, after deducting development costs together with developer's profit and risk. Changes in fair value are recognised in profit and loss.

Investments

The Group classifies its investments into the following measurement categories:

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

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

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

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

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

Investments are classified as non-current assets.

34 Principal accounting policies *continued*

Stocks

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

Debtors

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

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

Cash and cash equivalents

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

Provisions

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

Borrowings and borrowing costs

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

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

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

Notes to the Financial Statements *Continued***34 Principal accounting policies** *continued****Government grants***

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

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

Current and deferred tax

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

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

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

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

34 Principal accounting policies *continued*

Employee benefits

i) Pension obligations

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

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

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

Past service costs are recognised immediately in profit and loss.

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

ii) Share-based compensation

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

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

Notes to the Financial Statements *Continued*

34 Principal accounting policies *continued*

Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures and not as speculative investments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as a hedge of a forecasted transaction or of the foreign currency risk on a firm commitment ('cash flow hedge'), or a hedge of a net investment in a foreign entity.

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

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

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 9. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognised immediately in profit and loss.

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

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

Financial guarantee contracts

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

34 Principal accounting policies *continued*

Offsetting financial instruments

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

Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading items include fair value gains or losses on revaluation of investment property under development and investments which are measured at fair value through profit and loss; gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

Earning per share

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

Dividends

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

Revenue recognition

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

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

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

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

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

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

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

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

Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Notes to the Financial Statements *Continued*

35 Standards and amendments issued but not yet effective

‘Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7’ (effective 1st January 2020) was issued in September 2019. The Group has elected to early adopt the amendments in 2019 (*refer note 1*).

IFRS 17 ‘Insurance Contracts’ (effective from 1st January 2021) and a number of new amendments, which are effective for accounting periods beginning after 2019, have been published and will be adopted by the Group from their effective dates. The Group is currently assessing the potential impact of IFRS 17 and the amendments but expects their adoption will not have a significant effect on the Group’s consolidated financial statements.

36 Financial risk management

Financial risk factors

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

The Group’s treasury function co-ordinates, under the directions of the board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation on a group-wide basis. The Group’s treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimise the Group’s financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group’s assets and liabilities in accordance with the Group’s financial risk management policies. Financial derivative contracts are executed between third-party banks and the Group entity that is directly exposed to the risk being hedged. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. In general, the volatility in profit or loss can be reduced by applying hedge accounting.

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

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

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

Hedge ineffectiveness for interest rate swaps may occur due to: (i) the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; and (ii) differences in critical terms between the interest rate swaps and loans. The ineffectiveness during 2019 or 2018 in relation to the interest rate swaps was not material.

36 Financial risk management *continued*

Financial risk factors continued

i) Market risk

Foreign exchange risk

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

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

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. In 2019 and 2018, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2019, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's loss after tax would have been US\$1.1 million higher/lower (2018: profit after tax would have been US\$0.6 million lower/higher), arising from foreign exchange losses/gains taken on translation. The impact on amounts attributable to the shareholders of the Company would be US\$1.1 million (2018: US\$0.6 million) lower/higher. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2019 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Notes to the Financial Statements *Continued*

36 Financial risk management *continued*

Financial risk factors continued

i) Market risk *continued*

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps and caps. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its gross borrowings, in fixed rate instruments. At 31st December 2019, the Group's interest rate hedge was 47% (2018: 44%), with an average tenor of 3.9 years (2018: 0.6 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 20.

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

At 31st December 2019, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's loss after tax would have been US\$1.1 million higher/lower (2018: profit after tax would have been US\$1.9 million lower/higher), and hedging reserves would have been US\$8.4 million (2018: US\$1.8 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant sensitivity resulting from interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong, United Kingdom and European rates, over the period until the next annual balance sheet date. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit/(loss) after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

36 Financial risk management *continued*

Financial risk factors continued

i) Market risk *continued*

Price risk

The Group is exposed to price risk from its investments which are measured at fair value through profit and loss. Gains and losses arising from changes in the fair value of these investments are recognised in profit and loss or other comprehensive income according to their classification. The performance of these investments are monitored regularly, together with an assessment of their relevance to the Group's long-term strategic plans. Details of these investments are contained in note 14.

The Group's interest in these investments are unhedged. At 31st December 2019, if the price of these investments had been 25% higher/lower with all other variables held constant, non-trading operating profit and total equity would have been US\$4.0 million (2018: US\$3.8 million) higher/lower. The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

ii) Credit risk

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

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilisation of credit limits is regularly monitored. At 31st December 2019, 96% (2018: 97%) of deposits and balances with banks and financial institutions were made to institutions with credit ratings of no less than A- (Fitch). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit rating of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

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

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

Notes to the Financial Statements *Continued*

36 Financial risk management *continued*

Financial risk factors continued

iii) Liquidity risk

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

At 31st December 2019, total available borrowing facilities amounted to US\$820 million (2018: US\$610 million) of which US\$571 million (2018: US\$532 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US\$249 million (2018: US\$78 million), in addition to cash balances of US\$271 million (2018: US\$247 million).

