1. Significant accounting policies

A. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

B. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment, hotel and other properties as explained in the relevant accounting policies.

C. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary companies, all of which prepare financial statements to 31 December, and include the group's share of the post-acquisition results of associated companies and a jointly controlled entity.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from or to the appropriate date of their acquisition or disposal. All material inter-company transactions and balances are eliminated on consolidation.

The excess of the cost of acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired is treated as positive goodwill and is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

D. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

E. Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

Rental in respect of properties Rental receivable is recognised on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of the benefit derived from the leased asset. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. Significant accounting policies *continued*

E. **Revenue recognition** *continued*

Hotel operations Revenue is recognised when the relevant services are provided.

Sale of properties and land lots Revenue is recognised upon the transfer of legal title of properties and land lots. Deposits and instalments received on properties and land lots sold prior to the date of revenue recognition are included in the balance sheet under creditors.

Sale of goods and wholesaling Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Dividend income Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Interest income Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

F. **Operating leases**

Rentals payable under operating leases are accounted for in the income statement on a straight line basis over the periods of the respective leases except where an alternative basis is more representative of the pattern of benefits to be derived from leased assets.

G. **Foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings or forward exchange contracts, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items (other than loans to subsidiaries, associated companies and jointly controlled entities which have the nature of equity) are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the general reserve.

All other exchange gains and losses are dealt with in the income statement, except those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings or forward exchange contracts, and the gains and losses on those foreign currency borrowings or forward exchange contracts (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to the general reserve.

1. Significant accounting policies *continued*

H. Off-balance sheet financial instruments

Forward exchange contracts Exchange gains or losses arising on forward exchange contracts which are used as hedges against foreign currency assets are dealt with as a movement in the general reserve to the extent of exchange differences arising on the foreign currency assets.

Where non-speculative forward exchange contracts are used as hedges of monetary assets or liabilities, the gains or losses on the contracts are taken to the income statement and the discounts or premiums are either amortised over the periods of the contracts or taken to the income statement.

Where non-speculative forward contracts are used as hedges of commitments, no gains or losses are recognised during the commitment periods. At the end of those periods, any gains or losses are added to, or deducted from, the amount of the relevant transactions. The discounts or premiums are deferred with the gains or losses.

Interest rate and foreign currency derivatives Gains or losses arising on interest rate and foreign currency derivatives, which are used as hedges of cash flow risks associated with the interest on floating rate borrowings and currency exposures, are recognised in the income statement over the periods of the respective instruments.

I. Fixed assets

Investment, hotel and other properties Investment and hotel properties with an unexpired lease term of more than 20 years are included in the balance sheet at their open market value, on the basis of an annual third party professional valuation, except for newly opened or newly renovated hotels which are considered not to have reached a steady state of operations, which are stated at cost less provision for impairment.

Other properties held for own use are stated in the balance sheet at their revalued amounts, adjusted for accumulated depreciation (see note 1.J) subsequent to the date of revaluation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes in the value of investment properties are dealt with as movements on the reserve on a portfolio basis. Changes in the value of hotel and other properties are dealt with as movements on their respective reserves on an individual basis, except:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the income statement.

1. Significant accounting policies *continued*

I. Fixed assets *continued*

Properties under development Expenditure incurred on major projects is stated at cost less any provisions required for impairment, and is included in properties under development until completion of the project at which time it will be transferred to investment, hotel or other properties or inventories as appropriate. Properties subject to major renovation are transferred to this category at the commencement of renovation at their carrying value on the date of transfer. No depreciation is provided.

Other fixed assets Other fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

J. Depreciation of fixed assets

Investment properties No depreciation is provided in respect of investment properties with unexpired lease terms exceeding 20 years, since the valuation takes into account the state of the property at the date of valuation.

Hotel properties It is the group's practice to maintain hotel properties such that the residual values result in depreciation being insignificant. The related maintenance expenditure is dealt with in the income statement in the year in which it is incurred. Hotel furniture and fixtures is included in other fixed assets and is depreciated.

Other properties Depreciation is calculated to write off the adjusted revalued amounts (see note 1.I) of other properties on a straight line basis over their remaining anticipated useful lives as follows:

Freehold land	– no depreciation
Leasehold land	– the unexpired period of the lease
Buildings	– the shorter of 40 years from the date of acquisition or the unexpired period of the lease

Other fixed assets Depreciation is calculated to write off the cost of hotel related furniture and fixtures, equipment and other fixed assets on a straight line basis over their anticipated useful lives. The rates used are:

Furniture and fixtures	– 15% to 20% per annum
Leasehold improvements	– 15% per annum
Machinery	– 5% to 33.3% per annum
Motor vehicles	– 20% per annum

K. Disposal of fixed assets

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the respective revaluation reserve to retained profits.

1. Significant accounting policies *continued*

L. Subsidiary companies

A subsidiary company, in accordance with the Hong Kong Companies Ordinance, is a company in which the holding company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiary companies are considered to be controlled if the holding company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the group until the minority's share of losses previously absorbed by the group has been recovered.

In the holding company's balance sheet, an investment in a subsidiary company is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

M. Associated companies and jointly controlled entities

An associated company is an entity in which the holding company has significant influence, but has neither control nor joint control, over its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associated company or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associated company's or the jointly controlled entity's net assets. The consolidated income statement reflects the group's share of the post-acquisition results of the associated company and the jointly controlled entity for the year. When the group's share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred obligations in respect of the associated company and the jointly controlled entity.

In the holding company's balance sheet, its investment in an associated company is stated at cost less impairment losses.

1. Significant accounting policies *continued*

N. Other investments

Investments, other than investments in subsidiaries, associated companies and jointly controlled entities, held on a continuing basis for an identified long-term purpose are classified as other investments.

Other investments are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

Provisions against the carrying value of other investments are written back when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Profits or losses on disposal of other investments are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the investments and are accounted for in the income statement as they arise.

O. Investment in hotel management contracts

Payments for acquiring hotel management contracts are amortised on a straight line basis over the term of the relevant agreements.

P. Taxation

Taxation for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current taxation Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred taxation Deferred tax is recognised, using the balance sheet liability method, in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. Details of the method are set out below.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1. Significant accounting policies *continued*

P. **Taxation** *continued*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax balances, and movements therein, are presented separately from each other and are not offset. Deferred tax assets are offset against deferred tax liabilities if, and only if, the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. Significant accounting policies *continued*

Q. Inventories

Properties for sale, land lots and other inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated additional costs necessary to make the sale.

R. Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts);
- investments in subsidiary companies, associated companies and jointly controlled entities;
- other investments;
- investment in hotel management contracts; and
- positive goodwill.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Calculation of recoverable amount The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

Reversals of impairment losses In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of an asset's impairment loss is limited to its carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

S. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. Significant accounting policies *continued*

T. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

U. Employee benefits

Salaries, annual bonuses, paid annual leave and leave passage are accrued in the year in which the associated services are rendered by employees of the group.

The group contributes to the retirement benefits of its employees by means of defined contribution plans. The plan funds are administered by independent trustees and are held separately from the group's assets. The group's contributions to those plans in respect of the year are recognised as an expense in the income statement as incurred.

Termination benefits are recognised when and only when the group commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

V. Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

W. Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing services or products (business segment), or in providing services or products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade debtors and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate assets, interest-bearing borrowings, corporate and financing charges and minority interests.

