

FINANCIAL REVIEW SUMMARY

1 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.

Consolidated Statement of Financial Position at 1.1.2016

	HK\$m
Net assets	
Fixed assets	39,097
Other long-term investments	2,139
Deferred tax assets	30
Cash at banks and in hand	2,919
Other current assets	904
	45,089
Bank overdrafts	(5)
Bank borrowings	(6,187)
Derivative financial instruments	(39)
Deferred tax liabilities	(701)
Other liabilities	(1,497)
	36,660
Capital and reserves	
Share capital	4,808
Retained profits	31,729
Hedging, exchange and other reserves	(110)
	36,427
Non-controlling interests	233
	36,660

Consolidated Statement of Cash Flows for the year ended 31.12.2016

	HK\$m
1 EBITDA	1,288
Net change in working capital	24
Tax payment	(136)
Payment for the purchase of property, plant and equipment, including the additional interest in 1-5 Grosvenor Place	(2,419)
Net payment to a joint venture and associates	(98)
Net financing charges and dividends paid	(194)
Net increase in bank borrowings	747
Net withdrawal of interest-bearing bank deposits with maturity of more than three months	2,016
Net cash inflow for the year	1,228
Cash at banks and in hand	2,919
Less: Bank deposits maturing more than 3 months	(2,146)
Less: Bank overdrafts	(5)
Cash & cash equivalents at 1.1.2016	768
Effect of changes in exchange rates	(41)
Cash & cash equivalents at 31.12.2016*	1,955
* Representing:	
Cash at banks and in hand	2,087
Bank deposits maturing more than 3 months	(130)
Bank overdrafts	(2)
	1,955

Consolidated Income Statement for the year ended 31.12.2016

	HK\$m
2 Revenue	5,631
Operating costs before depreciation and amortisation	(4,343)
EBITDA	1,288
Depreciation and amortisation	(464)
Operating profit	824
Net financing charges	(96)
Profit after net financing charges	728
3 Share of results of a joint venture	20
4 Share of results of associates	(25)
5 Increase in fair value of investment properties	29
Taxation	(85)
Non-controlling interests	8
Profit attributable to shareholders	675

Consolidated Retained Profits for the year ended 31.12.2016

	HK\$m
Retained profits at 1.1.2016	31,729
Profit attributable to shareholders for the year	675
Dividends distributed during the year	(293)
Retained profits at 31.12.2016	32,111

Consolidated Statement of Financial Position at 31.12.2016

	HK\$m
Net assets	
Fixed assets	40,712
Other long-term investments	2,176
Deferred tax assets	47
Cash at banks and in hand	2,087
Other current assets	848
	45,870
Bank overdrafts	(2)
Bank borrowings	(6,996)
Derivative financial instruments	(16)
Deferred tax liabilities	(652)
Other liabilities	(1,630)
	36,574
Capital and reserves	
Share capital	5,005
Retained profits	32,111
Hedging, exchange and other reserves	(757)
	36,359
Non-controlling interests	215
	36,574

Underlying profit attributable to shareholders for the year ended 31.12.2016

	HK\$m
Profit attributable to shareholders	675
Non-operating and non-recurring items	(69)
6 Underlying profit attributable to shareholders	606

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.

4 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).

5 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 non-operating 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.