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.

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 policy.

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.

Differences arising between the consideration paid and the group's share of the fair value of the separable net assets of subsidiary companies at the date of acquisition are written off on consolidation against the general reserve. The excess of the group's share of the fair value of the separable net assets of subsidiary companies acquired over the consideration is credited to the capital reserve.

On disposal of a subsidiary company during the year, the attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

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. These outstanding contracts are not revalued at the year end.

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. 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 to reflect their recoverable amount, 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	– 2 ½% 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

Subsidiary companies are those in which the group has a long term equity interest exceeding 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Interests in subsidiary companies are stated at cost less provision for diminution in value which is other than temporary.

m. Associated companies

Associated companies are those in which the group has a long term equity interest of not less than 20% and not more than 50% of the issued voting capital and over which the group exercises significant influence, including participation in financial and operating policy discussions. Interests in associated companies are carried in the consolidated balance sheet at the group's attributable share of the net assets of these companies.

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. Deferred expenditure

Deferred expenditure represents the issue costs of convertible bonds and other payments in respect of financing arrangements which are written off over the term and other payments such as for acquiring management contracts which are written off over the remaining periods 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. 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.

s. Retirement benefits

The group contributes to the retirement benefits of its permanent employees in Hong Kong and of certain secondees by means of a 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.

t. 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.

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 6 to 26.

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

	2000	1999
Hotels	**1,715**	1,479
Property rentals	**481**	516
Property sales	**650**	1,415
Miscellaneous	**197**	200
	3,043	3,610

3. Other revenue (HK$m)

	2000	1999
Dividends from unlisted investment securities	**6**	5
Interest income	**11**	12
Exchange and treasury gain	**3**	3
	20	20

4. Operating profit (HK$m)

	2000	1999
Operating profit is arrived at after charging/(crediting):		
Cost of inventories		
– Properties	**561**	1,135
– Land lots	**18**	17
– Food and beverages	**168**	160
	747	1,312
Amortisation of deferred expenditure	**6**	8
Auditors' remuneration	**4**	3
Depreciation of fixed assets	**92**	107
Rent for land and buildings under operating leases	**55**	55
Rent from investment properties under operating leases, less outgoings of **HK$30 million** (1999: HK$34 million)	**(642)**	(716)

Profit attributable to shareholders to the extent of **HK$280 million** (1999: HK$131 million) has been dealt with in the company's accounts.

5. Financing charges (HK$m)

	2000	1999
Interest payable on bank loans, overdrafts and other loans which are wholly repayable within 5 years	**455**	505
Other financing charges	**30**	11
	485	516
Less amount capitalised on properties under development	**(53)**	(101)
	432	415

The average rate used to determine the amount of borrowing costs eligible for capitalisation for the year was **7.5%** (1999: 6.9%).

6. Non-operating items (HK$m)

	2000	1999
Revaluation surplus arising from hotel properties	**23**	385
Revaluation deficit arising from other properties	**–**	(22)
Provision against property for sale	**(140)**	–
Loss on sale of The Sutton, New York	**(39)**	–
Provision against property under development	**(63)**	–
Net provision against investment securities	**(23)**	–
Write back of provision against projects	**–**	35
Write back of provision for legal disputes	**–**	15
	(242)	413

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.

	2000	1999
Profit and loss account:		
Hong Kong profits tax	**45**	44
(Over)/under provision in prior years	**(8)**	2
Overseas taxation	**5**	6
Deferred taxation (note 14)	**(5)**	–
Charge for the year	**37**	52

7. Taxation (HK$m) (continued)

	Group		Company	
	2000	1999	**2000**	1999
Balance sheet:				
Estimated liability to Hong Kong profits tax	**45**	44	**23**	20
Provisional profits tax paid	**(29)**	(36)	**(11)**	(13)
	16	8	**12**	7
Hong Kong profits tax (prior years)	**-**	17	**-**	1
	16	25	**12**	8
Overseas taxation	**10**	17	**-**	-
Liability at 31 December	**26**	42	**12**	8
Amount of taxation payable expected to be settled after more than 1 year	**-**	7	**-**	-

