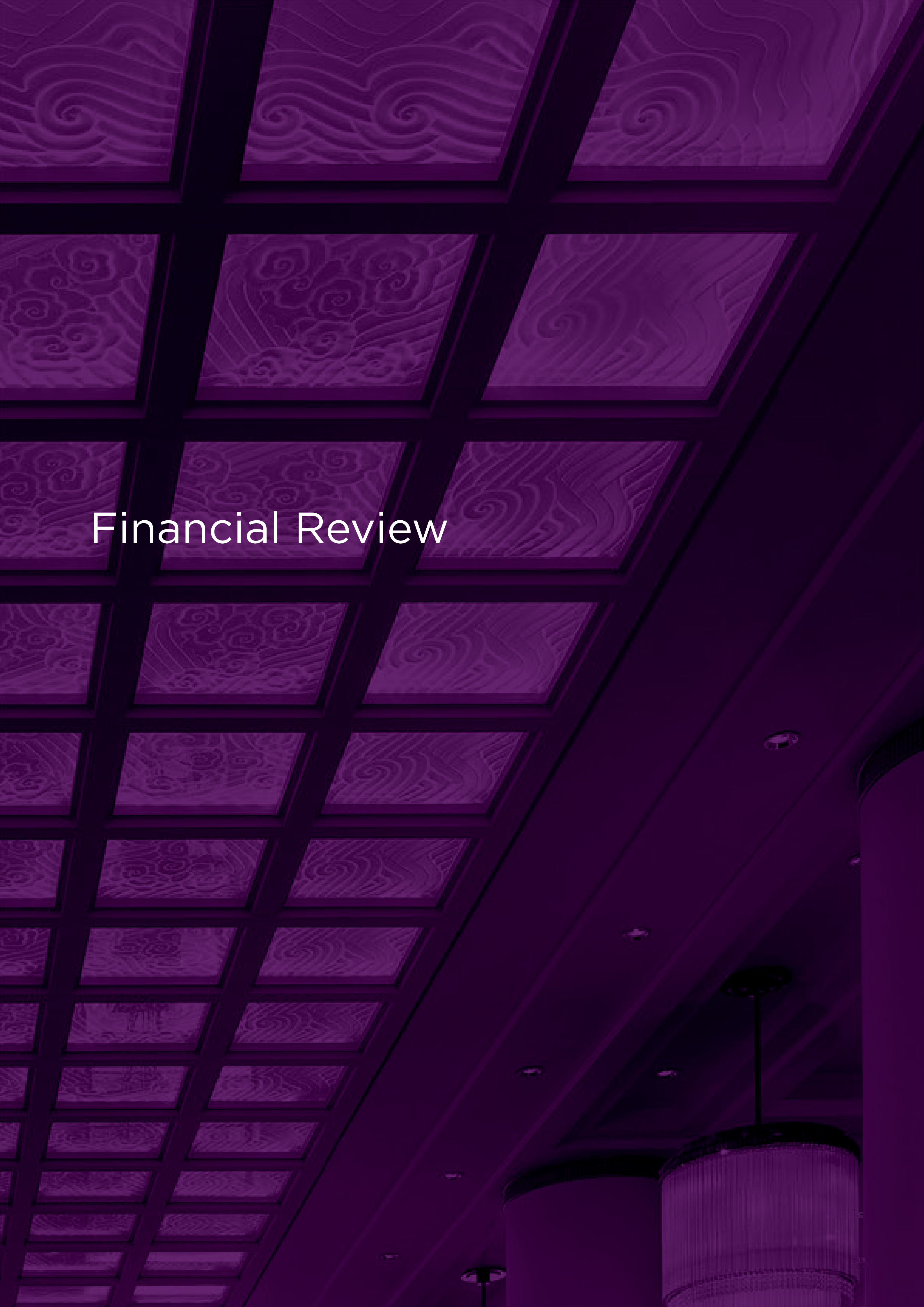
Financial Review



1 Earnings before interest, taxation, depreciation and amortisation ("EBITDA")

Impacted by the renovation works in The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay Complex. The Group results reflect a 1 % fall in EBITDA to HK$1,201 million in 2012. The EBITDA margin was 23%.