1. Significant accounting policies *continued*

X. **Recently issued accounting standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The group has not adopted early these new HKFRSs in the financial statements for the year ended 31 December 2004.

In accordance with HKAS 16 "Property, Plant and Equipment", HKAS 17 "Leases" and HKAS 40 "Investment Property":

- Hotel properties will be stated at cost less accumulated depreciation and any provision for impairment except that the leasehold land on which the hotel properties are situated will be reclassified as a separate class of non-current assets and will be stated at cost less accumulated amortisation. To date, hotel properties are stated at open market value;
- except for golf courses, investment properties will continue to be stated at fair value. However, any revaluation movements will be taken directly to the income statement, instead of the revaluation reserve;
- golf courses, which were investment properties at 31 December 2004, will be reclassified as other properties, which will be stated at cost less accumulated depreciation and any provision for impairment; and
- land with undetermined future use will be reclassified as investment properties, subject to annual market valuation.

In addition, since 1 January 2005 a deferred tax provision may be recorded for revaluation adjustments arising on all investment properties even though there may not be any capital gains taxes or other similar taxes in the countries (such as Hong Kong) in which these properties are located.

In line with the group's accounting policies, the changes in fair value of the off-balance sheet financial instruments are not dealt with in the financial statements as the instruments are not held for speculative purposes. However, with effect from 1 January 2005, the group is adopting hedge accounting required under HKAS 32 and 39 "Financial Instruments", and the changes in fair value of off-balance sheet financial instruments which either fulfil or do not fulfil the hedging requirements will be recorded in reserves or the income statement respectively.

2. Turnover (HK$m)

The company is an investment holding company. Details of the group's principal activities appear in the financial review on pages 52 to 65.

Turnover represents the gross amount invoiced for all services, inventories and facilities including management fees and net rentals. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
Hotels		
Rooms	**1,191**	835
Food and beverage	**715**	565
Commercial rentals	**382**	384
Other	**236**	189
	2,524	1,973
Rentals from non-hotel properties	**374**	372
Other businesses	**214**	172
	3,112	2,517

3. Other revenue (HK$m)

	2004	2003
Dividends from other investments	**5**	2
Interest income	**3**	2
Insurance claim proceeds	**–**	95
	8	99

In 2003, the insurance claim proceeds represented compensation received from an insurance company for estimated losses suffered by the group due to the outbreak of Severe Atypical Respiratory Syndrome disease.

4. Financing charges (HK$m)

	2004	2003
Interest payable on bank loans, overdrafts and other loans which are wholly repayable within 5 years (net of hedging costs)	**221**	238
Interest payable on a bank loan which is repayable after 5 years	**11**	–
Other financing charges	**13**	15
	245	253
Less: Amount capitalised on properties under development	**(2)**	(4)
	243	249

The average rate used to determine the amount of borrowing costs eligible for capitalisation for the year was **1.5%** (2003: 2.2%).

5. Profit before non-operating items (HK$m)

	2004	2003
Profit before non-operating items is arrived at after charging/(crediting):		
Cost of inventories	**222**	179
Amortisation of investment in hotel management contract	**5**	6
Auditors' remuneration		
Audit service	**5**	5
Tax and other non-audit services	**1**	1
Depreciation of fixed assets	**91**	102
Foreign exchange loss	**–**	3
Rental payable for land and buildings under operating leases	**62**	62
Rental receivable from investment properties less outgoings of **HK$30 million** (2003: HK$30 million)	**(644)**	(648)

6. Non-operating items (HK$m)

	2004	2003
Reversal of revaluation deficit previously charged to income statement on hotel and other properties (note 10.B)	**96**	62
(Impairment losses)/reversal of impairment losses on properties under development (note 10.A)	**(17)**	4
Impairment loss on interest in associated company (note 12)	**(5)**	–
Others	**(7)**	–
	67	66

7. Taxation in the consolidated income statement (HK$m)

A. Taxation in the consolidated income statement represents:

	2004	2003
Current tax – Provision for Hong Kong profits tax		
Tax for the year	**49**	39
Over-provision in respect of prior years	**(1)**	(4)
Total current tax for Hong Kong	**48**	35
Current tax – Overseas		
Tax for the year	**14**	6
Under/(over)-provision in respect of prior years	**5**	(3)
Total current tax for overseas	**19**	3
Deferred tax		
Origination and reversal of temporary differences	**27**	38
Effect of increase in tax rate on deferred tax balances at 1 January	**–**	(6)
Total deferred tax (note 15.B)	**27**	32
Total taxation for the year	**94**	70

The provision for Hong Kong profits tax for 2004 is calculated at **17.5%** (2003: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. There was no share of taxation attributable to associated companies (2003: HK$nil).

B. Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004		2003	
	HK$m	**%**	HK$m	%
Profit before taxation	**700**		430	
Tax at the domestic income tax rate of **17.5%** (2003: 17.5%)	**123**	**17.5**	75	17.5
Tax effect of non-deductible expenses	**14**	**2.0**	14	3.3
Tax effect of non-taxable revenue	**(37)**	**(5.3)**	(44)	(10.3)
Tax effect of tax losses not recognised	**3**	**0.4**	27	6.3
Tax effect of utilisation of tax losses	**(26)**	**(3.7)**	(3)	(0.7)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**–**	**–**	(6)	(1.4)
Over-provision in prior years	**–**	**–**	(7)	(1.6)
Others	**(1)**	**(0.1)**	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**18**	**2.6**	14	3.2
Actual tax expense and effective tax rate for the year	**94**	**13.4**	70	16.3

8. Dividends (HK$m)

	2004	2003
A. **Dividends attributable to the current financial year:**		
Interim dividend declared and paid of **3 cents** per share (2003: nil) (note 22)	**42**	–
Final dividend for 2004 proposed after the balance sheet date of **9 cents** per share (2003: 8 cents per share)	**126**	112
	168	112

The final dividend for 2004 proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

	2004	2003
B. **Dividends attributable to the previous financial year approved and paid during the year:**		
Final dividend in respect of the previous financial year, approved and paid during the year, of **8 cents** per share (2003: 8 cents per share in respect of 2002) (note 22)	**112**	93

9. Earnings per share

Earnings per share, which includes non-operating items, is computed as follows:

	2004	2003
Earnings for the year (HK$m)	**574**	351
Weighted average number of shares in issue (million shares)	**1,402**	1,208
Earnings per share (HK cents)	**41**	29

Earnings per share excluding non-operating items is computed as follows:

	2004	2003
Earnings for the year (HK$m)	**574**	351
Non-operating items (HK$m) (note 6)	**(67)**	(66)
Earnings excluding non-operating items (HK$m)	**507**	285
Earnings per share excluding non-operating items (HK cents)	**36**	24

10. Fixed assets (HK$m)

A. **Movements of fixed assets**

		Properties				
	Total	Investment	Hotel	Development	Other	Other fixed assets*
Group						
Cost or valuation:						
At 1 January 2004	20,104	12,377	5,690	560	17	1,460
Exchange adjustments	25	1	9	13	–	2
Additions	274	60	90	54	1	69
Disposals	(68)	–	(17)	–	–	(51)
Net surplus on revaluation (note 10.B)	3,631	2,789	841	–	1	–
Impairment losses (note 6)	(17)	–	–	(17)	–	–
At 31 December 2004	**23,949**	**15,227**	**6,613**	**610**	**19**	**1,480**
Representing:						
Cost, less provision (note 10.C)	3,320	–	1,230	610	–	1,480
Valuation – 2004	20,629	15,227	5,383	–	19	–
At 31 December 2004	**23,949**	**15,277**	**6,613**	**610**	**19**	**1,480**
Depreciation:						
At 1 January 2004	1,036	–	–	–	1	1,035
Exchange adjustments	1	–	–	–	–	1
Charge for the year	91	–	–	–	–	91
Written back on disposal	(37)	–	–	–	–	(37)
At 31 December 2004	**1,091**	**–**	**–**	**–**	**1**	**1,090**
Net book value:						
At 31 December 2004	**22,858**	**15,227**	**6,613**	**610**	**18**	**390**
At 31 December 2003	19,068	12,377	5,690	560	16	425

* Other fixed assets comprise mainly hotel related furniture, fixtures, leasehold improvements, machinery and motor vehicles.