8. Dividends (HK$m)

	2000	1999
Proposed final dividend **(5 cents per share)** (1999: 5 cents)	**59**	59

9. Earnings per share

Earnings per share are calculated on a profit of **HK$85 million** (1999: HK$569 million) and on the weighted average of **1,169 million shares** in issue (1999: 1,157 million shares). There was no potential dilution of earnings per share during 2000 and 1999.

10. Fixed assets (HK$m)

	Total	Properties				Other*
		Investment	Hotel	Development	Other	
Group						
Cost or valuation:						
At 1 January 2000	17,523	11,960	3,660	757	125	1,021
Exchange adjustments	(141)	(33)	(59)	(32)	–	(17)
Additions	765	3	102	649	–	11
Reclassification	–	98	–	–	(96)	(2)
Transfer from inventories	222	222	–	–	–	–
Transfer to inventories	(72)	(72)	–	–	–	–
Disposals	(374)	(278)	–	(88)	–	(8)
Provision for impairment	(63)	–	–	(63)	–	–
Revaluation surplus	1,200	912	288	–	–	–
At 31 December 2000	**19,060**	**12,812**	**3,991**	**1,223**	**29**	**1,005**
Representing:						
Cost, less provision	2,228	–	–	1,223	–	1,005
Valuation – 1999	29	–	–	–	29	–
– 2000	16,803	12,812	3,991	–	–	–
At 31 December 2000	**19,060**	**12,812**	**3,991**	**1,223**	**29**	**1,005**
Depreciation:						
At 1 January 2000	613	–	–	–	–	613
Exchange difference	(3)	–	–	–	–	(3)
Charge for the year	92	–	–	–	2	90
Write back on disposal	(7)	–	–	–	–	(7)
At 31 December 2000	**695**	**–**	**–**	**–**	**2**	**693**
Net book value:						
At 31 December 2000	**18,365**	**12,812**	**3,991**	**1,223**	**27**	**312**
At 31 December 1999	16,910	11,960	3,660	757	125	408

* *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:

	2000	1999
Investment properties	**3,389**	3,525
Hotel properties	**4,684**	4,644
Other properties	**44**	125
	8,117	8,294

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

Investment properties, all owned by subsidiary companies, are as follows:

	Usage
Held in Hong Kong:	
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
Held in the United States of America:	
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
Held in Thailand:	
Freehold:	
Thai Country Club, Bangna-Trad, Chaochoengsao	Golf club
Held in Australia:	
Freehold:	
Opera Quays, 1 Macquarie Street, Sydney	Commercial
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

The group's investment and hotel properties have been revalued as at 31 December 2000 on an open market basis by valuers independent of the group. The investment properties were valued by Chesterton Petty Limited in Hong Kong, by FPD Savills in Thailand and Vietnam and by Colliers Jardine in Australia. The hotel properties in Hong Kong, USA and Thailand were valued by Jones Lang LaSalle.

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

The value of all properties held for use under operating leases totalled **HK$12,605 million** (1999: HK$11,735 million) and there is no accumulated depreciation.

		2000	1999
The value of land held in fixed assets is as follows:			
Hong Kong	– long term leases	**10,773**	9,555
	– medium term leases	**1,003**	933
United States of America	– freehold	**144**	142
Thailand	– freehold	**288**	428
	– medium term lease	**–**	16
Vietnam	– medium term lease	**56**	119
Australia	– freehold	**61**	–
		12,325	11,193

11. Interests in subsidiary companies (HK$m)

	2000	1999
Unlisted shares at cost	**66**	59
Amounts due from subsidiary companies	**12,385**	12,460
Amounts due to subsidiary companies	**(1,217)**	(1,514)
	11,234	11,005
Less provision	**(2,939)**	(2,939)
	8,295	8,066

Details of principal subsidiary companies at 31 December 2000 are given on page 70.

