Financial Review

The Group's Adjusted Net Asset Value

Adjusted NAV per share

HK$25.62

+6%

In the Financial Statements the Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, instead of fair value. We believe fair value better represents the underlying economic value of our properties.

Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 31 December 2013, the details of which are set out on pages 47 and 48. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 10% to HK$38,486 million as indicated in the table below.

HK$m	2013	2013	2012	2012
Net assets attributable to shareholders per audited statement of financial position		35,105		33,150
Adjusting the value of hotels and golf courses to fair market value	4,103		3,619	
Less: Related defered tax and non-controlling interests	(722)		(373)	
		3,381		3,246
Adjusted net assets attributable to shareholders		38,486		36,396
Audited net assets per share (HK$)		23.37		22.07
Adjusted net assets per share (HK$)		25.62		24.23

The Group's Underlying Earnings

Underlying EPS

HK$0.34

+17%

Our operating results are mainly derived from the operation of hotels and letting of commercial properties and we manage the Group's operations with principal reference to its underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating and non-recurring items, such as any changes in fair value of investment properties, in our income statement. In order to provide a better reflection of the performance of the Group without the non-operating and non-recurring items, we have provided calculations of the Group's underlying profit attributable to shareholders and underlying earnings per share, which are determined by excluding the post-tax effects of the property revaluation movements and other non-operating items on the next page.

The Group's underlying profit attributable to shareholders for the year ended 31 December 2013 increased by 16% to HK$511 million.

HK$m	2013	2012	2013 vs 2012
Profit attributable to shareholders	1,712	1,555	10%
Increase in fair value of investment properties	(1,403)	(1,073)	
Share of property revaluation loss of The Peninsula Shanghai, net of tax	178	14	
Gain on disposal of an unlisted equity investment	(3)	(46)	
Tax and non-controlling interests attributable to non-operating items	27	(11)	
Underlying profit attributable to shareholders	511	439	16%
Underlying earnings per share (HK$)	0.34	0.29	17%

Income Statement

The Group's consolidated income statement for the year ended 2013 is set out on page 188. The following table summarises the key components of the Group's profit and loss. This table should be read in tandem with the commentaries set out on pages 42 to 46 of this Financial Review.

HK$m	2013	2012	2013 vs 2012
Turnover	5,508	5,178	6%
Direct operating costs	(4,202)	(3,977)	6%
EBITDA	1,306	1,201	9%
Depreciation and amortisation	(395)	(384)	3%
Net financing charges	(94)	(85)	11%
Share of result of The Peninsula Shanghai	(280)	(125)	124%
Non-operating items	1,406	1,119	26%
Taxation	(231)	(170)	36%
Profit for the year	1,712	1,556	10%
Non-controlling interests	–	(1)	(100%)
Profit attributable to shareholders	1,712	1,555	10%

Turnover

HK$5,508m

+6%

Hotels	
HK$4,044m	+4%
Commercial Properties	
HK$806m	+10%
Clubs & Services	
HK$658m	+18%

Turnover

The Group's turnover in 2013 increased by 6% to HK$5,508 million and the breakdown of this by business segment and geographical segment is set out in the following table.

Consolidated revenue by business segment

HK$m	**2013**	2012	2013 vs 2012
Hotels	**4,044**	3,885	4%
Commercial Properties	**806**	733	10%
Clubs and Services	**658**	560	18%
	5,508	5,178	6%

Consolidated revenue by geographic location

HK$m	**2013**	2012	2013 vs 2012
Arising in			
Hong Kong	**2,505**	2,224	13%
Other Asia	**1,786**	1,864	(4%)
United States of America	**1,190**	1,090	9%
Europe	**27**	n/a	n/a
	5,508	5,178	6%

Our hotels division is the main contributor to the Group's revenue, accounting for 73% of total revenue. In 2013, our hotels generally performed well and achieved satisfactory revenue growth as a result of our effective marketing campaigns and revenue management strategy. The breakdown of revenue by hotels and detailed discussions of the operating performances of individual hotels are set out in the Business Review section on pages 25 to 31.