The table below analyses the Group's non-derivative financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at 31st December 2019 and 2018 to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year US\$m	Between one and two years US\$m	Between two and three years US\$m	Between three and four years US\$m	Between four and five years US\$m	Beyond five years US\$m	Total undiscounted cash flows US\$m
2019							
Borrowings	17.3	34.4	15.0	15.1	554.1	1.3	637.2
Lease liabilities	9.3	8.8	8.8	9.0	8.7	162.6	207.2
Creditors	132.4	–	–	–	–	–	132.4
Net settled derivative financial instruments	0.2	0.2	0.2	0.2	0.1	–	0.9
2018							
Borrowings	533.2	0.2	5.9	0.2	0.2	1.5	541.2
Lease liabilities	7.9	7.5	7.1	7.1	7.0	161.9	198.5
Creditors	136.3	–	–	–	–	–	136.3

Capital management

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

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

36 Financial risk management *continued*

Capital management continued

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover before taking into account the impact of IFRS 16 'Leases'. The gearing ratio is calculated as net debt divided by shareholders' funds on an IFRS basis, where the Group's freehold and leasehold interests are carried in the consolidated balance sheet at amortised cost, or alternatively on an adjusted shareholders' funds basis which takes into account the fair market value of the Group's freehold and leasehold interests. Net debt is calculated as total borrowings less bank and cash balances. Interest cover is calculated as underlying operating profit before the deduction of amortisation/depreciation of right-of-use assets, net of actual lease payments, and the Group's share of underlying results of associates and joint ventures, divided by net financing charges before the deduction of capitalised interest and excluding interest on lease liabilities. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2019 and 2018 are as follows:

	2019	2018
Gearing ratio		
– based on shareholders' funds	7%	23%
– based on adjusted shareholders' funds	5%	5%
Interest cover	5.4 times	7.3 times

Fair value estimation

i) Financial instruments that are measured at fair value

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

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

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

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

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

The fair values of other unlisted investments, are determined using valuation techniques by reference to observable current market transactions (including price-to-earnings and price-to-book ratios of listed securities of entities engaged in similar industries) or the market prices of the underlying investments with certain degree of entity specific estimates or discounted cash flow by projecting the cash inflows from these investments.

There were no changes in valuation techniques during the year.

Notes to the Financial Statements *Continued*36 Financial risk management *continued**Fair value estimation continued*i) Financial instruments that are measured at fair value *continued*

The table below analyses financial instruments carried at fair value at 31st December 2019 and 2018, by the levels in the fair value measurement hierarchy.

	Observable current market transactions US\$m	Unobservable input US\$m	Total US\$m
2019			
Assets			
Other investments	4.6	11.3	15.9
Derivative financial instruments at fair value – through other comprehensive income	1.5	–	1.5
	6.1	11.3	17.4
Liabilities			
Derivative financial instruments at fair value – through other comprehensive income	(0.9)	–	(0.9)
2018			
Assets			
Other investments	6.1	9.1	15.2
Derivative financial instruments at fair value – through other comprehensive income	0.9	–	0.9
	7.0	9.1	16.1

There were no transfers among the two categories during the year ended 31st December 2019 and 2018.

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

	Unlisted investments	
	2019 US\$m	2018 US\$m
At 1st January	9.1	9.3
Additions	2.2	–
Disposals	–	(0.2)
At 31st December	11.3	9.1

ii) Financial instruments that are not measured at fair value

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

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

36 Financial risk management *continued*

Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2019 and 2018 are as follows:

	Fair value of hedging instruments US\$m	Fair value through profit and loss US\$m	Financial assets at amortised cost US\$m	Other financial liabilities US\$m	Total carrying amount US\$m	Fair value US\$m
2019						
Financial assets measured at fair value						
Other investments	–	15.9	–	–	15.9	15.9
Derivative financial instruments	1.5	–	–	–	1.5	1.5
	1.5	15.9	–	–	17.4	17.4
Financial assets not measured at fair value						
Debtors						
Bank and cash balances	–	–	61.4	–	61.4	61.4
	–	–	270.7	–	270.7	270.7
	–	–	332.1	–	332.1	332.1
Financial liabilities measured at fair value						
Derivative financial instruments	(0.9)	–	–	–	(0.9)	(0.9)
Financial liabilities not measured at fair value						
Borrowings						
Lease liabilities	–	–	–	(571.1)	(571.1)	(571.1)
Trade and other payables excluding non-financial liabilities	–	–	–	(175.4)	(175.4)	(175.4)
	–	–	–	(132.4)	(132.4)	(132.4)
	–	–	–	(878.9)	(878.9)	(878.9)
2018						
Financial assets measured at fair value						
Other investments	–	15.2	–	–	15.2	15.2
Derivative financial instruments	0.9	–	–	–	0.9	0.9
	0.9	15.2	–	–	16.1	16.1
Financial assets not measured at fair value						
Debtors						
Bank and cash balances	–	–	61.2	–	61.2	61.2
	–	–	246.8	–	246.8	246.8
	–	–	308.0	–	308.0	308.0
Financial liabilities not measured at fair value						
Borrowings						
Lease liabilities	–	–	–	(531.5)	(531.5)	(531.5)
Trade and other payables excluding non-financial liabilities	–	–	–	(167.0)	(167.0)	(167.0)
	–	–	–	(136.3)	(136.3)	(136.3)
	–	–	–	(834.8)	(834.8)	(834.8)

