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## Miscellaneous

* Asterisks denote mandatory information

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|---|---|
| Name of Announcer * | CITY DEVELOPMENTS LIMITED |
| Company Registration No. | 196300316Z |
| Announcement submitted on behalf of | CITY DEVELOPMENTS LIMITED |
| Announcement is submitted with respect to * | CITY DEVELOPMENTS LIMITED |
| Announcement is submitted by * | Enid Ling Peek Fong |
| Designation * | Company Secretary |
| Date & Time of Broadcast | 02-Aug-2012 17:44:43 |
| Announcement No. | 00092 |

## >> Announcement Details

The details of the announcement start here ...

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|---|---|
| Announcement Title * | Announcement by Subsidiary Company, Millennium & Copthorne Hotels plc on Interim Management Report for Results of Second Quarter and Half Year Ended 30 June 2012 |
| Description | Please see the attached announcement released by Millennium & Copthorne Hotels plc on 2 August 2012. |
| **Attachments** | 02082012_MnCHotelsplc.pdf<br>Total size = **243K**<br>(2048K size limit recommended) |

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**For Immediate Release** **2 August 2012**

# MILLENNIUM & COPTHORNE HOTELS PLC
# INTERIM MANAGEMENT REPORT
# Second quarter and half year results to 30 June 2012

**Highlights for the second quarter 2012:**

| £ millions (unless otherwise stated) | **Second Quarter 2012** | Second Quarter 2011 | Reported Currency Change % | Constant Currency Change % |
|---|---|---|---|---|
| RevPAR | **£70.06** | £66.37 | 5.6% | 4.5% |
| Revenue – total | **198.4** | 196.1 | 1.2% | 0.3% |
| Revenue – hotels | **193.3** | 193.8 | (0.3%) | (1.1%) |
| Headline operating profit[1] | **54.1** | 41.9 | 29.1% | 29.0% |
| Headline profit before tax | **52.9** | 40.0 | 32.3% | 32.4% |
| Profit before tax | **53.1** | 60.6 | (12.4%) | (12.9%) |
| Basic earnings per share | **12.5p** | 15.2p | (17.8%) | |

- Overall RevPAR (in constant currency terms) rose by 4.5%, primarily driven by an increase in average room rate.
- On a like-for-like[2] basis, Group RevPAR grew by 3.9% (excluding the three Christchurch hotels and Stuttgart).
- Like-for-like[2] total revenue in constant currency increased by 3.1% to £197.3m (2011: £191.4m) and headline operating profit increased by 28.0% to £53.5m (2011: £41.8m).
- The Group recognised £9.1m as its share of profits of First Sponsor Capital Limited ("FSCL") relating to Chengdu Cityspring project.
- Headline profit before tax increased by 32.3% to £52.9m (2011: £40.0m). Profit before tax decreased by 12.4% to £53.1m (2011: £60.6m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M in May 2011.

**Highlights for the first half 2012:**

| £ millions (unless otherwise stated) | **First Half 2012** | First Half 2011 | Reported Currency Change % | Constant Currency Change % |
|---|---|---|---|---|
| RevPAR | **£64.62** | £60.80 | 6.3% | 5.2% |
| Revenue – total | **373.9** | 370.3 | 1.0% | - |
| Revenue – hotels | **365.7** | 365.8 | - | (0.9%) |
| Headline operating profit[1] | **81.2** | 63.9 | 27.1% | 26.0% |
| Headline profit before tax | **78.3** | 59.8 | 30.9% | 29.9% |
| Profit before tax | **79.0** | 80.3 | (1.6%) | (2.6%) |
| Basic earnings per share | **18.3p** | 19.8p | (7.6%) | |
| Dividend | **2.08p** | 2.08p | - | |

- Overall RevPAR (in constant currency terms) rose by 5.2%, primarily driven by an increase in average room rate.
- On a like-for-like[2] basis, Group RevPAR grew by 4.6% (excluding the three Christchurch hotels, Copthorne Orchid and Stuttgart).
- Like-for-like[2] total revenue in constant currency increased by 4.2% to £370.8m (2011: £356.0m) and headline operating profit increased by 25.5% to £79.2m (2011: £63.1m).
- Headline profit before tax increased by 30.9% to £78.3m (2011: £59.8m). Profit before tax decreased by £1.3m (1.6%) to £79.0m (2011: £80.3m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M in May 2011.
- Strong cash flows from operating activities of £84.0m (2011: £40.3m). Net debt reduced to £10.6m (31 December 2011: £100.2m) and gearing was 0.5% (31 December 2011: 4.8%).
- Interim dividend maintained at 2.08p per share. Scrip dividend option is suspended.

*Notes*

*[1] Since the 2011 Annual Report, the definition of headline operating profit, one of the Group's key performance indicators, has been modified to include the share of tax, interest and non-controlling interests of joint ventures and associates. The Group believes that the revised definition simplifies the presentation of headline operating profit given to the reader on both the face of the consolidated income statement and in the segmental analysis of operating results.*

*[2] Like-for-like for the second quarter, in constant currency terms, excludes Millennium Hotel & Resort Stuttgart (lease expired in August 2011); the three Christchurch hotels (closed in February 2011 due to earthquake damage). For the first half, like-for-like also excludes Copthorne Orchid in Singapore (closed in April 2011 for development into condominiums).*

Commenting today Mr Kwek Leng Beng, Chairman said:

“The Group delivered a successful overall performance from its hotel operations in the first half of 2012, with additional profits from our joint venture in China and good progress on asset management projects. Whilst trading is still in line with management expectations, the hospitality industry cannot be immune to the on-going Euro crisis and global economic uncertainty. The strengthening of our management team, together with our excellent financial position, increases our ability to manage the challenges of an uncertain economic outlook and to take advantage of the strategic opportunities which the present environment is likely to offer.”

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## CHAIRMAN'S STATEMENT

### Financial Performance

For the six months ended 30 June 2012, revenue increased by 1.0% to £373.9m (2011: £370.3m). On a like-for-like basis, excluding the three Christchurch hotels, Orchid and Stuttgart, revenue in constant currency increased by 4.2% to £370.8m (2011: £356.0m). RevPAR increased in Singapore by 6.1% on a like-for-like basis and in London by 4.3%. New York fell by 3.8% mainly because of the impact of the refurbishment of the UN Plaza which closed its west wing in April 2012. Excluding UN Plaza, New York RevPAR grew by 3.3%. Strong RevPAR growth was also experienced in Rest of Asia, increasing by 19.8% to £64.56 (2011: £53.90) with our Kuala Lumpur, Beijing and Seoul hotels all showing double digit RevPAR growth.

Headline operating profit, the Group's measure of underlying profit performance, increased by 27.1% to £81.2m (2011: £63.9m). On the same like-for-like basis, headline operating profit in constant currency increased by 25.5% to £79.2m (2011: £63.1m). Included in the headline operating profit is the Group's share of profit from FSCL of £9.1m from the sale of 696 Chengdu Cityspring residential units in the second quarter of 2012.

Headline profit before tax increased by 30.9% to £78.3m (2011: £59.8m). Profit before tax decreased by 1.6% to £79.0m (2011: £80.3m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M in May 2011. Consequently, basic earnings per share decreased by 7.6% to 18.3p (2011: 19.8p).

### Financial Position

The Group strengthened its financial position over the six month period. Net debt fell to £10.6m at 30 June 2012 (31 December 2011: £100.2m). Gearing at the end of the half year was 0.5%, compared to 4.8% at the end of last year and 4.1% at 30 June 2011. At 30 June 2012 the Group had cash reserves of £422.3m (including £38.0m relating to The Glyndebourne) and £213.4m undrawn committed bank facilities. Most of the facilities are unsecured with unencumbered assets representing 87.3% of our fixed assets and investment properties.

### Asset Management

The Group is continuing to progress the asset management strategy announced in August 2010, namely the upgrading and refurbishment of four premium destination hotels in Seoul, New York, Taipei and London. Good progress is being made as follows:

- Successful results in Seoul, which is the only hotel to have completed a major part of its refurbishment to-date. The Millennium Seoul Hilton has seen a 17.0% increase in average room rate compared to the first half of 2011;
- West wing of Millennium UN Plaza in New York was closed at the beginning of April 2012 for refurbishment and upgrading. Re-opening is planned in time for the UN General Assembly to be held in September 2012;
- Renovation of guest rooms at Grand Hyatt Taipei, necessitating phased partial closure over the next two years, will commence in the current quarter ending 30 September 2012; and
- Major refurbishment plans are being developed for Millennium Mayfair, appropriate to its status as our flagship London hotel.

Demolition work has been completed on the site of the Group's planned 322-room deluxe hotel in the Ginza district of Tokyo. The site was acquired in September 2011. Construction of the hotel is expected to complete in 2014.

The launch of The Glyndebourne is proving to have been well-timed, with sales contracts being concluded before the recent softening in higher-value segments of the Singapore real estate market. Of the 150 apartments for sale since the end of October 2010, buyers have signed sales and purchase agreements for 144 units as at 13 July 2012 with sales value of S$522.5m (£261.6m) representing a price of over S$2,000 (£997) per square foot. Sales proceeds collected to-date total S$200.3m (£100.7m) representing approximately 38% of the sales value. Revenue and development costs will appear in the income statement on completion, which is expected to be no later than 2015. Including land costs, development projects of this nature in Singapore typically attract an average profit margin of circa 20%.

We have agreed with the landlord of the 321-room Millennium Hotel Minneapolis a substantial renovation project which will see the hotel close at the end of 2012. It is expected to re-open fully by July 2013.

### First Sponsor Capital Limited ("FSCL")

As at 29 July 2012, approximately 98% of the residential units of the Chengdu Cityspring project have been sold either under sales and purchase or option agreements, with approximately 99% of the sales proceeds collected. The Group recognised £9.1m as its share of net profit after tax of FSCL relating to Chengdu Cityspring project.

As at 29 July 2012 approximately 75% of the Chengdu Cityspring commercial units launched for sale in July 2011 have been sold either under sales and purchase or option agreements with approximately 81% of the sales proceeds collected. FSCL is expected to complete the commercial units in 2013 when it would recognise the revenue for the units that are legally handed over. It plans to retain a proportion of commercial units as investment assets.

Proceeds from the residential and commercial sales will finance the development of a 195-room hotel, M Hotel Chengdu, which is scheduled to open next year as part of the Chengdu Cityspring project. As one of the largest business centres in western China, Chengdu, which is the regional capital of Sichuan province, is a highly favoured destination amongst foreign investors and business travellers.

In 2011, FSCL successfully tendered for two parcels of land in Wenjiang, Chengdu which is intended for residential, commercial and hotel development. Ground preparation works have commenced. Depending on market conditions, FSCL is planning to launch its first residential phase in the fourth quarter of 2012.

## Pipeline

The Group's worldwide pipeline has 28 hotels offering 6,350 rooms, which are mainly management contracts.

## Board and Senior Management Changes

As previously announced, Sean Collins will join the Board as an independent non-executive member with effect from 1 September 2012. Mr Collins was formerly a partner at the accounting and advisory firm KPMG where, from 2009 until recently, he was Head of Markets, Asia Pacific.

Christopher Keljik OBE has announced his intention to retire from the Board with effect from 31 December 2012. Mr Keljik was appointed non-executive director of the Group in May 2006 and has been a senior non-executive director since June 2009.

John Chang was appointed Chief Financial Officer, based in London and reporting to Wong Hong Ren. Mr Chang is highly experienced in real estate, hotel operations and legal compliance and highly qualified in the field of risk management, as well as accounting. His portfolio of responsibilities include finance, global risk management and information systems. It is anticipated that Mr Chang will be invited to join the Board in due course following familiarisation with the Group's operations.

The Group has further strengthened its central management team through the appointments of Fabrizio Gaggio as Group Senior Vice President, Global Asset Management and Bupesh Yadav as Chief Business and Administration Officer. Both Mr Gaggio and Mr Yadav report to Mr Wong.

## Outlook

Our focus remains on driving RevPAR growth by achieving an optimal balance between occupancy and room rate and by the re-positioning/refurbishment of several key hotels, so as to grow their yield potential. The continuing strong performance by the Millennium Seoul Hilton in the second quarter is an encouraging indicator that the Group's asset management strategy will deliver good returns on investment.

It is too early to predict the performance for 2012. On a like-for-like basis, Group RevPAR in the first 24 days of July 2012 decreased by 4.2% (3.0% excluding UN Plaza). London fell by 12.5% due in part to a slowdown in visitor numbers ahead of the Olympics. Singapore decreased by 1.1% and New York decreased by 9.0% (0.8% excluding UN Plaza).

Whilst trading has been in line with management expectations, it is evident that some hospitality markets may be softening as a result of the Euro crisis and global economic uncertainty. The Group is well positioned for such an eventuality, having steadily strengthened both its management team and its balance sheet. We are well placed to take advantage of strategic acquisition opportunities, although it has taken longer than anticipated for vendor prices to reach realistic levels in our preferred gateway destinations.

**Kwek Leng Beng**

CHAIRMAN
1 August 2012

**To the members of Millennium & Copthorne Hotels plc**

This interim management report ("IMR") has been prepared solely to provide additional information to enable shareholders to assess the Company's strategies and the potential for those strategies to be fulfilled. It should not be relied upon by any other party or for any other purpose.

The IMR contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying such forward-looking information.

The IMR has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Millennium & Copthorne Hotels plc and its subsidiary undertakings when viewed as a whole. The IMR discusses Group operations for the half year ended 30 June 2012, business objectives, risks and uncertainties facing the Group during the second half of 2012 and the future outlook for the Group.

**Financial and Operating Highlights**

| | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|
| Revenue | **198.4** | 196.1 | **373.9** | 370.3 | 820.5 |
| Headline EBITDA[1] | **62.7** | 50.9 | **98.5** | 81.6 | 226.9 |
| Headline operating profit[1] | **54.1** | 41.9 | **81.2** | 63.9 | 191.4 |
| Headline profit before tax[1] | **52.9** | 40.0 | **78.3** | 59.8 | 184.7 |
| Other operating income[2] | **-** | - | **-** | - | 1.0 |
| Other operating expense[3] | **-** | - | **-** | - | (0.1) |
| Separately disclosed items included in administrative expenses[4] | **(0.1)** | (0.1) | **(0.2)** | (0.2) | (29.9) |
| Non-operating income[5] | **0.3** | 19.5 | **0.3** | 19.5 | 20.5 |
| Separately disclosed items - Share of joint ventures and associates[6] | **-** | 1.2 | **0.6** | 1.2 | 17.1 |
| Profit before tax | **53.1** | 60.6 | **79.0** | 80.3 | 193.3 |
| Headline profit after tax[1] | **43.0** | 27.7 | **62.6** | 43.2 | 146.9 |
| Basic earnings per share (pence) | **12.5p** | 15.2p | **18.3p** | 19.8p | 51.0p |
| Headline earnings per share (pence)[1] | **12.4p** | 8.5p | **17.9p** | 13.0p | 45.7p |
| Net debt[1] | **10.6** | 81.9 | **10.6** | 81.9 | 100.2 |
| Gearing[1] (%) | **0.5%** | 4.1% | **0.5%** | 4.1% | 4.8% |

*Notes*

*1. The Group uses a number of key performance indicators (KPI's) to measure performance and believes that headline EBITDA, headline operating profit, headline profit before tax, headline profit after tax and headline earnings per share, net debt and gearing provide useful and necessary information on underlying trends to shareholders, the investment community and are used by the Group for internal performance analysis. Since the 2011 Annual Report, the definition of headline operating profit, one of the Group's key performance indicators, has been modified to include the share of tax, interest and non-controlling interests of joint ventures and associates. The Group believes that the revised definition simplifies the presentation of headline operating profit given to the reader on both the face of the consolidated income statement and in the segmental analysis of operating results.*

*Reconciliation of these measures to the closest equivalent GAAP measures are shown above and in notes 3 and 8 to these financial statements.*

| | ***Second Quarter 2012 £m*** | *Second Quarter 2011 £m* | ***First Half 2012 £m*** | *First Half 2011 £m* | *Full Year 2011 £m* |
|---|---|---|---|---|---|
| ***2 Other operating income*** | | | | | |
| *Revaluation gain of investment properties* | ***-*** | *-* | *-* | *-* | *1.0* |
| ***3 Other operating expense*** | | | | | |
| *Revaluation deficit of investment properties* | ***-*** | *-* | *-* | *-* | *(0.1)* |
| ***4 Separately disclosed items included in administrative expenses*** | | | | | |
| *Impairment* | ***(0.1)*** | *(0.1)* | ***(0.2)*** | *(0.2)* | *(29.9)* |
| ***5 Non-operating income*** | | | | | |
| *Profit on sale and leaseback of Studio M Hotel* | ***-*** | *17.4* | ***-*** | *17.4* | *17.4* |
| *Profit on disposal of subsidiary* | ***-*** | *1.9* | ***-*** | *1.9* | *1.7* |
| *Gain arising on disposal of leasehold property* | ***-*** | *-* | ***-*** | *-* | *1.2* |
| *Gain on disposal of stapled securities in CDL Hospitality Trust ("CDLHT")* | ***0.3*** | *0.2* | ***0.3*** | *0.2* | *0.2* |
| | ***0.3*** | *19.5* | ***0.3*** | *19.5* | *20.5* |

| | | | | | |
|---|---|---|---|---|---|
| ***6 Separately disclosed items - share of joint ventures and associates*** | | | | | |
| *Profit/(loss) on disposal of business assets and subsidiaries* | *-* | *0.3* | ***0.6*** | *0.3* | *(0.2)* |
| *Revaluation gain of investment properties* | *-* | *0.9* | ***-*** | *0.9* | *17.3* |
| | *-* | *1.2* | ***0.6*** | *1.2* | *17.1* |

**Financial Performance – Second quarter overview**

For the second quarter to 30 June 2012, profit before tax decreased by 12.4% to £53.1m (2011: £60.6m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M in May 2011.