Our commercial properties division achieved a revenue growth of 10%, mainly due to increased contributions from its Hong Kong properties; in particular, The Repulse Bay Complex and The Peak Tower. During 2013, the Group acquired two properties, one in Paris and one in London (which is being held for redevelopment at a later date). Further details of these properties are set out on page 35 and 39 and detailed discussions of the operating performances of individual commercial properties, including these two newly acquired properties, are set out in the Business Review section on pages 32 to 35 and page 39.

Our clubs and services division includes businesses relating to the provision of management services, wholesaling and retailing of merchandise, operation of the Peak Tram, operation of golf clubs and provision of dry cleaning and laundry services. The division's 18% increase in revenue was mainly due to the re-opening of the hotel portion of Quail Lodge & Golf Club in March 2013 and the increased mooncake sales revenue achieved by Peninsula Merchandising during the year. Detailed discussions of the operating performances of the businesses of this division are set out in the Business Review section on pages 36 to 38.

Operating Costs

HK$4,597m

+5%

Operating Costs

In 2013, our operating costs increased by 5% to HK$4,597 million, due to higher business levels and depreciation charges following the major enhancement projects at The Peninsula Hong Kong and various other locations.

Excluding depreciation and amortisation of HK$395 million, direct operating costs of the Group for 2013 amounted to HK$4,202 million, an increase of 6% over 2012.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of operating costs. As at 31 December 2013, the Group's direct operations had 5,772 full-time employees. There was an increase of 288 headcounts over 2012 due to the introduction of a 5-day work week for the Group's Hong Kong operations as well as gradual filling of vacant positions. Staff costs and related expenses for the year increased by 6% to HK$1,951 million, representing 46% (2012: 46%) of the Group's direct operating costs and 35% (2012: 36%) of the Group's revenue.

Full time headcount at year end	2013 Direct Operations	2013 Managed Operations	2013 Total	2012 Direct Operations	2012 Managed Operations	2012 Total	2013 vs 2012
By division:							
Hotels	4,565	1,312	5,877	4,354	1,258	5,612	5%
Commercial Properties	332	–	332	314	–	314	6%
Clubs and Services	875	427	1,302	816	427	1,243	5%
	5,772	1,739	7,511	5,484	1,685	7,169	5%
By geographical location:							
Hong Kong	1,943	427	2,370	1,778	427	2,205	7%
Other Asia	2,780	884	3,664	2,701	847	3,548	3%
United States of America	1,049	422	1,471	1,005	411	1,416	4%
Europe	–	6	6	n/a	n/a	n/a	n/a
	5,772	1,739	7,511	5,484	1,685	7,169	5%

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group increased by HK$105 million or 9% to HK$1,306 million in 2013. Compared to an increase of HK$330 million or 6% in consolidated revenue, the increase in EBITDA represented a flow-through of 32%. Our efforts to control costs have resulted in an increase of one percentage point in the Group's overall EBITDA margin to 24%.

The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total
2013					
Hotels	**452**	**189**	**8**	**–**	**649**
Commercial Properties	**484**	**16**	**–**	**21**	**521**
Clubs and Services	**144**	**15**	**(23)**	**–**	**136**
	1,080	**220**	**(15)**	**21**	**1,306**
	83%	**17%**	**(1%)**	**1%**	**100%**
2012					
Hotels	384	181	31	n/a	596
Commercial Properties	453	21	–	n/a	474
Clubs and Services	135	18	(22)	n/a	131
	972	220	9	n/a	1,201
	81%	18%	1%	n/a	100%
Change					
2013 vs 2012	11%	–	(267%)	n/a	9%

EBITDA margin	**2013**	2012
Hotels	**16%**	15%
Commercial Properties	**65%**	65%
Clubs and Services	**21%**	23%
Overall EBITDA margin	**24%**	23%
Arising in:		
Hong Kong	**43%**	44%
Other Asia	**12%**	12%
United States of America	**(1%)**	1%
Europe	**78%**	n/a

The hotel business is a labour-intensive industry, and it requires a relatively high cost of inventories to maintain the quality of service and food and beverage. Despite rising costs and the introduction of a 5-day work week for The Peninsula Hong Kong, we are pleased to have been able to improve our hotels division's EBITDA margin by one percentage point to 16% in 2013.

