

# NOTES TO THE ACCOUNTS

## **1. Significant accounting policies**

### **a. Statement of compliance**

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of 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 accounts**

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

### **c. Basis of consolidation**

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

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. 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 profit and loss account 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 profit and loss account 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.

### **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 profit and loss account as follows:

#### *Rental in respect of properties*

Revenue is recognised on a straight line basis over the periods of the respective leases.

#### *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.

#### *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**

Rents payable under operating leases are accounted for in the profit and loss account on a straight line basis over the periods of the respective leases.

### **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 in foreign currencies and foreign currency non-monetary assets financed by foreign currency borrowings are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The results of overseas subsidiary companies are translated into Hong Kong dollars at the average exchange rate for the year; balance sheet items are retranslated at the rate of exchange ruling at the balance sheet date.

Exchange differences arising on consolidation of the net assets of subsidiary and associated companies which prepare their accounts in foreign currencies, and on loans to subsidiary and associated companies which have the nature of equity, are taken directly to the general reserve. All other exchange gains and losses are dealt with in the profit and loss account.

### **h. Off-balance sheet financial instruments**

#### *Forward exchange rate contracts*

Exchange differences arising on non-speculative forward contracts which are used as hedges of firm commitments are added to, or deducted from, the amount of the relevant transaction.

#### *Interest rate derivatives*

Gains or losses arising on interest rate derivatives, which are used as hedges of cash flow risks associated with the interest on floating rate borrowings, are recognised in the profit and loss account over the period of the derivative.

### **i. Fixed assets**

#### *Investment, hotel and other properties*

Investment and hotel properties 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 hotels which have not completed three full years of operation which are stated at cost, less any provisions required. Other properties are stated at their open market value, on the basis of a third party professional valuation conducted on a five year cycle, apart from those recently completed or acquired, which are stated at cost less depreciation.

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. If any such reserve is insufficient, the excess of the deficit is charged to the profit and loss account.

#### *Properties under development*

Expenditure incurred on major projects is stated at cost less any provisions required for impairment, and is carried forward until completion of the project at which time the costs involved are capitalised. No depreciation is provided.

#### *Other fixed assets*

Other fixed assets are stated at cost less accumulated depreciation and any provisions required to reflect their recoverable amount. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

### **j. Depreciation of fixed assets**

#### *Investment properties*

No depreciation is provided in respect of investment properties with an unexpired lease term exceeding twenty years, since the valuation takes into account the state of each property at the date of valuation.

#### *Hotel properties*

No depreciation is provided on hotel properties (including their integral fixed plant) with an unexpired lease term exceeding twenty years. It is the group's practice to maintain these properties in such condition that the residual value is such that depreciation would be insignificant. The related maintenance expenditure is dealt with in the profit and loss account in the year in which it is incurred.

#### *Other properties*

Depreciation is calculated to write off the carrying value of other properties on a straight line basis over their anticipated useful lives. The rates used are:

Land	- over the unexpired period of the lease
Buildings	- 2½% per annum

#### *Other fixed assets*

Depreciation is calculated to write off the cost of plant, 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
Plant and machinery	- 5% to 33.3% per annum
Motor vehicles	- 20% per annum

### **k. Disposal of fixed assets**

The gain or loss arising on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying value of the relevant asset, and is recognised in the profit and loss account. Any balance remaining in the revaluation reserve attributable to the relevant asset is

transferred to retained profit and is shown as a movement on reserves. Any revaluation surplus or deficit on the sale of investment properties is transferred from the investment property revaluation reserve to the profit and loss account for the year.

### **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.

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

### **m. Associated companies**

An associated company is an entity in which the holding company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company 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 net assets. The consolidated profit and loss account reflects the group's share of the post-acquisition results of the associated company for the year.

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

### **n. Investment securities**

Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities 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 profit and loss account, such provisions being determined for each investment individually.

### **o. Investment in hotel management contract**

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

### **p. Deferred taxation**

Deferred taxation is calculated under the liability method and quantifies the taxation effect arising from timing differences which can reasonably be expected to materialise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

### **q. Inventories**

Properties for sale, land lots and other inventories are carried at the lower of cost and net realisable value. Cost is based on the 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 or management estimates based on prevailing market conditions.

#### **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:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiary companies and associated companies;
- investment in hotel management contract;
- positive goodwill.

If any such indication exists, the asset's recoverable amount 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 generates 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 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 impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account 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 holding company or group has a legal or constructive obligation arising as a result of a past event; 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.

#### **t. Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

#### u. Retirement benefits

The group contributes to the retirement benefits of its employees by means of defined contribution plan and mandatory provident fund schemes. The funds of these plans are administered by independent trustees and are held separately from the group's assets. The group's contribution payable in respect of the year is charged to the profit and loss account.

#### v. Related parties

For the purposes of these accounts, 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.

Inter-segment pricing is based on similar terms to those available to other external parties.