Notes to the Financial Statements *Continued*

37 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these accounting estimates. The estimates and assumptions that have a significant effect on the reported amounts of assets and liabilities, and income and expenses are discussed below.

Investment property under development

The fair value of investment property under development is determined by independent valuers on an open market basis using the direct comparison method with reference to comparable market transactions and adjusted for property-specific qualitative factors. Consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

Impairment of assets

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

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the balance sheet date (*refer note 17*).

Tangible fixed assets and depreciation

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

Following an announcement on 9th October 2018, The Excelsior, Hong Kong closed on 31st March 2019 and demolition work has commenced ahead of the planned construction of a commercial building on the site. The tangible fixed assets of The Excelsior, Hong Kong comprised long-term interest in leasehold land, hotel property, leasehold improvements, plant and machinery, and furniture and equipment. Change in the intended use of the site causes the estimated period of use of the non-leasehold land assets to change. The estimated useful lives for these assets were revised resulting in an additional depreciation charge from the date of announcement to the date of hotel closure. This charge was recorded as a non-trading expense in the profit and loss (*refer note 8*).

37 Critical accounting estimates and judgements *continued*

Income taxes

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

Provision of deferred tax follows the way management expects to recover or settle the carrying amount of the related assets or liabilities, which the management may expect to recover through use, sale or combination of both. Accordingly, deferred tax will be calculated at income tax rate, capital gains tax rate or combination of both. There is a rebuttable presumption in International Financial Reporting Standards that investment properties measured at fair value are recovered through sale. Thus deferred tax on revaluation of investment property under development held by the Group is calculated at the capital gain tax rate.

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

Pension obligations

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

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

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

Leases

Liabilities and the corresponding right-of-use assets arising from leases are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rates implicit in the leases, or if that rate cannot be readily determinable, the Group uses the incremental borrowing rate. The Group generally uses the incremental borrowing rate as the discount rate.

The Group applies the incremental borrowing rate with reference to the rate of interest that the Group would have to pay to borrow, over a similar term as that of the lease, the funds necessary to obtain an asset of a similar value to the right-of-use asset in the country where it is located.

Notes to the Financial Statements *Continued*

37 Critical accounting estimates and judgements *continued*

Leases continued

Lease payments to be made during the lease term will be included in the measurement of a lease liability. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew. The assessment of whether the Group is reasonably certain to exercise the options impacts the lease terms, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Revenue recognition

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

Insurance recovery recognition

Following the fire at Mandarin Oriental Hyde Park, London on 6th June 2018, the Group received interim cash payments in 2018 from the insurers in respect of the cover available under the insurance policies. The insurance compensation for the replacement of tangible assets and other incidental expenses was based on the costs incurred and was recognised as non-trading income in the profit and loss (*refer note 8*). In 2018, the insurance compensation for the loss of profit was estimated with reference to the historical track record of hotel performance and was recorded as underlying business performance in the profit and loss.

Non-trading items

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

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's affairs as at 31st December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet as at 31st December 2019; the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include the Principal Accounting Policies.

Certain required disclosures have been presented in the Corporate Governance section of the Annual Report on page 110, rather than in the Notes to the Financial Statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality

- Overall Group materiality: US\$2.7 million (2018: US\$4.2 million)
- Based on 5% of underlying profit before tax

Audit scope

- A full scope audit of nine of the Mandarin Oriental hotels was performed. These hotels, together with procedures performed over specific balances and transactions for a further three of the Mandarin Oriental hotels and on central functions and at the Group level, accounted for 91% of the Group's revenue, 78% of the Group's loss before tax and 84% of the Group's underlying profit before tax.

