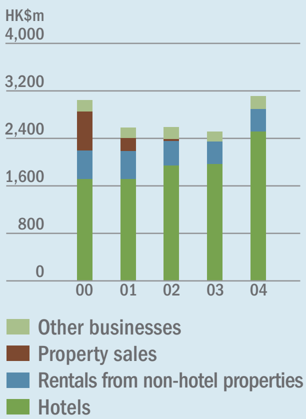
Income statement

A. Turnover by activity



Turnover

The total turnover of the group for the year increased by 24%, as compared to 2003, to HK$3,112 million. To compare year-on-year turnover performance more accurately, the receipt of HK$95 million in 2003 as settlement of the business interruption insurance claim, due to SARS, has been excluded.

The strong rebound in business and leisure travel experienced by almost all the markets in which our hotels operate had a positive effect on income from rooms, food and beverage and other hotel services, leading to an overall improvement in results. The return to confidence in the Hong Kong economy has bolstered the local property rental market, the decline of which has now been arrested, with signs of recovery evident.

The hotel division's performance has been pleasing, particularly considering that continuing room renovation programmes at The Peninsula Hong Kong, The Peninsula Palace and The Peninsula Beverly Hills reduced rooms inventory. In comparison, in 2003, Quail Lodge Resort was closed for several months and the third phase of renovation at The Peninsula Palace was under way.

The table below sets out the breakdown of revenues by business sector and geographical segment.

HK$m	2004		2003		Change
Hotels					
Rooms	**1,191**	**38%**	835	33%	43%
Food and beverage	**715**	**23%**	565	23%	27%
Commercial rentals	**382**	**12%**	384	15%	(1%)
Others	**236**	**8%**	189	8%	25%
	2,524	**81%**	1,973	79%	28%
Rentals from non-hotel properties					
Residential	**282**	**9%**	287	11%	(2%)
Office	**34**	**1%**	32	1%	6%
Shopping arcade	**58**	**2%**	53	2%	9%
	374	**12%**	372	14%	1%
Other businesses	**214**	**7%**	172	7%	24%
	3,112	**100%**	2,517	100%	24%
Arising in					
Hong Kong	**1,566**	**50%**	1,313	52%	19%
Other Asia Pacific	**567**	**18%**	384	15%	48%
United States of America	**979**	**32%**	820	33%	19%

Hotels During 2004, our majority-owned hotels ("owned hotels") generated total room revenue of HK$1,191 million, an increase of 43% over the previous year. Food and beverage revenues rose 27% year on year, while commercial rental revenues remained steady.

The properties in Asia have seen a sustained rebound in business, as the effects of SARS have receded, economies have strengthened and long haul travel has recovered. The Peninsula Hong Kong has had a record year in occupancy levels, and its room rates have increased gradually. Revenues at The Kowloon Hotel, the sale of which was completed on February 1, 2005, were similarly healthy. The Peninsula Bangkok has been able to build occupancy during the year whilst The Peninsula Manila has enjoyed a stable year.

In the USA, The Peninsula New York continued its strong recovery and, bolstered by strong occupancy, was able to drive rate. Similarly, The Peninsula Beverly Hills, the leader in RevPAR in its market, was able to capitalise on already strong occupancy to enhance its room rate. The Peninsula Chicago has continued to improve in yield, although it is challenged by the rate cutting strategy adopted by its competitors. Opened for a full year following its 2003 renovation, Quail Lodge Resort's performance has been disappointing, but remedial action is being taken to address this.

Commercial revenues from the hotels' shopping arcades are steady, with slight increases in returns from The Peninsula New York and The Peninsula Palace; the latter especially continues to be a focus for high-end retail brands in Beijing. There has been an escalation in demand from existing tenants for increased space in The Peninsula Hong Kong in response both to their own corporate initiatives and to consumer trends.