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 and 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.

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 cash and cash equivalents, tax provisions, interest-bearing loans, financing expenses and minority interests.

## 2. Turnover (HK\$m)

The company is an investment holding company. Details of the group's principal activities appear in the operating review on pages 9 to 28.

Turnover represents the gross amount invoiced for all services, inventories and facilities which includes management fees and net rentals, as follows:

	<b>2001</b>	2000
Hotels	<b>1,710</b>	1,715
Property rentals	<b>478</b>	481
Miscellaneous	<b>183</b>	197
	<b>2,371</b>	2,393
Properties for sale and land lots	<b>213</b>	650
	<b>2,584</b>	3,043

<b>3. Other revenue</b> (HK\$m)	2001	2000
Dividends from unlisted investment securities	4	6
Interest income	5	11
Other gain	-	3
	<u>9</u>	<u>20</u>

<b>4. Operating profit</b> (HK\$m)	2001	2000
Operating profit is arrived at after charging/(crediting):		
Cost of inventories		
- Properties for sale	193	561
- Land lots	5	18
	<u>198</u>	<u>579</u>
- Food and beverage and others	165	168
	<u>363</u>	<u>747</u>
Amortisation of investment in hotel management contract	6	6
Auditors' remuneration	4	4
Depreciation of fixed assets	108	92
Rent for land and buildings under operating leases	56	55
Rent from investment properties under operating leases, less outgoings of <b>HK\$27 million</b> (2000: HK\$30 million)	<b>(649)</b>	<b>(642)</b>

Profit attributable to shareholders to the extent of **HK\$207 million** (2000: HK\$280 million) has been dealt with in the holding company's accounts.

<b>5. Financing charges</b> (HK\$m)	2001	2000
Interest payable on bank loans, overdrafts and other loans which are wholly repayable within 5 years	367	455
Other financing charges	25	30
	<u>392</u>	<u>485</u>
Less amount capitalised on properties under development	<b>(46)</b>	<b>(53)</b>
	<u>346</u>	<u>432</u>

The average rate used to determine the amount of borrowing costs eligible for capitalisation for the year was **7.2%** (2000: 7.5%).

<b>6. Non-operating items</b> (HK\$m)	2001	2000
Other property related items:		
Impairment losses on properties under development and other assets	<b>(46)</b>	<b>(63)</b>
Impairment loss on 208 Wireless Road, Bangkok	-	(140)
Loss on sale of The Sutton, New York	-	(39)
	<u><b>(46)</b></u>	<u><b>(242)</b></u>

## 6. Non-operating items (HK\$m) (continued)

Other items:

Impairment losses on investment securities

Profit on disposal of investment securities

2001	2000
(10)	(23)
6	-
<u>(4)</u>	<u>(23)</u>

## 7. Taxation (HK\$m)

Hong Kong profits tax has been provided for on the basis of 16% of estimated assessable profits arising in Hong Kong. Overseas taxation has been provided for at appropriate rates on estimated assessable earnings.

Profit and loss account:

Hong Kong profits tax

Over provision in prior years

Overseas taxation

Deferred taxation (note 14)

Charge for the year

2001	2000
38	45
(6)	(8)
6	5
8	(5)
<u>46</u>	<u>37</u>

Balance sheet:

Estimated liability to Hong Kong profits tax

Provisional profits tax paid

Overseas taxation

Liability at 31 December

Group		Company	
2001	2000	2001	2000
38	45	12	23
(32)	(29)	(13)	(11)
6	16	(1)	12
9	10	-	-
<u>15</u>	<u>26</u>	<u>(1)</u>	<u>12</u>

## 8. Dividends (HK\$m)

a. Dividends attributable to the year

Final dividend proposed after the balance sheet date of  
**(5 cents per share)** (2000: 5 cents per share)

2001	2000
<u>58</u>	<u>59</u>

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  
**(5 cents per share)** (2000: 5 cents per share)

2001	2000
<u>59</u>	<u>59</u>

## 9. Earnings per share

Earnings per share are calculated on a profit of **HK\$33 million** (2000: HK\$85 million) and on the weighted average of **1,170 million shares** in issue (2000: 1,169 million shares).