Key audit matters

- Valuation of investment properties under development
- Recoverability of the carrying amounts of hotel properties

The scope of our audit

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

Independent Auditors' Report *Continued*

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
<p><i>Valuation of investment property under development</i></p> <p>Refer to note 34 (Principal accounting policies), note 37 (Critical accounting estimates and judgements), note 12 (Investment property under development) to the financial statements.</p> <p>The fair value of the Group's investment property under development amounted to US\$2,967.7 million at 31st December 2019.</p> <p>Following the closure of The Excelsior in Hong Kong and the commencement of its redevelopment as a commercial property from 31st March 2019, the site was transferred from right-of-use assets to investment property under development recorded at fair value. A revaluation gain of US\$2,943.4 million was recognised in the asset revaluation reserves through other comprehensive income at the date of transfer. A subsequent fair value loss of US\$67.3 million has been recognised as a non-trading item in the consolidated profit and loss account for the year ended 31st December 2019.</p> <p>An independent valuer was engaged by the Group to determine the fair value of the investment property under development as at the date of transfer and as at 31st December 2019. Valuations were derived using the direct comparison method, with reference to comparable market transactions and adjusted for property-specific qualitative factors. Judgement is required in selecting appropriate comparable transactions and determining the market value per square foot.</p> <p>We focused on the valuation of investment property under development due to the financial significance of the valuation to the financial statements and the judgements and estimates involved in determining the fair values.</p>	<p>We evaluated the qualification and expertise of the valuer, considering whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon its work. We found no evidence to suggest that the objectivity of the valuer, in their performance of the valuations, was compromised.</p> <p>We read the valuation reports for the date of transfer and as at 31st December 2019, to consider whether the valuation approach used was appropriate and suitable in determining the fair value of the investment property under development.</p> <p>The audit team, including our valuation experts, discussed with the valuer the methodology and key assumptions applied in the valuations, including the selection of comparable transactions and market value per square foot by comparing them to market values of comparable property transactions.</p> <p>We concluded that the methodology used in preparing the valuations was appropriate and that the key assumptions applied in the valuations were supportable in light of available evidence.</p>

Key audit matters**How our audit addressed the key audit matters***Recoverability of the carrying amounts of hotel properties*

Refer to note 34 (Principal accounting policies), note 37 (Critical accounting estimates and judgements), note 10 (Tangible assets), note 11 (Right-of-use assets) and note 13 (Associates and joint ventures) to the financial statements.

The Group's hotel properties are stated at cost less depreciation and impairment. As at 31st December 2019, the carrying values of the hotel properties held through the Group's subsidiaries classified under tangible assets and right-of-use assets amounted to US\$1,174.6 million and US\$136.0 million respectively. The Group also holds interests in a number of hotel properties through its associates and joint ventures amounted to US\$312.9 million.

Given the different political and economic environments in which the Group operates, the trading performance of these hotels varies. Management considers each hotel to be a separate cash-generating unit ('CGU') and performs an impairment assessment, where impairment indicators exist, to determine the recoverable amount of the hotel properties. The recoverable amount is determined as the higher of the CGU's value-in-use and fair value less costs to sell. In determining the fair value less costs to sell, third-party valuer ('valuer') is engaged by the Group to perform valuation of the hotel property. Management concluded that no impairment of hotel properties was required as at 31st December 2019.

We focused on this area as the impairment assessment involves significant judgements and estimation uncertainty in respect of future business performance and key assumptions including discount rates, terminal yield, occupancy rate, sales growth rate and capital expenditure necessary to maintain the service standard.

We discussed triggering events and indicators of potential impairment of hotel properties with management and inspected the operating results and forecasts of the respective hotels.

Where there were indicators of impairment, we assessed the assumptions used by the valuer and management in the calculation of the recoverable amounts. This included the involvement of our valuation experts to assess the country specific discount rate applied and appropriateness of the terminal yield with reference made to market data. We assessed the reasonableness of the forecast occupancy rates, sales growth rate and capital expenditure by comparing them to historical results and latest economic and industry forecasts.

We assessed the qualifications, competence and objectivity of the valuer and read the valuation reports prepared by the valuer and considered the appropriateness and consistency of valuation methodologies.

We evaluated management's future cash flow forecasts and the process by which they were prepared, including testing the mathematical accuracy of the underlying calculations and compared the future cash flow forecasts to the Board approved budgets.

We performed sensitivity analyses by making adjustments to the key assumptions in management's impairment assessments and considered whether, in isolation or as a combination, any reasonably possible adjustments would result in a material impairment.

Based on our work and the evidence obtained, we found that the methodologies were applied consistently and appropriately, and the significant judgements and estimates adopted by management were appropriate.

Independent Auditors' Report *Continued*

How we tailored the audit scope

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

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

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

A full scope audit of nine of the Mandarin Oriental hotels was performed. These hotels, together with procedures performed over specific balances and transactions for a further three of the Mandarin Oriental hotels and on central functions and at the Group level (on the consolidation and other areas of significant judgement), accounted for 91% of the Group's revenue, 78% of the Group's loss before tax and 84 % of the Group's underlying profit before tax. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

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

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

Overall Group materiality	US\$2.7 million (2018: US\$4.2 million)
How we determined it	5% of underlying profit before tax
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used in assessing the performance of the Group.