12. Interests in associated companies (HK$m)

	2000	1999
Share of net assets	**181**	118
Loans	**45**	12
Capitalised expenses and interest	**44**	44
Less provision	**(121)**	(121)
	149	53

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. ("MPHI")	40%	Philippines	Hotel investment
RipBion! Limited	50%	Hong Kong	Museum operation
PT Ciputra Adigraha	20%	Indonesia	Hotel/property development

12. Interests in associated companies (HK$m) (continued)

In February and March 2000 the company entered into agreements with various parties to purchase a total of 23.94% of the issued capital of MPHI at a consideration of HK$99 million. This was satisfied by a cash payment of HK$44 million and the issue and allotment of 14 million new shares of HK$0.50 each in the capital of the company at a value of approximately HK$3.87 each. Consequently MPHI has been reclassified from "investment securities" and accounted for as an associated company.

The group's share of post acquisition losses of associated companies at 31 December 2000 is **HK$27 million** (1999: HK$1 million), which includes the share of revaluation deficit of the hotel property amounting to **HK$30 million** (1999: HK$nil).

13. Investment securities (HK$m)

	Group		Company	
	2000	1999	**2000**	1999
Unlisted equity securities	**132**	181	**24**	24
Loans	**390**	429	**14**	14
	522	610	**38**	38
Less provision	**(446)**	(383)	**(14)**	–
	76	227	**24**	38
Representing:				
Cost, less provision	**2**	153	**24**	38
Valuation – 1998	**74**	74	**–**	–
	76	227	**24**	38

Unlisted equity securities include:	Ordinary shares held indirectly	Place of incorporation
Lucullus Food & Wines Company, Limited	30%	Hong Kong
The Belvedere Hotel Partnership	20%	USA
Hong Kong Construction Kam Lung Limited ("HKCKL")	50%	Hong Kong

The Belvedere Hotel Partnership holds a 100% interest in The Peninsula Beverly Hills. The group is not in a position to exercise significant influence over this investment.

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 company 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 ("CJV"), 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.

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

Completion of these agreements is conditional upon fulfilment of certain conditions including the granting of approvals by the Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China in respect of the CJV contract and other documents and 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 2000 and the group was not yet in a position to exercise significant influence over this investment.

14. Deferred taxation (HK$m)

	Group		Company	
	2000	1999	**2000**	1999
At 1 January	**(137)**	(137)	**1**	1
Transfer to profit and loss account	**(5)**	–	**(1)**	–
At 31 December	**(142)**	(137)	**–**	1
Major components of the deferred taxation asset are:				
Depreciation allowances in excess of book depreciation	**10**	13	**–**	–
Deferred expenditure	**4**	1	**–**	1
General provisions	**(15)**	(10)	**–**	–
Future benefit of tax loss	**(141)**	(141)	**–**	–
	(142)	(137)	**–**	1

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:

	Group		Company	
	2000	1999	**2000**	1999
Depreciation allowances in excess of book depreciation	**19**	24	**–**	–
General provisions	**(2)**	(8)	**–**	–
Future benefit of tax loss	**(64)**	(54)	**–**	–
	(47)	(38)	**–**	–

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)

	2000	1999
Properties for sale	**206**	1,028
Land lots	**229**	279
Other	**64**	66
	499	1,373

15. Inventories (HK$m) (continued)

The amount of inventories included above carried at net realisable value is **HK$206 million** (1999: HK$1,028 million).

Included in properties for sale is **HK$72 million** (1999: HK$nil) in respect of a property previously held as an investment property and which is stated after a provision of **HK$140 million** (1999: HK$nil) (note 6).

The amount of inventories expected to be recovered after more than one year is **HK$215 million** (1999: HK$570 million). All of the other inventories are expected to be recovered within one year.