The EBITDA margin of the commercial properties division in 2013 remained stable due to the nature of the leasing business. On the other hand, the clubs and services division's EBITDA margin decreased by two percentage points to 21%, mainly due to the reopening of the hotel portion of Quail Lodge & Golf Club which has yet to reach a stabilised level of operation as well as the increased cost base of the Cathay Pacific Airways' First and Business Class Lounges at Hong Kong International Airport.

Depreciation and Amortisation

The depreciation and amortisation charge of HK$395 million (2012: HK$384 million) largely relates to the hotels and in particular following the renovation project at The Peninsula Hong Kong. Depreciation charges are substantial and as such the Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Non-Operating Items

The increase in fair value of investment properties for the year was principally attributable to the increase in appraised market value of The Repulse Bay Complex and the shopping arcades at The Peninsula Hong Kong and The Peninsula New York. These increases reflect the growth in underlying committed rentals, in particular, those achieved by the shops at The Peninsula New York. HK$523 million of the investment property revaluation surplus was attributable to a successful restructuring of the leases of the retail spaces at The Peninsula New York.

During the year, the Group further received a deferred consideration of HK$3 million in respect of the 2012 disposal of its interest in Inncom International, Inc.

Results of The Peninsula Shanghai

The Group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), owns a 50% interest in The Peninsula Shanghai Complex. This comprises a hotel, a shopping arcade and a residential tower of 39 apartments. In addition to operation of the hotel and leasing of the shopping arcade and apartments, PSW also sublets and manages No. 1 Waitanyuan, which is adjacent to the Complex.

The Peninsula Shanghai performed well in 2013 and was the market leader in terms of RevPAR in its competitive set and generated an EBITDA of HK$92 million (2012: HK$68 million). However, given that it is a highly-geared property, and in order to reduce financing charges, PSW resolved in July 2013 to sell 19 apartment units in the market. Accordingly, these apartment units were reclassified from "investment properties" to "assets held for sale" during 2013. Following this reclassification, these apartment units are stated at their fair value net of the estimated selling costs to be incurred as required by the applicable accounting standard, whereas the remaining 20 apartment units, which are available for lease, continue to be stated at fair value.

As a result of the above accounting reclassification, an unrealised net loss on revaluation of HK$355 million was recognised by PSW in 2013. This loss mainly comprises the PRC land appreciation tax in respect of the 19 apartment units held for sale which is assessed based on progressive tax rates of 30%-60% of the appreciation in value which was not previously provided for when these apartment units were previously accounted for as long-term investment properties.

After accounting for the unrealised net loss on revaluation, depreciation and net financing charges, the loss sustained by PSW in 2013 amounted to HK$560 million (2012: HK$250 million) and the Group's share of PSW's loss for the year amounted to HK$280 million (2012: HK$125 million).

Balance Sheet

The Group's financial position as at 31 December 2013 remained strong, with year-on-year increase of shareholders' funds of 6% to HK$35,105 million, representing a per share value of HK$23.37 compared to HK$22.07 in 2012. The consolidated balance sheet of the Group as at 31 December 2013 is presented on page 190 and the key components of the Group's assets and liabilities are set out in the table below.