For each component in the scope for our Group audit, we allocated a materiality that was less than our overall Group materiality. The range of overall materiality allocated across components was US\$0.4 million to US\$2.4 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US\$0.3 million (2018: US\$0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 107 and the Corporate Governance section set out on page 112, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent Auditors' Report *Continued**Use of this report*

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

London

5th March 2020

- a) The maintenance and integrity of the Mandarin Oriental International Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Valuers

To Mandarin Oriental International Limited

Dear Sirs

Revaluation of Under Development Leasehold Commercial Investment Property

Further to your instruction, we have valued in our capacity as external valuers ‘The Excelsior’ redevelopment site at No. 281 Gloucester Road, Causeway Bay, Hong Kong, being a commercial investment property held on lease as described in the consolidated financial statements of Mandarin Oriental International Limited. We are of the opinion that the market value of the commercial investment property as at 31st December 2019 was US\$2,967,700,000 (United States Dollar Two Billion Nine Hundred Sixty-Seven Million Seven Hundred Thousand).

Our valuation was prepared in accordance with the International Valuation Standards by the International Valuation Standards Council and The HKIS Valuation Standards by The Hong Kong Institute of Surveyors. We have inspected the property without either conducting site nor structural surveys or testing the services.

We have been provided with details of tenure, proposed development scheme and other relevant information. The property has been valued by the direct comparison method. This valuation method is based on comparing the property to be valued directly with other comparable properties. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Yours faithfully

Jones Lang LaSalle Limited

Hong Kong

7th February 2020

Five Year Summary

Consolidated Profit and Loss Account *

	2015 US\$m	2016 US\$m	2017 US\$m	2018 US\$m	2019 US\$m
Revenue	607.3	597.4	610.8	613.7	566.5
Operating profit/(loss)	107.3	68.0	69.0	70.7	(29.0)
Net financing charges	(11.8)	(10.8)	(11.0)	(14.2)	(14.7)
Share of results of associates and joint ventures	10.5	10.9	11.5	5.7	(1.7)
Profit/(loss) before tax	106.0	68.1	69.5	62.2	(45.4)
Tax	(16.6)	(13.7)	(15.0)	(19.0)	(10.2)
Profit/(loss) after tax	89.4	54.4	54.5	43.2	(55.6)
Profit/(loss) attributable to shareholders	89.3	55.2	54.9	43.4	(55.5)
Underlying profit attributable to shareholders	90.3	57.3	54.9	64.9	41.2
Earnings/(loss) per share (US¢)	7.44	4.40	4.37	3.44	(4.39)
Underlying earnings per share (US¢)	7.53	4.56	4.37	5.15	3.26
Dividends per share (US¢)	5.00	4.00	3.00	3.00	3.00

Consolidated Balance Sheet *

	2015 US\$m	2016 US\$m	2017 US\$m	2018 US\$m	2019 US\$m
Intangible assets	44.1	44.3	43.8	49.3	53.0
Tangible assets	1,255.0	1,352.1	1,272.0	1,205.9	1,174.6
Right-of-use assets	–	–	284.2	342.9	300.3
Investment property under development	–	–	–	–	2,967.7
Associates and joint ventures	164.4	163.8	195.7	196.1	203.1
Other investments	10.2	10.7	11.0	15.2	15.9
Deferred tax assets	2.8	2.6	11.0	11.5	10.6
Pension assets	–	–	4.9	0.2	1.3
Non-current debtors	–	–	0.5	5.1	6.2
Net current assets/(liabilities)	254.2	136.6	118.5	(359.4)	181.4
Long-term borrowings	(436.2)	(477.4)	(508.1)	(7.3)	(568.6)
Non-current lease liabilities	–	–	(100.6)	(161.3)	(168.4)
Deferred tax liabilities	(59.8)	(56.1)	(58.6)	(61.6)	(59.4)
Pension liabilities	–	(3.2)	(0.6)	(0.4)	(0.2)
Non-current creditors	(3.0)	–	(0.2)	–	(0.9)
Net assets	1,231.7	1,173.4	1,273.5	1,236.2	4,116.6
Share capital	62.8	62.8	62.9	63.1	63.2
Share premium	490.3	490.4	493.9	497.8	499.7
Revenue and other reserves	673.6	616.2	710.6	671.5	3,550.1
Shareholders' funds	1,226.7	1,169.4	1,267.4	1,232.4	4,113.0
Non-controlling interests	5.0	4.0	6.1	3.8	3.6
Total equity	1,231.7	1,173.4	1,273.5	1,236.2	4,116.6
Net asset value per share (US\$)	0.98	0.93	1.01	0.98	3.26

Consolidated Cash Flow Statement *

	2015 US\$m	2016 US\$m	2017 US\$m	2018 US\$m	2019 US\$m
Cash flows from operating activities	140.2	107.7	119.9	152.6	112.9
Cash flows from investing activities	(124.4)	(222.8)	(102.0)	(69.0)	(80.4)
Net cash flow before financing activities	15.8	(115.1)	17.9	83.6	32.5
Cash flow per share from operating activities (US¢)	11.69	8.58	9.53	12.11	8.94

*Figures in 2018 have been restated due to changes in accounting policies upon adoption of IFRS 16 'Leases'.