The breakdown of revenues by property is as follows:

	2004				2003			
HK$m	**Room**	**F&B**	**Commercial rentals**	**Other**	Room	F&B	Commercial rentals	Other
Owned hotels								
The Peninsula Hong Kong	**222**	**244**	**247**	**55**	149	196	253	42
The Peninsula New York	**275**	**75**	**27**	**64**	227	66	26	59
The Peninsula Chicago	**221**	**142**	**–**	**49**	193	122	–	40
The Peninsula Bangkok	**121**	**66**	**2**	**13**	90	51	2	11
The Peninsula Palace Beijing	**132**	**61**	**81**	**16**	50	27	79	6
The Kowloon Hotel	**176**	**99**	**25**	**10**	104	85	24	8
Quail Lodge Resort	**44**	**28**	**–**	**6**	22	18	–	3
	1,191	**715**	**382**	**213**	835	565	384	169
Managed hotels								
The Peninsula Beverly Hills	**218**	**89**	**–**	**47**	189	83	–	45
The Peninsula Manila	**76**	**58**	**1**	**21**	64	54	2	19
	294	**147**	**1**	**68**	253	137	2	64
	1,485	**862**	**383**	**281**	1,088	702	386	233

Note: Revenue on managed hotels is not consolidated in the financial statements of the group. However, management and marketing fees of HK$23 million (2003: HK$20 million) were received from these hotels.

Rentals from non-hotel properties Total rental revenue from non-hotel properties was HK$374 million, an increase of 1% over 2003. The improvement was derived mainly from rentals at The Peak Tower, and a slightly improved contribution from St John's Building where better corporate sentiment has generated demand for office space.

	2004			2003		
HK$m	**Residential**	**Office**	**Shopping arcade**	Residential	Office	Shopping arcade
The Repulse Bay complex, Hong Kong	**271**	**–**	**35**	276	–	32
The Peak Tower, Hong Kong	**–**	**–**	**23**	–	–	20
St John's Building, Hong Kong	**–**	**17**	**–**	–	15	1
The Landmark, Ho Chi Minh City	**11**	**17**	**–**	11	17	–
	282	**34**	**58**	287	32	53

Rental revenues from The Repulse Bay apartment complex were slightly depressed due to a smaller available inventory with the first phase of renovation being completed. As anticipated, the reconfigured apartments have let quickly and are commanding higher rates. The positive market response, coupled with improving economic fundamentals, has prompted the company to begin the next phase of renovation, which will be completed in the first quarter of 2005.

The revival of the tourism industry and a positive domestic outlook benefitted the retail premises at The Peak Tower, which were fully let. Occupancy at St John's Building rose 12% year-on-year and at slightly improved rates. The previous oversupply of inventory in Central district is beginning to dwindle as demand increases from the corporate sector. The Landmark continues to maintain high occupancy in both office and residential space whilst holding rates.

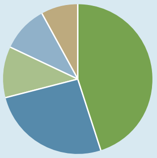
Property sales There were no property sales during 2004. The real estate sales programme at the Thai Country Club has yet to commence.

Other businesses Revenue from the Thai Country Club has been particularly strong during 2004, registering a 20% increase over the previous year. Income from the Peak Tram and Peak Entertainment increased significantly as visitors and residents returned to this popular destination spot. The Peak Tram's revenues increased by 31% and those of Peak Entertainment by 67%. Buoyant hotel and restaurant business improved Tai Pan Laundry's performance by 31% over that of 2003. The restaurants at The Repulse Bay, which had performed well in 2003, nevertheless further increased revenues by 7%, whilst those of Peninsula Clubs and Consultancy Services remained constant. At Quail Lodge, the lower than anticipated hotel occupancy has affected fees and usage of the golf facilities.

Other revenue

Peninsula Merchandising Limited, a newly formed entity that includes the existing Peninsula Boutiques in the hotel arcades as well as the outlets at Hong Kong International Airport and the newly opened Mitsukoshi department store in Tokyo, achieved revenues of HK$11 million.

B. Operating costs (%)



Operating costs

An analysis of the operating costs of HK$2,230 million is set out in chart B on the left. These are 12% higher than those of 2003 as a result of the higher payroll costs of the full year of operations at both The Peninsula Palace Beijing and Quail Lodge Resort, as well as headcount needed in general to service the higher business levels.