HK$m	2013	2012	2013 vs 2012
Fixed assets	38,187	34,123	12%
Other long term assets	2,571	2,517	2%
Cash at banks and in hand	1,494	2,185	(32%)
Other assets	867	982	(12%)
	43,119	39,807	8%
Interest-bearing borrowings	(5,486)	(4,174)	31%
Other liabilities	(2,259)	(2,194)	3%
	(7,745)	(6,368)	22%
Net assets	35,374	33,439	6%
Represented by			
Shareholders' funds	35,105	33,150	6%
Non-controlling interests	269	289	(7%)
Total equity	35,374	33,439	6%

Fixed Assets

The Group has interests in nine operating hotels in Asia and the USA and is developing a hotel in Paris, in which the Group has a 20% interest. In addition to hotel properties, the Group owns residential apartments, office towers and commercial buildings for rental purposes.

In line with our vision of investing in assets for their long-term value, we completed two significant enhancement projects for The Peninsula Hong Kong and The Repulse Bay Complex, including a major reconfiguration of de Ricou tower and the upgrade of the public areas of the Complex.

We also acquired two additional commercial properties to complement our property portfolio. In June 2013 a commercial building in Paris known as 21 avenue Kléber was purchased for approximately HK$566 million (€56 million) exclusive of transaction costs and taxes. On 25 July 2013, we completed the acquisition of a 50% interest in 1-5 Grosvenor Place in London for approximately HK$1,564 million (£132.5 million) exclusive of transaction costs, stamp duty, land tax and other applicable taxes. 1-5 Grosvenor Place is currently leased out, but we are working with our partner Grosvenor on designs, costs and planning consent with a view to redeveloping this property into The Peninsula London hotel and residential complex.

Our hotel properties and investment properties are accounted for in different ways. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, while investment properties are stated at fair value. Therefore independent valuers have been engaged to conduct a fair valuation of these properties as at 31 December 2013, and a summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2013 is set out in the table on the following page.

	Group's Interest	100% Value: Fair Value based on Independent Valuation (HK$m)	100% Value: Book Value (HK$m)
Hotels			
The Peninsula Hong Kong	100%	11,850	9,903
The Peninsula New York	100%	2,327	1,744
The Peninsula Beijing	76.6%*	1,843	1,399
The Peninsula Chicago	100%	1,340	1,123
The Peninsula Tokyo	100%	1,211	833
The Peninsula Bangkok	75%	795	778
The Peninsula Manila	77.4%	262	255
		19,628	16,035
Commercial properties			
The Repulse Bay Complex	100%	16,376	16,376
The Peak Tower	100%	1,276	1,276
St. John's Building	100%	894	894
21 avenue Kléber (acquired in June 2013)	100%	642	642
1-5 Grosvenor Place (acquired in July 2013)	50%	3,580	3,580
The Landmark	70%**	85	85
		22,853	22,853
Other properties			
Thai Country Club golf course	75%	245	239
Quail Lodge resort, golf course and vacant land	100%	266	257
Vacant land near Bangkok	75%	317	317
Others	100%	187	98
		1,015	911
Total market/book value		43,496	39,799
Hotel and investment property held by a joint venture			
The Peninsula Shanghai Complex***	50%	5,480	5,202
Hotel property held by an associate company			
The Peninsula Beverly Hills	20%	2,245	463

* The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

** The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner at the end of the joint venture period.

*** Excluding the 19 apartment units held for sale.

Other Long-Term Assets

The balance of HK$2,571 million of other long-term assets as at 31 December 2013 (2012: HK$2,517 million) principally represents the Group's 50% interest in The Peninsula Shanghai (PSH) and 20% in The Peninsula Paris. The 2013 results of PSH were equity accounted for in our consolidated financial statements.

In addition, the Group has a 20% interest in The Peninsula Beverly Hills, which we previously accounted for as an unlisted investment. Following a reclassification we will start accounting for The Peninsula Beverly Hills on an equity accounting basis from 2014.