10. Fixed assets (HK$m) *continued*

B. The revaluation surplus, net of deferred taxation and minority interest, has been dealt with as follows:

	Total	Investment properties	Hotel properties	Other properties
Net surplus on revaluation for the year (note 10.A)	3,631	2,789	841	1
Less:				
Corresponding deferred tax liability (note 15.B)	(17)	(12)	(5)	–
Minority share of revaluation surplus, net of deferred tax (note 20)	5	5	–	–
Net surplus attributable to the group	3,619	2,782	836	1
Credited to:				
Income statement – non-operating income (note 6)	96	–	95	1
Investment properties revaluation reserve (note 22)	2,782	2,782	–	–
Hotel properties revaluation reserve (note 22)	741	–	741	–
	3,619	2,782	836	1

C. Hotel properties, stated at cost, less provision, relate to those newly opened or newly renovated hotels which are considered not to have reached a steady state of operations.

D. The historical cost less accumulated depreciation of the revalued properties is as follows:

	2004	2003
Investment properties	**3,946**	3,885
Hotel properties	**5,455**	5,367
Other properties	**30**	30
	9,431	9,282

E. Hotel and investment properties, all held through subsidiary companies, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and Commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and Commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term leases (between 20 and 50 years):	
The Kowloon Hotel, 19-21 Nathan Road, Kowloon (see note 30.B)	Hotel and Commercial rentals
The Peak Tower, 128 Peak Road	Commercial rentals

10. Fixed assets (HK$m) *continued*

E. Hotel and investment properties, all held through subsidiary companies *continued*

	Usage
Held in the People's Republic of China:	
Medium term lease (between 20 and 50 years):	
The Peninsula Palace Beijing	
8 Goldfish Lane, Wangfujing, Beijing	Hotel and Commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Resort and Golf Club,	
8205 Valley Greens Drive, Carmel, California	Hotel and golf club
Freehold/long term leasehold to air rights (over 50 years):	
The Peninsula Chicago,	
108 East Superior Street (at North Michigan Avenue)	
Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and Commercial rentals
Held in Thailand:	
Freehold/leasehold*:	
The Peninsula Bangkok,	
333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Freehold:	
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Held in Vietnam:	
Medium term lease (between 20 and 50 years):	
The Landmark, 5B Ton Duc Thang Street,	
District 1, Ho Chi Minh City	Residential and Commercial rentals

* A parcel of the land, representing approximately 23% by area, is leased from an independent third party under an operating lease expiring in 2022. The remaining 77% by area is owned by the group on a freehold basis.

10. Fixed assets (HK$m) *continued*

F. The group's investment, hotel and other properties have been revalued as at 31 December 2004 on an open market basis by valuers independent of the group, details of which are as follows:

	Name of valuer	Qualification of employees conducting the valuation
Investment properties		
Hong Kong People's Republic of China	Chesterton Petty Limited/ Jones Lang LaSalle Hotels	Members of The Hong Kong Institute of Surveyors
Thailand Vietnam	Sallmanns (Far East) Limited	Members of Royal Institution of Chartered Surveyors and The Valuers Association of Thailand
Hotel properties		
Hong Kong Thailand People's Republic of China	Jones Lang LaSalle Hotels	Members of The Hong Kong Institute of Surveyors and The Singapore Institute of Surveyors and Valuers
United States of America	HVS International	Members of the Appraisal Institute, United States of America
Other properties		
Hong Kong	Chesterton Petty Limited	Members of The Hong Kong Institute of Surveyors

G. The value of all properties held for letting to third parties under operating leases totalled **HK$14,991 million** (2003: HK$12,108 million) on which there is no accumulated depreciation. The leases of these properties to third parties typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. Contingent rentals of these leases were immaterial during 2004 and 2003. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 27.C.

H. The value of land held in fixed assets is as follows:

		Group	
		2004	2003
Hong Kong	– long term leases	**12,766**	10,036
	– medium term leases	**1,765**	921
		14,531	10,957
Thailand	– freehold/short term lease (note 10.E)	**740**	607
Vietnam	– medium term lease	**48**	58
Other Asia Pacific		**788**	665
United States of America	– freehold	**398**	422
		15,717	12,044

11. Interests in subsidiary companies (HK$m)

	Company	
	2004	2003
Unlisted shares, at cost	**145**	145
Amounts due from subsidiary companies	**12,299**	12,244
Amounts due to subsidiary companies	**(24)**	(23)
	12,420	12,366
Less: Impairment losses	**(2,877)**	(2,877)
	9,543	9,489

12. Interests in associated companies (HK$m)

	Group		Company	
	2004	2003	**2004**	2003
Unlisted shares, at cost	**147**	147	**24**	24
Less: Amounts written off against general reserve				
Goodwill	**(1)**	(1)	**–**	–
Exchange losses on translation	**(37)**	(37)	**–**	–
	109	109	**24**	24
Less: Share of post acquisition losses	**(58)**	(44)	**–**	–
Share of net assets	**51**	65	**24**	24
Loans to associated companies	**38**	38	**26**	26
	89	103	**50**	50
Impairment loss (note 6)	**(5)**	–	**–**	–
	84	103	**50**	50

The group's share of post acquisition losses of associated companies at 31 December 2004 includes the share of revaluation deficit of a hotel property owned by an associated company amounting to **HK$68 million** (2003: HK$52 million).

Details of associated companies are as follows:

				Proportion of ownership interest			
Company name	Form of business structure	Place of incorporation/ formation	Particulars of issued and paid up capital	Group's effective interest	Held directly by company	Held indirectly by subsidiary	Principal activity
Manila Peninsula Hotel, Inc. ("MPHI") (see note 30.A)	Incorporated	The Philippines	94,420,107 shares of Peso 10 each	40%	7.55%	32.45%	Hotel investment
RipBion! Limited*	Incorporated	Hong Kong	2 shares of HK$1 each	50%	–	50%	Museum operation
Valley Resort Management, LLC	Limited liability corporation	United States of America	Contributed capital of US$50,000	50%	–	50%	Resort management

* This associated company is expected to cease business in the first half of 2005 as a result of the revitalisation of The Peak Tower.