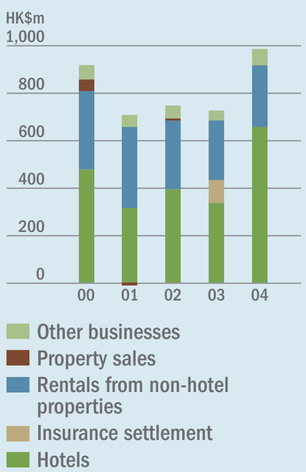
HK$996 million or 45% of direct operating costs are payroll-related. This proportion remains the same as the previous year, although the actual amount is higher. The breakdown of employee numbers at 31 December was as follows:

	2004			2003
	Direct	Managed	Total	Total
Hotels	3,574	1,083	4,657	4,635
Property	214	–	214	222
Other businesses	705	581	1,286	1,247
	4,493	1,664	6,157	6,104
Hong Kong	1,707	581	2,288	2,285
Other Asia Pacific	1,602	713	2,315	2,301
United States of America	1,184	370	1,554	1,518
	4,493	1,664	6,157	6,104

The increase in the number of hotel employees is mainly attributable to The Peninsula Palace Beijing and Quail Lodge operating at full capacity following their respective renovations. The rise in business volumes at The Peninsulas in Chicago and Beverly Hills also necessitated additional headcount in order to maintain standards of service and the improved patronage of the clubs that the group manages led to increased staff numbers in this division.

Total cost to the group of contributions to all the defined contribution retirement plans in Hong Kong, other Asia Pacific countries and the USA amounted to HK$57 million, compared to HK$55 million in 2003. The increase is due to the rise in headcount.

C. EBITDA by activity



EBITDA

EBITDA (earnings before interest, tax, depreciation and amortisation) rose by 36% to HK$986 million. The increase is attributable mainly to the improvement in the contribution from the hotel division.

EBITDA can be analysed as follows:

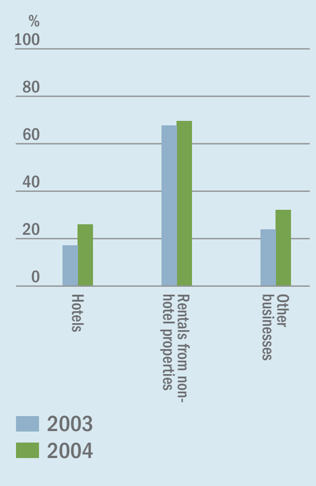
HK$m	Hong Kong	Other Asia Pacific	United States of America	Total	Change
2004					
Hotels	**411**	**199**	**48**	**658**	**95%**
Rentals from non-hotel properties	**244**	**16**	**–**	**260**	**3%**
Other businesses	**62**	**8**	**(2)**	**68**	**66%**
	717	**223**	**46**	**986**	**36%**
2003					
Hotels	253	91	(6)	338	
Rentals from non-hotel properties	237	15	–	252	
Other businesses	37	10	(6)	41	
	527	116	(12)	631	
Insurance settlement	95	–	–	95	
	622	116	(12)	726	

Hotels The hotel division performed strongly, as positive consumer and corporate sentiment fuelled business volumes. EBITDA for this division increased by 95% to HK$658 million. Following its major renovation, The Peninsula Palace Beijing's contribution improved markedly, the losses of 2003 at The Peninsula New York and The Peninsula Chicago were reversed significantly, and the other Asian properties saw a substantial improvement. The only loss, at Quail Lodge Resort, was reduced slightly compared to the previous year, although this still represented a disappointing performance.

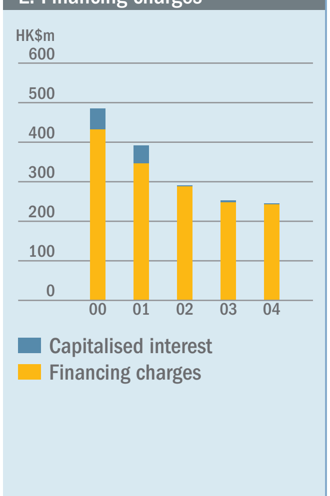
Rentals from non-hotel properties EBITDA from rentals in non-hotel properties increased by 3% to HK$260 million. At The Repulse Bay, EBITDA was slightly higher as corporate demand began to return and the newly renovated unfurnished apartments attracted higher rates. St John's Building was steady while The Peak Tower improved its EBITDA by 21%. The Landmark raised its EBITDA by 7% in a competitive market.