Cash at Banks and in Hand and Interest-Bearing Borrowings

As at 31 December 2013, the Group's cash at banks and in hand decreased to HK$1.5 billion and interest-bearing borrowings increased to HK$5.5 billion. While the net cashflow from operations was sufficient to cover capital expenditure of existing assets including the guestroom renovation at The Peninsula Hong Kong and the upgrade project at The Repulse Bay Complex, the additional borrowings were mainly to fund the acquisition of 21 avenue Kléber and 1-5 Grosvenor Place. A breakdown of the Group's capital expenditures for the year ended 31 December 2013 is set out on page 50. Further details of the Group's borrowing profile, gearing, interest cover and treasury management are discussed on pages 52 to 55.

Cash Flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2013 is set out on page 193. The following table summarises the key cash movements leading to the increase in net borrowings of the Group as at 31 December 2013.

HK$m	**2013**	2012
EBITDA	**1,306**	1,201
Net change in debtors/creditors	**95**	(68)
Tax payment	**(93)**	(169)
Net cash generated from operating activities	**1,308**	964
Capital expenditure on existing assets	**(928)**	(875)
Net cash inflow after normal capital expenditure	**380**	89
Acquisition of new properties	**(2,293)**	–
Net cash (outflow)/inflow before dividends and other payments	**(1,913)**	89

The decrease in current tax payments in 2013 was mainly due to depreciation allowances in respect of the capital expenditure incurred in renovations of The Peninsula Hong Kong and The Repulse Bay Complex, which resulted in a substantial reduction of Hong Kong profits tax.

Our after-tax net cash generated from operating activities for the year amounted to HK$1,308 million (2012: HK$964 million), of which HK$928 million (2012: HK$875 million) was applied to fund capital expenditure on existing assets, which included the capital expenditure of HK$491 million (2012: HK$556 million) for The Peninsula Hong Kong and The Repulse Bay Complex. Free operating cash flow of HK$380 million (2012: HK$89 million) resulted after capital expenditure on existing assets.

In addition to capital expenditure on existing assets, the Group also incurred HK$2,293 million for the acquisitions of 1-5 Grosvenor Place, London and 21 avenue Kléber, Paris. The breakdown of the Group's spending on its existing assets and the new acquisitions is analysed below.

HK$m	2013	2012
Properties upgrade		
Hotels		
The Peninsula Hong Kong (including guestroom renovation)	198	336
Other hotels	265	183
Commercial properties		
The Repulse Bay Complex (including de Ricou reconfiguration)	293	220
Other properties	50	42
Clubs and services	122	94
	928	875
New acquisitions (inclusive of taxes and transaction costs)		
1-5 Grosvenor Place	1,688	–
21 avenue Kléber	605	–
	2,293	–
	3,221	875

Off Balance Sheet Information

The following capital commitments and contingent liabilities are not reflected in the Group's income statement, statement of financial position and statement of cash flows but are considered relevant and should be read in conjunction with the Financial Statements.

Capital Commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and for the long-term value of these assets. As at 31 December 2013, the Group's capital commitments amounted to HK$2,046 million (2012: HK$1,520 million) and the breakdown is as follows:

HK$m	2013	2012
Capital commitments		
Major enhancement projects		
The Peninsula Beijing	1,138	–
The Peninsula Chicago	164	–
The Peninsula Hong Kong	–	236
The Repulse Bay Complex	–	420
Quail Lodge & Golf Club	72	159
Others	672	705
	2,046	1,520
The Group's share of capital commitments of		
– a joint venture	9	22
– associates	210	387

The Group is planning to embark on a major renovation programme for The Peninsula Beijing to enhance its position in a highly competitive market. The cost of this major renovation is estimated to be approximately HK$1,138 million (RMB890 million). 2014 will be a year of planning, and construction work is scheduled to be completed in early 2017. Given the size of the investment and the scale of the required work, the Group is reviewing a number of scenarios with a view to minimising disruption to the hotel's operations and its retail tenants.