Headline profit before tax, the Group's measure of underlying profit before tax, increased by 32.3% from £40.0m to £52.9m. Headline operating profit increased by 29.1% to £54.1m (2011: £41.9m). Included in both these numbers is £9.1m as the Group's share of profit of FSCL relating to Chengdu Cityspring project.

Basic earnings per share decreased by 17.8% to 12.5p (2011: 15.2p) and headline earnings per share increased by 45.9% to 12.4p (2011: 8.5p).

**Financial Performance – First half overview**

For the six months to 30 June 2012, profit before tax decreased by 1.6% to £79.0m (2011: £80.3m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M in May 2011.

Headline profit before tax, the Group's measure of underlying profit before tax, increased by 30.9% from £59.8m to £78.3m. Headline operating profit increased by 27.1% to £81.2m (2011: £63.9m). Included in both these numbers is £9.1m as the Group's share of profit of FSCL relating to Chengdu Cityspring project.

Basic earnings per share decreased by 7.6% to 18.3p (2011: 19.8p) and headline earnings per share increased by 37.7% to 17.9p (2011: 13.0p).

**Taxation**

The Group recorded a tax expense of £15.0m for the first half (first half 2011: £15.9m) excluding the tax relating to joint ventures and associates. This comprises a UK tax charge of £1.5m and an overseas tax charge of £13.5m (first half 2011: a UK tax credit of £3.1m and an overseas tax charge of £19.0m). For full year 2011 the £28.2m total income tax expense comprised a UK tax credit of £2.0m and an overseas tax charge of £30.2m.

Income tax expense for the relevant period is the expected income tax payable on the taxable income for the period, calculated at estimated average annual effective income tax rate applied to the pre-tax income for the period.

The estimated annual effective rate applied to profit before income tax excluding the Group's share of joint ventures and associates profits is 26.4% (2011: 23.0%). The underlying estimated annual effective rate (excluding the Group's share of joint ventures and associates) is 30.5% (2011: 29.3%).

For the full year 2011, the effective tax rate was affected by a number of factors which includes the following items:

- Separately disclosed items of the Group;
- Sale of Kuala Lumpur land;
- Release of a dilapidation provision for the Stuttgart hotel whose lease expired on 31 August 2011;
- Reduced tax rates applied to brought forward net deferred tax liabilities in the UK; and
- Tax adjustments in respect of previous years.

Excluding the impact of the items noted above, the Group's underlying effective tax rate for the full year 2011 was 27.7%.

A charge of £6.6m for the first half of 2012 (first half 2011: £1.6m and full year 2011: £5.4m) relating to joint ventures and associates is included in the reported profit before tax.

**Earnings per share**

Basic earnings per share was 18.3p (2011: 19.8p) and headline earnings per share increased to 17.9p (2011: 13.0p). The table below reconciles basic earnings per share to headline earnings per share.

| | **First Half 2012 pence** | First Half 2011 pence | Full Year 2011 pence |
|---|---|---|---|
| **Reported basic earnings per share** | **18.3** | 19.8 | 51.0 |
| Separately disclosed items – Group | **-** | (6.2) | 0.5 |
| Separately disclosed items – Share of joint ventures and associates | **(0.2)** | (0.4) | (4.9) |
| Change in tax rates on opening deferred taxes | **(0.2)** | (0.2) | (0.9) |
| **Headline earnings per share** | **17.9** | 13.0 | 45.7 |

**Dividend**

In line with the Group's usual policy, the Board has declared an interim dividend of 2.08p per share. The interim dividend will be paid on 5 October 2012 to shareholders on the register at the close of business on 10 August 2012. The ex-dividend date of the Company's shares is 8 August 2012.

The Group has suspended the offering of a scrip dividend in light of the very low level of gearing.

## PERFORMANCE BY REGION

For comparability, the following regional review is based on calculations in constant currency whereby 30 June 2011 average room rate and RevPAR have been translated at average exchange rates for the period ended 30 June 2012.

### UNITED STATES

*New York*

RevPAR in New York decreased by 3.8% to £115.66 (2011: £120.26) for the six months ended 30 June 2012. Occupancy was the driver for this reduction showing a 4.3 percentage point decrease to 79.1% (2011: 83.4%) whilst rate increased by 1.5% to £146.31 (2011: £144.17). The occupancy reduction was primarily due to the refurbishment of the UN Plaza which began in the second quarter. New York RevPAR excluding UN Plaza has increased by 3.3% to £125.57 (2011: £121.58), with occupancy up 2.0 percentage points to 84.1% (2011: 82.1%) and rate up 0.7% to £149.27 (2011: £148.16)

In the second quarter RevPAR decreased by 6.7% to £133.41 (2011: £142.92). A decrease in occupancy of 9.9 percentage points to 82.5% (2011: 92.4%) was partially offset by rate growth of 4.6% to £161.77 (2011: £154.69). New York RevPAR excluding UN Plaza has increased by 1.8% to £147.77 (2011: £145.15), with occupancy down 0.8 percentage points to 91.1% (2011: 91.9%) and rate up 2.7% to £162.21 (2011: £158.02)

*Regional US*

RevPAR increased in regional US by 2.7% to £37.39 (2011: £36.42) for the six months ended 30 June 2012. This increase was a result of higher rate, up 2.9% to £66.48 (2011: £64.63), partially offset by lower occupancy, down 0.1 percentage points to 56.2% (2011: 56.3%). RevPAR performance across the region is mixed, with growth in Boston, Chicago and Biltmore LA accounting for most of the regional RevPAR growth.

In the second quarter RevPAR increased by 6.4% to £45.13 (2011: £42.42). This increase was a result of higher rate, up 3.7% to £70.87 (2011: £68.32), and higher occupancy, up 1.6 percentage points to 63.7% (2011: 62.1%).

### EUROPE

*London*

RevPAR in London grew by 4.3% to £95.76 (2011: £91.79) for the six months ended 30 June 2012. This increase was driven by a 5.6% increase in rate to £123.04 (2011: £116.48) partially offset by a decrease in occupancy of 1.0 percentage points to 77.8% (2011: 78.8%). The rate led strategy in London has resulted in RevPAR growth in Mayfair, Tara and Gloucester, partially offset by Knightsbridge and Baileys which saw lower occupancy as they reposition into a higher yielding market segment.

In the second quarter, London increased RevPAR by 2.5% to £108.57 (2011: £105.91). Room rate increased 8.9% to £137.84 (2011: £126.54) whilst occupancy fell 4.9 percentage points to 78.8% (2011: 83.7%).

*Rest of Europe*

RevPAR in the rest of Europe fell by 3.3% to £46.79 (2011: £48.37) in the six months ended 30 June 2012 and fell by 1.4% to £50.26 (2011: £50.95) in the second quarter. On a like-for-like basis excluding Stuttgart, RevPAR increased 0.5% to £46.79 (2011: £46.57) in the six months ended 30 June 2012 and increased by 1.0% to £50.26 (2011: £49.74) in the second quarter.

Regional UK

Regional UK RevPAR fell by 0.3% to £40.78 (2011: £40.90) in the six months ended 30 June 2012. This region remains a challenge due to increased competition and pressure on room rates and occupancy. Average rate fell by 2.0% to £58.78 (2011: £59.95) and occupancy increased by 1.2 percentage points to 69.4% (2011: 68.2%). There is mixed performance across the region, with double digit RevPAR growth in Manchester and Birmingham offset by a reduction in RevPAR in our two Gatwick hotels and in Newcastle.

In the second quarter, RevPAR increased by 2.4% to £44.40 (2011: £43.35). Average rate fell by 2.0% to £58.88 (2011: £60.06) and occupancy increased by 3.2 percentage points to 75.4% (2011: 72.2%).

France & Germany

RevPAR increased by 4.9% to £63.28 (2011: £60.30) for the six months ended 30 June 2012 led by RevPAR gains in Paris Opera as a result of higher occupancy. On a like-for-like basis excluding Stuttgart, RevPAR increased by 1.8% to £63.28 (2011: £62.14), average rate decreased by 1.5% to £90.91 (2011: £92.33) whilst occupancy increased by 2.3 percentage points to 69.6% (2011: 67.3%).

In the second quarter, RevPAR increased by 5.1% to £66.36 (2011: £63.11). On a like-for-like basis excluding Stuttgart, RevPAR decreased 1.5% to £66.36 (2011: £67.36), average rate decreased by 4.3% to £89.81 (2011: £93.89) whilst occupancy increased by 2.2 percentage points to 73.9% (2011: 71.7%).

**ASIA**

Asia RevPAR increased by 14.2% to £79.43 (2011: £69.58) for the six months ended 30 June 2012. On a like-for-like basis excluding the Copthorne Orchid, RevPAR increased by 12.5% to £79.43 (2011: £70.61) driven by a 7.8% increase in rate to £101.00 (2011: £93.70) and an increase in occupancy of 3.2 percentage points to 78.6% (2011: 75.4%).

In the second quarter, RevPAR increased by 11.1% to £81.85 (2011: £73.66) due to increase in rate of 6.7% to £102.74 (2011: £96.26) and an occupancy increase of 3.2 percentage points to 79.7% (2011: 76.5%).

*Singapore*

Singapore reported an 11.6% increase in RevPAR to £102.92 (2011: £92.22) for the six months ended 30 June 2012. On a like-for-like basis, excluding the Copthorne Orchid, RevPAR increased by 6.1% to £102.92 (2011: £97.03) with an increase in rate of 4.1% to £116.53 (2011: £111.97) and a 1.6 percentage point increase in occupancy to 88.3% (2011: 86.7%). All hotels in the country have shown RevPAR growth, with the strongest growth being at Orchard following the 2011 renovation.

In the second quarter, RevPAR increased by 4.5% to £103.42 (2011: £98.93). There was an increase in rate of 3.7% to £116.88 (2011: £112.68) and a 0.7 percentage point increase in occupancy to 88.5% (2011: 87.8%).

*Rest of Asia*

RevPAR for the rest of Asia increased by 19.8% to £64.56 (2011: £53.90) for the six months ended 30 June 2012. Rate increased by 12.6% to £89.02 (2011: £79.03) and occupancy grew by 4.3 percentage points to 72.5% (2011: 68.2%). Kuala Lumpur, Jakarta, Beijing and Seoul all had double digit RevPAR growth. Seoul has increased its RevPAR by 60.7% following renovation in 2011, with occupancy normalising and rate increasing by 17.0%.

In the second quarter, RevPAR for the rest of Asia increased by 18.2% to £68.21 (2011: £57.69). Rate increased by 10.7% to £92.06 (2011: £83.13) and occupancy increased by 4.7 percentage points to 74.1% (2011: 69.4%).

**AUSTRALASIA**

RevPAR for the New Zealand group decreased 5.4% to £34.84 (2011: £36.84). On a like-for-like basis excluding the Christchurch hotels, RevPAR fell 2.3% to £34.84 (2011: £35.67). Rate fell by 2.2% to £55.03 (2011: £56.25) and occupancy fell slightly by 0.1 percentage points to 63.3% (2011: 63.4%). New Zealand has experienced a reduction in overseas tourists from Europe and US which has impacted all hotels in the country.

In the second quarter RevPAR for the New Zealand group increased by 2.5% to £26.66 (2011: £26.01) driven by occupancy, which increased by 1.6 percentage points to 53.9% (2011: 52.3%), partially offset by a reduction in rate of 0.4% to £49.49 (2011: £49.70).

Of the three Christchurch hotels that were closed following the earthquake, Copthorne Hotel Christchurch City was demolished following a settlement with the insurers and owners in 2011. The two others, namely the Millennium Hotel Christchurch and Copthorne Hotel Christchurch Central still remain closed. Engineering work has commenced on the Millennium Hotel Christchurch to establish the scope and cost of repairs. Management is still awaiting final engineering report and recommendation as to whether the Copthorne Hotel Christchurch Central should be repaired or demolished. Discussions are ongoing with the loss adjusters and insurers. The impact on the two hotels cannot yet be reasonably quantified and consequently no provision for asset write-off has yet been made. The Millennium Hotel Christchurch is insured for material damage and business interruption. The Copthorne Hotel Christchurch Central is insured for material damage and had a full and final settlement of the business interruption claim in March 2012.

## Financial Position and Resources

| | **As at 30 June 2012 £m** | As at 31 December 2011 £m | Change £m |
|---|---|---|---|
| Property, plant, equipment and lease premium prepayment | **2,104.5** | 2,091.4 | 13.1 |
| Investment properties | **175.4** | 173.9 | 1.5 |
| Investments in and loans to joint ventures and associates | **478.2** | 473.7 | 4.5 |
| Other financial assets | **7.9** | 7.8 | 0.1 |
| **Non-current assets** | **2,766.0** | 2,746.8 | 19.2 |
| Current assets excluding cash | **244.7** | 241.9 | 2.8 |
| Provisions and other liabilities excluding interest-bearing loans, bonds and borrowings | **(456.1)** | (404.5) | (51.6) |
| Net debt | **(10.6)** | (100.2) | 89.6 |
| Deferred tax liabilities | **(236.5)** | (236.4) | (0.1) |
| **Net assets** | **2,307.5** | 2,247.6 | 59.9 |
| | | | |
| Equity attributable to equity holders of the parent | **2,122.0** | 2,066.5 | 55.5 |
| Non-controlling interests | **185.5** | 181.1 | 4.4 |
| **Total equity** | **2,307.5** | 2,247.6 | 59.9 |

**Non-current assets**

*Property, plant, equipment, lease premium prepayment and investment properties*

Acquisition of property, plant and equipment, lease premium prepayment and investment properties includes £17.2m in hotel portfolio improvements, £0.7m on developing the land site in the Ginza district of Tokyo, Japan acquired in 2011 and other investment properties of £0.1m.