## 10. Fixed assets (HK\$m)

	Total	Properties				Other*
		Investment	Hotel	Development	Other	
<b>Group</b>						
Cost or valuation:						
At 1 January 2001	19,060	12,812	3,991	1,223	29	1,005
Exchange adjustments	(39)	(24)	(9)	(3)	(1)	(2)
Additions	559	5	-	527	-	27
Transfer	-	7	1,395	(1,566)	-	164
Disposals	(226)	(206)	-	-	-	(20)
Provision for impairment	(21)	-	-	(21)	-	-
Revaluation deficit	(1,213)	(854)	(359)	-	-	-
<b>At 31 December 2001</b>	<b>18,120</b>	<b>11,740</b>	<b>5,018</b>	<b>160</b>	<b>28</b>	<b>1,174</b>
Representing:						
Cost, less provision	2,734	-	1,393	160	7	1,174
Valuation - 1999	21	-	-	-	21	-
- 2001	15,365	11,740	3,625	-	-	-
<b>At 31 December 2001</b>	<b>18,120</b>	<b>11,740</b>	<b>5,018</b>	<b>160</b>	<b>28</b>	<b>1,174</b>
Depreciation:						
At 1 January 2001	695	-	-	-	2	693
Exchange difference	(1)	-	-	-	-	(1)
Charge for the year	108	-	-	-	1	107
Write back on disposal	(20)	-	-	-	-	(20)
<b>At 31 December 2001</b>	<b>782</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>779</b>
Net book value:						
<b>At 31 December 2001</b>	<b>17,338</b>	<b>11,740</b>	<b>5,018</b>	<b>160</b>	<b>25</b>	<b>395</b>
At 31 December 2000	18,365	12,812	3,991	1,223	27	312

\* Other fixed assets comprise furniture, fixtures, leasehold improvements, plant, machinery and motor vehicles.

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

	2001	2000
Investment properties	3,171	3,389
Hotel properties	4,677	4,684
Other properties	37	38
	<b>7,885</b>	<b>8,111</b>

## 10. Fixed assets (HK\$m) (continued)

Investment properties, all held through subsidiary companies, are as follows:

	Usage
<b>Held in Hong Kong:</b>	
Long term leases (over 50 years):	
The Peninsula shopping arcade, Salisbury Road	Commercial
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Garage
St. John's Building, 33 Garden Road	Office
Medium term leases (between 20 and 50 years):	
The Kowloon Hotel shopping arcade, 19-21 Nathan Road, Kowloon	Commercial
The Peak Tower, 128 Peak Road	Commercial
<b>Held in the United States of America:</b>	
Freehold:	
Quail Lodge Golf Club, Carmel, California	Golf club
Long term lease (over 50 years):	
The Peninsula New York retail space, 700 Fifth Avenue at 55th Street, New York	Commercial
<b>Held in Thailand:</b>	
Freehold:	
Thai Country Club, Bangna-Trad, Chaochoengsao	Golf club
<b>Held in Vietnam:</b>	
Medium term lease (between 20 and 50 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial

The group's investment and hotel properties have been revalued as at 31 December 2001 on an open market basis by valuers independent of the group. The investment properties were valued by Chesterton Petty Limited in Hong Kong and by FPD Savills in Thailand and Vietnam. The hotel properties in Hong Kong, USA and Thailand were valued by Jones Lang LaSalle.

The value of all properties held for use under operating leases totalled **HK\$11,544 million** (2000: HK\$12,605 million) and there is no accumulated depreciation.

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

		<b>2001</b>	2000
Hong Kong	- long term leases	<b>9,985</b>	10,773
	- medium term leases	<b>834</b>	1,003
United States of America	- freehold	<b>135</b>	144
Thailand	- freehold	<b>289</b>	288
Vietnam	- medium term lease	<b>49</b>	56
Australia	- freehold	<b>-</b>	61
		<b>11,292</b>	12,325

**11. Interests in subsidiary companies** (HK\$m)

	2001	2000
Unlisted shares at cost	47	66
Amounts due from subsidiary companies	11,740	12,385
Amounts due to subsidiary companies	(426)	(1,217)
	<b>11,361</b>	11,234
Less provision	(2,939)	(2,939)
	<b>8,422</b>	8,295

Details of principal subsidiary companies at 31 December 2001 are given on page 77.

**12. Interests in associated companies** (HK\$m)

	2001	2000
Share of net assets	82	181
Loans	43	45
Capitalised expenses and interest	-	44
Less provision	-	(121)
	<b>125</b>	149

Details of principal associated companies are as follows:

Company name	Interest in ordinary share capital	Place of incorporation/operation	Main activity
Manila Peninsula Hotel, Inc.	40%	Philippines	Hotel investment
RipBion! Limited	50%	Hong Kong	Museum operation

PT Ciputra Adigraha was previously classified as an associated company. The investment net of provision has been reclassified as an investment security (see note 13).

The group's share of post acquisition losses of associated companies at 31 December 2001 is **HK\$35 million** (2000: HK\$27 million), which includes the share of revaluation deficit of the hotel property amounting to **HK\$42 million** (2000: HK\$30 million).