Other businesses EBITDA from other businesses rose by 66% to HK$68 million compared to HK$41 million in 2003. Peninsula Clubs and Consultancy Services, Peak Tramways and Tai Pan Laundry all demonstrated much better performances while there was a contribution for the first time from Peninsula Merchandising. The Thai Country Club maintained its healthy showing, but administrative overheads and reduced revenue at Quail Lodge remained problematic.

D. EBITDA margin (%)



E. Financing charges



EBITDA margin

EBITDA margin represents EBITDA as a percentage of turnover and is analysed as follows:

	2004	2003
Hotels	**26%**	17%
Rentals from non-hotel properties	**70%**	68%
Other businesses	**32%**	24%
Overall profit margin	**32%**	29%
Arising in		
Hong Kong	**46%**	47%
Other Asia Pacific	**39%**	30%
United States of America	**5%**	(1%)

(EBITDA margin in 2003 includes the insurance settlement arising from the SARS claim.)

The overall EBITDA margin increased to 32% compared to 29% in 2003, largely due to the recovery in the hotel division. Because of the fixed cost element in operating costs, the percentage increase in EBITDA is greater than the percentage increase in turnover.

Non-operating items

The annual third party valuation of the group's properties resulted in an increase in value of certain properties over 2003. There was a reversal of valuation deficits of HK$96 million previously recorded at several properties, whilst impairment losses of HK$17 million were recorded in 2004. The results of the annual property revaluation are summarised on pages 58 to 60.

Financing charges

Total financing charges on borrowings in 2004 amounted to HK$245 million. Of this, HK$2 million was capitalised in respect of projects under development, giving a net charge to the income statement of HK$243 million. The weighted average gross interest rate in 2004 increased to 5.0% (2003: 4.4%) as borrowings of HK$0.7 billion (representing 17% of the net borrowings) were hedged at higher long-term fixed rates in the last quarter of 2003.

Interest cover has improved, with operating profit at 3.7 times net financing charges for the year.

Balance sheet

Fixed assets

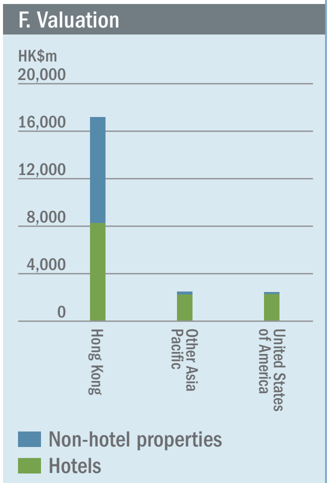
Following the sale of The Kowloon Hotel in February 2005, the group owns and manages eight hotels in Asia and the United States of America. The group is also developing two more hotels in Tokyo and Shanghai.

In addition to hotel investments, the group owns residential apartments, office towers and shopping arcades for rental purposes.

A summary of hotel, property and other assets with valuations attributable to the group at 31 December 2004 is listed as follows:

	Total Property GFA (sf)	Net Lettable Area Shopping Arcade (sf)	Office (sf)	Residential (sf)	Valuation (HK$'m)	HSH Interest (%)	Attributable Value (HK$'m)
Hotel Assets							
Owned Hotels							
The Peninsula Hong Kong	604,097	72,522	67,759	–	6,325	100%	6,325
Lease Expiry Jan-2072							
The Peninsula New York	305,870	7,574	–	–	841	100%	841
Lease Expiry Aug-2078							
The Peninsula Chicago *	403,219	–	–	–	1,304	92.5%	1,206
Freehold/Leasehold							
The Peninsula Bangkok	716,393	3,169	–	–	756	75%	567
Freehold/Leasehold							
The Peninsula Palace Beijing	790,902	77,683	–	–	1,485	42.13%	626
Lease Expiry Nov-2033							
The Kowloon Hotel #	361,985	39,648	–	–	1,930	100%	1,930
Lease Expiry Jun-2039							
Quail Lodge Resort*	1,663,950	–	–	–	227	100%	227
Freehold							
	4,846,416	200,596	67,759	–	12,868		11,722
Managed Hotels							
The Peninsula Beverly Hills					1,102	20%	220
The Peninsula Manila					182	40%	73
					1,284		293
Total Hotel Assets					14,152		12,015