13. Interest in jointly controlled entity (HK$m)

	Group 2004	Group 2003
Unlisted investments, at cost	**–**	–
Share of net assets	**137**	–
	137	–

Details of jointly controlled entity are as follows:

Company name	Form of business structure	Place of incorporation/ formation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held directly by company	Held indirectly by subsidiary	Principal activity
The Peninsula Shanghai (BVI) Limited ("TPS")*	Incorporated	British Virgin Islands	USD1,000	50%	–	50%	Hotel investment

* TPS holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a wholly foreign owned enterprise incorporated in the People's Republic of China. PSW is engaged in the project for the development and construction of a hotel to be branded "The Peninsula Shanghai", a Peninsula apartment hotel, a retail arcade and ancillary facilities. At 31 December 2004, the paid up capital of PSW amounted to USD35,174,000.

14. Other investments (HK$m)

	Group 2004	Group 2003
Unlisted investments, at cost	**129**	129
Loan	**–**	4
	129	133
Less: Impairment loss	**(77)**	(77)
	52	56

Unlisted investments include:

	Ownership interest held indirectly	Place of incorporation/ establishment
The Belvedere Hotel Partnership	20%	United States of America
PT Ciputra Adigraha	20%	Indonesia

The Belvedere Hotel Partnership ("BHP") holds a 100% interest in The Peninsula Beverly Hills. PT Ciputra Adigraha remained inactive during the year. The group is not in a position to exercise significant influence over these investments.

BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility amounting to **US$78 million** (2003: US$79 million).

15. Taxation in the balance sheet (HK$m)

A. Current taxation in the balance sheet represents:

	Group		Company	
	2004	2003	**2004**	2003
Provision for Hong Kong profits tax for the year	**49**	39	**9**	9
Provision in respect of prior years	**3**	–	**–**	–
Provisional profits tax paid	**(25)**	(13)	**(5)**	(3)
	27	26	**4**	6
Overseas taxation	**18**	2	**–**	–
Liability at 31 December	**45**	28	**4**	6

B. Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Group				
	Total	Depreciation allowances in excess of related depreciation	Revaluation of properties	Tax losses	Provisions and others
Deferred taxation arising from:					
At 1 January 2003					
As previously reported	(112)	6	–	(114)	(4)
Prior period adjustments	178	56	126	(4)	–
As restated	66	62	126	(118)	(4)
Charged to income statement	32	10	4	16	2
Charged to revaluation reserve	5	–	5	–	–
Charged to general reserve	11	–	11	–	–
At 31 December 2003	114	72	146	(102)	(2)
At 1 January 2004	114	72	146	(102)	(2)
Charged/(credited) to income statement (note 7.A)	27	8	(5)	28	(4)
Charged to revaluation reserve (note 10.B)	17	–	17	–	–
Charged to general reserve (note 22)	2	–	2	–	–
At 31 December 2004	**160**	**80**	**160**	**(74)**	**(6)**

	Group	
	2004	2003
Net deferred tax asset recognised on the balance sheet	**(42)**	(69)
Net deferred tax liability recognised on the balance sheet	**202**	183
	160	114

No provision for deferred tax assets and liabilities has been made in the company's balance sheet as there are no deductible and taxable temporary differences, unused tax losses or unused tax credits.

15. Taxation in the balance sheet (HK$m) *continued*

C. **Deferred tax assets not recognised**

The group has not recognised the following potential deferred tax assets:

	Group	
	2004	2003
Depreciation allowances in excess of book depreciation	**(6)**	5
Timing difference on amortisation	**14**	18
Future benefit of tax losses	**673**	757
	681	780

Details of the expiry date of unused tax losses are as follows:

	Group	
	2004	2003
Within 1 year	**421**	410
After 1 year but within 5 years	**651**	1,022
After 5 years but within 10 years	**242**	297
After 10 years but within 15 years	**491**	344
Without expiry date	**398**	399
	2,203	2,472

D. **Deferred tax liabilities not recognised**

At 31 December 2004, temporary differences relating to the undistributed profits of subsidiaries amounted to **HK$53 million** (2003: HK$43 million). Deferred tax liabilities of **HK$3 million** (2003: HK$2 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

16. Inventories (HK$m)

	Group	
	2004	2003
Land lots for sale	**4**	4
Food and beverage and others	**70**	68
	74	72

17. Debtors and payments in advance (HK$m)

	Group		Company	
	2004	2003	**2004**	2003
Trade debtors (ageing analysis is shown below)	**104**	85	**–**	–
Rental deposits and payments in advance	**120**	112	**9**	8
Insurance claim receivable	**–**	95	**–**	–
	224	292	**9**	8

All of the above debtors and payments in advance, apart from rental deposits and payments in advance amounting to **HK$41 million** (2003: HK$36 million), are expected to be recovered within one year.

The group maintains a defined credit policy for trade debtors. Trade debtors included in debtors and payments in advance amounted to **HK$104 million** (2003: HK$85 million) and the ageing analysis of these balances is as follows:

	Group		Company	
	2004	2003	**2004**	2003
Less than 3 months	**101**	82	**–**	–
More than 3 months but less than 6 months	**2**	2	**–**	–
More than 6 months	**1**	1	**–**	–
	104	85	**–**	–

18. Creditors and accruals (HK$m)

	Group		Company	
	2004	2003	**2004**	2003
Trade creditors (ageing analysis is shown below)	**68**	78	**–**	–
Interest payable	**12**	15	**–**	–
Accruals of fixed assets	**212**	167	**–**	–
Tenants and membership deposits	**279**	276	**–**	–
Receipt in advance (note 30.B)	**193**	–	**–**	–
Other amounts payable	**374**	383	**10**	6
	1,138	919	**10**	6

All of the above creditors, apart from tenants and membership deposits and other amounts payable amounting to **HK$203 million** and **HK$nil** (2003: HK$201 million and HK$44 million) respectively, are expected to be settled within one year.

The ageing analysis of trade creditors is as follows:

	Group		Company	
	2004	2003	**2004**	2003
Less than 3 months	**66**	77	**–**	–
More than 3 months but less than 6 months	**1**	1	**–**	–
More than 6 months	**1**	–	**–**	–
	68	78	**–**	–

19. Interest-bearing borrowings (HK$m)

	Group	
	2004	2003
Total facilities available:		
Bank loans and revolving credits	**5,908**	5,652
Uncommitted facilities, including bank overdrafts	**1,064**	1,060
	6,972	6,712
Utilised at 31 December:		
Bank loans and revolving credits	**4,389**	4,753
Uncommitted facilities, including bank overdrafts	**147**	153
	4,536	4,906
Represented by:		
Short-term bank loans, repayable within one year or on demand	**296**	1,143
Current portion of long-term bank loans, repayable within one year	**39**	77
Bank overdrafts, repayable on demand (note 23)	**19**	14
	354	1,234
Long-term bank loans, repayable:		
Within 1 year	**39**	77
Between one and two years	**231**	615
Between two and five years	**3,805**	3,057
After five years	**146**	–
	4,221	3,749
Less: Current portion of long-term bank loans	**(39)**	(77)
Non-current portion of long-term bank loans	**4,182**	3,672
Total interest-bearing borrowings	**4,536**	4,906

The non-current portion of long-term bank loans are not expected to be settled within one year except for HK$1,761 million, the repayment of which will be mostly financed by the proceeds arising from the sale of The Kowloon Hotel Limited (see note 30.B).