*Investments in and loans to joint ventures and associates*

The table below reconciles the movement of investments in and loans to joint ventures and associates of £4.5m.

| | **First Half 2012 £m** |
|---|---|
| Share of profits/(losses) analysed: | |
| – Operating profit before other operating income and expense | **30.9** |
| – Separately disclosed items | **0.6** |
| – Interest, tax and non-controlling interests | **(9.4)** |
| | **22.1** |
| CDLHT management fees paid in stapled units | **2.5** |
| Disposal of stapled units in CDLHT | **(1.2)** |
| Dividends received from joint ventures and associates | **(13.8)** |
| Repayment of loans by FSCL | **(9.8)** |
| Share of other reserve movements | **0.1** |
| Foreign exchange adjustment | **4.6** |
| Total movements | **4.5** |

**Liquidity and Capital Resources**
*Cash flow and net debt*
At 30 June 2012 the Group's net debt of £10.6m was £89.6m lower than as at 31 December 2011 of £100.2m. A summary of the consolidated cash flow is set out below:

| | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|
| **Cash flows from operating activities before changes in working capital and provisions** | **77.9** | 71.9 | 207.8 |
| Changes in working capital and provisions | **26.8** | (15.9) | 8.6 |
| Interest and tax paid | **(20.7)** | (15.7) | (49.8) |
| Cash generated from operating activities | **84.0** | 40.3 | 166.6 |
| Acquisition of property, plant and equipment, lease premium prepayment and investment properties | **(18.0)** | (9.9) | (107.7) |
| Net proceeds from sale of property, plant and equipment | **-** | 75.2 | 78.7 |
| Decrease/(increase) in investment in and loans to joint ventures and associates | **25.3** | (34.0) | (93.0) |
| Increase in loan due to associate | **3.0** | - | 11.3 |
| Proceeds from sale of shares in associate | **1.5** | 0.8 | 0.8 |
| Dividends received from joint venture and associate | **13.8** | 8.8 | 17.8 |
| Dividends paid to: | | | |
| – equity holders of the parent | **(17.7)** | (4.7) | (11.2) |
| – non-controlling interests | **(2.7)** | (2.5) | (4.9) |
| Capital contribution from non-controlling interests | **-** | - | 9.3 |
| Proceeds from issue of share capital | **0.3** | 0.8 | 0.9 |
| Payment of transaction costs related to loans and borrowings | **(0.3)** | - | (0.8) |
| Translation adjustments | **0.4** | 9.0 | (2.3) |
| Decrease in net debt | **89.6** | 83.8 | 65.5 |
| Opening net debt | **(100.2)** | (165.7) | (165.7) |
| **Closing net debt** | **(10.6)** | (81.9) | (100.2) |

The net cash inflow from operating activities before changes in working capital and provisions was £77.9m, an increase of £6.0m principally reflecting higher operating profit (excluding share of profit of joint ventures and associates).

Changes in working capital and provisions include the impact of redeveloping the Orchid hotel in Singapore into condominiums (The Glyndebourne), with deposits and stage payments from the buyers on the 96% of the apartments now sold. As the development unfolds further cash calls on the buyers will be forthcoming under terms of the sale and purchase agreements. The project is expected to be self-funding.

Acquisition of property, plant and equipment, lease premium prepayment and investment properties includes £17.2m in hotel portfolio improvements, £0.7m on developing the land site in the Ginza district of Tokyo, Japan acquired in 2011 and other investment properties of £0.1m.

Analysis of net debt and gearing is provided below. Gearing is defined as net debt as a percentage of total equity attributable to equity holders of the parent.

| | **As at 30 June 2012 £m** | As at 30 June 2011 £m | As at 31 December 2011 £m |
|---|---|---|---|
| **Net Debt** | | | |
| Cash and cash equivalents (as per the consolidated statement of cash flow) | **344.1** | 335.3 | 275.3 |
| Bank overdrafts (included as part of borrowings) | **78.2** | 0.3 | 56.9 |
| Cash and cash equivalents (as per the consolidated statement of financial position) | **422.3** | 335.6 | 332.2 |
| Interest-bearing loans, bonds and borrowings | | | |
| – Non-current | **(261.9)** | (372.7) | (311.6) |
| – Current | **(171.0)** | (44.8) | (120.8) |
| **Net debt** | **(10.6)** | (81.9) | (100.2) |

A summary reconciliation of movements in net debt is shown below.

| **Reconciliation of net cash flow to movement in net debt** | **As at 30 June 2012 £m** | As at 30 June 2011 £m | As at 31 December 2011 £m |
|---|---|---|---|
| **Net debt at beginning of year** | **(100.2)** | (165.7) | (165.7) |
| Increase in cash and cash equivalents (as per the consolidated cash flow statement) | **65.4** | 82.7 | 29.2 |
| Net decrease/(increase) in loans | **23.8** | (7.9) | 38.6 |
| Translation adjustments | **0.4** | 9.0 | (2.3) |
| Movements in net debt | **89.6** | 83.8 | 65.5 |
| **Net debt at half year** | **(10.6)** | (81.9) | (100.2) |
| **Gearing (%)** | **0.5%** | 4.1% | 4.8% |

**Financial structure**

Group interest cover ratio for the first half ended 30 June 2012 (excluding share of results of joint ventures and associates, other operating income and expense, non-operating income and separately disclosed items of the Group) improved to 20.6 times (2011: 13.1 times). The decrease in net finance cost of £1.2m principally reflects interest on additional cash generated by the Group.

At 30 June 2012, the Group had £422.3m cash and £213.4m of undrawn and committed facilities available, comprising revolving credit facilities which provide the Group with financial flexibility. Most of the facilities are unsecured with unencumbered assets representing 87.3% of fixed assets and investment properties. At 30 June 2012, total borrowing amounted to £432.9m of which £83.9m was drawn under £113.3m of secured bank facilities.

*Future funding*
Of the Group's total facilities of £696.6m, £254.3m matures within 12 months comprising £37.8m committed revolving credit facilities, £127.1m of uncommitted facilities and overdrafts subject to annual renewal, £82.4m unsecured bonds and £7.0m secured term loans. Plans for refinancing the maturing facilities are underway.

*Treasury risk management*
Group treasury matters are governed by policies and procedures approved by the Board of Directors. The treasury committee monitors and reviews treasury matters on a regular basis. A written summary of major treasury activity is presented at each Board meeting.

**Risks and uncertainties**

The Half Year Report has been prepared on the basis set out in note 1. The risks and uncertainties facing the Group are consistent with those outlined in the Annual Report and Accounts for the year ended 31 December 2011.

The Group's risk management activity is directed by the Executive Management Committee, led by the Chief Executive Officer, and is facilitated by the Head of Risk and Internal Audit. Risk registers are compiled, and periodically updated, which map the nature of the risks relative to their likelihood of occurrence and severity and associated trends.

Individual management committee members are assigned responsibility for devising risk treatment plans to eliminate, minimise or transfer risks. The Chief Executive Officer and Executive Management Committee undertake regular reviews of the risk register and progress with risk management plans.

Overall responsibility for the risk management process adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's risk management processes and other internal controls. The Head of Risk and Internal Audit provides the Audit Committee with a quarterly update of risk management activity and the risk register.

The information in Appendix 4 sets out the principal risks that could have a material effect on the Group's business activities at the date of this report together with the systems and processes that the Group has in place to manage and mitigate these risks. This information has been reviewed and updated by the Board from the position set out in the Annual Report and Accounts for the year ended 31 December 2011, with changes as indicated.

## Condensed consolidated income statement (unaudited)
## for the half year ended 30 June 2012

| | Notes | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|---|
| Revenue | 3 | **198.4** | 196.1 | **373.9** | 370.3 | 820.5 |
| Cost of sales | | **(76.1)** | (76.8) | **(149.1)** | (150.9) | (318.3) |
| **Gross profit** | | **122.3** | 119.3 | **224.8** | 219.4 | 502.2 |
| Administrative expenses | | **(83.5)** | (82.5) | **(165.3)** | (165.7) | (361.1) |
| Other operating income | 4 | **-** | - | **-** | - | 1.0 |
| Other operating expense | 4 | **-** | - | **-** | - | (0.1) |
| | | **38.8** | 36.8 | **59.5** | 53.7 | 142.0 |
| Share of profit of joint ventures and associates | 5 | **15.2** | 6.2 | **22.1** | 11.2 | 37.5 |
| **Operating profit** | | **54.0** | 43.0 | **81.6** | 64.9 | 179.5 |
| Analysed between: | | | | | | |
| **Headline operating profit** | 3 | **54.1** | 41.9 | **81.2** | 63.9 | 191.4 |
| Net revaluation gain of investment properties | 4 | **-** | - | **-** | - | 0.9 |
| Impairment | 4 | **(0.1)** | (0.1) | **(0.2)** | (0.2) | (29.9) |
| Separately disclosed items – share of joint ventures and associates | 4 | **-** | 1.2 | **0.6** | 1.2 | 17.1 |
| **Non-operating income** | | **0.3** | 19.5 | **0.3** | 19.5 | 20.5 |
| Analysed between: | | | | | | |
| Profit on sale and leaseback of Studio M Hotel | | **-** | 17.4 | **-** | 17.4 | 17.4 |
| Profit on disposal of subsidiary | | **-** | 1.9 | **-** | 1.9 | 1.7 |
| Gain arising on disposal of leasehold property | | **-** | - | **-** | - | 1.2 |
| Gain on disposal of stapled securities in CDLHT | | **0.3** | 0.2 | **0.3** | 0.2 | 0.2 |
| Finance income | | **1.8** | 0.9 | **3.5** | 2.2 | 5.5 |
| Finance expense | | **(3.0)** | (2.8) | **(6.4)** | (6.3) | (12.2) |
| **Net finance expense** | | **(1.2)** | (1.9) | **(2.9)** | (4.1) | (6.7) |
| **Profit before tax** | | **53.1** | 60.6 | **79.0** | 80.3 | 193.3 |
| Income tax expense | 6 | **(9.6)** | (11.7) | **(15.0)** | (15.9) | (28.2) |
| **Profit for the period** | | **43.5** | 48.9 | **64.0** | 64.4 | 165.1 |
| **Attributable to:** | | | | | | |
| Equity holders of the parent | | **40.2** | 47.9 | **58.4** | 62.0 | 160.9 |
| Non-controlling interests | | **3.3** | 1.0 | **5.6** | 2.4 | 4.2 |
| | | **43.5** | 48.9 | **64.0** | 64.4 | 165.1 |
| Basic earnings per share (pence) | 7 | **12.5p** | 15.2p | **18.3p** | 19.8p | 51.0p |
| Diluted earnings per share (pence) | 7 | **12.5p** | 15.2p | **18.2p** | 19.7p | 50.8p |

The financial results above derive from continuing activities.

## Condensed consolidated statement of comprehensive income (unaudited)
## for the half year ended 30 June 2012

| | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|
| **Profit for the period** | **64.0** | 64.4 | 165.1 |
| **Other comprehensive income/(expense):** | | | |
| Foreign currency translation differences - foreign operations | **20.5** | (16.3) | (25.8) |
| Foreign currency translation differences - equity accounted investees | **(0.8)** | (4.2) | (3.7) |
| Net (loss)/gain on hedge of net investments in foreign operations | **(2.6)** | 4.7 | 3.9 |
| Defined benefit plan actuarial losses | **(2.3)** | (0.5) | (2.3) |
| Share of associates and joint ventures other reserve movements | **0.1** | (4.1) | (4.8) |
| Effective portion of changes in fair value of cash flow hedges | **(0.3)** | 0.4 | 0.3 |
| Income tax on income and expense recognised directly in equity | **0.5** | - | 2.4 |
| **Other comprehensive income/(expense) for the period, net of tax** | **15.1** | (20.0) | (30.0) |
| **Total comprehensive income for the period** | **79.1** | 44.4 | 135.1 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | **72.0** | 40.2 | 129.6 |
| Non-controlling interests | **7.1** | 4.2 | 5.5 |
| **Total comprehensive income for the period** | **79.1** | 44.4 | 135.1 |

## Condensed consolidated statement of financial position (unaudited)
## as at 30 June 2012

| | Note | **As at 30 June 2012 £m** | As at 30 June 2011* £m | As at 31 December 2011 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **2,058.5** | 2,080.3 | 2,044.1 |
| Lease premium prepayment | | **46.0** | 46.4 | 47.3 |
| Investment properties | | **175.4** | 94.2 | 173.9 |
| Investments in joint ventures and associates | | **436.7** | 384.0 | 422.8 |
| Loans due from associate | | **41.5** | 31.1 | 50.9 |
| Other financial assets | | **7.9** | 7.3 | 7.8 |
| | | **2,766.0** | 2,643.3 | 2,746.8 |
| **Current assets** | | | | |
| Inventories | | **3.9** | 4.1 | 4.0 |
| Development properties | | **160.5** | 154.0 | 148.3 |
| Lease premium prepayment | | **1.4** | 1.6 | 1.4 |
| Trade and other receivables | | **78.9** | 91.1 | 70.1 |
| Loans due from associate | | **-** | - | 18.1 |
| Cash and cash equivalents | 8 | **422.3** | 335.6 | 332.2 |
| | | **667.0** | 586.4 | 574.1 |
| **Total assets** | | **3,433.0** | 3,229.7 | 3,320.9 |
| **Non-current liabilities** | | | | |
| Loans due to associate | | **(14.7)** | - | (11.8) |
| Interest-bearing loans, bonds and borrowings | | **(261.9)** | (372.7) | (311.6) |
| Employee benefits | | **(20.1)** | (16.8) | (17.5) |
| Provisions | | **(7.8)** | (7.5) | (7.8) |
| Other non-current liabilities | | **(223.9)** | (175.4) | (186.7) |
| Deferred tax liabilities | | **(236.5)** | (248.3) | (236.4) |
| | | **(764.9)** | (820.7) | (771.8) |
| **Current liabilities** | | | | |
| Interest-bearing loans, bonds and borrowings | | **(171.0)** | (44.8) | (120.8) |
| Trade and other payables | | **(158.8)** | (161.5) | (146.0) |
| Other current financial liabilities | | **(1.3)** | (2.3) | (0.9) |
| Provisions | | **(7.5)** | (11.8) | (7.6) |
| Income taxes payable | | **(22.0)** | (32.1) | (26.2) |
| | | **(360.6)** | (252.5) | (301.5) |
| **Total liabilities** | | **(1,125.5)** | (1,073.2) | (1,073.3) |
| **Net assets** | | **2,307.5** | 2,156.5 | 2,247.6 |
| **Equity** | | | | |
| Issued share capital | | **97.3** | 95.3 | 95.3 |
| Share premium | | **842.6** | 844.2 | 844.3 |
| Translation reserve | | **278.1** | 272.1 | 262.5 |
| Cash flow hedge reserve | | **(0.8)** | (0.4) | (0.5) |
| Treasury share reserve | | **(2.2)** | (2.2) | (2.2) |
| Retained earnings | | **907.0** | 774.6 | 867.1 |
| Total equity attributable to equity holders of the parent | | **2,122.0** | 1,983.6 | 2,066.5 |
| Non-controlling interests | | **185.5** | 172.9 | 181.1 |
| **Total equity** | | **2,307.5** | 2,156.5 | 2,247.6 |

*Certain amounts previously included in the trade and other payables have now been represented as provisions. The comparatives have been represented accordingly. This has no impact on net assets either in 2011 or 2012.