F. Valuation



	Total Property GFA (sf)	Net Lettable Area: Shopping Arcade (sf)	Net Lettable Area: Office (sf)	Net Lettable Area: Residential (sf)	Valuation (HK$'m)	HSH Interest (%)	Attributable Value (HK$'m)
Property Assets							
The Repulse Bay	805,990	26,026	–	376,893	4,885	100%	4,885
Lease Expiry May-2068							
Repulse Bay Apartments	710,763	–	–	418,692	3,295	100%	3,295
Lease Expiry Mar-2071							
Repulse Bay Garage	36,438	16,934	–	–	76	100%	76
Lease Expiry Sep-2070							
The Peak Tower	116,574	41,664	–	–	381	100%	381
Lease Expiry Mar-2031							
St. John's Building	103,882	534	60,783	–	320	100%	320
Lease Expiry Aug-2114							
The Landmark	221,866	–	80,342	54,821	72	70%	50
Lease Expiry Jan-2026							
Thai Country Club	7,406,035	–	–	–	181	75%	136
Freehold							
Quail Lodge Golf Club	5,845,004	–	–	–	79	100%	79
Freehold							
Total Property Assets	15,246,552	85,158	141,125	850,406	9,289		9,222
Other Assets							
Phuket Land	2,411,317	–	–	–	97	75%	73
Freehold							
Vacant land near Bangkok	15,041,557	–	–	–	259	75%	194
Freehold							
Quail Lodge Land	15,465,309	–	–	–	58	100%	58
Freehold							
Po Yip Building, Flat 2, 1/F	20,594	–	–	–	13	100%	13
Lease Expiry Jun-2047							
1 Lugard Road	4,938	–	–	–	2	100%	2
Lease Expiry Jan-2077							
Sun Hing Building, Units 1&2, 5/F	4,694	–	–	–	3	100%	3
Lease Expiry Jul-2120							
Total Other Assets	32,948,409	–	–	–	432		343
Total Hotel, Property and Other Assets	**53,041,377**	**285,754**	**208,884**	**850,406**	**23,873**		**21,580**

* *In line with the group's accounting policies, The Peninsula Chicago (a hotel newly opened in 2001) and Quail Lodge Resort (a hotel newly renovated in 2003) were not subject to third party valuations at the end of the year as they were considered not to have reached a steady state of operation. These two properties are stated above at cost less any provision required.*

\# *The Kowloon Hotel was sold in February 2005.*

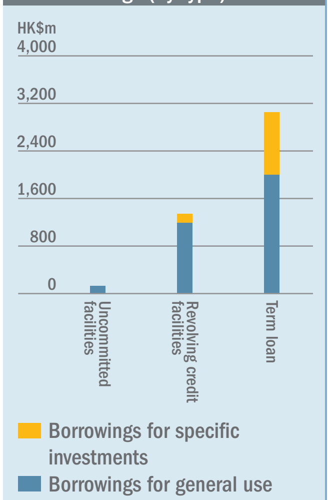
Third party valuations of the group's hotel and investment properties were carried out as at 31 December 2004. In line with the group's accounting policies, residential apartments, shopping arcades (including those at hotels), office towers and golf courses are treated as investment properties, and the surpluses or deficits so arising are dealt with in the investment properties revaluation reserves on a portfolio basis.

The treatment of surpluses and deficits arising from revaluation as at 31 December 2004 is summarised below:

	Hotel properties				Investment properties		Balance
HK$m	Income Statement	Minority Interests	Revaluation Reserves	Total	Revaluation Reserves	Grand Total	of Hotel Revaluation Reserves
Owned hotels							
The Peninsula Hong Kong	–	–	93	93	741	834	222
The Peninsula New York	29	–	–	29	19	48	–
The Peninsula Chicago *	–	–	–	–	–	–	–
The Peninsula Bangkok	66	(17)	–	49	–	49	–
The Peninsula Palace Beijing	–	–	55	55	128	183	148
The Kowloon Hotel	–	–	593	593	140	733	1,024
Quail Lodge Resort *	–	–	–	–	–	–	–
Owned hotels	95	(17)	741	819	1,028	1,847	1,394
Non-hotel properties							
The Repulse Bay complex	–	–	–	–	1,695	1,695	
The Peak Tower	–	–	–	–	51	51	
St John's Building	–	–	–	–	64	64	
The Landmark	–	–	–	–	(13)	(13)	
Thai Country Club	–	–	–	–	2	2	
Quail Lodge Golf Club	–	–	–	–	(45)	(45)	
Po Yip Building	1	–	–	1	–	1	
	96	(17)	741	820	2,782	3,602	
Revaluation reserves at 1 January			653		8,585		
Revaluation reserves at 31 December			**1,394**		**11,367**		

