Consolidated Income Statement for the year ended 31.12.2016

FINANCIAL REVIEW SUMMARY

• Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA")

> EBITDA and EBITDA margin of the Group for 2016 decreased by 11% and two percentage points to HK\$1.288 million and 23% respectively. The decrease was mainly due to the reduced contribution from the Hotels division resulted from the renovation of our hotel in Beijing.

2 Revenue

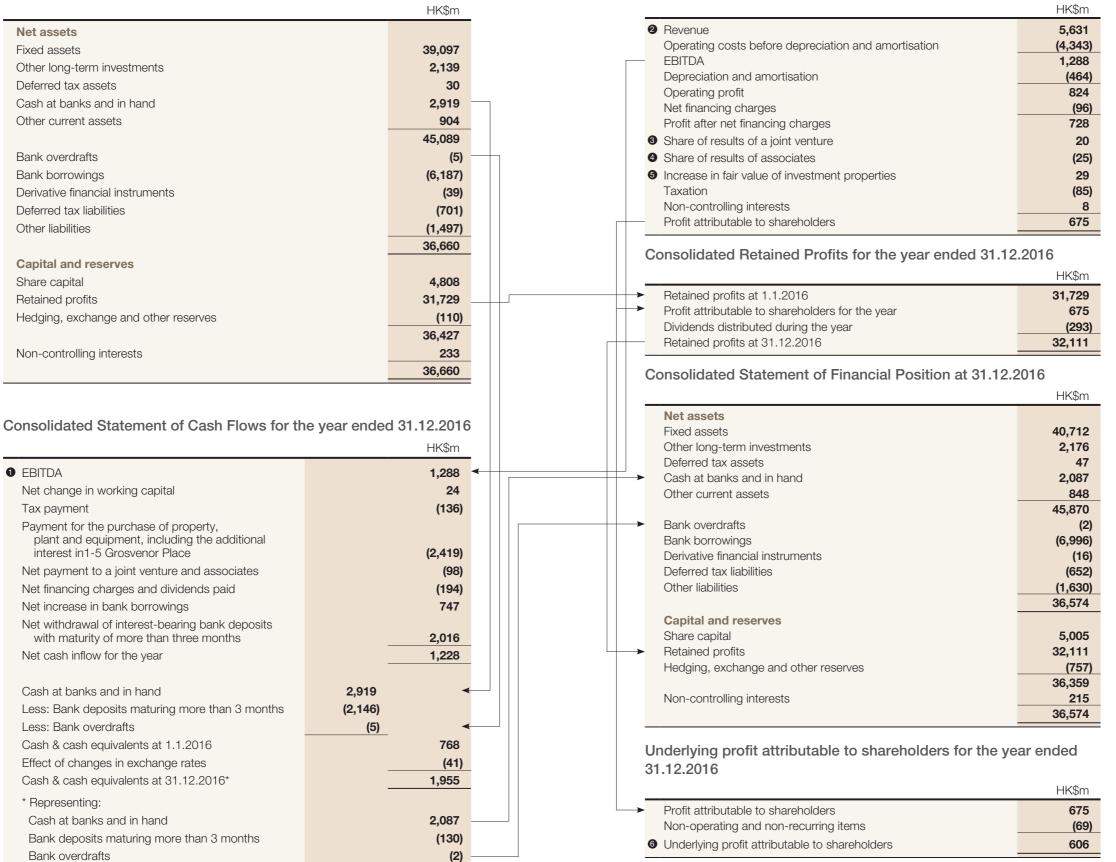
The Hotels division is the main contributor to the Group's revenue, accounting for 72% (2015: 71%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the Hotels division was predominantly due to the room closures for the renovation undertaken by The Peninsula Beijing.

The operating performance of the Commercial Properties division remained stable compared with last year. The decrease in revenue for the Clubs and Services division was mainly due to the loss of income from Peninsula Clubs & Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport with effect from 1 May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 24 to 44 of the CEO's Strategic Review.

Bank overdrafts

Consolidated Statement of Financial Position at 1.1.2016



1.955

3 Share of Results of a Joint Venture

The Group has a 50% interest in The Peninsula Shanghai Complex and the Group's share of profit amounted to HK\$20 million (2015: share of loss of HK\$71 million), which included the share of gain on apartments sale of HK\$31 million (2015: HK\$18 million) and net unrealised loss of HK\$19 million (2015: HK\$37 million) arising from the revaluation of The Peninsula Shanghai Complex's investment properties.

Share of Results of Associates

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2016 amounted to HK\$25 million (2015: HK\$23 million).

6 Increase in Fair Value of Investment **Properties**

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK\$29 million (2015: HK\$277 million). The reduction in revaluation surplus was a reflection of the general market conditions.

6 Underlying Profit Attributable to Shareholders

To provide additional insight into the performance of its business operations, the Group presents underlying profit by excluding nonoperating and non-recurring items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are summarised on page 51.