**Condensed consolidated statement of cash flows (unaudited)**
**for the half year ended 30 June 2012**

| | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | **64.0** | 64.4 | 165.1 |
| *Adjustments for*: | | | |
| Depreciation and amortisation | **17.3** | 17.7 | 35.5 |
| Share of profit of joint ventures and associates | **(22.1)** | (11.2) | (37.5) |
| Separately disclosed items - Group | **(0.1)** | (19.3) | 8.5 |
| Equity settled share-based transactions | **0.9** | 0.3 | 1.3 |
| Finance income | **(3.5)** | (2.2) | (5.5) |
| Finance expense | **6.4** | 6.3 | 12.2 |
| Income tax expense | **15.0** | 15.9 | 28.2 |
| **Operating profit before changes in working capital and provisions** | **77.9** | 71.9 | 207.8 |
| Increase in inventories, trade and other receivables | **(9.2)** | (23.8) | (3.5) |
| (Increase)/decrease in development properties | **(11.2)** | (2.1) | 1.0 |
| Increase in trade and other payables | **46.9** | 9.9 | 12.4 |
| Increase/(decrease) in provisions and employee benefits | **0.3** | 0.1 | (1.3) |
| **Cash generated from operations** | **104.7** | 56.0 | 216.4 |
| Interest paid | **(3.9)** | (4.6) | (9.0) |
| Interest received | **2.5** | 1.5 | 3.3 |
| Income tax paid | **(19.3)** | (12.6) | (44.1) |
| **Net cash generated from operating activities** | **84.0** | 40.3 | 166.6 |
| | | | |
| **Cash flows from investing activities** | | | |
| Dividends received from joint venture and associate | **13.8** | 8.8 | 17.8 |
| Decrease/(increase) in loans due from associate | **27.8** | (34.0) | (68.3) |
| Increase in investment in associate | **(2.5)** | - | (24.7) |
| Proceeds from sale of shares in associate | **1.5** | 0.8 | 0.8 |
| Net proceeds from sale of property, plant and equipment | **-** | 75.2 | 78.7 |
| Acquisition of property, plant and equipment, lease premium prepayment and investment properties | **(18.0)** | (9.9) | (107.7) |
| **Net cash generated from/(used in) investing activities** | **22.6** | 40.9 | (103.4) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | **0.3** | 0.8 | 0.9 |
| Repayment of borrowings | **(52.2)** | (60.9) | (89.7) |
| Drawdown of borrowings | **28.4** | 68.8 | 51.1 |
| Payment of transaction costs related to loans and borrowings | **(0.3)** | - | (0.8) |
| Dividends paid to non-controlling interests | **(2.7)** | (2.5) | (4.9) |
| Increase in loan due to associate | **3.0** | - | 11.3 |
| Capital contribution from non-controlling interests | **-** | - | 9.3 |
| Dividends paid to equity holders of the parent | **(17.7)** | (4.7) | (11.2) |
| **Net cash (used in)/generated from financing activities** | **(41.2)** | 1.5 | (34.0) |
| | | | |
| **Net increase in cash and cash equivalents** | **65.4** | 82.7 | 29.2 |
| Cash and cash equivalents at beginning of the period | **275.3** | 251.5 | 251.5 |
| Effect of exchange rate fluctuations on cash held | **3.4** | 1.1 | (5.4) |
| **Cash and cash equivalents at end of the period** | **344.1** | 335.3 | 275.3 |
| | | | |
| **Reconciliation of cash and cash equivalents** | | | |
| Cash and cash equivalents shown in the consolidated statement of financial position | **422.3** | 335.6 | 332.2 |
| Bank overdrafts included in borrowings | **(78.2)** | (0.3) | (56.9) |
| **Cash and cash equivalents for statement of cash flows** | **344.1** | 335.3 | 275.3 |

## Condensed consolidated statement of changes in equity (unaudited)
## for the half year ended 30 June 2012

| | Share capital £m | Share premium £m | Translation reserve £m | Cash flow hedge reserve £m | Treasury share reserve £m | Retained earnings £m | Total excluding non-controlling interests £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2011** | 94.0 | 844.7 | 290.4 | (0.8) | (2.2) | 721.4 | 1,947.5 | 171.2 | 2,118.7 |
| Profit | - | - | - | - | - | 62.0 | 62.0 | 2.4 | 64.4 |
| Total other comprehensive income | - | - | (18.3) | 0.4 | - | (3.9) | (21.8) | 1.8 | (20.0) |
| Total comprehensive income for the period | - | - | (18.3) | 0.4 | - | 58.1 | 40.2 | 4.2 | 44.4 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | |
| Dividends paid to equity holders | - | - | - | - | - | (24.8) | (24.8) | - | (24.8) |
| Issue of shares in lieu of dividends | 1.2 | (1.2) | - | - | - | 20.1 | 20.1 | - | 20.1 |
| Dividends paid – non-controlling interests | - | - | - | - | - | - | - | (2.5) | (2.5) |
| Share-based payment transactions (net of tax) | - | - | - | - | - | (0.2) | (0.2) | - | (0.2) |
| Share options exercised | 0.1 | 0.7 | - | - | - | - | 0.8 | - | 0.8 |
| Total contributions by and distributions to owners | 1.3 | (0.5) | - | - | - | (4.9) | (4.1) | (2.5) | (6.6) |
| Total transactions with owners | 1.3 | (0.5) | - | - | - | (4.9) | (4.1) | (2.5) | (6.6) |
| **Balance as at 30 June 2011** | 95.3 | 844.2 | 272.1 | (0.4) | (2.2) | 774.6 | 1,983.6 | 172.9 | 2,156.5 |
| Profit | - | - | - | - | - | 98.9 | 98.9 | 1.8 | 100.7 |
| Total other comprehensive income | - | - | (9.6) | (0.1) | - | 0.2 | (9.5) | (0.5) | (10.0) |
| Total comprehensive income for the period | - | - | (9.6) | (0.1) | - | 99.1 | 89.4 | 1.3 | 90.7 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | |
| Dividends paid to equity holders | - | - | - | - | - | (6.5) | (6.5) | - | (6.5) |
| Dividends paid – non-controlling interests | - | - | - | - | - | - | - | (2.4) | (2.4) |
| Share-based payment transactions (net of tax) | - | - | - | - | - | (0.1) | (0.1) | - | (0.1) |
| Share options exercised | - | 0.1 | - | - | - | - | 0.1 | - | 0.1 |
| Contribution by non-controlling interests | - | - | - | - | - | - | - | 9.3 | 9.3 |
| Total contributions by and distributions to owners | - | 0.1 | - | - | - | (6.6) | (6.5) | 6.9 | 0.4 |
| Total transactions with owners | - | 0.1 | - | - | - | (6.6) | (6.5) | 6.9 | 0.4 |
| **Balance as at 31 December 2011** | 95.3 | 844.3 | 262.5 | (0.5) | (2.2) | 867.1 | 2,066.5 | 181.1 | 2,247.6 |
| **Balance as at 1 January 2012** | **95.3** | **844.3** | **262.5** | **(0.5)** | **(2.2)** | **867.1** | **2,066.5** | **181.1** | **2,247.6** |
| Profit | **-** | **-** | **-** | **-** | **-** | **58.4** | **58.4** | **5.6** | **64.0** |
| Total other comprehensive income | **-** | **-** | **15.6** | **(0.3)** | **-** | **(1.7)** | **13.6** | **1.5** | **15.1** |
| Total comprehensive income for the period | **-** | **-** | **15.6** | **(0.3)** | **-** | **56.7** | **72.0** | **7.1** | **79.1** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | |
| Dividends paid to equity holders | **-** | **-** | **-** | **-** | **-** | **(45.7)** | **(45.7)** | **-** | **(45.7)** |
| Issue of shares in lieu of dividends | **1.7** | **(1.7)** | **-** | **-** | **-** | **28.0** | **28.0** | **-** | **28.0** |
| Dividends paid – non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2.7)** | **(2.7)** |
| Share-based payment transactions (net of tax) | **-** | **-** | **-** | **-** | **-** | **0.9** | **0.9** | **-** | **0.9** |
| Share options exercised | **0.3** | **-** | **-** | **-** | **-** | **-** | **0.3** | **-** | **0.3** |
| Total contributions by and distributions to owners | **2.0** | **(1.7)** | **-** | **-** | **-** | **(16.8)** | **(16.5)** | **(2.7)** | **(19.2)** |
| Total transactions with owners | **2.0** | **(1.7)** | **-** | **-** | **-** | **(16.8)** | **(16.5)** | **(2.7)** | **(19.2)** |
| **Balance as at 30 June 2012** | **97.3** | **842.6** | **278.1** | **(0.8)** | **(2.2)** | **907.0** | **2,122.0** | **185.5** | **2,307.5** |

## Notes to the condensed consolidated financial statements (unaudited)

### 1. General information

### Basis of preparation

The condensed set of consolidated financial statements in this interim management report for Millennium & Copthorne Hotels plc (‘the Company’) as at and for the half year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the ‘Group’) and the Group’s interests in joint ventures and associates.

These primary statements and selected notes comprise the unaudited interim consolidated financial results of the Group for the half years ended 30 June 2012 and 2011, together with the audited results for the year ended 31 December 2011. This half year interim management report presented on this web site does not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 but represents extracts from them. These extracts do not provide as full an understanding of the financial performance and position, or financial and investing activities, of the Company as the complete Annual Report.

The comparative figures for the financial year ended 31 December 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This condensed set of financial statements has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2011.

There are no IFRS accounting standards and interpretations, which have been endorsed by the EU, but not yet effective as at 30 June 2012.

The financial statements were approved by the Board of Directors on 1 August 2012.

Since the 2011 Annual Report, the definition of headline operating profit, one of the Group’s key performance indicators, has been modified to include the share of tax, interest and non-controlling interests of joint ventures and associates. The Group believes that the revised definition simplifies the presentation of headline operating profit given to the reader on both the face of the consolidated income statement and in the segmental analysis of operating results. Comparatives in the consolidated income statement and operating segment information for 30 June 2011 and 31 December 2011 have been restated to reflect the change in definition.

The financial statements were prepared on a going concern basis, supported by the directors’ assessment of the Group’s current and forecast financial position, and forecast trading for the foreseeable future; and are presented in the Company’s functional currency of sterling, rounded to the nearest hundred thousand.

### Non-GAAP information

*Presentation of headline operating profit, headline EBITDA, headline profit before tax, headline profit after tax and headline earnings per share.*
Reconciliation of headline operating profit, headline EBITDA, headline profit before tax, headline profit after tax and headline earnings per share to the closest equivalent GAAP measures are provided in note 3 ‘Operating segment information’, note 7 ‘Earnings per share’ and note 8 ‘Non-GAAP measures’.

*Net debt and gearing percentage*
An analysis of net debt and calculated gearing percentage is provided in note 8 ‘Non-GAAP measures’.

*Like-for-like growth*
The Group believes that like-for-like growth which is not intended to be a substitute for or superior to, reported growth, provides useful and necessary information to investors and interested parties for the following reasons:

- it provides additional information on the underlying growth of the business without the effect of factors unrelated to the operating performance of the business; and
- it is used by the Group for internal performance analysis.

## Notes to the condensed consolidated financial statements (unaudited)

### 2. Foreign currency translation

The Company publishes its Group financial statements in sterling. However, the majority of the Company's subsidiaries, joint ventures and associates report their revenue, costs, assets and liabilities in currencies other than sterling. The Company translates the revenue, costs, assets and liabilities of those subsidiaries, joint ventures and associates into sterling, and this translation of other currencies into sterling could materially affect the amount of these items in the Group financial statements, even if their values have not changed in their original currencies. The following table sets out the sterling exchange rates of the other principal currencies of the Group.

| | As at 30 June | | As at 31 December | Average for 6 months January - June | | Average for 3 months April - June | | Average for the year ended |
|---|---|---|---|---|---|---|---|---|
| Currency (=£) | **2012** | 2011 | 2011 | **2012** | 2011 | **2012** | 2011 | 2011 |
| US dollar | **1.554** | 1.604 | 1.572 | **1.582** | 1.613 | **1.579** | 1.636 | 1.606 |
| Singapore dollar | **1.987** | 1.982 | 2.030 | **1.997** | 2.023 | **1.997** | 2.021 | 2.011 |
| New Taiwan dollar | **46.534** | 46.329 | 46.644 | **46.336** | 47.049 | **46.437** | 47.324 | 46.979 |
| New Zealand dollar | **1.962** | 1.978 | 2.018 | **1.959** | 2.053 | **1.984** | 2.022 | 2.011 |
| Malaysian ringgit | **4.965** | 4.878 | 4.974 | **4.894** | 4.883 | **4.932** | 4.921 | 4.895 |
| Korean won | **1,795.39** | 1,721.55 | 1,808.82 | **1,802.44** | 1,768.44 | **1,815.09** | 1,760.31 | 1,771.54 |
| Chinese renminbi | **9.873** | 10.315 | 9.762 | **9.882** | 10.472 | **9.934** | 10.552 | 10.269 |
| Euro | **1.249** | 1.118 | 1.199 | **1.212** | 1.147 | **1.233** | 1.135 | 1.149 |
| Japanese yen | **123.447** | 129.004 | 121.892 | **125.603** | 131.370 | **125.585** | 132.913 | 127.259 |

### 3. Operating segment information

Disclosure of segmental information is principally presented in respect of the Group's geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items principally comprise: interest-bearing loans, borrowings, cash and cash equivalents, net finance expense, taxation balances and corporate expenses.

*Geographical segments*
The hotel and property operations are managed on a worldwide basis and operate in seven principal geographical areas as follows:
- New York
- Regional US
- London
- Rest of Europe (including the Middle East)
- Singapore
- Rest of Asia
- Australasia

The segments reported reflect the operating segment information included in the internal reports that the Chief Operating Decision Maker ("CODM"), which is the Board, regularly reviews.

The reportable segments are aligned with the structure of the Group's internal organisation which is based according to geographical region. Discrete financial information is reported to and is reviewed by the CODM on a geographical basis. Operating segments have Chief Operating Officers ("COOs") or equivalent who are directly accountable for the functioning of their segments and who maintain regular contact with the Chief Executive Officer and Chairman of the CODM to discuss the operational and financial performance. The CODM makes decisions about allocation of resources to the regions managed by the COOs.