2 Purchase of fixed assets

The Group has a 5-year capital expenditure plan that is reviewed annually. This includes planned replacement of fully depreciated FF&E, purchase of new items, introduction of new facilities and major renovations. The spending of HK$875 million in 2012 can be analysed as follows:

	HK$m
Guestrooms renovation project and upgrade of the F&B areas and Conference Centre at The Peninsula Hong Kong	336
Public area upgrade and reconfiguration of the de Ricou serviced apartment tower at The Repulse Bay Complex	220
Re-opening of Quail Lodge & Golf Club	65
Others	254
	875

Consolidated Statement of Financial Position at 1.1.2012

	HK$m
Net assets	
Fixed assets	32,482
Other long term investments	2,564
Deferred tax assets	86
Derivative financial instruments	18
Cash and bank balances	1,984
Other current assets	1,099
	38,233
Bank overdrafts	(14)
Bank borrowings	(4,305)
Derivative financial instruments	(140)
Deferred tax liabilities	(623)
Other liabilities	(1,413)
	31,738
Capital and reserves	
Share capital and premium	4,247
Retained profits	27,341
Hedging reserve	(98)
Other reserves	(35)
	31,455
Non-controlling interests	283
	31,738

Consolidated Income Statement for the year ended 31.12.2012

	HK$m
3 Turnover	5,178
Operating costs before depreciation and amortisation	(3,977)
EBITDA	1,201
Depreciation and amortisation	(384)
Operating profit	817
Net financing charges	(85)
Profit after net financing charges	732
Share of result of a jointly controlled entity	(125)
4 Increase in fair value of investment properties	1,073
5 Gain on disposal of unlisted equity instrument	46
Taxation	(170)
Non-controlling interests	(1)
Profit attributable to shareholders	1,555

Consolidated Retained Profits for the year ended 31.12.2012

	HK$m
Retained profits at 1.1.2012	27,341
Profit attributable to shareholders for the year	1,555
Dividends distributed during the year	(209)
Retained profits at 31.12.2012	28,687

Consolidated Statement of Cash Flows for the year ended 31.12.2012

		HK$m
1 EBITDA		1,201
Changes in working capital and other adjustments		(67)
Net tax paid		(169)
2 Purchase of fixed assets		(875)
5 Proceeds from disposal of an unlisted equity instrument		46
Repayment from a jointly controlled entity		181
Net financing charges and dividends paid		(171)
Net increase in bank borrowings		48
Net placement of interest-bearing bank deposits with maturity of more than three months		(487)
Net cash outflow for the year		(293)
Cash and bank balances	1,984	
Less: Bank deposits maturing more than 3 months	(7)	
Less: Bank overdrafts	(14)	
Cash and cash equivalents at 1.1.2012		1,963
Effect of changes in foreign exchange rates		12
Cash and cash equivalents at 31.12.2012*		1,682
* Representing:		
Cash and bank balances		2,185
Bank deposits maturing more than 3 months		(494)
Bank overdrafts		(9)
		1,682

Consolidated Statement of Financial Position at 31.12.2012

	HK$m
Net assets	
Fixed assets	34,123
Other long term investments	2,471
Deferred tax assets	46
Derivative financial instruments	7
Cash and bank balances	2,185
Other current assets	975
	39,807
Bank overdrafts	(9)
Bank borrowings	(4,165)
Derivative financial instruments	(88)
Deferred tax liabilities	(655)
Other liabilities	(1,457)
	33,433
Capital and reserves	
Share capital and premium	4,361
Retained profits	28,687
Hedging reserve	(72)
Other reserves	168
	33,144
Non-controlling interests	289
	33,433

3 Turnover

The Hotels Division contributed approximately 75% of the Group's total turnover. Despite the renovations of the guestrooms and The Verandah restaurant at The Peninsula Hong Kong which negatively impacted the business operation, the Hotels Division achieved a revenue growth of 3% in 2012. Revenue for the Commercial Properties Division was 1% lower mainly due to the closure of the de Ricou serviced apartment tower at The Repulse Bay for reconfiguration. For the Clubs and Services Division, the revenue growth of 12% was mainly due to the increased business achieved by Peninsula Merchandising. Detailed discussion of the operating performance of each Division is set out on pages 37 to 45.

4 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$1,073 million, principally attributable to The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong.

5 Gain on disposal of an unlisted equity instrument

During the year, the Group disposed of its 17% interest in Inncom International, Inc., an unlisted equity investment and recognised a non-operating gain of HK$46 million.