The total borrowings of **HK$4,536 million** at 31 December 2004 (2003: HK$4,906 million) comprised the following variable rate bank loans and overdrafts that were:

	Group	
	2004	2003
Unsecured	**4,390**	4,092
Secured by:		
Mortgage over investment and hotel properties of a PRC subsidiary company	**146**	207
Assets of a subsidiary company which owns and operates a hotel in the USA	**–**	607
Total interest-bearing borrowings	**4,536**	4,906

Total secured banking facilities and the corresponding value of the pledged assets amounted to **HK$377 million** (2003: HK$984 million) and **HK$1,485 million** (2003: HK$2,687 million) respectively.

20. Minority interests (HK$m)

	2004	2003
At 1 January		
As previously reported	**579**	599
Prior period adjustments in respect of deferred tax	**–**	(32)
	579	567
Minority share of profit	**32**	9
Exchange differences	**1**	7
Minority share of revaluation (deficit)/surplus of investment properties, net of deferred tax (note 10.B)	**(5)**	4
Dividends paid to minority shareholders	**(5)**	(5)
Minority share of exchange difference on deferred tax (note 22)	**–**	(3)
Net movement for the year	**23**	12
At 31 December	**602**	579

21. Share capital

	2004	2003
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,402**	1,169
New shares issued	**–**	233
At 31 December	**1,402**	1,402
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued and fully paid		
At 1 January	**701**	584
New shares issued	**–**	117
At 31 December	**701**	701

There was no movement in the share capital of the company during the year ended 31 December 2004. However, the company will issue 5,500,131 new shares at HK$5.855 per share to certain shareholders of Manila Peninsula Hotel, Inc. who have accepted the offer referred to in the announcement dated 25 February 2005. All ordinary shares to be issued will rank pari passu in all respects with the existing issued shares.

22. Reserves (HK$m)

	Group 2004	Group 2003	Company 2004	Company 2003
Investment properties revaluation reserve:				
At 1 January				
As previously reported	**8,585**	8,157		
Prior period adjustments in respect of deferred tax	**–**	(17)		
Revaluation surplus, net of deferred tax (note 10.B)	**2,782**	445		
At 31 December	**11,367**	8,585		
Hotel properties revaluation reserve:				
At 1 January	**653**	591		
Revaluation surplus, net of deferred tax (note 10.B)	**741**	62		
At 31 December	**1,394**	653		
Other properties revaluation reserve:				
At 1 January	**2**	3		
Revaluation deficit, net of deferred tax	**–**	(1)		
At 31 December	**2**	2		
Share premium:				
At 1 January	**2,582**	1,564	**2,582**	1,564
New shares issued	**–**	1,018	**–**	1,018
At 31 December	**2,582**	2,582	**2,582**	2,582
Capital redemption reserve:				
At 1 January and 31 December	**9**	9	**9**	9
Capital reserve:				
At 1 January and 31 December	**4**	4	**4,975**	4,975
Total non-distributable reserves	**15,358**	11,835		
Retained profits:				
At 1 January				
As previously reported	**441**	312	**293**	299
Prior period adjustments in respect of deferred tax	**–**	(129)	**–**	–
At 1 January as restated	**441**	183	**293**	299
Dividend approved in respect of the previous year (note 8.B)	**(112)**	(93)	**(112)**	(93)
Interim dividend declared during the year (note 8.A)	**(42)**	–	**(42)**	–
Profit for the year	**574**	351	**225**	87
Net movement for the year	**420**	258	**71**	(6)
At 31 December	**861**	441	**364**	293

22. Reserves (HK$m) *continued*

	Group		Company	
	2004	2003	**2004**	2003
General reserve:				
At 1 January	**464**	499	**980**	980
Exchange differences arising on:				
Consolidation	**2**	(27)	**–**	–
Deferred taxation (note 15.B)	**(2)**	(11)	**–**	–
Minority share of exchange difference on deferred tax (note 20)	**–**	3	**–**	–
At 31 December	**464**	464	**980**	980
Total distributable reserves	**1,325**	905		
Total reserves at 31 December	**16,683**	12,740	**8,910**	8,839
Profit/(loss) for the year is as follows:				
Company	**225**	87	**225**	87
Subsidiary companies	**363**	269	**–**	–
Associated companies	**(14)**	(5)	**–**	–
	574	351	**225**	87

Profit for the year to the extent of **HK$225 million** (2003: HK$87 million) has been dealt with in the company's financial statements.

The group's general reserve includes goodwill totalling **HK$15 million** (2003: HK$15 million) written off in prior years. No goodwill was written off during the year (2003: HK$nil).

23. Cash and cash equivalents (HK$m)

	2004	2003
Cash and cash equivalents at 31 December are as follows:		
Cash and bank balances	**262**	217
Bank overdrafts (note 19)	**(19)**	(14)
	243	203

24. Remuneration of directors and highest paid employees

A. Directors' remuneration

As at 31 December 2004 the Board had 14 directors consisting of 3 executive directors and 11 non-executive directors.

Details of the remuneration of the directors are as follows:

	2004	2003
	HK$m	HK$m
Directors' fees	**2**	1
Other emoluments:		
Basic compensation	**11**	9
Retirement benefits	**1**	1
Bonuses and incentives	**6**	3
	20	14

24. Remuneration of directors and highest paid employees *continued*

A. **Directors' remuneration** *continued*

The remuneration of directors, including an executive director and an independent non-executive director who were appointed in 2004, falls within the following bands:

	2004 Number	2003 Number
HK$0 – HK$1,000,000	**11**	11
HK$4,000,001 – HK$4,500,000	**1**	–
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**1**	–
HK$7,500,001 – HK$8,000,000	**–**	1
HK$8,000,001 – HK$8,500,000	**1**	–

Non-executive directors

The fees paid to the non-executive directors are set in line with market practice, taking account of comparable Hong Kong listed companies. Non-executive directors' fees at present are fixed, after a review conducted in 2004, at HK$100,000 per annum payable in two equal instalments. Non-executive directors who are also members of the Executive Committee or the Audit Committee are also entitled to a fixed fee of HK$100,000 per annum payable in two equal instalments for each committee. In the year ended 31 December 2003, all non-executive directors waived the fees payable to each of them in the first half of 2003 due to the impact of Severe Atypical Respiratory Syndrome disease. Directors' fees paid to each non-executive director were as follows:

	2004 HK$	2003 HK$
Dr The Hon. Michael D Kadoorie (chairman)	**200,000**	50,000
Mr Ian D Boyce (deputy chairman)	**300,000**	50,000
Sir Sidney Gordon (non-executive director)	**100,000**	25,000
Mr Ronald J McAulay (non-executive director)	**100,000**	25,000
Mr William E Mocatta (non-executive director)	**100,000**	25,000
Mr James S Dickson Leach (non-executive director)	**200,000**	50,000
Mr Pierre R Boppe (non-executive director)	**100,000**	25,000
Dr The Hon. David K P Li (independent non-executive director)	**100,000**	25,000
Mr Robert C S Ng (independent non-executive director)	**200,000**	25,000
Mr Robert W Miller (independent non-executive director)	**100,000**	25,000
Mr Patrick B Paul (independent non-executive director)	**169,231**	–
	1,669,231	325,000

24. Remuneration of directors and highest paid employees *continued*

A. **Directors' remuneration** *continued*

Executive directors

The board currently has three executive directors for whom there are three basic components of remuneration.