**13. Investment securities** (HK\$m)

	Group		Company	
	2001	2000	2001	2000
Unlisted equity securities	169	132	-	-
Loans	376	390	2	14
	<b>545</b>	522	<b>2</b>	14
Less provision	(462)	(446)	(2)	(14)
	<b>83</b>	76	-	-
Representing:				
Cost, less provision	9	2	-	-
Valuation - 1998	74	74	-	-
	<b>83</b>	76	-	-

### 13. Investment securities (HK\$m) (continued)

Unlisted equity securities include:	Ordinary shares held indirectly	Place of incorporation
The Belvedere Hotel Partnership	20%	USA
Hong Kong Construction Kam Lung Limited ("HKCKL")	50%	Hong Kong
PT Ciputra Adigraha	20%	Indonesia

The Belvedere Hotel Partnership holds a 100% interest in The Peninsula Beverly Hills. PT Ciputra Adigraha remains dormant during the year. The group is not in a position to exercise significant influence over these investments.

HKCKL holds a 40% interest in The Palace Hotel Co., Ltd. ("TPH"), a joint venture company incorporated in the People's Republic of China to own and operate The Palace Hotel Beijing. In December 2000, the group entered into an agreement to increase its interest in HKCKL to 55% and HKCKL entered into an agreement to restructure HKCKL's investment in TPH, including the restructure of TPH from a sino-foreign equity joint venture into a sino-foreign co-operative joint venture, the increase of its interest to 76.6% of the registered capital of TPH, and the extension of the joint venture term to 11 November 2033. Completion of these agreements is conditional upon fulfilment of certain conditions including the obtaining by TPH of an extension or a new grant of the land use rights in respect of the site on which the Palace Hotel building is situated, such that the terms of such land use rights shall expire on 11 November 2033. These conditions were not fully completed as at 31 December 2001, and the group was not yet in a position to exercise significant influence over this investment.

### 14. Deferred taxation (HK\$m)

	Group		Company	
	2001	2000	2001	2000
At 1 January	<b>(142)</b>	(137)	-	1
Transfer from/(to) profit and loss account	<b>8</b>	(5)	-	(1)
At 31 December	<b>(134)</b>	(142)	-	-
Major components of the deferred taxation asset are:				
Depreciation allowances in excess of book depreciation	<b>8</b>	10	-	-
General provisions	<b>(6)</b>	(7)	-	-
Future benefit of tax loss	<b>(139)</b>	(149)	-	-
Other items	<b>3</b>	4	-	-
	<b>(134)</b>	(142)	-	-

#### 14. Deferred taxation (HK\$m) (continued)

The following potential deferred tax has not been provided for as the directors consider that it is unlikely that the relevant timing differences will materialise in the foreseeable future:

	2001	2000
Depreciation allowances in excess of book depreciation	15	19
General provisions	(1)	(2)
Future benefit of tax loss	(63)	(64)
	<u>(49)</u>	<u>(47)</u>

No deferred tax has been provided for on the revaluation surplus of the group's properties as it does not constitute a timing difference.

#### 15. Inventories (HK\$m)

	2001	2000
Properties for sale	13	206
Land lots	219	229
	<u>232</u>	<u>435</u>
Food and beverage and others	65	64
	<u>297</u>	<u>499</u>

The amount of inventories included above carried at net realisable value is **HK\$13 million** (2000: HK\$206 million).

The amount of inventories expected to be recovered after more than one year is **HK\$210 million** (2000: HK\$215 million). All of the other inventories are expected to be recovered within one year.

#### 16. Debtors and payments in advance (HK\$m)

All debtors and payments in advance, apart from rental deposits and payments in advance amounting to **HK\$30 million** (2000: HK\$89 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\$77 million** (2000: HK\$95 million) and the age analysis of these balances is as follows:

	2001	2000
0 - 3 months	68	76
4 - 6 months	3	4
> 6 months	6	15
	<u>77</u>	<u>95</u>

#### 17. Creditors (HK\$m)

Tenants' and membership deposits and other amounts of **HK\$181 million** (2000: HK\$188 million) are expected to be settled after more than one year. All of the other creditors are expected to be settled within one year.

## 17. Creditors (HK\$m) (continued)

The age analysis of trade creditors is as follows:

	2001	2000
0 - 3 months	48	53
4 - 6 months	1	6
> 6 months	35	26
	<u>84</u>	<u>85</u>

## 18. Interest-bearing borrowings (HK\$m)

	Group		Company	
	2001	2000	2001	2000
Convertible bonds	-	1,110	-	-
Bank loans and overdrafts	5,755	4,858	-	3
	<u>5,755</u>	<u>5,968</u>	<u>-</u>	<u>3</u>
Repayable:				
Within 1 year	1,292	2,597	-	3
Between 1 and 2 years	739	820	-	-
Between 2 and 5 years	3,724	2,416	-	-
After 5 years	-	135	-	-
	<u>4,463</u>	<u>3,371</u>	<u>-</u>	<u>-</u>
	<u>5,755</u>	<u>5,968</u>	<u>-</u>	<u>3</u>

Bank loans totalling **HK\$989 million** (2000: HK\$585 million) are secured by mortgages over the properties of certain subsidiary companies.