Responsibility Statement

The Directors of the Company confirm to the best of their knowledge that:

- a) the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board; and
- b) the sections of this Report, including the Chairman's Statement, Group Chief Executive's Review and the Principal Risks and Uncertainties, which constitute the management report, include a fair review of all information required to be disclosed by the Disclosure Guidance and Transparency Rules 4.1.8 to 4.1.11 issued by the Financial Conduct Authority in the United Kingdom.

For and on behalf of the Board

James Riley

Craig Beattie

Directors

5th March 2020

Corporate Governance

Mandarin Oriental International Limited (the 'Company') is incorporated in Bermuda. The Company was established as an Asian-based hotel group and has since extended its operations to key locations around the world. The Company's equity shares have a standard listing on the Main Market of the London Stock Exchange, and secondary listings in Bermuda and Singapore. The Disclosure Guidance and Transparency Rules (the 'DTRs') issued by the Financial Conduct Authority in the United Kingdom (the 'FCA') require that this Report address all relevant information about the corporate governance practices applied beyond the requirements under Bermuda law.

The Company attaches importance to the corporate stability and opportunities that result from it being part of the Jardine Matheson Holdings Limited ('Jardine Matheson') group, which is considered to be fundamental to the Company's ability to pursue its long-term development strategy. By coordinating objectives, establishing common values and standards, and sharing experience, contacts and business relationships, the Jardine Matheson group companies aim to optimise their opportunities across countries where they operate, particularly in Asia.

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

The Management of the Group

The Company has a dedicated executive management team led by the Group Chief Executive. The Memorandum of Association of the Company, however, provides for the chairman of Jardine Matheson to be, or to appoint, the Managing Director of the Company. Reflecting this, and the Jardine Matheson group's 78% interest in the Company's share capital, the Group Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Mandarin Oriental Hotel Group International Limited ('MOHG'), and its finance committee are chaired by the Managing Director and include Group executives as well as Jardine Matheson's deputy managing director, group finance director, group strategy director and group general counsel.

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

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

The Board

As at 5th March 2020, the Company has a Board of 16 Directors. Their names and brief biographies appear on pages 26 and 27 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The Board composition and operation helps to provide the Company with the necessary stability as it seeks to grow its business.

The role of the Chairman is to lead the Board as it oversees the Group's strategic and financial direction, while the principal role of the Managing Director is to act as chairman of MOHG and of its finance committee. Ben Keswick is currently appointed to both positions. As announced on 5th March 2020, with effect from 15th June 2020 Ben Keswick will step down as Managing Director and John Witt will take on the role of Managing Director. John Witt will also become chairman of MOHG and of its finance committee. The responsibility for running the Group's business and all the executive matters affecting the Group rests with the Group Chief Executive, James Riley. The implementation of the Group's strategy is delegated to the Company's executive management, with decision-making authority within designated financial parameters delegated to the MOHG finance committee.

The Board is scheduled to hold four meetings in 2020 and ad hoc procedures are adopted to deal with urgent matters which arise between scheduled meetings. In 2019 one meeting was held in Bermuda and three were held in Asia. The Board receives high quality, up to date information for each of its meetings. In addition, certain Directors of the Company who do not serve on the board of MOHG and who are based outside Asia regularly visit Asia and Bermuda to discuss the Group's business, as well as to participate in the four strategic reviews that precede the regular Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs, as well as their knowledge and experience of the wider Jardine Matheson group, reinforces the process by which business is reviewed before consideration at Board meetings.

Directors' appointment, retirement, remuneration and service contracts

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

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

Corporate Governance *Continued*

Archie Keswick joined the Board on 5th December 2019. Simon Keswick retired from the Board with effect from 1st January 2020. On 20th January 2020, it was announced that Lord Sassoon will retire from the Board on 9th April 2020. It was also announced on 5th March 2020 that Edouard Ettedgui will retire from the Board following the Company's Annual General Meeting to be held on 6th May 2020 and that John Witt will join the Board and take on the role of Managing Director of the Company with effect from 15th June 2020.

In accordance with Bye-law 85, James Riley, Julian Hui, Jeremy Parr and James Watkins retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Archie Keswick will also retire and, being eligible, offers himself for re-election. James Riley has a service contract with a subsidiary of the Company that has a notice period of six months. None of the other Directors proposed for re-election has a service contract with the Company or its subsidiaries.

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

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

For the year ended 31st December 2019, the Directors received from the Group US\$6.5 million (2018: US\$6.7 million) in Directors' fees and employee benefits, being US\$0.8 million (2018: US\$0.8 million) in Directors' fees, US\$5.6 million (2018: US\$5.6 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US\$0.1 million (2018: US\$0.2 million) in post-employment benefits and no share-based payments (2018: US\$0.1 million). The information set out in this paragraph forms part of the audited financial statements.