Basic compensation Basic compensation consists of base salary, housing and other allowances and benefits. Basic compensation is reviewed annually taking into account market conditions and individual performance.

Retirement benefits Executive directors are eligible to join The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The group contributes to the retirement funds a percentage of the base salary of the executive directors.

Bonuses and incentives The executive directors are entitled to receive bonus payments depending on individual performance and the performance of the group. In addition, certain incentive payments have been defined in the employment contracts of the directors concerned.

The total remuneration of executive directors is shown below:

	Total	Basic compensation	Bonuses & incentives	Retirement benefits
	HK'000	HK'000	HK'000	HK'000
2004				
Mr Clement K M Kwok	**8,492**	**4,261**	**3,580**	**651**
Mr C Mark Broadley	**5,676**	**3,587**	**1,549**	**540**
Mr Peter C Borer*	**4,039**	**2,984**	**650**	**405**
	18,207	**10,832**	**5,779**	**1,596**

* Peter C Borer was appointed as an executive director of the company on 15 April 2004. Prior to his appointment he was general manager of The Peninsula Hong Kong, and held regional responsibility for the group's hotel operations in Asia. The above figures include his remuneration of HK$859,000 in this capacity in 2004.

	Total	Basic compensation	Bonuses & incentives	Retirement benefits
	HK'000	HK'000	HK'000	HK'000
2003				
Mr Clement K M Kwok	7,688	4,555	2,482	651
Mr C Mark Broadley**	784	577	120	87
Mr O Mark L Rhys***	5,003	3,560	949	494
	13,475	8,692	3,551	1,232

** C Mark Broadley was appointed as an executive director of the company on 3 November 2003.

*** O Mark L Rhys retired as an executive director of the company on 11 December 2003.

24. Remuneration of directors and highest paid employees *continued*

B. **Remuneration of highest paid employees**

The remuneration of the group's highest paid employees follows the three key components of executive directors' remuneration as described above.

The five highest paid employees in the group during the year included the **three** (2003: two) executive directors. The details of the remuneration of these five employees were:

	2004 HK$m	2003 HK$m
Other emoluments:		
Basic compensation	**17**	17
Retirement benefits	**2**	2
Bonuses and incentives	**6**	3
	25	22

The remuneration of the five highest paid employees falls within the following bands:

	2004 Number	2003 Number
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**1**	2
HK$3,500,001 – HK$4,000,000	**1**	–
HK$4,000,001 – HK$4,500,000	**1**	–
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**1**	–
HK$7,500,001 – HK$8,000,000	**–**	1
HK$8,000,001 – HK$8,500,000	**1**	–

25. Loans to officers

Loans to officers of the company and its subsidiaries disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

A. **Loans made by a third party under guarantees given by the company**

Name of borrower:	Mr Martyn Sawyer
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2003	HK$1,325,000
at 31 December 2003 and 1 January 2004	HK$1,285,000
at 31 December 2004	HK$1,245,000

No amount has been paid nor liability crystalised under these guarantees in 2004 and 2003.

25. Loans to officers *continued*

B. **Loans made by the company and its subsidiaries**

Name of borrower:	Mr Peter Borer	Mr Niklaus Leuenberger
Terms of the loan:		
duration and repayment terms	5 years to May 2007	Approximately 2 years to December 2005
interest rate	The company's borrowing rate	Interest-free
security	Borrower's retirement fund	None
Balance of the loan:		
at 1 January 2003	HK$2,773,333	US$nil
at 31 December 2003 and 1 January 2004	HK$1,349,932	US$45,000
at 31 December 2004	HK$954,830	US$20,000
Maximum balance outstanding:		
during 2003	HK$2,773,333	US$50,000
during 2004	HK$1,349,932	US$45,000

There was no interest due but unpaid nor any provision made against these loans at 31 December 2004 and 2003.

26. Employee retirement plan

The group has a defined contribution retirement plan covering **1,531 employees** (2003: 1,524 employees) mostly in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested immediately. The average rate against employees' relevant income for the year was **12%** (2003: 12%).

In addition, the group also participates in the Mandatory Provident Fund Scheme operated by an independent service provider to cover **249 waged employees** (2003: 181 waged employees) in Hong Kong. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately.

The group also operates several defined contribution retirement plans including union pension schemes for its overseas subsidiaries covering **2,299 employees** (2003: 2,258 employees) in other Asia Pacific countries and the USA in accordance with respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the group amounting to **HK$57 million** (2003: HK$55 million) were charged to the income statement.

Following the conversion of a defined benefit retirement plan to the defined contribution retirement plan for the group's Hong Kong employees in 1999, the group has ceased to have any defined benefit retirement plan.

27. Commitments and contingent liabilities

A. Capital commitments (HK$m)

Capital commitments authorised but not provided for in these financial statements are as follows:

	Group	
	2004	2003
Contracted for	**202**	50
Not contracted for	**2,530**	1,308

Capital commitments include amounts in respect of the group's capital expenditure at existing properties and its commitment to the projects in Tokyo and Shanghai.

B. Financial instruments for hedging purposes

	Buy (million)		Sell (million)	
	2004	2003	**2004**	2003
Forward exchange contracts entered into by:				
Company				
Expiring in 2004	**–**	US$85	**–**	HK$659
Subsidiary companies				
Expiring in 2005	**–**	US$59	**–**	THB2,535
Expiring in 2006	**US$27**	US$30	**¥3,029**	¥3,305
Expiring in 2007	**US$2**	US$2	**¥263**	¥263

At 31 December 2004, the group also had commitments in respect of interest rate and/or currency swaps for hedging purposes, totalling **HK$4,066 million** (2003: HK$4,561 million) at floating interest rates or fixed interest rates of between **1.5%** and **7.5%** (2003: between 1.5% and 7.5%) up to 2017.

C. Minimum operating lease commitments (HK$m)

At 31 December 2004 the total future minimum lease payments under non-cancellable operating leases of the group are (receivable)/payable as follows:

	Receivable		Payable	
	2004	2003	**2004**	2003
Within 1 year	**(401)**	(400)	**60**	61
Between 1 and 5 years	**(339)**	(220)	**483**	395
After 5 years	**(43)**	(31)	**8,267**	8,221
	(783)	(651)	**8,810**	8,677

The group leases out its investment properties under operating leases that typically run for an initial period of two to three years with an option to renew the lease after that date at which time all terms are renegotiated. Certain leases include contingent rentals, based on turnover of lessees, the amounts of which are immaterial.

27. Commitments and contingent liabilities *continued*

C. **Minimum operating lease commitments** (HK$m) *continued*

Following the completion of the restructuring of The Palace Hotel Co., Ltd. ("TPH") on 13 December 2002, the group is committed to making an annual payment of a minimum of RMB 8 million to China Everbright Group Limited ("CEG") up to and including 11 November 2033 (the "Annual Payment"). CEG is a connected person of the company by virtue of its 23.4% interest in TPH's registered capital. The Annual Payment is a deemed lease payment which constitutes a connected transaction under the Listing Rules and is included as a payment under non-cancellable operating leases of the group (note 29.I).