## 19. Share capital

	2001	2000
Number of shares of HK\$0.5 each (million)		
- Authorised	1,800	1,800
- Issued	1,169	1,171
Nominal value of shares (HK\$m)		
- Authorised	900	900
- Issued and fully paid	584	585

During the year the company repurchased 2,346,500 of its shares on the Hong Kong Stock Exchange, details of which are shown below:

	No. of shares	Highest price paid	Lowest price paid	Aggregate consideration
		(HK\$)	(HK\$)	(HK\$)
October	2,336,500	2.7	2.35	5,808,000
November	10,000	2.575	2.575	25,800

The aggregate consideration of HK\$5.8 million was charged against general reserve and the nominal value of HK\$1.2 million was transferred to capital redemption reserve. All such shares were cancelled upon repurchase.

## 20. Reserves (HK\$m)

	Group		Company	
	2001	2000	2001	2000
Investment properties revaluation reserve:				
At 1 January	<b>9,541</b>	8,473	-	-
Transfer from other properties	-	16	-	-
Release of debit balance to profit and loss account:				
- on disposal of property	-	25	-	-
- on transfer of property to property for sale	-	100	-	-
Revaluation (deficit)/surplus	<b>(852)</b>	927	-	-
At 31 December	<b>8,689</b>	9,541	-	-
Hotel properties revaluation reserve:				
At 1 January	<b>776</b>	512	-	-
Revaluation (deficit)/surplus	<b>(261)</b>	264	-	-
At 31 December	<b>515</b>	776	-	-
Other properties revaluation reserve:				
At 1 January	<b>3</b>	60	-	-
Transfer to investment properties	-	(16)	-	-
Other movement	-	(41)	-	-
At 31 December	<b>3</b>	3	-	-
Share premium:				
At 1 January	<b>1,564</b>	1,516	<b>1,564</b>	1,516
On issue of new shares	-	48	-	48
At 31 December	<b>1,564</b>	1,564	<b>1,564</b>	1,564
Capital redemption reserve:				
At 1 January	<b>8</b>	8	<b>8</b>	8
Repurchase of shares	<b>1</b>	-	<b>1</b>	-
At 31 December	<b>9</b>	8	<b>9</b>	8
Capital reserve:				
At 1 January and 31 December	<b>4</b>	4	<b>4,975</b>	4,975
Total non-distributable reserves	<b>10,784</b>	11,896		
Retained profit:				
At 1 January as previously reported	<b>4</b>	1	<b>107</b>	1
Change in accounting policy with respect to				
- provision for planned maintenance (note 21a)	-	92	-	-
- dividend proposed (note 21b)	<b>59</b>	59	<b>59</b>	59
At 1 January as restated	<b>63</b>	152	<b>166</b>	60
Dividend approved in respect of the previous year (note 8)	<b>(59)</b>	(59)	<b>(59)</b>	(59)
Profit for the year	<b>33</b>	85	<b>207</b>	280
Transfer from/(to) general reserve	<b>25</b>	(115)	<b>25</b>	(115)
At 31 December	<b>62</b>	63	<b>339</b>	166

## 20. Reserves (HK\$m) (continued)

	Group		Company	
	2001	2000	2001	2000
General reserve:				
At 1 January	545	478	1,011	896
Exchange differences arising on consolidation	(1)	(47)	-	-
Goodwill written off	-	(1)	-	-
Repurchase of shares	(6)	-	(6)	-
Transfer (to)/from profit and loss account	(25)	115	(25)	115
At 31 December	513	545	980	1,011
Total distributable reserves	575	608		
Total reserves at 31 December	11,359	12,504	7,867	7,724

The net amount of exchange loss on forward contracts used to provide a hedge against net investments in foreign subsidiary companies offset in the group's general reserve amounted to **HK\$32 million**.

Retained profit for the year is as follows:

Company and subsidiary companies  
Associated companies

2001	2000 (Restated)
41	111
(8)	(26)
33	85

## 21. Prior year adjustment

a. The group operates a planned maintenance scheme for its investment and hotel properties. Prior to 1 January 2000, the maintenance costs for the next five years were estimated each year by the directors, and provided for in equal annual instalments in the profit and loss account. Since 1 January 2000, maintenance costs have been expensed in the profit and loss account in the year in which they are incurred, consistent with the Statement of Standard Accounting Practice (SSAP) 28 "Provisions, contingent liabilities and contingent assets".

The change in accounting policy with respect to the provision for planned maintenance resulted in an increase in opening retained earnings at 1 January 2000 of HK\$92 million, being the amount of the adjustment in respect of the provision for planned maintenance relating to years prior to 2000.

b. Following the adoption of SSAP 9 "Events after the balance sheet date", whereby dividends proposed after the balance sheet date should not be recognised as a liability at the balance sheet date, the final dividend proposed for the year ended 31 December 2000 amounting to HK\$59 million, classified as a current liability at 31 December 2000, has been adjusted and shown under the shareholders' equity. There is no impact on the profit attributable to shareholders for the year because of this change. The consolidated and the parent company balance sheets at 31 December 2000 have been restated to reflect this change.