In addition, following the completion of the upgrade project of The Peninsula Chicago's main suite and rooftop bar, the Group is planning to renovate all guestrooms of the hotel at an estimated cost of approximately HK$164 million (US$21 million). This renovation is expected to be completed in mid-2015.

Contingent Liabilities

Contingent liabilities as at 31 December 2013 for the Group and the Company are analysed in the table below. However, the Directors consider that these contingent liabilities are unlikely to materialise. As such, no provision has been made in the Financial Statements.

	Group		Company	
HK$m	2013	2012	2013	2012
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	–	–	5,557	4,239
Other guarantees	–	1	–	1
	–	1	5,557	4,240

Treasury Management

The Group manages treasury activities centrally at our corporate office in Hong Kong. We are exposed to liquidity, foreign exchange, interest rate and credit risks in the normal course of business and have policies and procedures in place to handle such risks.

Liquidity/Financing

Our policy is to regularly monitor current and expected liquidity requirements and to ensure that we maintain sufficient funds to meet short and longer-term obligations and commitments. The Group also constantly reviews its loan profile so as to manage its refinancing risks and extend its maturity profile.

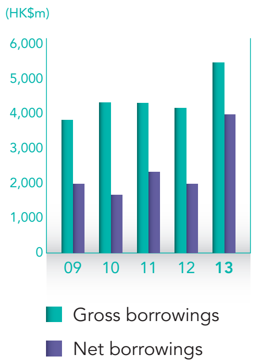
In the first half of 2013, the debt capital markets had a good start with record issuance volumes and low bond interest rates. In lieu of the favourable debt market environment, the Group established a US$1 billion Medium Term Note Programme on 25 June 2013 through a wholly owned subsidiary. However, the debt market environment turned unfavourable for any issuance after the Federal Reserve Chairman announced that the Federal Reserve would taper its bond repurchase if there were signs of sustained improvement in the labour market.

The Group then used our strong banking relationships to arrange bilateral five-year term loan agreements totalling HK$1.8 billion with several international banks. The proceeds were principally used for the payment of HK$1,564 million for the 1-5 Grosvenor Place lease. In addition, term loan facilities of €60 million and ¥5 billion were finalised during the year for the acquisition of 21 avenue Kléber and early refinancing of existing indebtedness respectively.

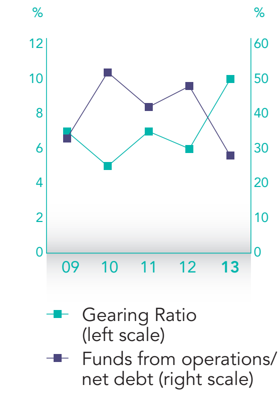
In 2013, gross borrowings increased to HK$5,486 million (2012: HK$4,174 million). Consolidated net debt increased to HK$3,992 million as compared to HK$1,989 million in 2012 taking into account cash of HK$1,494 million (2012: HK$2,185 million). Gearing, expressed as a percentage of net borrowings to the total of net borrowings and shareholders' funds, increased from 6% to 10% while funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 48% to 28%. These ratios still reflect a very healthy financial position of the Group.

The average debt maturity increased from 2.4 years to 3.5 years.

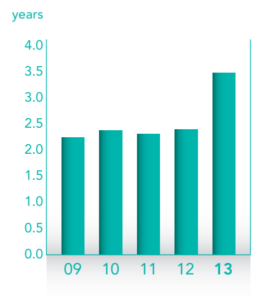
Gross and Net Borrowings



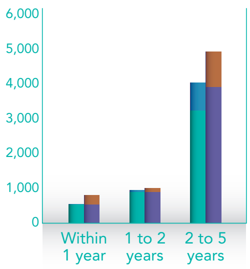
Gearing and Funds from Operations to Net Debt



Average Debt Maturity



Banking Facilities and Borrowings (by type and maturity)



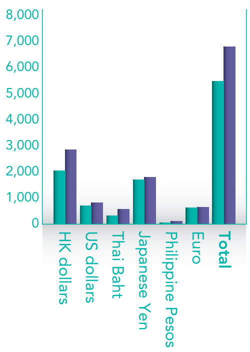
In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company.

