FINANCIAL REVIEW SUMMARY

Consolidated Balance Sheet at 31.12.2004 *(restated)*

	HK$m
Net assets	
Fixed assets	20,058
Other long-term investments	443
Deferred tax assets	–
Derivative financial instruments	–
Cash and bank balances	262
Other current assets	298
	21,061
Bank overdrafts	(19)
4 Bank borrowings	(4,517)
Derivative financial instruments	–
Deferred tax liabilities	(2,386)
Other liabilities	(1,183)
	12,956
Capital and reserves	
Share capital and premium	3,283
Retained profits	8,582
Hedging reserve	–
Other reserves	477
	12,342
Minority interests	614
	12,956

Consolidated Cash Flow Statement for the year ended 31.12.2005

		HK$m
2 EBITDA		1,092
Tax paid		(81)
Other adjustments		47
Cash inflow from operating activities		1,058
Interest and other financing charges paid		(210)
Dividends paid		(104)
3 Capital expenditure		(344)
3 Loan granted to jointly controlled entity		(308)
4 Balance of proceeds in respect of disposal of The Kowloon Hotel		1,684
4 Net decrease in bank borrowings		(1,886)
Other net cash inflow		152
Net increase in cash		42
Cash and bank balances	262	
Less: Bank overdrafts	(19)	
Cash & cash equivalents at 1.1.2005		243
Cash & cash equivalents at 31.12.2005*		285
*Representing:		
Cash and bank balances		301
Bank overdrafts		(16)
		285

Consolidated Income Statement for the year ended 31.12.2005

	HK$m
5 Turnover	3,269
Other revenue	7
Operating costs	(2,184)
2 EBITDA	1,092
Depreciation and amortisation	(238)
Financing charges	(163)
Share of losses of associates/jointly controlled entity	(3)
Profit before non-operating items	688
6 Increase in fair value of investment properties	1,089
4 Net gain on disposal of The Kowloon Hotel	953
Other non-operating items	199
6 Taxation	(208)
Minority interests	(57)
Profit attributable to shareholders	2,664

Consolidated Retained Profits for the year ended 31.12.2005

	HK$m
Retained profits at 1.1.2005	
As previously reported	861
1 Prior year adjustments	7,721
As restated, before opening balance adjustments	8,582
1 Opening balance adjustments	(26)
As restated	8,556
Profit attributable to shareholders for the year	2,664
Dividends paid during the year	(183)
Retained profits at 31.12.2005	11,037

Consolidated Balance Sheet at 31.12.2005

	HK$m
Net assets	
Fixed assets	20,561
Other long-term investments	666
Deferred tax assets	123
Derivative financial instruments	25
Cash and bank balances	301
Other current assets	296
	21,972
Bank overdrafts	(16)
4 Bank borrowings	(2,598)
Derivative financial instruments	(209)
Deferred tax liabilities	(2,577)
Other liabilities	(966)
	15,606
Capital and reserves	
Share capital and premium	3,394
Retained profits	11,037
Hedging reserve	(15)
Other reserves	480
	14,896
Minority interests	710
	15,606

1 Significant changes in accounting policies have impacted the presentation of the group's accounts in 2005. Details of the effects in respect of the above changes in accounting policies are discussed in note 2 to the financial statements, and in the Financial Review on pages 66 and 67.

2 EBITDA increased by 10% compared to 2004. This encouraging result was mainly due to the strong performance of the group's hotel assets which is further detailed in 5 below.

3 Capital expenditure mainly comprised costs associated with The Peninsula Tokyo project and ongoing renovation work incurred in respect of the group's existing properties, including The Peak Tower and The Repulse Bay complex. The group also extended an additional shareholder's loan to its jointly controlled entity to fund the development of The Peninsula Shanghai.

4 Disposal of The Kowloon Hotel was completed in February 2005. The proceeds amounting to HK$1.9 billion were applied to prepay certain group borrowings. The disposal resulted in a special gain of HK$1.0 billion, net of a one-off loss of HK$0.2 billion which was incurred as a result of the offsetting interest rate swap arrangements made to re-adjust the loan interest hedging ratio due to the reduction of borrowings.

5 The group's turnover increased by 5% as compared to 2004, despite the disposal of The Kowloon Hotel (see 4 above), and the closure of The Peak Tower from the end of April 2005. This favourable result was primarily driven by the strong performance of the group's hotel operations.

In Asia, The Peninsula Hong Kong, the group's flagship hotel, has achieved a record year in occupancy levels and an increase of 8% in average room rate over that of 2004. Revenue of The Peninsula Palace has also increased significantly following its recent full renovation. Revenue growth at The Peninsula Bangkok was less noticeable due to domestic political and economic factors. The Peninsula Manila became a subsidiary in March and its results have been consolidated for the first time, with the group receiving ten months' revenue from the property.

In the USA, the Peninsulas in New York and Chicago have enjoyed a significant increase in average room rates and hence in revenue growth. Revenue at Quail Lodge showed a slight improvement, but its performance has not yet met expectations.

In the non-hotel segment, there was only modest growth of 3% in turnover, as this segment was affected by the closure for renovation of The Peak Tower at the end of April 2005. Growth, however, was seen in our residential property portfolio due to the improvement in the luxury residential lettings market. The newly renovated unfurnished apartments at The Repulse Bay complex were very well-received. This was reflected by an increase in demand for units leading to increases in occupancy and average rental, although there will be some lag in the impact on revenue due to the timing of lease renewals.

Other businesses such as Peninsula Merchandising have shown a reasonable growth in turnover, in line with the recovery in the hospitality sector and a return of consumer confidence.

6 In 2005, movements in fair value of the group's investment properties were recognised in the income statement (rather than in equity as previously) as prescribed by the revised accounting standard. In addition, the revaluation of the group's Hong Kong investment properties has resulted in an increase in deferred tax charge of HK$0.2 billion. Further details in relation to these are set out in the Financial Review on page 60 and in note 1T to the financial statements.