The group also leases certain pieces of land in respect of its hotels located in USA and other Asia Pacific countries from third parties under medium to long term leases. In addition, the group leases a number of office premises under operating leases that typically run for an initial period of two to four years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

D. **Contingent liabilities** (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2004	2003	**2004**	2003
Guarantees given in respect of borrowings and other banking facilities by subsidiary companies	**–**	–	**4,405**	4,744
Other guarantees	**5**	8	**5**	8
Legal and other disputes	**8**	2	**–**	–
	13	10	**4,410**	4,752

The directors consider that the above contingent liabilities are unlikely to materialise.

28. Segment reporting (HK$m)

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group in making operating and financial decisions.

A. **Business segments**

The group is comprised of the following main business segments:

Hotels	Leasing of lodging spaces as well as commercial shopping arcades and office premises, provision of food and beverage at restaurant outlets, operation of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Other businesses	Various other businesses including operation of golf courses, the Peak Tramways, wholesaling of food and beverage products, laundry, food and beverage outlets other than those in owned hotels, and provision of management and consultancy services for clubs.

28. Segment reporting (HK$m) *continued*

B. Segment turnover and results

	Total	Hotels	Rentals from non-hotel properties	Other businesses
Year ended 31 December 2004				
Turnover				
Total segment	3,140	2,532	374	234
Inter-segment	(28)	(8)	–	(20)
	3,112	2,524*	374	214
Segment operating profit before depreciation and amortisation	986	658	260	68
Depreciation and amortisation	(96)	(76)	–	(20)
Segment operating profit	890	582	260	48
Financing charges	(243)			
Share of losses of associated companies	(14)	(14)	–	–
Non-operating items				
Allocated	84	95	–	(11)
Unallocated	(17)			
Profit before taxation	700			
Year ended 31 December 2003				
Turnover				
Total segment	2,543	1,981	372	190
Inter-segment	(26)	(8)	–	(18)
	2,517	1,973*	372	172
Segment operating profit before depreciation and amortisation	726	423	252	51
Depreciation and amortisation	(108)	(87)	–	(21)
Segment operating profit	618	336	252	30
Financing charges	(249)			
Share of losses of associated companies	(5)	(4)	–	(1)
Non-operating items				
Allocated	62	62	–	–
Unallocated	4			
Profit before taxation	430			

* *Analysis of hotels' turnover*

	2004	2003
Rooms	**1,191**	835
Food and beverage	**715**	565
Commercial rentals	**382**	384
Others	**236**	189
	2,524	1,973

28. Segment reporting (HK$m) *continued*

C. Segment balance sheet

	Total	Hotels	Rentals from non-hotel properties	Other businesses
At 31 December 2004				
Assets				
Fixed assets				
Investment properties	**15,227**	**5,967**	**9,024**	**236**
Hotel properties	**6,613**	**6,613**	**–**	**–**
Properties under development	**610**	**254**	**–**	**356**
Other properties	**18**	**–**	**–**	**18**
Other fixed assets	**390**	**288**	**–**	**102**
	22,858	**13,122**	**9,024**	**712**
Interests in associated companies	**84**	**84**	**–**	**–**
Interest in jointly controlled entity	**137**	**137**	**–**	**–**
Investment in hotel management contract	**174**	**174**	**–**	**–**
Other investments	**52**	**43**	**–**	**9**
Other segment assets	**298**	**225**	**14**	**59**
Deferred tax assets	**42**			
Cash	**262**			
Total assets	**23,907**			
Liabilities				
Segment liabilities	**1,138**	**638**	**134**	**366**
Bank loans and other liabilities	**4,783**			
Total liabilities	**5,921**			
At 31 December 2003				
Assets				
Fixed assets				
Investment properties	12,377	4,929	7,179	269
Hotel properties	5,690	5,690	–	–
Properties under development	560	191	–	369
Other properties	16	–	–	16
Other fixed assets	425	312	–	113
	19,068	11,122	7,179	767
Interests in associated companies	103	98	–	5
Investment in hotel management contract	179	179	–	–
Other investments	56	47	–	9
Other segment assets	364	289	9	66
Deferred tax assets	69			
Cash	217			
Total assets	20,056			
Liabilities				
Segment liabilities	919	575	128	216
Bank loans and other liabilities	5,117			
Total liabilities	6,036			

28. Segment reporting (HK$m) *continued*

D. Other segment information

	Total	Hotels	Rentals from non-hotel properties	Other businesses
Year ended 31 December 2004				
Capital expenditure incurred	**274**	**207**	**55**	**12**
Depreciation and amortisation	**96**	**76**	**–**	**20**
Year ended 31 December 2003				
Capital expenditure incurred	475	306	27	142
Depreciation and amortisation	108	88	–	20

E. Geographical segment

The group's hotel operations and property rental businesses are principally located in Hong Kong, the People's Republic of China, Thailand, Vietnam and the United States of America. The golf course operations are located in Thailand and the United States of America. Other miscellaneous businesses are mostly conducted in Hong Kong.

	Hong Kong		Other Asia Pacific		United States of America	
	2004	2003	**2004**	2003	**2004**	2003
Turnover	**1,566**	1,313	**567**	384	**979**	820
Capital expenditure	**94**	84	**145**	192	**35**	199
Assets	**17,471**	14,150	**2,827**	2,852	**3,347**	2,837
Operating profit/(loss) before depreciation and amortisation	**717**	622	**223**	116	**46**	(12)

29. Connected and related party transactions

A. Under a tenancy agreement which commenced from 1 April 2003 and is due to expire on 31 March 2007, a wholly owned subsidiary, HSH Management Services Limited ("HMS"), has leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rate of approximately HK$469,650 plus service charges of HK$146,531 per month from Kadoorie Estates Limited ("Kadoorie Estates"). Details of this transaction were published in the newspapers in accordance with the Listing Rules.

Kadoorie Estates acts as an agent for the registered owner, Cobalt Holdings Corporation ("Cobalt"), which is the trustee of a unit trust, the units of which are held by discretionary trusts. The beneficiaries of those trusts are members of the Kadoorie family. At 1 March 2005 Bermuda Trust Company Limited ("Bermuda Trust") indirectly held a 55% interest in the issued share capital of the company and Cobalt is an indirect wholly owned subsidiary of Bermuda Trust.

29. Connected and related party transactions *continued*

B. Under a tenancy agreement dated 16 December 2004, due to expire on 30 April 2005, HMS leased rooms 601-602, 6th floor of St. George's Building, 2 Ice House Street, Central, Hong Kong as a temporary office at market rate of approximately HK$74,965 plus service charges of HK$20,163 per month. The lessor is Kadoorie Estates.

C. Tai Ping Carpets International Limited and its subsidiaries, collectively referred to as "TPC", is a supplier of carpets to the group. During the year the group has committed into purchasing carpets for a gross consideration of HK$3.9 million on normal commercial terms. **HK$0.8 million** (2003: HK$1.7 million) was paid in 2004 and the remainder will be paid in 2005. Bermuda Trust, as referred to in note 29.A, holds more than 30% of TPC's equity. As the "percentage ratios", as defined under Rule 14.07 of the Listing Rules, calculated based on the gross amount committed during the year were less than 0.1%, these transactions were exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14A.31(2) of the Listing Rules.