* *No revaluation was made to newly opened or newly renovated hotels, which are considered not to have reached a steady state of operations.*

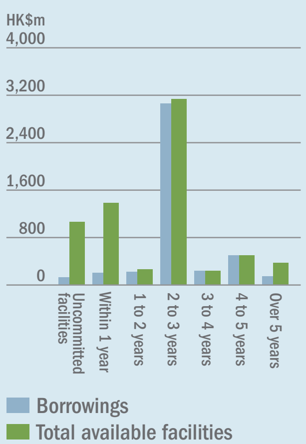
G. Borrowings (by type)



Borrowings

Gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, at 20% remains well within the debt capacity of the group. Care is taken to ensure that borrowing facilities do not impose onerous or restrictive covenants, and that the terms of the facilities match the underlying requirements. Borrowings are managed centrally and are not normally earmarked for specific investments other than those arranged to fund specific projects, such as The Peninsula Chicago, The Peninsula Bangkok, The Peninsula Tokyo and The Peninsula Palace Beijing.

H. Maturity profile



In addition to the borrowings of the group, The Peninsula Manila (40%-owned by the group) and The Peninsula Beverly Hills (20%) obtain non-recourse bank borrowings directly. These borrowings are not consolidated in the balance sheet as these two investments are not subsidiaries of the company. Consolidated and non-consolidated borrowings at 31 December 2004 are summarised as follows:

HK$m	2004 Hong Kong	2004 Other Asia Pacific	2004 United States of America	2004 Total	2003 Total
Consolidated borrowings					
For general use	3,046	128	168	3,342	3,694
For specific investments	–	570	624	1,194	1,212
Consolidated borrowings	3,046	698	792	4,536	4,906
Off balance sheet borrowings attributable to the group, for specific investments					
The Peninsula Manila (40%)	–	4	–	4	5
The Peninsula Beverly Hills (20%)	–	–	121	121	123
Off balance sheet borrowings	–	4	121	125	128
Consolidated and non-consolidated borrowings	3,046	702	913	4,661	5,034
Pledged assets attributable to the group					
For consolidated borrowings	–	1,485	–	1,485	2,687
For off balance sheet borrowings	–	–	394	394	481
	–	1,485	394	1,879	3,168

Borrowing requirements are not seasonal as the group benefits from a steady inflow of income from its leased properties and there is only modest seasonality in its hotel operations. Borrowing requirements tend to follow the pattern of capital expenditure and investment at the properties.

In February 2005, the group received the remaining proceeds of the sale of its interest in The Kowloon Hotel Limited amounting to HK$1,737 million (excluding a 10% deposit of HK$193 million received in December 2004). The amount of the proceeds is subject to adjustment depending on the net asset value of the company as at completion. Pending the utilisation of the funds in the development of new hotels and the refurbishment or renovation of some of the group's existing hotels and properties, the proceeds were applied towards reducing bank borrowings and effectively managing the group's cost of funding. As a result of the reduction of bank borrowings, the group's gearing level has been reduced further.

Liquidity

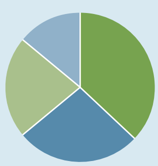
Net cash generated from operating activities amounted to HK$992 million, as compared to HK$627 million in 2003. Total cash flow was supplemented by the cash deposit of HK$193 million received in December 2004 in respect of the sale of The Kowloon Hotel. Together with the remaining sale proceeds of HK$1,737 million received in February 2005, this has further strengthened the company's financial flexibility and cash position.

In order to minimise interest costs, bank borrowings totalling HK$387 million were repaid during the year primarily from the operating cash flow. As a result of the group's reduction of its borrowings and through effective management of its interest costs, interest payable fell marginally to HK$248 million compared to HK$255 million in 2003.