## 22. Consolidated cash flow statement (HK\$m)

### a. Profit reconciliation

	2001	2000
Operating profit	584	827
Income from investment securities	(4)	(6)
Interest income	(5)	(11)
Amortisation and depreciation	114	98
Loss on disposal of fixed assets	-	10
Decrease in inventories	202	724
Decrease in debtors and payments in advance	20	3
Decrease in creditors	(35)	(22)
Exchange differences	36	(112)
Net cash inflow from operating activities*	912	1,511

\* Included in the net cash inflow were **HK\$213 million** (2000: HK\$650 million) arising from property sales

### b. Changes in financing

	General reserve	Bank and other loans	Minority interests
At 1 January 2000	478	6,170	121
Net cash inflow	-	9	-
Exchange differences	(47)	(226)	-
Goodwill written off	(1)	-	-
Profit on repurchase of convertible bonds	-	(3)	-
Transfer from profit and loss account	115	-	-
Minority share of profit	-	-	5
Minority share of revaluation deficit of investment properties	-	-	(15)
Dividends paid to minority shareholders	-	-	(3)
Reduction of minority interests on liquidation of a subsidiary company	-	-	(79)
Other movements	-	-	(3)
At 31 December 2000	545	5,950	26
At 1 January 2001	545	5,950	26
Net cash outflow	(6)	(185)	-
Exchange differences	(1)	(24)	-
Transfer to profit and loss account	(25)	-	-
Minority share of profit	-	-	3
Minority share of revaluation deficit of investment properties	-	-	(2)
Dividends paid to minority shareholders	-	-	(2)
Reduction of minority interests on liquidation of a subsidiary company	-	-	(2)
Increase in minority interest	-	-	34
At 31 December 2001	513	5,741	57

## 22. Consolidated cash flow statement (HK\$m) (continued)

### c. Cash and cash equivalents

Cash and cash equivalents at 31 December are as follows:

Cash and bank balances

Bank loans and overdrafts repayable within three months

2001	2000
99	272
(14)	(18)
<u>85</u>	<u>254</u>

## 23. Remuneration of directors and senior management (HK\$m)

Details of the remuneration of the directors and of the five highest paid employees, which include **two directors** (2000: two directors), are as follows:

	Directors		Employees	
	2001	2000	2001	2000
Fees	1	1	-	-
Other emoluments:				
Basic salaries, housing and other allowances and benefits	7	10	16	18
Retirement plan contributions	1	1	2	2
Performance related bonuses	2	2	2	1
	<u>11</u>	<u>14</u>	<u>20</u>	<u>21</u>

This remuneration falls within the following bands:

	Directors		Employees	
	2001 No.	2000 No.	2001 No.	2000 No.
HK\$0 - HK\$1,000,000	9	9	-	-
HK\$2,000,001 - HK\$2,500,000	1	-	-	-
HK\$2,500,001 - HK\$3,000,000	-	-	1	2
HK\$3,000,001 - HK\$3,500,000	-	-	2	1
HK\$3,500,001 - HK\$4,000,000	-	-	1	-
HK\$4,000,001 - HK\$4,500,000	-	1	-	1
HK\$6,500,001 - HK\$7,000,000	1	-	1	-
HK\$7,500,001 - HK\$8,000,000	-	1	-	1

Each of the independent non-executive directors of the company received HK\$50,000 as director's fee for the year ended 31 December 2001 (except for one director who was appointed during the year and received his fee on a pro-rata basis).

## 24. Loans to officers

The company has guaranteed a loan from a bank of **HK\$2 million** (2000: HK\$2 million) as at 31 December 2001 to Mr D R G Henderson, Company Secretary.

## 25. Retirement plan

The group has a defined contribution retirement plan and participates in mandatory provident fund schemes covering **1,632 employees** (2000: 1,650 employees). The plan is formally established under an independent trust and is registered under the Occupational Retirement Schemes Ordinance. The plan is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation.

In 2000, the group converted its defined benefits plan to a defined contribution plan. After allowance had been made for changes in benefits, the current year's contribution amounted to **HK\$22 million** (2000: HK\$nil).

## 26. Commitments and contingent liabilities (HK\$m)

Capital expenditure authorised but not provided for in these accounts is as follows:

	2001	2000
Contracted for		
- Land and buildings	188	422
- Plant and machinery	7	137
	<b>195</b>	<b>559</b>
Not contracted for		
- Land and buildings	116	134
- Plant and machinery	107	58
	<b>223</b>	<b>192</b>

At 31 December 2001, the group had commitments under forward contracts for hedging purposes to sell AUD 4 million and buy USD 2 million during 2002 and to buy USD 59 million and to sell Thai Baht 2,291 million during 2005.