D. Indigo Living Limited ("ILL"), a wholly owned subsidiary of TPC, is a supplier of leased furniture to the group. During the year the group leased furniture from ILL for a gross consideration of **HK$1.6 million** (2003: HK$1.9 million) under similar terms as ILL supplies leased furniture to its normal customers. Bermuda Trust as referred to in note 29.A holds more than 30% of TPC's equity. As the "percentage ratios", as defined under Rule 14.07 of the Listing Rules, calculated based on the gross amount of the furniture leased during the year were less than 0.1%, these transactions were exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14A.31(2) of the Listing Rules.

E. Under a tenancy agreement commenced on 7 October 2004, due to expire on 6 October 2006, ILL leased shops G111-G112 at the Repulse Bay complex from The Repulse Bay Company Limited ("TRB"), a wholly owned subsidiary of the company under similar terms as TRB leases out shops to its normal tenants. The guaranteed minimum rent amounts to HK$37,730 or 9% of monthly gross receipts whichever is higher plus service charges of HK$8,516 per month. As the "percentage ratios", as defined under Rule 14.07 of the Listing Rules, calculated based on the gross contract sum were less than 0.1%, this transaction was exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14A.31(2) of the Listing Rules.

F. Heliservices Hong Kong Limited ("HHKL") is a provider of helicopter services to The Peninsula Hotel Limited ("PHL"), a wholly owned subsidiary of the company. On 10 March 2003, an agreement was entered into between HHKL and PHL for helicopter services to be used during the period from 1 April 2003 to 31 March 2007. The agreement was entered into on an arm's length basis and was under normal commercial terms. During the year HK$1.1 million was charged to the income statement as a result of the utilisation of helicopter services. HHKL is held by trusts, the beneficiaries of which include Dr The Hon. Michael D Kadoorie and Mr. Ronald J McAulay and their respective family members. The agreement, at the time it was entered into, constitued a "de minimis" connected transaction under the Listing Rules.

29. Connected and related party transactions *continued*

G. During the year, Quail Lodge, Inc.("QLI"), a wholly owned subsidiary of the company, paid a total of **HK$17.3 million** (2003: HK$15.8 million) marketing and management fees to Valley Resort Management, LLC ("VRM"), an associated company of which the company holds 50% equity interest indirectly. The fees were mutually agreed by both parties after taking into account VRM's operating and financial requirements. The balance of the fees due by QLI to VRM at the year end amounted to **HK$0.8 million** (2003: HK$1.4 million). While the provision of marketing and management services to QLI by VRM does not fall under the definition of connected transactions of the Listing Rules, QLI and VRM are related parties and the transaction is disclosed in accordance with Statement of Standard Accounting Practice 20 "Related Party Disclosures" ("SSAP 20") .

H. During the year, the group received a total of **HK$5.4 million** (2003: HK$4.4 million) marketing and management fees from Manila Peninsula Hotel, Inc. ("MPHI"), an associated company in which the company has a 40% effective equity interest. The marketing and management fees were agreed on an arm's length basis. As at 31 December 2004, **HK$1 million** (2003: HK$2 million) was due and owing to the group by MPHI.

The company granted an unsecured facility of US$3.9 million ("Loan") to MPHI for the purpose of refinancing its working capital. The rate of interest was agreed on an arm's length basis with reference to the US dollar LIBOR. Pursuant to the terms of the Loan, the company has the right to convert any un-repaid portion of the Loan into shares in MPHI in the event of a rights issue or public offering of shares at a price not higher than that of the shares offered to the stockholders or to the public. The Loan is repayable by instalments and would be fully repaid in June 2005 unless the company has exercised its right of conversion prior thereto.

As at the year end, the outstanding principal of the Loan and unpaid interest due by MPHI to the company totalled **US$3.3 million** (2003: US$3.4 million). Interest payable to the company in 2004 and 2003 was immaterial.

While the provision of marketing and management services and the granting of Loan to MPHI do not fall under the definition of connected transactions of the Listing Rules, MPHI and the company are related parties and these transactions are disclosed in accordance with SSAP 20.

I. The company announced on 6 December 2000 that Kam Lung Investments Limited, a wholly owned subsidiary of the company, entered into various agreements with the then independent third parties to carry out the restructuring of The Palace Hotel Co., Limited ("TPH"), the owner of The Peninsula Palace, Beijing. Upon completion of the restructuring, China Everbright Group Ltd. ("CEG") would be interested in 23.4% of TPH. Under the terms of the agreement as announced, CEG was entitled to receive a priority payment of minimum RMB 8 million up to and including 11 November 2033 ("Annual Payment"). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable.

The Annual Payment therefore became a connected transaction under the listing rules and is subject to disclosure requirements in this annual report. The Annual Payment in an amount of **RMB 8 million** (2003: RMB 8 million) was recorded in 2004.

29. Connected and related party transactions *continued*

J. Under a tenancy agreement which commenced on 12 June 1997, the associated company, RipBion! Limited ("RipBion!"), leased the shops 202 and 203 on Level 2 and shops 301 and 303 on Level 3 of The Peak Tower as an entertainment venue trading under the name of Ripley's Believe It Or Not! museum at a market rate of HK$153,660 plus service charges of HK$38,415 per month. The lessor is The Peak Tower Limited ("PTL"), a wholly-owned subsidiary of the company and the beneficial owner of the premises. PTL served notice to RipBion! to terminate the tenancy agreement on 7 April 2005 for the renovation of The Peak Tower. While the leasing arrangement does not fall under the definition of connected transactions of the Listing Rules, RipBion! and PTL are related parties and the transaction is disclosed in accordance with SSAP 20.

K. Under a tenancy agreement commenced on 1 January 2004 and expired on 31 December 2004, Sir Elly Kadoorie & Sons Limited (indirectly owned by the Kadoorie family's trusts), leased a suite at the Repulse Bay complex from TRB, at a monthly rent of HK$35,148 (inclusive of government rates, management and utilities charges) on normal commercial terms. As the "percentage ratios", as defined under Rule 14.07 of the Listing Rules, calculated based on the gross contract sum were less than 0.1%, this transaction was exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14A.31(2) of the Listing Rules.

30. Post balance sheet events

A. The company made an offer to all shareholders of Manila Peninsula Hotel, Inc. ("MPHI"), its 40% associated company, (other than the company and its associates) to acquire 50% of their MPHI shares on 29 October 2004 at an offer price of Peso 10.5 (approximately HK$1.45) per MPHI share. The offer became unconditional on 24 February 2005 as all conditions precedent were fulfilled or waived. Upon completion of the unconditional offer, the company will have control of approximately 72% of the issued share capital of MPHI.

B. On 4 December 2004, HSH Holdings Limited, a wholly-owned subsidiary of the company, entered into an agreement to sell the group's investment in The Kowloon Hotel Limited ("KHL"), the owner of The Kowloon Hotel, to an independent third party at a cash consideration of HK$1,930 million, subject to adjustment based on the net asset value of KHL at completion. Completion of the transaction took place on 1 February 2005. The investment property and hotel property revaluation reserves in respect of the hotel totalled HK$1,225 million at 31 December 2004. The net assets and turnover of KHL constitute approximately 7% and 10% of the consolidated net assets and turnover respectively in the financial statements for the year ended 31 December 2004.

C. The group is revitalisating The Peak Tower, which will close in March 2005 on commencement of the works. The closure of the property will have a short-term impact on the group's earnings for 2005 and 2006. The property is expected to reopen in mid-2006.