Capital expenditure in 2004 totalled HK$360 million and is summarised below:

HK$m	2004	2003
New project development – Tokyo	**52**	41
– Shanghai	**133**	4
Major renovations in certain properties	**79**	318
Capital expenditure at other existing properties	**96**	73
	360	436

I. Capital expenditure (%)



- 37 New project development – Shanghai
- 27 Capital expenditure at other existing properties
- 22 Major renovations in certain properties
- 14 New project development – Tokyo

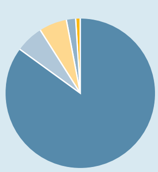
Major renovations include the renovation programmes for The Peninsula Palace, Quail Lodge and The Repulse Bay. In addition, the group spent HK$185 million on new projects, including capital expenditure for The Peninsula Tokyo and equity injection into the joint venture in Shanghai. Construction of The Peninsula Tokyo has recently commenced and it is expected that construction of The Peninsula Shanghai will commence in 2006. Accordingly, the group's capital expenditure in relation to these projects is anticipated to increase significantly in the next three years. The remaining capital expenditure of HK$96 million was incurred on upkeep and minor capital projects at our other existing properties.

Risk management

The group emphasises risk minimisation and hedges its exposure to financial risks. Various techniques and financial instruments are used to control or reduce the financial risks.

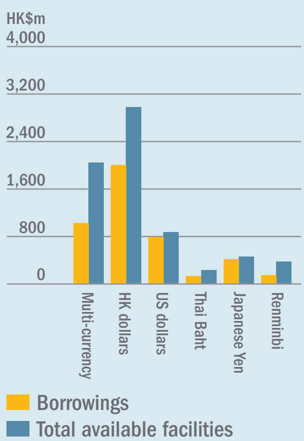
Foreign exchange risk The group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The parent company of the group is a Hong Kong corporation, reporting its results and accountable to its shareholders in Hong Kong dollars. In the light of the Hong Kong dollar peg, the group has not hedged exposure to certain US dollar denominated net assets. It therefore aims to preserve its value in Hong Kong dollar and/or United States dollar terms. As at 31 December 2004, after accounting for certain currency swaps designed to hedge foreign exchange risk of foreign currency borrowings, approximately 85%, 6%, 6%, 2% and 1% of the group's net assets were denominated in Hong Kong dollars, United States dollars, Renminbi, Thai Baht and other currencies respectively. Other currencies mainly include Philippine Peso, Vietnamese Dong and Japanese Yen.

J. Net assets (%)

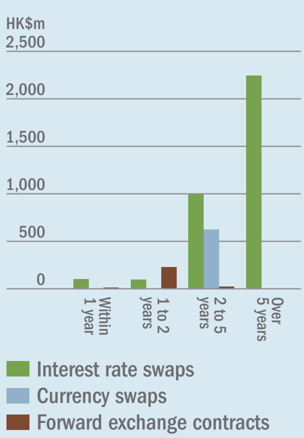


- 85 HK dollars
- 6 US dollars
- 6 Renminbi
- 2 Thai Baht
- 1 Other currencies

K. Borrowings and available facilities (by currency)



L. Notional amounts (by maturity)



Foreign currency borrowings and other hedging techniques are used to match foreign currency assets in order to minimise the translation exposures. Even after the matching, some translation exposures exist in Asian countries and general reserves have been credited with HK$0.4 million in 2004 in respect of this net translation loss.

Interest rate risk The group's borrowings bear floating interest rates that are reset on a regular basis as market rates change. As the borrowing costs are subject to market fluctuations in interest rates, the group has a long-term policy to fix approximately 50% of its borrowings, by way of interest rate swaps and other derivatives. At 31 December 2004, the interest rates on 66% of the borrowings were fixed.

Liquidity risk The group manages its liquidity risk by obtaining sufficient committed borrowing facilities to meet its obligations and commitments. At 31 December 2004, total available facilities amounted to HK$7.0 billion, of which 65% was drawn down. The balance of undrawn committed facilities of HK$1.5 billion is in the form of revolving credit and term loan facilities.

The group also manages its maturity profile of borrowings and facilities to maximise liquidity and minimise refinancing risk.

Off-balance sheet financial instruments

Off-balance sheet financial instruments are held for hedging purposes to manage foreign exchange and interest rate risks. Effective controls are implemented to identify and monitor these risks.