## Notes to the condensed consolidated financial statements (unaudited)

### 3. Operating segment information (continued)

| | Second Quarter 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **New York £m** | **Regional US £m** | **London £m** | **Rest of Europe £m** | **Singapore £m** | **Rest of Asia £m** | **Australasia £m** | **Central Costs £m** | **Total Group £m** |
| **Revenue** | | | | | | | | | |
| Hotel | **26.1** | **32.2** | **28.2** | **18.0** | **36.7** | **43.4** | **8.7** | **-** | **193.3** |
| Property operations | **-** | **0.4** | **-** | **-** | **0.6** | **-** | **4.1** | **-** | **5.1** |
| **Total revenue** | **26.1** | **32.6** | **28.2** | **18.0** | **37.3** | **43.4** | **12.8** | **-** | **198.4** |
| **Hotel gross operating profit** | **7.3** | **7.9** | **16.4** | **4.8** | **19.8** | **18.6** | **3.1** | **-** | **77.9** |
| Hotel fixed charges [1] | **(4.5)** | **(4.7)** | **(3.7)** | **(2.9)** | **(11.3)** | **(5.8)** | **(1.7)** | **-** | **(34.6)** |
| Hotel operating profit | **2.8** | **3.2** | **12.7** | **1.9** | **8.5** | **12.8** | **1.4** | **-** | **43.3** |
| Property operations operating profit/(loss) | **-** | **(0.2)** | **-** | **-** | **0.4** | **-** | **1.7** | **-** | **1.9** |
| Central costs | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(6.3)** | **(6.3)** |
| Share of joint ventures and associates profit | **-** | **-** | **-** | **-** | **3.1** | **10.9** | **1.2** | **-** | **15.2** |
| **Headline operating profit/(loss)** | **2.8** | **3.0** | **12.7** | **1.9** | **12.0** | **23.7** | **4.3** | **(6.3)** | **54.1** |
| Add back depreciation and amortisation | **1.1** | **1.7** | **1.2** | **1.0** | **-** | **2.7** | **0.5** | **0.4** | **8.6** |
| **Headline EBITDA [2]** | **3.9** | **4.7** | **13.9** | **2.9** | **12.0** | **26.4** | **4.8** | **(5.9)** | **62.7** |
| Depreciation and amortisation | | | | | | | | | **(8.6)** |
| Net finance expense | | | | | | | | | **(1.2)** |
| **Headline profit before tax** | | | | | | | | | **52.9** |
| Separately disclosed items - Group [3] | | | | | | | | | **0.2** |
| **Profit before tax** | | | | | | | | | **53.1** |

| | Second Quarter 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Central Costs £m | Total Group £m |
| **Revenue** | | | | | | | | | |
| Hotel | 27.2 | 31.1 | 27.1 | 23.8 | 36.7 | 39.0 | 8.9 | - | 193.8 |
| Property operations | - | 0.3 | - | - | 0.6 | - | 1.4 | - | 2.3 |
| **Total revenue** | 27.2 | 31.4 | 27.1 | 23.8 | 37.3 | 39.0 | 10.3 | - | 196.1 |
| **Hotel gross operating profit** | 9.1 | 7.3 | 15.6 | 6.1 | 20.9 | 15.0 | 2.8 | - | 76.8 |
| Hotel fixed charges [1] | (4.3) | (5.0) | (3.4) | (4.5) | (11.2) | (5.4) | (2.3) | - | (36.1) |
| Hotel operating profit | 4.8 | 2.3 | 12.2 | 1.6 | 9.7 | 9.6 | 0.5 | - | 40.7 |
| Property operations operating profit/(loss) | - | (0.2) | - | - | (0.4) | - | 0.6 | - | - |
| Central costs | - | - | - | - | - | - | - | (3.8) | (3.8) |
| Share of joint ventures and associates profit | - | - | - | - | 3.2 | 0.8 | 1.0 | - | 5.0 |
| **Headline operating profit/(loss)** | 4.8 | 2.1 | 12.2 | 1.6 | 12.5 | 10.4 | 2.1 | (3.8) | 41.9 |
| Add back depreciation and amortisation | 1.1 | 2.0 | 1.1 | 1.0 | 0.3 | 2.2 | 0.9 | 0.4 | 9.0 |
| **Headline EBITDA [2]** | 5.9 | 4.1 | 13.3 | 2.6 | 12.8 | 12.6 | 3.0 | (3.4) | 50.9 |
| Depreciation and amortisation | | | | | | | | | (9.0) |
| Net finance expense | | | | | | | | | (1.9) |
| **Headline profit before tax** | | | | | | | | | 40.0 |
| Separately disclosed items – Group [3] | | | | | | | | | 19.4 |
| Separately disclosed items – Share of joint ventures and associates | | | | | | | | | 1.2 |
| **Profit before tax** | | | | | | | | | 60.6 |

## Notes to the condensed consolidated financial statements (unaudited)

### 3. Operating segment information (continued)

| | First Half 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **New York £m** | **Regional US £m** | **London £m** | **Rest of Europe £m** | **Singapore £m** | **Rest of Asia £m** | **Australasia £m** | **Central Costs £m** | **Total Group £m** |
| **Revenue** | | | | | | | | | |
| Hotel | **45.3** | **55.1** | **49.9** | **33.7** | **75.3** | **83.8** | **22.6** | **-** | **365.7** |
| Property operations | **-** | **0.8** | **-** | **-** | **1.2** | **-** | **6.2** | **-** | **8.2** |
| **Total revenue** | **45.3** | **55.9** | **49.9** | **33.7** | **76.5** | **83.8** | **28.8** | **-** | **373.9** |
| **Hotel gross operating profit** | **8.5** | **9.3** | **27.2** | **7.9** | **41.1** | **34.4** | **10.5** | | **138.9** |
| Hotel fixed charges [1] | **(8.8)** | **(9.5)** | **(7.3)** | **(5.6)** | **(23.9)** | **(11.6)** | **(3.8)** | **-** | **(70.5)** |
| Hotel operating profit/(loss) | **(0.3)** | **(0.2)** | **19.9** | **2.3** | **17.2** | **22.8** | **6.7** | **-** | **68.4** |
| Property operations operating profit/(loss) | **-** | **(0.3)** | **-** | **-** | **0.5** | **-** | **2.5** | **-** | **2.7** |
| Central costs | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(11.4)** | **(11.4)** |
| Share of joint ventures and associates profit | **-** | **-** | **-** | **-** | **6.3** | **12.6** | **2.6** | **-** | **21.5** |
| **Headline operating profit/(loss)** | **(0.3)** | **(0.5)** | **19.9** | **2.3** | **24.0** | **35.4** | **11.8** | **(11.4)** | **81.2** |
| Add back depreciation and amortisation | **2.3** | **3.4** | **2.4** | **1.9** | **0.1** | **5.5** | **1.0** | **0.7** | **17.3** |
| **Headline EBITDA [2]** | **2.0** | **2.9** | **22.3** | **4.2** | **24.1** | **40.9** | **12.8** | **(10.7)** | **98.5** |
| Depreciation and amortisation | | | | | | | | | **(17.3)** |
| Net finance expense | | | | | | | | | **(2.9)** |
| **Headline profit before tax** | | | | | | | | | **78.3** |
| Separately disclosed items - Group [3] | | | | | | | | | **0.1** |
| Separately disclosed items - Share of joint ventures and associates | | | | | | | | | **0.6** |
| **Profit before tax** | | | | | | | | | **79.0** |

| | First Half 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Central Costs £m | Total Group £m |
| **Revenue** | | | | | | | | | |
| Hotel | 45.7 | 54.6 | 47.4 | 45.6 | 74.6 | 74.7 | 23.2 | - | 365.8 |
| Property operations | - | 0.7 | - | - | 1.2 | - | 2.6 | - | 4.5 |
| **Total revenue** | 45.7 | 55.3 | 47.4 | 45.6 | 75.8 | 74.7 | 25.8 | - | 370.3 |
| **Hotel gross operating profit** | 10.6 | 8.5 | 25.6 | 11.0 | 41.8 | 27.5 | 9.4 | - | 134.4 |
| Hotel fixed charges [1] | (8.5) | (9.6) | (6.7) | (8.9) | (22.3) | (11.0) | (5.7) | - | (72.7) |
| Hotel operating profit/(loss) | 2.1 | (1.1) | 18.9 | 2.1 | 19.5 | 16.5 | 3.7 | - | 61.7 |
| Property operations operating profit/(loss) | - | (0.4) | - | - | (1.0) | - | 0.9 | - | (0.5) |
| Central costs | - | - | - | - | - | - | - | (7.3) | (7.3) |
| Share of joint ventures and associates profit | - | - | - | - | 5.7 | 2.0 | 2.3 | - | 10.0 |
| **Headline operating profit/(loss)** | 2.1 | (1.5) | 18.9 | 2.1 | 24.2 | 18.5 | 6.9 | (7.3) | 63.9 |
| Add back depreciation and amortisation | 2.3 | 4.1 | 2.3 | 1.9 | 0.8 | 4.5 | 1.2 | 0.6 | 17.7 |
| **Headline EBITDA [2]** | 4.4 | 2.6 | 21.2 | 4.0 | 25.0 | 23.0 | 8.1 | (6.7) | 81.6 |
| Depreciation and amortisation | | | | | | | | | (17.7) |
| Net finance expense | | | | | | | | | (4.1) |
| **Headline profit before tax** | | | | | | | | | 59.8 |
| Separately disclosed items – Group [3] | | | | | | | | | 19.3 |
| Separately disclosed items – Share of joint ventures and associates | | | | | | | | | 1.2 |
| **Profit before tax** | | | | | | | | | 80.3 |

## Notes to the condensed consolidated financial statements (unaudited)

### 3. Operating segment information (continued)

| | Full Year 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Central Costs £m | Total Group £m |
| **Revenue** | | | | | | | | | |
| Hotel | 103.2 | 114.9 | 100.9 | 86.9 | 151.1 | 159.8 | 48.4 | - | 765.2 |
| Property operations | - | 1.4 | - | - | 2.4 | 44.3 | 7.2 | - | 55.3 |
| **Total revenue** | 103.2 | 116.3 | 100.9 | 86.9 | 153.5 | 204.1 | 55.6 | - | 820.5 |
| **Hotel gross operating profit** | 30.1 | 21.8 | 56.2 | 22.0 | 83.4 | 60.6 | 22.0 | | 296.1 |
| Hotel fixed charges [1] | (18.1) | (18.2) | (14.0) | (9.4) | (47.7) | (21.6) | (10.5) | - | (139.5) |
| Hotel operating profit | 12.0 | 3.6 | 42.2 | 12.6 | 35.7 | 39.0 | 11.5 | - | 156.6 |
| Property operations operating profit/(loss) | - | (0.8) | - | - | (0.2) | 34.0 | 2.6 | - | 35.6 |
| Central costs | - | - | - | - | - | - | - | (21.2) | (21.2) |
| Share of joint ventures and associates profit | - | - | - | - | 13.4 | 3.2 | 3.8 | - | 20.4 |
| **Headline operating profit/(loss)** | 12.0 | 2.8 | 42.2 | 12.6 | 48.9 | 76.2 | 17.9 | (21.2) | 191.4 |
| Add back depreciation and amortisation | 4.7 | 7.5 | 5.1 | 3.8 | 1.3 | 9.8 | 2.4 | 0.9 | 35.5 |
| **Headline EBITDA [2]** | 16.7 | 10.3 | 47.3 | 16.4 | 50.2 | 86.0 | 20.3 | (20.3) | 226.9 |
| Depreciation and amortisation | | | | | | | | | (35.5) |
| Net finance expense | | | | | | | | | (6.7) |
| **Headline profit before tax** | | | | | | | | | 184.7 |
| Separately disclosed items - Group[3] | | | | | | | | | (8.5) |
| Separately disclosed items - Share of joint ventures and associates | | | | | | | | | 17.1 |
| **Profit before tax** | | | | | | | | | 193.3 |

[1] Hotel fixed charges include depreciation, amortisation of lease premium prepayments, property rent, taxes and insurance, operating lease rentals and management fees.

[2] EBITDA is earnings before interest, tax, depreciation and amortisation.

[3] For the second quarter ended 30 June 2012, a £0.1m (2011: £0.1m) and for the first half ended 30 June 2012 a £0.2m (2011: £0.2m) impairment charge was made on additional interest on shareholders loan to the Group's 50% investment in Bangkok. As at the end of 2011, the Directors undertook their annual review of the carrying value of hotels and property assets for indication of impairment and where appropriate, external valuations were also undertaken. As a result of this review, an impairment charge of £29.4m was made for the year ended 31 December 2011, consisting of £15.8m in relation to eight Regional UK hotels in Rest of Europe, £8.2m for four hotels in Regional US, £1.0m in relation to one hotel in New Zealand and £4.4m in relation to land in India within Rest of Asia. A £0.5m impairment charge also was made during the year ended 31 December 2011 relating to interest on shareholder loans to the Group's 50% investment in Bangkok

## Notes to the condensed consolidated financial statements (unaudited)

### 3. Operating segment information (continued)

### Segmental assets and liabilities

| As at 30 June 2012 | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Total Group £m |
|---|---|---|---|---|---|---|---|---|
| Hotel operating assets | **348.3** | **284.0** | **439.1** | **188.1** | **149.4** | **626.0** | **159.4** | **2,194.3** |
| Hotel operating liabilities | **(11.3)** | **(49.6)** | **(28.7)** | **(25.8)** | **(142.1)** | **(40.4)** | **(11.4)** | **(309.3)** |
| Investment in and loans due from joint ventures and associates | **-** | **-** | **-** | **-** | **179.9** | **96.3** | **62.9** | **339.1** |
| Loans due to associate | **-** | **-** | **-** | **-** | **-** | **(14.7)** | **-** | **(14.7)** |
| Total hotel operating net assets | **337.0** | **234.4** | **410.4** | **162.3** | **187.2** | **667.2** | **210.9** | **2,209.4** |
| Property operating assets | **-** | **29.3** | **-** | **-** | **155.1** | **79.5** | **74.3** | **338.2** |
| Property operating liabilities | **-** | **(0.2)** | **-** | **-** | **(108.0)** | **(0.9)** | **(1.0)** | **(110.1)** |
| Investment in and loans due from joint ventures and associates | **-** | **-** | **-** | **-** | **41.5** | **97.6** | **-** | **139.1** |
| Total property operating net assets | **-** | **29.1** | **-** | **-** | **88.6** | **176.2** | **73.3** | **367.2** |
| Deferred tax liabilities | | | | | | | | **(236.5)** |
| Income taxes payable | | | | | | | | **(22.0)** |
| Net debt | | | | | | | | **(10.6)** |
| Net assets | | | | | | | | **2,307.5** |

| As at 30 June 2011 | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Total Group £m |
|---|---|---|---|---|---|---|---|---|
| Hotel operating assets | 337.2 | 283.2 | 441.8 | 209.6 | 149.7 | 633.7 | 154.5 | 2,209.7 |
| Hotel operating liabilities | (11.2) | (30.8) | (24.3) | (32.9) | (145.5) | (61.1) | (9.0) | (314.8) |
| Investment in and loans due from joint ventures and associates | - | - | - | - | 166.0 | 89.1 | 63.8 | 318.9 |
| Total hotel operating net assets | 326.0 | 252.4 | 417.5 | 176.7 | 170.2 | 661.7 | 209.3 | 2,213.8 |
| Property operating assets | - | 28.2 | - | - | 137.8 | 9.8 | 93.5 | 269.3 |
| Property operating liabilities | - | (0.1) | - | - | (55.2) | (4.3) | (0.9) | (60.5) |
| Investment in and loans due from joint ventures and associates | - | - | - | - | 31.1 | 65.1 | - | 96.2 |
| Total property operating net assets | - | 28.1 | - | - | 113.7 | 70.6 | 92.6 | 305.0 |
| Deferred tax liabilities | | | | | | | | (248.3) |
| Income taxes payable | | | | | | | | (32.1) |
| Net debt | | | | | | | | (81.9) |
| Net assets | | | | | | | | 2,156.5 |

| As at 31 December 2011 | New York £m | Regional US £m | London £m | Rest of Europe £m | Singapore £m | Rest of Asia £m | Australasia £m | Total Group £m |
|---|---|---|---|---|---|---|---|---|
| Hotel operating assets | 342.5 | 278.1 | 438.3 | 188.1 | 144.5 | 625.0 | 150.1 | 2,166.6 |
| Hotel operating liabilities | (11.7) | (41.5) | (25.8) | (21.2) | (140.1) | (47.6) | (7.7) | (295.6) |
| Investment in and loans due from joint ventures and associates | - | - | - | - | 174.2 | 95.0 | 63.2 | 332.4 |
| Loans due to associate | - | - | - | - | - | (11.8) | - | (11.8) |
| Total hotel operating net assets | 330.8 | 236.6 | 412.5 | 166.9 | 178.6 | 660.6 | 205.6 | 2,191.6 |
| Property operating assets | - | 28.9 | - | - | 146.8 | 81.1 | 73.5 | 330.3 |
| Property operating liabilities | - | (0.1) | - | - | (69.4) | (0.7) | (0.7) | (70.9) |
| Investment in and loans due from joint ventures and associates | - | - | - | - | 69.0 | 90.4 | - | 159.4 |
| Total property operating net assets | - | 28.8 | - | - | 146.4 | 170.8 | 72.8 | 418.8 |
| Deferred tax liabilities | | | | | | | | (236.4) |
| Income taxes payable | | | | | | | | (26.2) |
| Net debt | | | | | | | | (100.2) |
| Net assets | | | | | | | | 2,247.6 |

## Notes to the condensed consolidated financial statements (unaudited)

### 4. Separately disclosed items

| | Notes | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|---|
| **Other operating income** | | | | | | |
| Revaluation gain of investment properties | **(a)** | **-** | - | **-** | - | 1.0 |
| **Other operating expense** | | | | | | |
| Revaluation deficit of investment properties | **(a)** | **-** | - | **-** | - | (0.1) |
| **Separately disclosed items included in administrative expenses** | | | | | | |
| Impairment | **(b)** | **(0.1)** | (0.1) | (0.2) | (0.2) | (29.9) |
| **Non-operating income** | | | | | | |
| Profit on sale and leaseback of Studio M Hotel | **(c)** | **-** | 17.4 | **-** | 17.4 | 17.4 |
| Profit on disposal of subsidiary | **(d)** | **-** | 1.9 | **-** | 1.9 | 1.7 |
| Gain arising on disposal of leasehold property | **(e)** | **-** | - | **-** | - | 1.2 |
| Gain on disposal of stapled securities in CDLHT | **(f)** | **0.3** | 0.2 | **0.3** | 0.2 | 0.2 |
| | | **0.3** | 19.5 | **0.3** | 19.5 | 20.5 |
| **Separately disclosed items – Group** | | **0.2** | 19.4 | **0.1** | 19.3 | (8.5) |
| **Separately disclosed items – share of joint ventures and associates** | | | | | | |
| Revaluation gain of investment properties | **(g)** | **-** | 0.9 | **-** | 0.9 | 17.3 |
| Profit/(loss) on disposal of business assets and subsidiaries | **(h)** | **-** | 0.3 | **0.6** | 0.3 | (0.2) |
| | | **-** | 1.2 | **0.6** | 1.2 | 17.1 |

**(a) Revaluation of investment properties**
At the end of 2011, the Group's investment properties were subject to external professional valuation on an open-market existing use basis. Based on these valuations, together with such considerations as the Directors consider appropriate, the Tanglin Shopping Centre recorded an uplift in value of £1.0m, Biltmore Court & Tower recorded a decrease in value of £0.1m and Sunnyvale residences recorded no change.

