

## FINANCIAL REVIEW SUMMARY

| Consolidated Balance Sheet at 31.12.2003 |         |
|--|---------|
|  | HK\$m   |
| <b>Net assets</b>                        |         |
| 1 Fixed assets                           | 19,068  |
| Other long-term investments              | 338     |
| Deferred tax assets                      | 69      |
| Cash and bank balances                   | 217     |
| Other current assets                     | 364     |
|  | 20,056  |
| Bank overdrafts                          | (14)    |
| 2 Bank loans                             | (4,892) |
| Deferred tax liabilities                 | (183)   |
| Other liabilities                        | (947)   |
| Minority interests                       | (579)   |
|  | 13,441  |
| <b>Shareholders' equity</b>              |         |
| Share capital and premium                | 3,283   |
| Retained profits                         | 441     |
| 1 Other reserves                         | 9,717   |
|  | 13,441  |

| Consolidated Cash Flow Statement for the year ended 31.12.2004     |       |
|--|-------|
|  | HK\$m |
| 3 EBITDA   | 986   |
| Tax paid   | (50)  |
| Other adjustments  | 56    |
| Net cash inflow from operating activities                          | 992   |
| Interest and other financing charges paid                          | (248) |
| Dividends paid   | (154) |
| 4 Capital expenditure  | (360) |
| 5 Initial cash deposit in respect of the sale of The Kowloon Hotel | 193   |
| 2 Net decrease in bank loans                                       | (387) |
| Other net cash inflow  | 4     |
| Net increase in cash   | 40    |
| Cash and bank balances   | 217   |
| Less: Bank overdrafts  | (14)  |
| Cash & cash equivalents at 1.1.2004                                | 203   |
| Cash & cash equivalents at 31.12.2004*                             | 243   |
| *Representing:   |       |
| Cash and bank balances   | 262   |
| Bank overdrafts  | (19)  |
|  | 243   |

| Consolidated Income Statement for the year ended 31.12.2004 |         |
|---|---------|
|   | HK\$m   |
| 6 Turnover  | 3,112   |
| Other revenue   | 8       |
| Operating costs   | (2,134) |
| 3 EBITDA  | 986     |
| Depreciation and amortisation                               | (96)    |
| Financing charges   | (243)   |
| Share of losses of associates                               | (14)    |
| 1 Non-operating items                                       | 67      |
| Taxation  | (94)    |
| Minority interests  | (32)    |
| Profit attributable to shareholders                         | 574     |

| Consolidated Retained Profits for the year ended 31.12.2004 |       |
|---|-------|
|   | HK\$m |
| Retained profits at 1.1.2004                                | 441   |
| Profit attributable to shareholders for the year            | 574   |
| Dividends paid during the year                              | (154) |
| Retained profits at 31.12.2004                              | 861   |

### Consolidated Balance Sheet at 31.12.2004

|                             | HK\$m         |
|-----------------------------|---------------|
| Net assets                  |               |
| <b>1</b> Fixed assets       | 22,858        |
| Other long-term investments | 447           |
| Deferred tax assets         | 42            |
| Cash and bank balances      | 262           |
| Other current assets        | 298           |
|                             | <u>23,907</u> |
| Bank overdrafts             | (19)          |
| <b>2</b> Bank loans         | (4,517)       |
| Deferred tax liabilities    | (202)         |
| Other liabilities           | (1,183)       |
| Minority interests          | (602)         |
|                             | <u>17,384</u> |
| Shareholders' equity        |               |
| Share capital and premium   | 3,283         |
| Retained profits            | 861           |
| <b>1</b> Other reserves     | 13,240        |
|                             | <u>17,384</u> |

**1** It is the group's policy to state its hotel and investment properties in the balance sheet at their open market value on the basis of an annual third party professional valuation (see page 89). The 2004 properties revaluation resulted in a net surplus of HK\$3,602 million attributable to the group, of which HK\$96 million was credited as non-operating items in the income statement and HK\$3,523 million was credited to other reserves in the balance sheet (see page 60).

**2** The group generated a strong cash inflow from its operating activities. As a result of the sale of The Kowloon Hotel, HK\$193 million cash deposit (see **5** below) was received in December 2004. In order to minimise financing charges, the group applied a considerable portion of this deposit and its operating cash inflow to repayment of bank borrowings.

**3** Earnings before interest, tax, depreciation and amortisation ("EBITDA") has increased by 36% compared to 2003. The increase was mainly due to the improved operating performance of the hotel segment (see **6** below).

**4** During the year, the group incurred capital expenditure on renovation programmes for The Peninsula Hong Kong, The Peninsula Palace Beijing, The Peninsula New York and The Repulse Bay complex. In addition, capital was committed for investment in new projects for Tokyo and Shanghai (see page 62).

**5** The group is principally engaged in the ownership and management of prestigious hotels, commercial and residential properties in key destinations in Asia and the USA. In order to increase its focus and resources on the development and marketing of the Peninsula brand, the group sold The Kowloon Hotel for HK\$1.93 billion, and an initial deposit of HK\$193 million was received in December 2004. The proceeds from the disposal will be used in the development of new hotels and the continuing refurbishment or renovation of some of the group's existing hotels and other property interests (see page 61).

**6** Total turnover has increased by 24% compared to 2003, primarily due to the improved performance of the group's hotels.

At the end of 2003, the group's hotel businesses were still recovering from the aftermath of the SARS outbreak that year. In 2004, this recovery gathered pace and our hotels were able to achieve significant growth in revenues.

The Peninsula Hong Kong recorded its highest annual revenue since 1997 and The Peninsula Palace Beijing continued to benefit from its renovation, increasing average room rate by 21% from the previous year. The sad and devastating tsunami disaster which occurred just before the year end has had relatively little impact on our hotels.

In the USA, the strongest growth as compared to 2003 was achieved in New York, with a resurgence of both financial markets activity and visitors to the city. The Peninsula Chicago continued to establish itself as the leading hotel in the city and one of the RevPAR leaders.

In non-hotel businesses, there has been a rebound in the high-end residential lettings market in Hong Kong, with the more bullish local property market and increased lettings demand from multinational corporations. The strength of demand for the renovated apartments at 109 Repulse Bay has confirmed both the recent trend of recovery and the appeal of our product. Our other non-hotel assets, including The Peak Tower, St John's Building, The Landmark in Ho Chi Minh City and the Thai Country Club, have performed solidly for the year. The Peak Tram enjoyed strong patronage and the club and consultancy business also recorded a favourable result. Detailed analysis of the turnover is discussed on pages 52 to 55.