In accordance with the group's hedging policy, the group has entered into interest rate swaps to fix interest rates of certain borrowings. Also, the group maintains certain foreign currency borrowings coupled with currency swaps to reduce the borrowing costs.

The notional amounts and the fair value of the off-balance sheet financial instruments as at 31 December 2004 are as follows:

	Cash flow hedges	
HK$m	Notional amounts	Fair value
Interest rate swaps	3,441	(313)
Currency swaps	625	23
Forward exchange contracts	251	(29)
Total	4,317	(319)

The fair value is calculated as the present value of the expected future cash flows relating to the financial instruments based on the market forward rates at 31 December 2004. 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.

The following ranges of fixed rates are locked in by interest rate and/or currency swaps as at 31 December 2004:

HK$	4.8% to 7.5%
US$	4.6% to 6.0%
Thai Baht	3.1%
Japanese Yen	1.5% to 2.1%

Following the completion of the sale of The Kowloon Hotel and the reduction of bank borrowings in this connection, the loan interest fixing ratio has been re-adjusted by way of offsetting arrangements. As a result of the re-adjustment, at 28 February 2005, the interest rates on 50-60% of net borrowings were effectively fixed.

New Accounting Policies

With effect from 1 January 2005, the group will adopt new accounting standards, including HKAS 16 "Property, Plant and Equipment", HKAS 17 "Leases", HKAS 32 and 39 "Financial Instruments", and HKAS 40 "Investment Property". In summary, these accounting standards will mean:

1. 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;
2. 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;
3. 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
4. land with undetermined future use will be reclassified as investment properties, subject to annual market valuation.

The group will also be required to account for all changes in the fair value of off-balance sheet financial instruments which either fulfil or do not fulfil the hedging requirements of the relevant accounting standards. These will be recorded in reserves or the income statement respectively.

In summary, on the balance sheet, the change of the accounting policy from market valuation to cost accounting for hotel properties and golf courses is expected to reduce the carrying value of fixed assets, thereby increasing the group's gearing ratio. On the income statement, the impact will be reflected as follows:

(1) revaluation movements of investment properties net of deferred tax provisions will be recorded in the income statement, instead of the revaluation reserve. This may give rise to non-operating fluctuations in the group's profits;

(2) additional depreciation and amortisation will be provided for hotel properties and the leasehold land on which they are situated; and

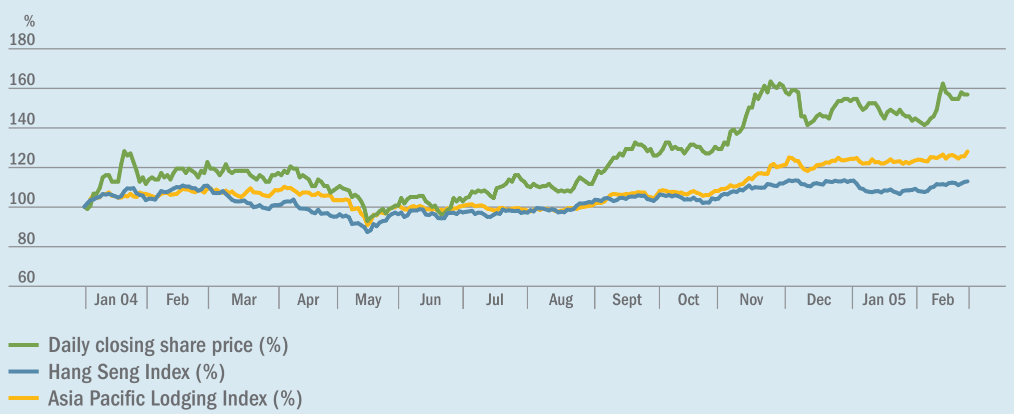
(3) changes in fair value of off-balance sheet financial instruments which do not fulfil the hedging requirements will be recorded in the income statement.

It should be noted that the adoption of these accounting standards is not anticipated to have a material effect on the group's EBITDA and operational cash flow.

Share information

The company's share price closed on 1 March 2005 at HK$7.05 giving a market capitalisation of HK$9.9 billion (US$1.3 billion) and reflecting a discount to net asset value of 43%. During 2004, the share price outperformed the Hang Seng Index and an index of leading Asia Pacific hotel stocks.

M. Share price and indices



Note: The share price and Indices as at 31 December 2003 = 100%