Share-based long-term incentive plans have also been established to provide incentives for executive Directors and senior managers. Share options and share awards are granted by the scheme trustee after consultation between the Chairman and the Group Chief Executive as well as other Directors as they consider appropriate. Share options are granted at the then prevailing market prices, while share awards will vest free of payment. The share options and share awards normally vest on or after the third anniversary of the date of grant. Grants may be made in a number of instalments. Share options and share awards are not granted to non-executive Directors.

The Company purchases insurance to cover its Directors against their costs in defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by law, the Company also indemnifies its Directors. Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly.

Audit Committee

The Board has established within MOHG an audit committee (the 'Audit Committee'), the current members of which are Y.K. Pang, Mark Greenberg, Jeremy Parr and John Witt; they have extensive knowledge of the Group while at the same time not being directly involved in operational management. The chairman, group chief executive and chief financial officer of MOHG, together with representatives of the internal and external auditors, also attend the Audit Committee meetings by invitation. The Audit Committee meets and reports to the Board semi-annually.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results, including the adoption of new accounting policies, is undertaken by the Audit Committee with the executive management and a report is received from the external auditors. The external auditors also have access to the full Board when necessary, in addition to the Group Chief Executive, Chief Financial Officer and other senior executives.

The Audit Committee keeps under review the nature, scope and results of the audits conducted by the internal audit function. The Audit Committee's responsibilities extend to reviewing the effectiveness of both the internal and external audit functions; considering the independence and objectivity of the external auditors; and reviewing and approving the level and nature of non-audit work performed by the external auditors.

The terms of reference of the Audit Committee can be found on the Company's website at www.mandarinoriental.com.

Risk management and internal control

The Board has overall responsibility for the Group's systems of risk management and internal control. The Board has delegated to the Audit Committee responsibility for providing oversight in respect of risk management activities. The Audit Committee considers the Group's principal risks and uncertainties and potential changes to the risk profile and reviews the operation and effectiveness of the Group's systems of internal control and the procedures by which these risks are monitored and mitigated. The Audit Committee considers the systems and procedures on a regular basis, and reports to the Board semi-annually. The systems of internal control are designed to manage, rather than eliminate, business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss.

Executive management is responsible for the implementation of the systems of internal control throughout the Group. The internal audit function also monitors the effectiveness of the systems of internal control and the approach taken by the business units to risk. The internal audit function is independent of the operating businesses and reports its findings, and recommendations for any corrective action required, to the Audit Committee.

The Group has in place an organisational structure with defined lines of responsibility and delegation of authority. There are established policies and procedures for financial planning and budgeting; for information and reporting systems; for assessment of risk; and for monitoring the Group's operations and performance. The information systems in place are designed to ensure that the financial information reported is reliable and up to date.

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

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

The principal risks and uncertainties facing the Company are set out on pages 115 and 116.

Corporate Governance *Continued*

Directors' responsibilities in respect of the financial statements

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

Code of Conduct

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

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

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

Directors' share interests

The Directors of the Company in office on 5th March 2020 had interests (within the meaning of the EU Market Abuse Regulation ('MAR'), which applies to the Company as it is listed on the London Stock Exchange) as set out below in the ordinary share capital of the Company. These interests include those notified to the Company in respect of the Directors' closely associated persons (as that term is used under MAR).

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

Substantial shareholders

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

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic Holdings Limited ('Jardine Strategic'), which is directly interested in 988,415,909 ordinary shares carrying 78.25% of the voting rights. By virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares. Apart from this shareholding, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 5th March 2020.

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

Governance principles

The Company's primary listing on the London Stock Exchange is a standard listing on the Main Market. Under a standard listing, the Company is subject to the UK Listing Rules (other than those which apply only to companies with a premium listing), the DTRs, the UK Prospectus Regulation Rules and MAR. The Company, therefore, is bound by the rules in relation to continuous disclosure, periodic financial reporting, disclosure of interests in shares and market abuse, including the rules governing insider dealing, market manipulation and the disclosure of inside information. The Company is also subject to regulatory oversight from the FCA, as the Company's principal securities regulator, and is required to comply with the Admission and Disclosure Standards of the Main Market of the London Stock Exchange.