At 31 December 2001, the group had commitments in respect of interest rate swaps for hedging purposes, totalling HK\$1,905 million at interest rates of between 5.7% and 7.5% up to 2011.

At 31 December 2001 the total future minimum lease payments under non-cancellable operating leases are (receivable)/payable as follows:

	Group				Company	
	Receivable		Payable		Payable	
	2001	2000	2001	2000	2001	2000
Operating leases expiring:						
Within 1 year	(362)	(376)	53	55	-	1
Between 1 and 5 years	(231)	(235)	182	192	-	-
After 5 years	(49)	(14)	3,680	3,724	-	-
	<b>(642)</b>	<b>(625)</b>	<b>3,915</b>	<b>3,971</b>	<b>-</b>	<b>1</b>

## 26. Commitments and contingent liabilities (HK\$m) (continued)

Contingent liabilities at 31 December arise from guarantees given in respect of borrowings by the following:

	Group		Company	
	2001	2000	2001	2000
Subsidiary companies	-	-	5,516	5,681
Other	14	17	14	17
	<u>14</u>	<u>17</u>	<u>5,530</u>	<u>5,698</u>

## 27. Segment reporting (HK\$m)

The segment information set out below is based on the requirements of SSAP 26 “Segment reporting” which has been adopted for the first time. Segment disclosures for 2000 have been amended so that they are presented on a consistent basis.

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, operating of retail outlets and other minor departments such as spa, telephone, guest transportation and laundry within the hotel premises.

Property rentals - Leasing of commercial and office premises other than those in the hotel properties and residential apartments.

Property sales - Development, purchase and sale of residential properties.

Miscellaneous - Includes operation of golf courses, the Peak Tramways, entertainment facilities, laundry, food and beverage outlets other than those in owned hotels, and provision of management and consultancy services for clubs.

### b. Segment turnover and results

	Total	Hotels	Property rentals	Property sales	Miscellaneous
<b>Year ended 31 December 2001</b>					
<b>Turnover</b>					
Total segment	2,617	1,716	482	213	206
Inter-segment	(33)	(6)	(4)	-	(23)
	<u>2,584</u>	<u>1,710</u>	<u>478</u>	<u>213</u>	<u>183</u>

## 27. Segment reporting (HK\$m) (continued)

### b. Segment turnover and results (continued)

	Total	Hotels	Property rentals	Property sales	Miscellaneous
<b>Segment operating profit/(loss)</b>	584	224	341	(11)	30
Financing charges	(346)				
Share of net profit of associated companies	(8)	(6)	-	-	(2)
Non-operating items					
- Allocated	(98)	(98)	-	-	-
- Unallocated	(50)				
<b>Profit before taxation</b>	82				
<b>Year ended 31 December 2000</b>					
<b>Turnover</b>					
Total segment	3,075	1,720	485	650	220
Inter-segment	(32)	(5)	(4)	-	(23)
	3,043	1,715	481	650	197
<b>Segment operating profit</b>	827	410	330	48	39
Financing charges	(432)				
Share of net profit of associated companies	(26)	(24)	-	-	(2)
Non-operating items					
- Allocated	(156)	23	-	(179)	-
- Unallocated	(86)				
<b>Profit before taxation</b>	127				

\* Analysis of hotels turnover

	2001	2000
Rooms	723	746
Food and beverage	517	511
Commercial	279	264
Others	191	194
	<b>1,710</b>	<b>1,715</b>

### c. Segment balance sheet

	Total	Hotels	Property rentals	Property sales	Miscellaneous
<b>At 31 December 2001</b>					
<b>Assets</b>					
Fixed assets					
Investment properties	11,740	4,160	7,383	-	197
Hotel properties	5,018	5,018	-	-	-
Development properties	160	49	-	-	111
Other properties	25	-	-	-	25
Other fixed assets	395	324	-	-	71
	17,338	9,551	7,383	-	404

**27. Segment reporting (HK\$m) (continued)****c. Segment balance sheet (continued)**

	Total	Hotels	Property rentals	Property sales	Miscellaneous
Interests in associated companies	125	116	-	-	9
Investment securities	83	74	-	-	9
Investment in hotel management contract	191	191	-	-	-
Other segment assets	492	169	10	233	80
Cash and other assets	233	-	-	-	233
<b>Total assets</b>	<b>18,462</b>				
<b>Liabilities</b>					
Segment liabilities	692	384	147	8	153
Bank loans and other liabilities	5,770				
<b>Total liabilities</b>	<b>6,462</b>				
<b>At 31 December 2000</b>					
<b>Assets</b>					
Fixed assets					
Investment properties	12,812	4,406	8,198	-	208
Hotel properties	3,991	3,991	-	-	-
Development properties	1,223	1,088	-	-	135
Other properties	27	-	-	-	27
Other fixed assets	312	218	-	-	94
	18,365	9,703	8,198	-	464
Interests in associated companies	149	130	-	-	19
Investment securities	76	74	-	-	2
Investment in hotel management contract	197	197	-	-	-
Other segment assets	770	183	12	440	135
Cash and other assets	414				
<b>Total assets</b>	<b>19,971</b>				
<b>Liabilities</b>					
Segment liabilities	862	446	166	24	226
Bank loans and other liabilities	5,994				
<b>Total liabilities</b>	<b>6,856</b>				
<b>d. Other segment information</b>					
<b>Year ended 31 December 2001</b>					
Capital expenditure incurred	559	512	4	-	43
Depreciation and amortisation	114	91	-	-	23
<b>Year ended 31 December 2000</b>					
Capital expenditure incurred	765	730	3	-	32
Depreciation and amortisation	98	73	-	-	25