**(b) Impairment**
For the second quarter ended 30 June 2012, a £0.1m (2011: £0.1m) and for the first half ended 30 June 2012 a £0.2m (2011: £0.2m) impairment charge was made on additional interest on shareholders loan to the Group's 50% investment in Bangkok.

As at the end of 2011, the Directors undertook their annual review of the carrying value of hotels and property assets for indication of impairment and where appropriate, external valuations were also undertaken. As a result of this review, an impairment charge of £29.4m was made for the year ended 31 December 2011, consisting of £15.8m in relation to eight Regional UK hotels in Rest of Europe, £8.2m for four hotels in Regional US, £1.0m in relation to one hotel in New Zealand and £4.4m in relation to land in India within Rest of Asia. A £0.5m impairment charge also was made during the year ended 31 December 2011 relating to interest on shareholder loans to the Group's 50% investment in Bangkok.

**(c) Profit on sale and leaseback of Studio M Hotel**
On 3 May 2011, the Group completed the sale and leaseback of the Studio M Hotel to its REIT associate CDLHT for cash consideration of S$154.0m (£75.7m), and this gave rise to a total realised pre-tax profit from the disposal of S$35.4m (£17.4m). Total unrealised pre-tax profit from the disposal was S$19.1m (£9.4m) which had been credited to the balance sheet as investment in joint ventures and associates, arising from the Group's then 35.1% interest in the stapled securities of CDLHT.

**(d) Profit on disposal of subsidiary**
For the half year and second quarter ended 30 June 2011, the Group recorded a £1.9m gain from the disposal of CDL Hotels (Phils.) Corporation, a Philippines based company principally providing management services to Grand Plaza Hotel Corporation, owner of The Heritage Hotel in the Philippines.

## Notes to the condensed consolidated financial statements (unaudited)

### 4. Separately disclosed items (continued)

**(e) Gain arising on disposal of leasehold property**
Following the earthquake in Christchurch, New Zealand, the Copthorne Hotel Christchurch City was closed down by Civil Defence Emergency Management. The Copthorne Hotel Christchurch City was demolished in late 2011 and, accordingly, the net book value was fully written down in third quarter 2011. A settlement was reached with the insurers and owner on the building and assets and the funds were received in fourth quarter 2011. Consequently, £1.2m was recognised as a gain arising on disposal of leasehold property in the income statement. This gain was the difference between the compensation received and the carrying value of the leased property.

**(f) Gain on disposal of stapled securities in CDLHT**
For the second quarter and first half ended 30 June 2012, the Group disposed of 1,571,000 stapled securities in CDLHT for S$3.0m (£1.5m) which net of the carrying value of the stapled securities and the dilution impact totalling S$2.4m (£1.2m) resulted in a net gain of S$0.6m (£0.3m).

During the year ended 31 December 2011, the Group disposed of 760,000 stapled securities in CDLHT for S$1.6m (£0.8m) which net of the carrying value of the stapled securities and the dilution impact totalling S$1.2m (£0.6m) resulted in a net gain of S$0.4m (£0.2m).

**(g) Revaluation gain of investment properties**
During the second quarter of 2011, certain investment properties of FSCL group were transferred to development properties at fair value which was determined by the Directors on the same basis as the 31 December 2010 external professional valuation. The Group's share of the revaluation surplus was £0.9m. At 31 December 2011, all FSCL's investment properties were subject to external professional valuation on an open-market existing use basis. The Group's share of the uplift in the value of the transferred properties at the date of the transfer and of the investment properties at the end of 2011 was £6.8m

For the year ended 31 December 2011, the Group's share of CDLHT's net revaluation surplus of investment properties was £10.5m.

**(h) Profit/(loss) on disposal of business assets and subsidiaries**
During the quarter ended 31 March 2012, FSCL recorded a profit on disposal of the assets from its confectionery manufacturing operations in Chengdu to a third party. The Group's share of the profit is £0.6m.

For the year ended 31 December 2011, the Group's share of FSCL's losses from the disposal of subsidiaries was £0.2m.

### 5. Share of profit of joint ventures and associates

| | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|
| **Share of profit for the period** | | | | | |
| Operating profit before separately disclosed items | **22.4** | 6.8 | **30.9** | 13.9 | 28.8 |
| Interest | **(0.5)** | (0.4) | **(0.8)** | (0.9) | (1.7) |
| Tax | **(5.7)** | (0.5) | **(6.6)** | (1.2) | (3.3) |
| Non-controlling interests | **(1.0)** | (0.9) | **(2.0)** | (1.8) | (3.4) |
| Share of profit | **15.2** | 5.0 | **21.5** | 10.0 | 20.4 |
| | | | | | |
| Separately disclosed items – operating profit | **(0.2)** | 1.9 | **0.6** | 1.9 | 19.5 |
| Tax | **0.2** | (0.4) | **-** | (0.4) | (2.1) |
| Non-controlling interests | **-** | (0.3) | **-** | (0.3) | (0.3) |
| Share of profit | **-** | 1.2 | **0.6** | 1.2 | 17.1 |
| | | | | | |
| | **15.2** | 6.2 | **22.1** | 11.2 | 37.5 |

## Notes to the condensed consolidated financial statements (unaudited)

### 6. Income tax expense

The Group recorded a tax expense of £15.0m for the first half (first half 2011: £15.9m) excluding the tax relating to joint ventures and associates. This comprises a UK tax charge of £1.5m and an overseas tax charge of £13.5m (first half 2011: a UK tax credit of £3.1m and an overseas tax charge of £19.0m). For full year 2011 the £28.2m total income tax expense comprised a UK tax credit of £2.0m and an overseas tax charge of £30.2m.

Income tax expense for the relevant period is the expected income tax payable on the taxable income for the period, calculated at estimated average annual effective income tax rate applied to the pre-tax income for the period.

The estimated annual effective rate applied to profit before income tax excluding the Group's share of joint ventures and associates profits is 26.4% (2011: 23.0%). The underlying estimated annual effective rate (excluding the Group's share of joint ventures and associates) is 30.5% (2011: 29.3%).

For the full year 2011, the effective tax rate was affected by a number of factors which includes the following items:

- Separately disclosed items of the Group;
- Sale of Kuala Lumpur land;
- Release of a dilapidation provision for the Stuttgart hotel whose lease expired on 31 August 2011;
- Reduced tax rates applied to brought forward net deferred tax liabilities in the UK; and
- Tax adjustments in respect of previous years.

Excluding the impact of the items noted above, the Group's underlying effective tax rate for the full year 2011 was 27.7%.

A charge of £6.6m for the first half 2012 (first half 2011: £1.6m and full year 2011: £5.4m) relating to joint ventures and associates is included in the reported profit before tax.

### 7. Earnings per share

Earnings per share are calculated using the following information:

| | **Second Quarter 2012** | Second Quarter 2011 | **First Half 2012** | First Half 2011 | Full Year 2011 |
|---|---|---|---|---|---|
| **(a) Basic** | | | | | |
| Profit for the period attributable to holders of the parent (£m) | **40.2** | 47.9 | **58.4** | 62.0 | 160.9 |
| Weighted average number of shares in issue (m) | **320.9** | 314.9 | **319.1** | 313.9 | 315.6 |
| **Basic earnings per share (pence)** | **12.5p** | 15.2p | **18.3p** | 19.8p | 51.0p |
| **(b) Diluted** | | | | | |
| Profit for the period attributable to holders of the parent (£m) | **40.2** | 47.9 | **58.4** | 62.0 | 160.9 |
| Weighted average number of shares in issue (m) | **320.9** | 314.9 | **319.1** | 313.9 | 315.6 |
| Potentially dilutive share options under Group's share option schemes (m) | **1.1** | 1.0 | **1.0** | 1.0 | 1.3 |
| Weighted average number of shares in issue (diluted) (m) | **322.0** | 315.9 | **320.1** | 314.9 | 316.9 |
| **Diluted earnings per share (pence)** | **12.5p** | 15.2p | **18.2p** | 19.7p | 50.8p |
| **(c) Headline earnings per share (pence)** | | | | | |
| Profit for the period attributable to holders of the parent (£m) | **40.2** | 47.9 | **58.4** | 62.0 | 160.9 |
| Adjustments for: | | | | | |
| - Separately disclosed items - Group (net of tax and non-controlling interests) (£m) | **(0.2)** | (19.4) | **(0.1)** | (19.3) | 1.7 |
| - Share of separately disclosed items of joint ventures and associates (net of tax and non-controlling interests) (£m) | **-** | (1.2) | **(0.5)** | (1.2) | (15.7) |
| - Changes in tax rates on opening deferred tax (£m) | **(0.3)** | (0.5) | **(0.7)** | (0.6) | (2.8) |
| Adjusted profit for the period attributable to holders of the parent (£m) | **39.7** | 26.8 | **57.1** | 40.9 | 144.1 |
| Weighted average number of shares in issue (m) | **320.9** | 314.9 | **319.1** | 313.9 | 315.6 |
| **Headline earnings per share (pence)** | **12.4p** | 8.5p | **17.9p** | 13.0p | 45.7p |
| **(d) Diluted headline earnings per share (pence)** | | | | | |
| Adjusted profit for the period attributable to holders of the parent (£m) | **39.7** | 26.8 | **57.1** | 40.9 | 144.1 |
| Weighted average number of shares in issue (diluted) (m) | **322.0** | 315.9 | **320.1** | 314.9 | 316.9 |
| **Diluted headline earnings per share (pence)** | **12.3p** | 8.5p | **17.8p** | 13.0p | 45.5p |

## Notes to the condensed consolidated financial statements (unaudited)

### 8. Non-GAAP measures

**Headline operating profit, headline EBITDA and headline profit before tax**
Reconciliation of headline operating profit, headline EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) and headline profit before tax to the closest equivalent GAAP measure, profit before tax is provided in note 3 'Operating segment information'.

**Headline profit after tax**
Reconciliation of profit before tax to headline profit after tax is shown below.

| | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|
| **Profit after tax** | **43.5** | 48.9 | **64.0** | 64.4 | 165.1 |
| Adjustments for: | | | | | |
| Separately disclosed items (net of tax) – Group | **(0.2)** | (19.5) | **(0.1)** | (19.4) | 1.7 |
| Separately disclosed items (net of interest, tax and non-controlling interests) – Share of joint ventures and associates | **-** | (1.2) | **(0.6)** | (1.2) | (17.1) |
| Tax impact of changes in tax rates on opening deferred tax | **(0.3)** | (0.5) | **(0.7)** | (0.6) | (2.8) |
| **Headline profit after tax** | **43.0** | 27.7 | **62.6** | 43.2 | 146.9 |

**Net debt**

In presenting and discussing the Group's indebtedness and liquidity position, net debt is calculated. Net debt is not defined under IFRS. The Group believes that it is both useful and necessary to communicate net debt to investors and other interested parties, for the following reasons:

- net debt allows the Company and external parties to evaluate the Group's overall indebtedness and liquidity position;
- net debt facilitates comparability of indebtedness and liquidity with other companies, although the Group's measure of net debt may not be directly comparable to similarly titled measures used by other companies; and
- it is used in discussions with the investment analyst community.

Analysis of net debt and calculated gearing percentage is provided below. Gearing is defined as net debt as a percentage of total equity attributable to equity holders of the parent.

| | **As at 30 June 2012 £m** | As at 30 June 2011 £m | As at 31 December 2011 £m |
|---|---|---|---|
| **Net Debt** | | | |
| Cash and cash equivalents (as per the consolidated cash flow statement) | **344.1** | 335.3 | 275.3 |
| Bank overdrafts (included as part of borrowings) | **78.2** | 0.3 | 56.9 |
| Cash and cash equivalents (as per the consolidated statement of financial position) | **422.3** | 335.6 | 332.2 |
| Interest-bearing loans, bonds and borrowings | | | |
| – Non-current | **(261.9)** | (372.7) | (311.6) |
| – Current | **(171.0)** | (44.8) | (120.8) |
| **Net debt** | **(10.6)** | (81.9) | (100.2) |

A summary reconciliation of movements in net debt is shown below.

| **Reconciliation of net cash flow to movement in net debt** | **As at 30 June 2012 £m** | As at 30 June 2011 £m | As at 31 December 2011 £m |
|---|---|---|---|
| **Net debt at beginning of year** | **(100.2)** | (165.7) | (165.7) |
| Increase in cash and cash equivalents (as per the consolidated cash flow statement) | **65.4** | 82.7 | 29.2 |
| Net decrease/(increase) in loans | **23.8** | (7.9) | 38.6 |
| Translation adjustments | **0.4** | 9.0 | (2.3) |
| Movements in net debt | **89.6** | 83.8 | 65.5 |
| **Net debt at half year** | **(10.6)** | (81.9) | (100.2) |
| **Gearing (%)** | **0.5%** | 4.1% | 4.8% |

## Notes to the condensed consolidated financial statements (unaudited)

### 9. Dividends

| | **Second Quarter 2012 £m** | Second Quarter 2011 £m | **First Half 2012 £m** | First Half 2011 £m | Full Year 2011 £m |
|---|---|---|---|---|---|
| Final ordinary dividend paid | **33.0** | 24.8 | **33.0** | 24.8 | 24.8 |
| Final special dividend paid | **12.7** | - | **12.7** | - | - |
| Interim ordinary dividend paid | **-** | - | **-** | - | 6.5 |
| | **45.7** | 24.8 | **45.7** | 24.8 | 31.3 |
| | **pence** | pence | **pence** | pence | pence |
| Final ordinary dividend paid (per share) | **10.42** | 7.92 | **10.42** | 7.92 | 7.92 |
| Final special dividend paid (per share) | **4.00** | - | **4.00** | - | - |
| Interim ordinary dividend paid (per share) | **-** | - | **-** | - | 2.08 |
| | **14.42** | 7.92 | **14.42** | 7.92 | 10.00 |

Dividends paid in the first half of 2012 totalled £45.7m (first half 2011: £24.8m). The Group offered shareholders the option of a scrip dividend, as a result of which cash dividend payments in the first half of 2012 totalled £17.7m (first half 2011: £4.7m). The balance of £28.0m (first half 2011: £20.1m) was credited to reserves upon issue of the related share capital. For the full year 2011, dividends totalled £31.3m, with cash dividend payment of £11.2m and the balance of £20.1m credited to reserves upon issue of the related share capital.

Subsequent to 30 June 2012, the Directors declared an interim ordinary dividend of 2.08p per share (2011: 2.08p) which has not been provided for.

