Financial Review Summary

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

EBITDA and EBITDA margin of the Group for 2014 increased by 17% and two percentage points to HK$1,528 million and 26% respectively. These increases were mainly due to improved performances of the Hotels and Commercial Properties Divisions.

2 Turnover

The hotels division is the main contributor to the Group's revenue, accounting for 73% of total revenue. The hotels division achieved satisfactory revenue growth of 5% during the year mainly due to the enhanced performance of The Peninsula Hong Kong in its first full year of operation following its extensive rooms renovation project completed in May 2013 and the improved result achieved by The Peninsula Tokyo.

The commercial properties division achieved a revenue growth of 12% mainly due to the increased contributions from The Repulse Bay Complex and The Peak Tower.

For the clubs and services division, the 3% increase in revenue was mainly due to the increased revenue achieved by Quail Lodge.

Detailed discussion of the operating performance of each division is set out on pages 24 to 41.

Consolidated Statement of Financial Position at 1.1.2014

	HK$m
Net assets	
Fixed assets	38,187
Other long term investments	2,560
Deferred tax assets	28
Derivative financial instruments	8
Cash and bank balances	1,494
Other current assets	867
	43,144
Bank overdrafts	(18)
Bank borrowings	(5,468)
Derivative financial instruments	(35)
Deferred tax liabilities	(732)
Other liabilities	(1,517)
	35,374
Capital and reserves	
Share capital and premium	4,361
Retained profits	30,189
Hedging and exchange reserves	555
	35,105
Non-controlling interests	269
	35,374

Consolidated Statement of Cash Flows for the year ended 31.12.2014

		HK$m
1 EBITDA		1,528
Net changes in debtors/creditors		61
Payment of tax		(157)
Purchase of fixed assets		(409)
Loans to an associate		(128)
Net financing charges and dividends paid		(151)
Net increase in bank borrowings		275
Net placement of interest-bearing bank deposits with maturity of more than three months		(1,193)
Net cash outflow for the year		(174)
Cash and bank balances	1,494	
Less: Bank deposits maturing more than 3 months	(440)	
Less: Bank overdrafts	(18)	
Cash & cash equivalents at 1.1.2014		1,036
Effect of changes in exchange rates		(23)
Cash & cash equivalents at 31.12.2014*		839
* Representing:		
Cash and bank balances		2,477
Bank deposits maturing more than 3 months		(1,633)
Bank overdrafts		(5)
		839

Consolidated Income Statement for the year ended 31.12.2014

	HK$m
2 Turnover	5,838
Operating costs before depreciation and amortisation	(4,310)
EBITDA	1,528
Depreciation and amortisation	(423)
Operating profit	1,105
Net financing charges	(66)
Profit after net financing charges	1,039
3 Share of result of a joint venture	(6)
4 Share of results of associates	(35)
5 Increase in fair value of investment properties	496
6 Provision for impairment loss	(132)
Taxation	(231)
Non-controlling interests	15
Profit attributable to shareholders	1,146

Consolidated Retained Profits for the year ended 31.12.2014

	HK$m
Retained profits at 1.1.2014	30,189
Profit attributable to shareholders for the year	1,146
Dividends distributed during the year	(256)
Retained profits at 31.12.2014	31,079

Consolidated Statement of Financial Position at 31.12.2014

	HK$m
Net assets	
Fixed assets	38,168
Other long term investments	2,434
Deferred tax assets	40
Cash and bank balances	2,477
Other current assets	863
	43,982
Bank overdrafts	(5)
Bank borrowings	(5,476)
Derivative financial instruments	(38)
Deferred tax liabilities	(785)
Other liabilities	(1,527)
	36,151
Capital and reserves	
Share capital	4,544
Retained profits	31,079
Hedging and exchange reserves	278
	35,901
Non-controlling interests	250
	36,151

Underlying profit attributable to shareholders for the year ended 31.12.2014

	HK$m
Profit attributable to shareholders	1,146
Non-operating and non-recurring items	(342)
7 Underlying profit attributable to shareholders	804

3 Share of result of a joint venture

The Group has a 50% interest in The Peninsula Shanghai Complex and the Group's share of loss amounted to HK$6m.

During 2014, The Peninsula Shanghai remained as the market leader in terms of average room rate and RevPAR in its competitive set, generating an EBITDA of HK$247 million, of which HK$129 million was derived from the sale of 11 apartment units. In addition, The Peninsula Shanghai Complex recorded a net unrealised gain of HK$12 million on revaluation of the hotel arcade and apartments.

4 Share of results of associates

The Group has a 20% interest in The Peninsula Paris and The Peninsula Beverly Hills. The share of net loss of these two hotels amounted to HK$35 million, of which HK$22 million related to the share of pre-opening expenses incurred by The Peninsula Paris which opened for business on 1 August 2014.

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$496 million, principally attributable to The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong.

6 Provision for impairment loss

The Group states its hotels at cost less accumulated depreciation and impairment losses and assesses the recoverable amounts of its hotels at the end of each reporting date. As at 31 December 2014, the directors considered that the recoverable amounts of The Peninsula Beijing and The Peninsula Manila were lower than their book values. As a result, the book values of these hotels were written down to their recoverable amounts and an impairment loss of HK$132 million was recognised for the year ended 31 December 2014.

7 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 45.