When shareholders approved the Company's move to a standard listing from a premium listing in 2014, the Company stated that it intended to maintain certain governance principles on the same basis as was then applicable to the Company's premium listing, as follows:

1. When assessing a significant transaction, being a larger transaction which would be classified as a class 1 transaction under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to provide a fairness opinion on the terms of the transaction.
2. In the event of a related party transaction, being a transaction with a related party which would require a sponsor to provide a fair and reasonable opinion under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to confirm that the terms of the transaction are fair and reasonable as far as the shareholders of the Company are concerned.
3. Further, as soon as the terms of a significant transaction or a related party transaction are agreed, an announcement will be issued by the Company providing such details of the transaction as are necessary for investors to evaluate the effect of the transaction on the Company.
4. At each annual general meeting, the Company will seek shareholder approval to issue new shares on a non-pre-emptive basis for up to 33% of the Company's issued share capital, of which up to 5% can be issued for cash consideration.
5. The Company will continue to adhere to its Securities Dealing Rules. These rules, which were based on the UK Model Code, have since been revised to follow the provisions of MAR with respect to market abuse and disclosure of interests in shares.
6. The Company will continue its policies and practices in respect of risk management and internal controls.

Corporate Governance *Continued*

Related party transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 31 to the financial statements on page 75.

Securities purchase arrangements

The Directors have the power under the Bermuda Companies Act and the Company's Memorandum of Association to purchase the Company's shares. Any shares so purchased shall be treated as cancelled and, therefore, reduce the issued share capital of the Company. When the Board reviews the possibility for share repurchases, it will take into consideration the potential for the enhancement of earnings or asset values per share. When purchasing such shares, the Company is subject to the provisions of MAR.

Takeover Code

The Company is subject to a Takeover Code, based on London's City Code on Takeovers and Mergers. The Takeover Code provides an orderly framework within which takeovers can be conducted and the interests of shareholders protected. The Takeover Code has statutory backing, being established under the Acts of incorporation of the Company in Bermuda.

Annual General Meeting

The 2020 Annual General Meeting will be held on 6th May 2020. The full text of the resolutions and explanatory notes in respect of the meeting are contained in the Notice of Meeting which accompanies this Report. A corporate website is maintained containing a wide range of information of interest to investors at www.mandarinoriental.com.

Power to amend Bye-laws

The Bye-laws of the Company can be amended by the shareholders by way of a special resolution at a general meeting of the Company.

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on page 111 of the Corporate Governance section of this Report. The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority in the United Kingdom and are in addition to the matters referred to in the Chairman's Statement, Group Chief Executive's Review and other parts of the Report.

Economic and financial risk

The Group's business is exposed to the risk of negative developments in global and regional economies and financial markets, either directly or through the impact on the Group's investment partners, third-party hotel owners and developers, bankers, suppliers or customers. These developments can result in recession, inflation, deflation, currency fluctuations, restrictions in the availability of credit, business failures, or increases in financing costs. Such developments may increase operating costs, reduce revenues, lower asset values or result in the Group being unable to meet in full its strategic objectives. These developments could also adversely affect travel patterns which would impact demand for the Group's products and services.

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Review on page 25 and note 36 to the financial statements on pages 88 to 95.

Commercial and market risk

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

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

The Group competes with other luxury hotel operators for new opportunities in the areas of hotel management, residences management and residences branding. Failure to establish and maintain relationships with hotel owners or developers could adversely affect the Group's business.

The Group also makes investment decisions in respect of acquiring new hotel properties and undertaking major renovations or redevelopments in its owned properties, exposing it to construction risks. The success of these investments is measured over the longer term and as a result is subject to market risk.

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

Pandemic, terrorism and natural disasters

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

Principal Risks and Uncertainties *Continued*

Key agreements

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

Reputational risk and value of the brand

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

Regulatory and political risk

The nature of the Group's global operations mean that it is subject to numerous laws and regulations, including but not limited to those covering employment, competition, taxation, data privacy, foreign ownership, town planning, anti-bribery, money laundering and exchange controls. Changes to laws and regulations have the potential to impact the operations and profitability of the Group's business. Non-compliance with laws and regulations could result in fines and/or penalties. Changes in the political environment, including prolonged civil unrest in the territories where the Group operates, could adversely affect the Group's business.

Shareholder Information

Financial calendar

2019 full-year results announced	5th March 2020
Shares quoted ex-dividend	19th March 2020
Share registers closed	23rd to 27th March 2020
Annual General Meeting to be held	6th May 2020
2019 final dividend payable	13th May 2020
2020 half-year results to be announced	30th July 2020*
Shares quoted ex-dividend	20th August 2020*
Share registers to be closed	24th to 28th August 2020*
2020 interim dividend payable	14th October 2020*

* Subject to change

Dividends

Shareholders will receive their cash dividends in United States Dollars, unless they are registered on the Jersey branch register, in which case they will have the option to elect for their dividends to be paid in Sterling. These shareholders may make new currency elections for the 2019 final dividend by notifying the United Kingdom transfer agent in writing by 24th April 2020. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 29th April 2020. Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends in Sterling only. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive their cash dividends in United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

Registrars and transfer agent

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

Principal Registrar

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

Jersey Branch Registrar

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

Singapore Branch Registrar

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

United Kingdom Transfer Agent

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

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

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THE HOTEL GROUP

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