### 10. Financial commitments, contingencies and subsequent events

Except as stated below there have been no material changes to commitments or contingencies as disclosed in the annual report and accounts for the year ended 31 December 2011:

Capital commitments
Contracts placed for future capital expenditure for property, plant and equipment not provided in the financial statements amount to £21.6m at 30 June 2012 (2011: £6.2m).

There are no events subsequent to the balance sheet date which require adjustments to or disclosure within these consolidated financial statements.

## Notes to the condensed consolidated financial statements (unaudited)

### 11. Related parties

***Identity of related parties***

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions with related parties were entered into in the normal course of business and at arm's length.

The Group has a related party relationship with its joint ventures, associates and with its Directors and executive officers.

***Transactions with ultimate holding company and other related companies***

The Group has a related party relationship with certain subsidiaries of Hong Leong Investment Holding Pte. Ltd ("Hong Leong"), which is the ultimate holding and controlling company of Millennium & Copthorne Hotels plc and holds 55% (2011: 54%) of the Company's shares via City Developments Limited ("CDL"), the intermediate holding company of the Group. During the half year ended 30 June 2012, the Group had the following transactions with those subsidiaries.

Fees paid/payable by the Group to Hong Leong Management Services Pte. Ltd ("HLMS"), a subsidiary of Hong Leong amounted to £0.4m (2011: £0.9m). At 30 June 2012 £0.3m (2011: £0.9m) of fees payable were outstanding.

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary of Hong Leong, on normal commercial terms. Interest income of £0.04m (2011: £0.03m) was received during the period. As at 30 June 2012 £13.4m (2011: £15.5m) of cash was deposited with Hong Leong Finance Limited.

Fees paid/payable by the Group to CDL were £0.8m (2011: £0.5m) which included rentals paid for the Grand Shanghai restaurant and Kings Centre; property management fees for the Tanglin Shopping Centre in Singapore; and car parking, leasing commission and professional services. In addition, £0.1m (2011: £0.4m) of fees were paid to CDL Management Services Pte Ltd., a subsidiary of CDL in relation to The Glyndebourne luxury condominium development in Singapore. At 30 June 2012 £0.1m (2011: £nil) of fees payable was outstanding.

Richfield Hospitality Inc ("RHI") a company owned 85% by City e-Solutions Limited (CES), a subsidiary of Hong Leong, and 15% by the Group, provided management services to the Group. A total of £0.1m (2011: £0.1m) was charged by RHI during the period and as at 30 June 2012, £nil (2011: £0.1m) was due to RHI. Fees for taxation services amounting to £0.01m (2011: £0.03m) were charged by CDL Hotels USA Inc., a subsidiary of the Group, to RHI.

The Group provided a total of £0.01m (2011: £0.01m) hotel management services to a joint venture company of HL Global Enterprises Limited, a subsidiary of Hong Leong. As at 30 June 2012 £nil (2011: £0.002m) was due to the Group.

The Group also provided accounting and management services to CES and CDL Hospitality Trusts ("CDLHT") totalling £0.02m (2011: £0.02m). At 30 June 2012 £0.01m (2011: £nil) of fees payable was outstanding.

***Transactions with associates and joint ventures***

In July 2006 the Group completed the sale of long leasehold interest in three of its Singapore hotels to CDLHT, an associate and comprising a hotel real estate investment trust ("REIT") and a business trust. These hotels were the Orchard Hotel (including the connected shopping centre), and M Hotel which were both sold on 75-year leases and Copthorne King's Hotel for the remaining 61 years of a 99-year lease. CDLHT also acquired the Grand Copthorne Waterfront Hotel, a Group managed hotel from CDL under a 75 year lease. All four hotels excluding the shopping centre were leased back to the Group for an initial term of 20 years, each renewable at the Group's option for an additional term of 20 years.

In May 2011 the Group completed the sale of the remaining term of a 99-year long leasehold interest (commencing February 2007) in the Studio M Hotel Singapore to CDLHT. The hotel was leased back for an initial term of 20 years, renewable at the Group's option for three consecutive terms totalling 50 years.

Under the terms of the master lease agreements for the four hotels acquired in 2006, and for the Studio M Hotel in May 2011, the Group is obliged to pay CDLHT an annual rental for the duration of the term (initial and extended term) of each lease agreement comprising the following:

- A fixed rent and a service charge for each hotel; and
- A variable rent computed based on the sum of 20% (30% for Studio M) of each hotel's revenue and 20% of each hotel's gross operating profit for the prevailing financial year, less the sum of the fixed rent and the service charge. Should the calculation of the variable rent yield a negative figure, the variable rent is deemed to be zero.

The rents paid/payable under the leases referred to above for the relevant period are as follows:

| | **First Half 2012 £m** | First Half 2011 £m |
|---|---|---|
| Copthorne King's Hotel | **2.5** | 2.4 |
| Orchard Hotel | **7.1** | 6.5 |
| M Hotel | **4.2** | 3.9 |
| Grand Copthorne Waterfront Hotel | **6.1** | 5.8 |
| Studio M Hotel | **2.7** | 0.9 |
| | **22.6** | 19.5 |

## Notes to the condensed consolidated financial statements (unaudited)

### 11. Related parties (continued)

In addition to the lease of the five hotels mentioned above, the Group also leased a conference centre from CDLHT at a fixed rent of £0.2m (2011: £0.1m). This lease was for five years from July 2006 and has been renewed for a further 5 years.

A subsidiary of the Group, M&C REIT Management Limited acts as REIT Manager and Business Trust Manager with their fees having a performance-based element. The REIT Manager is entitled to receive a base fee of 0.25% per annum of the value of the H-REIT deposited property as well as additional performance fee of 5% per annum of H-REIT's net property income in the relevant financial year. 80% of the H-REIT Manager's fees are paid in stapled securities. In addition acquisition fees are payable, 100% in stapled securities and/or cash at a rate of 1.0% of the value of new properties deposited with H-REIT. For the relevant period Manager's fees paid in stapled securities totalled £2.5m (2011: £2.1m), acquisition fees paid in stapled units £nil (2011: £0.8m), the balance payable in cash was £0.6m (2011: £0.5m). At 30 June 2012 £0.2m (2011: £0.3m) is outstanding. Interest receivable of £0.06m (2011: £0.05m) accrued in the period on the rent deposit paid to the REIT.

RHR Capital Pte. Ltd, a 100% subsidiary of the Group, provided shareholder loans of US$108.0m to FSCL, an associate in 2011. For the half year ended 30 June 2012, US$43.5m (£27.8m) was repaid resulting in a total loan outstanding as at 30 June 2012 of US$64.5m (£41.5m) (2011:US$50.0m (£31.1m)). The loan attracts interest of 3% per annum and interest of US$1.18m or £0.75m (2011: US$0.04m or £0.03m) was charged in the period. As at 30 June 2012 interest of £nil (2011: £0.03m) was outstanding.

In November 2011, subsidiaries of FSCL provided loans totalling RMB115m (£11.8m) loan via a three-year trust agreement to Beijing Fortune Hotel Co Ltd, a 70% subsidiary of the Group. In the half year ended 30 June 2012, FSCL provided a further RMB30m loan. Total loan outstanding as at 30 June 2012 is RMB145m (£14.7m).

City Hotels Pte. Ltd, a 100% subsidiary of the Group, provided a shareholder loan facility of 503m Thai Baht (£10.2m) (2011: 503m Thai Baht (£10.2m)) to Fena Estate Company Limited ("Fena"), its 50% owned joint venture. At 30 June 2012 and 30 June 2011 all of this facility was fully drawn. The loan attracts interest of 4.5% (2011: 4.5%) per annum and interest of £0.2m (2011: £0.2m) was accrued for in the period. This interest is rolled up into the carrying value of the loan. The total loan outstanding, including rolled up interest, is 623m Thai Baht (£12.6m) (2011: 598m Thai Baht (£12.1m).

In addition, the Group has provided a further US$2.0m (£1.4m) (2011: US$2.0m (£1.4m)) operator loan facility to Fena which was fully drawn down at 30 June 2012. The loan attracts interest of 0.75% per annum (2011: 0.75%) which is rolled up into the carrying value of the loan. The carrying value of the loan outstanding, including rolled up interest, is US$2.2m (£1.4m) (2011: US$2.3m (£1.4m)).

Management fees were charged to Fena in respect of maintenance and other services at the Grand Millennium Sukhumvit Bangkok totalling £0.3m (2011: £0.2m).

The Group has a related party relationship with Mr Ali Al Zaabi, a minority shareholder of its operations in the Middle East. The Group paid £0.1m (2011: £0.1m) to Mr Al Zaabi for remuneration and other expenses. As at 30 June 2012 £0.2m (2011: £0.3m) was owed to Mr Al Zaabi. In addition £0.1m (2011: £0.1m) of management and incentive fees were charged to the Kingsgate Abu Dhabi Hotel which is owned by Mr Al Zaabi. As at 30 June 2012 £0.2m (2011: £0.3m) was outstanding.

***Transactions with key management personnel***

The beneficial interest of the Directors in the ordinary shares of the Company was 0.088% (2011: 0.074%).

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers which includes a wide range of retirement benefit arrangements which are established in accordance with local conditions and practices within countries concerned.

Executive officers also participate in the Group's share option programme, Long-Term Incentive Plan and the Group's Sharesave schemes.

The key management personnel compensation is as follows:

| | **First Half 2012 £m** | First Half 2011 £m |
|---|---|---|
| Short-term employee benefits | **1.3** | 1.9 |
| Other long-term benefits | **0.1** | 0.1 |
| Share-based payment | **0.9** | 0.3 |
| | **2.3** | 2.3 |
| | | |
| Directors | **0.6** | 0.7 |
| Executives | **1.7** | 1.6 |
| | **2.3** | 2.3 |

**Responsibility statement of the Directors in respect of the interim management report**

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and

- the interim management report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the board

**Wong Hong Ren**
Chief Executive Officer

1 August 2012

## Independent review report to Millennium & Copthorne Hotels plc

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim management report for the six months ended 30 June 2012 which comprises the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in shareholders' equity, condensed consolidated interim statement of cash flows and the related explanatory notes. We have read the other information contained in the interim management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The interim management report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim management report in accordance with the DTR of the UK FSA. As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this interim management report has been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim management report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim management report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

**Steve Masters (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

15 Canada Square
London
E14 5GL

1 August 2012

## APPENDIX 1: KEY OPERATING STATISTICS (UNAUDITED)
**for the half year ended 30 June 2012**

| | **First Half 2012 Reported currency** | First Half 2011 Constant currency | First Half 2011 Reported currency | Full Year 2011 Reported currency |
|---|---|---|---|---|
| **Occupancy (%)** | | | | |
| New York | **79.1** | | 83.4 | 85.5 |
| Regional US | **56.2** | | 56.3 | 57.4 |
| Total US | **61.9** | | 63.1 | 64.4 |
| London | **77.8** | | 78.8 | 81.5 |
| Rest of Europe | **69.4** | | 68.0 | 69.3 |
| Total Europe | **73.5** | | 72.8 | 74.9 |
| Singapore | **88.3** | | 85.4 | 86.9 |
| Rest of Asia | **72.5** | | 68.2 | 71.0 |
| Total Asia | **78.6** | | 75.3 | 77.4 |
| Australasia | **63.3** | | 64.5 | 64.3 |
| **Total Group** | **69.8** | | 69.3 | 70.8 |
| | | | | |
| **Average Room Rate (£)** | | | | |
| New York | **146.31** | 144.17 | 141.42 | 154.86 |
| Regional US | **66.48** | 64.63 | 63.40 | 66.00 |
| Total US | **91.74** | 90.70 | 88.97 | 95.24 |
| London | **123.04** | 116.48 | 116.48 | 120.10 |
| Rest of Europe | **67.38** | 71.10 | 73.05 | 71.37 |
| Total Europe | **96.03** | 92.82 | 93.84 | 95.58 |
| Singapore | **116.53** | 107.93 | 106.54 | 109.54 |
| Rest of Asia | **89.02** | 79.03 | 78.34 | 81.10 |
| Total Asia | **101.00** | 92.45 | 91.44 | 93.83 |
| Australasia | **55.03** | 57.13 | 54.51 | 58.38 |
| **Total Group** | **92.54** | 88.60 | 87.73 | 91.48 |
| | | | | |
| **RevPAR (£)** | | | | |
| New York | **115.66** | 120.26 | 117.94 | 132.44 |
| Regional US | **37.39** | 36.42 | 35.69 | 37.91 |
| Total US | **56.78** | 57.19 | 56.14 | 61.33 |
| London | **95.76** | 91.79 | 91.79 | 97.92 |
| Rest of Europe | **46.79** | 48.37 | 49.67 | 49.44 |
| Total Europe | **70.60** | 67.57 | 68.32 | 71.55 |
| Singapore | **102.92** | 92.22 | 90.99 | 95.20 |
| Rest of Asia | **64.56** | 53.90 | 53.43 | 57.60 |
| Total Asia | **79.43** | 69.58 | 68.85 | 72.58 |
| Australasia | **34.84** | 36.84 | 35.16 | 37.56 |
| **Total Group** | **64.62** | 61.40 | 60.80 | 64.81 |
| | | | | |
| **Gross Operating Profit Margin (%)** | | | | |
| New York | **18.8** | | 23.2 | 29.2 |
| Regional US | **16.9** | | 15.6 | 19.0 |
| Total US | **17.7** | | 19.0 | 23.8 |
| London | **54.5** | | 54.0 | 55.7 |
| Rest of Europe | **23.4** | | 24.1 | 25.3 |
| Total Europe | **42.0** | | 39.4 | 41.6 |
| Singapore | **54.6** | | 56.0 | 55.2 |
| Rest of Asia | **41.1** | | 36.8 | 37.9 |
| Total Asia | **47.5** | | 46.4 | 46.3 |
| Australasia | **46.5** | | 40.5 | 45.5 |
| **Total Group** | **38.0** | | 36.7 | 38.7 |

For comparability, the 30 June 2011 Average Room Rate and RevPAR have been translated at average exchange rates for the period ended 30 June 2012.

## APPENDIX 2: KEY OPERATING STATISTICS (UNAUDITED)
**for the second quarter ended 30 June 2012**

| | **Second Quarter 2012 Reported currency** | Second Quarter 2011 Constant currency | Second Quarter 2011 Reported currency |
|---|---|---|---|
| **Occupancy (%)** | | | |
| New York | **82.5** | | 92.4 |
| Regional US | **63.7** | | 62.1 |
| Total US | **68.3** | | 69.6 |
| London | **78.8** | | 83.7 |
| Rest of Europe | **75.0** | | 71.4 |
| Total Europe | **76.8** | | 76.8 |
| Singapore | **88.5** | | 87.8 |
| Rest of Asia | **74.1** | | 69.4 |
| Total Asia | **79.7** | | 76.5 |
| Australasia | **53.9** | | 52.3 |
| **Total Group** | **72.3** | | 71.7 |
| | | | |
| **Average Room Rate (£)** | | | |
| New York | **161.77** | 154.69 | 150.08 |
| Regional US | **70.87** | 68.32 | 66.24 |
| Total US | **98.05** | 96.72 | 93.82 |
| London | **137.84** | 126.54 | 126.54 |
| Rest of Europe | **67.02** | 71.40 | 74.20 |
| Total Europe | **102.33** | 97.95 | 99.41 |
| Singapore | **116.88** | 112.68 | 111.34 |
| Rest of Asia | **92.06** | 83.13 | 82.35 |
| Total Asia | **102.74** | 96.26 | 95.24 |
| Australasia | **49.49** | 49.70 | 49.98 |
| **Total Group** | **96.95** | 93.49 | 92.57 |
| | | | |
| **RevPAR (£)** | | | |
| New York | **133.41** | 142.92 | 138.67 |
| Regional US | **45.13** | 42.42 | 41.14 |
| Total US | **67.00** | 67.31 | 65.30 |
| London | **108.57** | 105.91 | 105.91 |
| Rest of Europe | **50.26** | 50.95 | 52.98 |
| Total Europe | **78.61** | 75.24 | 76.35 |
| Singapore | **103.42** | 98.93 | 97.76 |
| Rest of Asia | **68.21** | 57.69 | 57.15 |
| Total Asia | **81.85** | 73.66 | 72.86 |
| Australasia | **26.66** | 26.01 | 26.14 |
| **Total Group** | **70.06** | 67.06 | 66.37 |
| | | | |
| **Gross Operating Profit Margin (%)** | | | |
| New York | **28.0** | | 33.5 |
| Regional US | **24.5** | | 23.5 |
| Total US | **26.1** | | 28.1 |
| London | **58.2** | | 57.6 |
| Rest of Europe | **26.7** | | 25.6 |
| Total Europe | **45.9** | | 42.6 |
| Singapore | **54.0** | | 56.9 |
| Rest of Asia | **42.9** | | 38.5 |
| Total Asia | **47.9** | | 47.4 |
| Australasia | **35.6** | | 31.5 |
| **Total Group** | **40.3** | | 39.6 |

For comparability, the 30 June 2011 Average Room Rate and RevPAR have been translated at average exchange rates for the period ended 30 June 2012.