## 27. Segment reporting (HK\$m) (continued)

### e. Geographical segment

The group's hotel operations and property rental businesses are principally located in Hong Kong, United States of America, Thailand and Australia while the property sales businesses are located in Thailand, United States of America and Australia. The golf course operations are located in United States of America and Thailand, and the other miscellaneous businesses are all conducted in Hong Kong.

	Hong Kong		Other Asia Pacific		United States of America	
	2001	2000	2001	2000	2001	2000
Turnover	<b>1,536</b>	1,551	<b>438</b>	827	<b>610</b>	665
Capital expenditure	<b>21</b>	9	<b>8</b>	110	<b>530</b>	646
Assets	<b>14,102</b>	15,313	<b>1,239</b>	1,738	<b>2,888</b>	2,506
Operating profit	<b>649</b>	685	<b>6</b>	42	<b>(71)</b>	100

## 28. Connected transactions

a. Under a tenancy agreement dated 5 November 1998, due to expire on 30 November 2003, an wholly owned subsidiary, HSH Management Services Limited leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong, at market rent of approximately HK\$751,000 per month (exclusive of rates, air-conditioning charge and management fee). The lessor was Kadoorie Estates Limited ("Kadoorie Estates"). 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 28 February 2002 Bermuda Trust Company Limited ("Bermuda Trust") had a 59% attributable interest in the issued share capital of the company and Cobalt is an indirect wholly owned subsidiary of Bermuda Trust. Details of this transaction were published in the newspapers in accordance with the Listing Rules.

b. The company acts as a sole guarantor to the foreign exchange facility for an amount up to US\$79 million and the loan facility totalling Thai Baht 600 million granted by a bank to a 50% owned subsidiary company, HSH-Siam Chaophraya Holdings Company Limited ("HSH-SCH"). The company also solely guarantees banking facilities which include loan facilities totalling Thai Baht 1,725 million and a foreign exchange facility of Thai Baht 340 million granted by certain banks to the following 75% owned subsidiary companies: Siam Chaophraya Holdings Company Limited and Town and Country Sport Club Company Limited. There was no requirement to announce this transaction in the newspaper in accordance with the Listing Rules.

## **28. Connected transactions** (continued)

c. A wholly owned subsidiary company, Peninsula International Limited (“PIL”) and the minority shareholder of HSH-SCH as referred to in note 28(b) (“the Thai Partner”), entered into a Memorandum of Agreement (“MOA”) on 17 December 2001 to rearrange the capital and loan structures in HSH-SCH and the following 75% owned subsidiary companies: Euromill Development Company Limited, Siam Chaophraya Holdings Company Limited, Siam Chaophraya Land Company Limited and Town and Country Sport Club Company Limited (“the Thai Joint Ventures”) in order to substantially reduce the accumulated deficit and strengthen the financial position of the Thai Joint Ventures.

Outstanding shareholder loans to the Thai Joint Ventures are not in proportion to their equity interests. In order to adjust these loans to the same proportion as the equity interest, a transfer of assets equivalent to US\$6 million from the Thai Partner to PIL is necessary. To this end, under the MOA, the Thai Partner would transfer 15% of its equity interest in the Thai Joint Ventures to PIL for US\$6 million. This transfer was not completed as at 31 December 2001.

In consideration of such transfer and the Thai Partner agreeing to enter into the MOA, PIL has agreed to grant an option to the Thai Partner to buy back the 15% interest in the Thai Joint Ventures for US\$6 million on or before 31 December 2002; in addition PIL will grant a second option to the Thai Partner to buy back a further 25% from PIL for US\$25 million on or before 31 December 2016. These options were not exercised as at 31 December 2001. Details of the above transactions were announced in the newspapers in accordance with Listing Rules.

d. Tai Ping Carpets International Limited (“TPC”) is a carpet supplier to the group. During the year the group bought carpets from TPC for a total consideration of HK\$5.7 million. Bermuda Trust, as referred to in note 28(a), holds more than 30% of TPC’s equity. Details of the transactions have been announced in the newspapers in accordance with the Listing Rules. Purchases from 1998 to 2000 totalled HK\$21 million.

## **29. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year’s presentation.