The consolidated and non-consolidated borrowings as at 31 December 2013 are summarised as follows:

	2013					2012
HK$m	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	2,057	2,079	714	636	5,486	4,174
Non-consolidated gross borrowings attributable to the Group*						
The Peninsula Shanghai (50%)	–	1,412	–	–	1,412	1,425
The Peninsula Beverly Hills (20%)	–	–	218	–	218	218
The Peninsula Paris (20%)	–	–	–	446	446	215
Non-consolidated borrowings	–	1,412	218	446	2,076	1,858
Consolidated and non-consolidated gross borrowings	2,057	3,491	932	1,082	7,562	6,032

*Represented HSH's attributable share of borrowings

Banking Facilities and Borrowings (by currency)



Foreign Exchange

The Group reports our financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. It usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge exposures.

All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2013, Hong Kong dollar borrowings represented 37% (2012: 24%) of total borrowings. The balances were mainly in US dollars, Japanese yen and other local currencies of the operations of the Group's entities.

Interest Rate Risk

The Group has an interest rate risk management policy which focuses on reducing the Group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the Group also uses interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure.

Financing charges on borrowings in 2013 amounted to HK$140 million (2012: HK$141 million). After interest income of HK$46 million (2012: HK$56 million), a net charge of HK$94 million (2012: HK$85 million) was recognised in the income statement. Interest cover (operating profit divided by net financing charges) increased to 9.7 times (2012: 9.6 times) in 2013 arising mainly from the improved operating profit. As at 31 December 2013, the Group's fixed to floating interest rate ratio was at 45% (2012: 54%) and the weighted average gross interest rate for the year decreased to 2.9% (2012: 3.2%). The floating interest rate portfolio capitalised on the current low interest rate environment.

Credit Risk

The Group manages its exposure to non-performance of counterparties by transacting with those who have a credit rating of at least an investment grade when depositing surplus funds. However, in developing countries, it may be necessary to deal with banks of lower credit rating.

Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade, even in developing countries, because of the longer term effect.

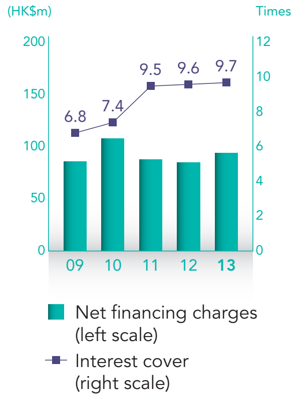
As at 31 December 2013, cash and time deposits of HK$1,471 million (2012: HK$2,147 million) and derivatives with notional amount of HK$2,090 million (2012: HK$2,398 million) were transacted with financial institutions with credit ratings of at least an investment grade.

Share Information

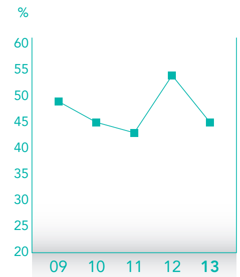
At market close on 17 March 2014, the Company's share price stood at HK$10.46, giving a market capitalisation of HK$15.7 billion (US$2.0 billion). This reflects a discount of 55% to net assets attributable to shareholders of the Company, or a discount of 59% to the adjusted net assets (see page 40).

The average closing price during 2013 was HK$12.41, with the highest price of HK$14.20 achieved on 20 May 2013 and the lowest price of HK$10.38 recorded on 27 December 2013.

Net Financing Charges and Interest Cover



Long Term Fixed-to-Total Borrowings (adjusted for the hedging effect)



Cash at Banks by Credit Rating of Banks