## APPENDIX 3: HOTEL ROOM COUNT AND PIPELINE (UNAUDITED)
**as at 30 June 2012**

| Hotel and room count | Hotels | | | Rooms | | |
|---|---|---|---|---|---|---|
| | **30 June 2012** | 31 December 2011 | 30 June 2011 | **30 June 2012** | 31 December 2011 | 30 June 2011 |
| **Analysed by region:** | | | | | | |
| New York | **3** | 3 | 3 | **1,757** | 1,757 | 1,757 |
| Regional US | **16** | 16 | 16 | **5,554** | 5,554 | 5,554 |
| London | **7** | 7 | 7 | **2,493** | 2,493 | 2,493 |
| Rest of Europe | **16** | 16 | 18 | **2,696** | 2,696 | 3,227 |
| Middle East | **11** | 10 | 9 | **3,616** | 3,623 | 3,299 |
| Singapore | **6** | 6 | 7 | **2,716** | 2,714 | 3,153 |
| Rest of Asia | **16** | 16 | 16 | **7,270** | 7,260 | 7,259 |
| Australasia | **33** | 34 | 35 | **4,907** | 4,935 | 5,097 |
| Total | **108** | 108 | 111 | **31,009** | 31,032 | 31,839 |
| **Analysed by ownership type:** | | | | | | |
| Owned or leased | **65** | 65 | 68 | **19,946** | 19,946 | 20,996 |
| Managed | **21** | 21 | 20 | **5,896** | 5,926 | 5,602 |
| Franchised | **11** | 11 | 12 | **1,564** | 1,559 | 1,640 |
| Investment | **11** | 11 | 11 | **3,603** | 3,601 | 3,601 |
| Total | **108** | 108 | 111 | **31,009** | 31,032 | 31,839 |
| **Analysed by brand:** | | | | | | |
| Grand Millennium | **5** | 5 | 5 | **2,488** | 2,479 | 2,478 |
| Millennium | **40** | 39 | 40 | **13,934** | 13,756 | 14,206 |
| Copthorne | **30** | 31 | 34 | **6,375** | 6,403 | 7,086 |
| Kingsgate | **15** | 14 | 14 | **1,576** | 1,436 | 1,436 |
| Other M&C | **5** | 5 | 5 | **1,885** | 1,885 | 1,884 |
| Third Party | **13** | 14 | 13 | **4,751** | 5,073 | 4,749 |
| Total | **108** | 108 | 111 | **31,009** | 31,032 | 31,839 |

| Pipeline | Hotels | | | Rooms | | |
|---|---|---|---|---|---|---|
| | **30 June 2012** | 31 December 2011 | 30 June 2011 | **30 June 2012** | 31 December 2011 | 30 June 2011 |
| **Analysed by region:** | | | | | | |
| Middle East | **24** | 26 | 23 | **5,446** | 5,700 | 5,420 |
| Rest of Asia | **4** | 4 | 2 | **904** | 907 | 388 |
| Total | **28** | 30 | 25 | **6,350** | 6,607 | 5,808 |
| **Analysed by ownership type:** | | | | | | |
| Franchised | **1** | 1 | - | **195** | 195 | - |
| Owned or leased | **1** | 1 | 1 | **322** | 325 | 144 |
| Managed | **26** | 28 | 24 | **5,833** | 6,087 | 5,664 |
| Total | **28** | 30 | 25 | **6,350** | 6,607 | 5,808 |
| **Analysed by brand:** | | | | | | |
| Grand Millennium | **1** | - | - | **250** | - | - |
| Millennium | **16** | 18 | 16 | **4,176** | 4,237 | 4,296 |
| Copthorne | **8** | 6 | 3 | **1,427** | 1,178 | 556 |
| Kingsgate | **-** | - | - | **-** | - | - |
| Other M&C | **3** | 6 | 6 | **497** | 1,192 | 956 |
| Total | **28** | 30 | 25 | **6,350** | 6,607 | 5,808 |

The Group's worldwide pipeline has 28 hotels offering 6,350 rooms, which are mainly management contracts.

## APPENDIX 4: RISK FACTORS (UNAUDITED)

**Management of Risk**
The Group's risk management activity is directed by the Executive Management Committee, led by the Chief Executive Officer, and is facilitated by the Head of Risk and Internal Audit. Risk registers are compiled, and periodically updated, which map the nature of the risks relative to their likelihood of occurrence and severity and associated trends.

Individual management committee members are assigned responsibility for devising risk treatment plans to eliminate, minimise or transfer risks. The Chief Executive Officer and Executive Management Committee undertake regular reviews of the risk register and progress with risk management plans.

Overall responsibility for the risk management process adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's risk management processes and other internal controls. The Head of Risk and Internal Audit provides the Audit Committee with a quarterly update of risk management activity and the risk register.

**Risk Factors**
In this section we describe the principal risks that could have a material effect on the Group's business activities. We provide information on the nature of the risk, actions taken to mitigate risk exposure and an indication of whether the type of risk is increasing, reducing or remains largely unchanged. Not all potential risks are listed below. Some risks are excluded because the Board considers them not material to the Group as a whole. Additionally, there may be risks that are not reasonably foreseeable at the date of this report for the Group to assess fully their potential impact on the business. The order in which risks are presented below is not indicative of the relative potential impact on the Group. The potential effect of these risks may be material to the Group's business by having an impact on revenues, profits, net assets and financial resources. Such risks also have the potential to impact on the Group's reputation. It is often difficult to assess with accuracy the likely impact of an event on a Group's reputation, as any damage may often be disproportionate to the event's actual financial impact.

In general, the geographical spread of the Group provides a natural hedge against many of the principal risks identified below:

| Risk and potential impact | Mitigating activities | Status |
|---|---|---|
| **Events that Adversely Impact Domestic or International Travel** Sustained levels of occupancy and room rates can be adversely affected by events that reduce domestic or international travel. Such events may include acts of terrorism, war or perceived increased risk of armed conflict, epidemics, natural disasters, increased cost of travel and industrial action. These events may be localised to a particular country, region or could have a wider international perspective. Reduced demand will impact on revenues and operational profitability. | The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises. | Stable |
| **Political and economic developments** Major events affecting either economic or political stability on a global and regional level represent an exposure to the Group. Economic events could include recessionary pressures which would have an impact on the Group's revenues, operating costs and profitability. Political risks include changes in the regulatory environment in which the Group's business activities operate, including restrictions on the repatriation of funds or control over the ownership of assets. | Many of these risks are beyond the control of the Group and the time-frames for developing appropriate risk management approaches can often be very short. Management is continually vigilant to political and economic developments and seeks to identify emerging risks at the earliest opportunity. The Group implements ownership structures, internal controls and takes such steps available to it to minimise these exposures to the greatest extent possible. | Increasing |
| **The Hotel Industry Supply and Demand Cycle** The hotel industry operates in an inherently cyclical market place. A weakening of demand, or an increase in market room-supply, may lead to downward pressure on room rates which in turn would lead to a negative effect on operating performance. | The Group has management systems in place designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions, such as the profit protection plans initiated during previous market down-turns. | Increasing |
| **Human Resources** Execution of the Group's strategy depends on its ability to attract, develop and retain employees with the appropriate skills, experience and aptitude. | Development and maintenance of a Group culture, recognition systems, compensation and benefits arrangements, training and development all play leading roles in minimising this risk. The Group has appropriate systems for recruitment, reward and compensation and performance management. Labour relations are actively managed on a regional and local basis. | Stable[1] |

| Risk and potential impact | Mitigating activities | Status |
|---|---|---|
| **Management Agreements** An element of the Group's strategy is to selectively increase the number of management contracts to operate hotels owned by third-parties, primarily focusing on the Middle East region. In this regard, the Group faces competition from established global and regional brands. Successful execution of this strategy will depend on the Group's ability to identify suitable management opportunities, secure contracts on suitable contractual terms and ensure that contractual commitments are met and retained going forward. | The Group has developed a management team in the Middle East region that has the necessary skills and resources to pursue this element of the Group's strategy. | Increasing |
| **Joint Ventures and subsidiaries with minority shareholders** The Group has entered into a number of joint ventures in certain markets and is therefore subject to the risk of non-performance on the part of the minorities partners especially when the strategic objectives of the partners are not fully aligned. | For these joint ventures, the Group has appointed representatives who are assigned responsibilities to manage the relationship with the joint venture partners in order to enhance the alignment of business objectives. | Stable |
| **Treasury Risk** The Group trades in numerous international currencies but reports its financial results in sterling. Fluctuations in currency exchange rates may either be accretive or dilutive to the Group's reported trading results and the Group's net asset value. Unhedged interest rate exposures pose a risk to the Group when interest rates rise, resulting in increased costs of funding and an impact on overall financial performance. Credit risk arises from the risk of financial loss if a financial counterparty fails to meet its contractual obligations in respect of its deposits or short-term investments. | Foreign currency transactions exposure is primarily managed through funding of purchases from operating income streams arising in the same currency. Interest rate hedges are used to manage interest rate risk to the extent that the perceived cost is considered to outweigh the benefit from the flexibility of variable rate borrowings. The Group actively monitors the need and timing of such hedges. Investments in short-term instruments are with counterparties approved by the Board taking into account the counterparty's credit rating and a maximum limit as to the amount that may be deposited. | Stable |
| **Tax Risk** The Group's businesses operate in numerous tax jurisdictions. Changes in tax laws in any of those jurisdictions may have adverse consequences to the Group's profits. Similarly the Group's interpretation and application of various tax laws may be challenged. Tax authorities in many jurisdictions are increasing their focus on corporate tax affairs in order to maximise tax receipts. | Tax planning advice is obtained by the Group to ensure that Group companies are compliant with appropriate law and that tax exposure is appropriately managed. The Board and Audit Committee receive regular updates on tax management issues. | Stable |
| **Compliance and Litigation** The Group operates in many jurisdictions and is exposed to the risk of non-compliance with increasingly complex statutory and regulatory requirements. In addition the Group may be at risk of litigation from various parties with which it interacts, either through direct contractual arrangements or from the provision of services. In certain countries where the Group operates, particularly in emerging markets, local practices and the legal environment may be such that it is sometimes difficult for the Group to enforce its legal rights. | The Group continues to monitor changes in the regulatory environment in which it operates, identify its compliance obligations and implement appropriate compliance programmes and has processes in place to manage the risks associated with its various contractual relationships. In 2011, the Group implemented a detailed Group-wide training and compliance programme in connection with the UK's Bribery Act. | Stable[1] |
| **Health, Safety and Management** As a significant property owner and operator of hotels in multiple jurisdictions, the Group is exposed to a wide range of regulatory requirements and obligations concerning the health and safety of employees, visitors and guests. Failure to implement and maintain sufficient controls regarding health and safety issues could expose the Group to significant sanctions, both civil and criminal, financial penalties and reputational damage. | Our policy is for regional management to implement health and safety management systems that are compliant with OHSAS 18001. Details of progress made in improving the Group's management systems are contained in the Corporate Social Responsibility report on pages 39 to 41 of the 2011 Annual Report. | Stable |

| Risk and potential impact | Mitigating activities | Status |
|---|---|---|
| **Intellectual Property Rights and Brands** Future development will, in part, be dependent on the recognition of the Group's brands and perception of the values inherent in those brands. Consistent delivery of product quality is vitally important to influencing consumer preference and creating and maintaining value perception. Historically the Group has mainly operated properties which it owns. The trend towards managing third-party properties, primarily in the Middle East region increases the risk that product quality may not be delivered in accordance with the Group's standards. This may increase the Group's exposure to litigation, increase risks to reputation, reduce revenues and become an inhibiting factor on ongoing development. | Substantial investment continues to be made in protecting the Group's brands from misuse and infringement, by way of trade mark registration and domain name protection. Management seeks to ensure maintenance of standards by developing strong working relationships with hotel owners and undertaking regular monitoring of service delivery. | Stable |
| **Property Ownership** The Group's strategy is to be both owner and manager of hotel properties. Growth of the Group's portfolio of owned assets is dependent on the availability of suitable development sites, acquisitions and access to funding. A limit on such opportunities may have a negative impact on future operational profitability. Property ownership requires ongoing investment in the form of preventative maintenance, refurbishment, significant capital expenditure and product development. There is also the possible loss of capital due to uninsured events and reductions in asset values as a result of demographic changes in the markets in which the properties are located. | The Group is developing property specific asset management plans which focus on the capital requirements of each property in terms of regular maintenance and product enhancement. The Group has rigorous management systems to monitor major capital projects to ensure they are properly managed and delivered on time and within budgeted parameters. | Stable |
| **Insurance** Not all risks are insured, either because the cover is not available in the market or that cover is not available on commercially viable terms. The Group is exposed to the risk of cover not being continually available. Availability may be influenced by factors outside the Group's control, which could reduce the markets' underwriting capacity, breadth of policy coverage or simply make the cost of cover too expensive. The Group could be exposed to uninsured third-party claims, loss of revenue or reduction of fixed asset values which may, in turn, have an adverse effect on Group profitability, cash flows and ability to satisfy banking covenants. | The Group's insurance requirements are regularly reviewed to ensure that the cover obtained is appropriate to its risk profile and after taking into account the level of retained risk the Board considers to be appropriate, relative to the cost of cover available in the market place. Insurance covers are arranged with a variety of insurers to ensure that arrangements are not overly concentrated on a limited number of carriers. Choice of insurance carriers is dependent on satisfaction of a number of relevant factors including a review of the insurers' security ratings. | Stable |
| **Information Technology Systems and Infrastructure** In order to maintain its competitiveness within the market place the Group will need to ensure its IT support systems deliver the necessary trading platforms and provide management with accurate and timely information. | The Group invests in systems that are tried and tested so that as much operational resilience as possible, cost considerations permitting, can be obtained. Investment is made in robust infrastructure technology to provide a reliable operating platform. Crisis management and disaster recovery plans are in place for business critical systems. In 2011 management has undertaken a review of the Group's existing IT infrastructure and of the current and future IT needs of the business. Following this review management are prioritising the implementation of necessary IT systems. | Increasing |
| **Data privacy** A significant proportion of the Group's operating revenue is received from customers through credit card transactions and the Group has an obligation to keep secure customers' credit card and other personal details. Non-compliance with data privacy regulations, which differ by jurisdiction, could result in fines and/or other damages being incurred. Additionally, the payment card industry requires the Group to comply with data security standards (PCI-DSS) as a condition in credit card merchant agreements. Failure to comply with these standards could result in contractual penalties and withdrawal of credit card payment facilities. | During the last year the Group has committed significant resources to achievement and maintenance of the necessary IT infrastructure, operating control and training associated with data privacy and PCI-DSS. | Increasing |

[1] The disclosure on the items marked has been revised since the publication of the Group's 2011 Annual Report.