16. Debtors and payments in advance

All debtors and payments in advance, apart from rental deposits and other receivables amounting to **HK$60 million** (1999: HK$22 million), are expected to be recovered within one year.

17. Creditors

Tenants' deposits and other provisions amounting to **HK$188 million** (1999: HK$158 million) are expected to be settled after more than one year. All of the other creditors are expected to be settled within one year.

18. Interest-bearing borrowings (HK$m)

	Group		Company	
	2000	1999	**2000**	1999
Convertible bonds	**1,110**	1,323	**–**	–
Bank loans and overdrafts	**4,858**	5,182	**3**	–
Other loans (unsecured)	**–**	50	**–**	50
	5,968	6,555	**3**	50
Repayable:				
Within 1 year	**2,597**	1,204	**3**	50
Between 1 and 2 years	**820**	2,813	**–**	–
Between 2 and 5 years	**2,416**	2,538	**–**	–
After 5 years	**135**	–	**–**	–
	3,371	5,351	**–**	–
	5,968	6,555	**3**	50

A wholly owned subsidiary company has US$142 million of bonds outstanding, equivalent to HK$1,110 million, which bear interest at 5% per annum. The bonds are guaranteed by the company and holders of the bonds had the right to convert the bonds into fully paid shares of the company at a price of HK$12.80 per share on or before 30 December 2000.

Bank loans totalling **HK$585 million** (1999: HK$339 million) are secured by mortgages over the properties of certain subsidiary companies.

19. Share capital

	2000	1999
Number of shares of HK$0.5 each (million)		
– Authorised	**1,800**	1,800
– Issued	**1,171**	1,157
Nominal value of shares (HK$m)		
– Authorised	**900**	900
– Issued and fully paid	**585**	578

During the year the company issued and allotted 14 million new shares at a value of approximately HK$3.87 each, as part consideration to acquire 23.94% shares of Manila Peninsula Hotel, Inc., giving rise to additional issued and fully paid share capital of HK$7 million and share premium of HK$48 million.

20. Reserves (HK$m)

	Group		Company	
	2000	1999	**2000**	1999
Retained profit:				
At 1 January as previously reported	**1**	(45)	**1**	(45)
Change in accounting policy with respect to provision for planned maintenance (note 21)	**92**	98	**–**	–
At 1 January as restated	**93**	53	**1**	(45)
For the year	**26**	510	**221**	72
Transfer to general reserve	**(115)**	(470)	**(115)**	(26)
At 31 December	**4**	93	**107**	1
General:				
At 1 January	**478**	–	**896**	5,845
Exchange differences on consolidation	**(47)**	5	**–**	–
Goodwill written (off)/back	**(1)**	3	**–**	–
Transfer to capital reserve	**–**	–	**–**	(4,975)
Transfer from profit and loss account	**115**	470	**115**	26
At 31 December	**545**	478	**1,011**	896
Investment properties revaluation:				
At 1 January	**8,473**	7,907	**–**	–
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 surplus	**927**	566	**–**	–
At 31 December	**9,541**	8,473	**–**	–
Hotel properties revaluation:				
At 1 January	**512**	236	**–**	–
Revaluation surplus	**264**	276	**–**	–
At 31 December	**776**	512	**–**	–

20. Reserves (HK$m) (continued)

	Group		Company	
	2000	1999	**2000**	1999
Other properties revaluation:				
At 1 January	**60**	67	**–**	–
Transfer to investment properties	**(16)**	–	**–**	–
Other movement	**(41)**	–	**–**	–
Revaluation deficit	**–**	(7)	**–**	–
At 31 December	**3**	60	**–**	–
Share premium:				
At 1 January	**1,516**	1,516	**1,516**	1,516
On issue of new shares	**48**	–	**48**	–
At 31 December	**1,564**	1,516	**1,564**	1,516
Capital redemption:				
At 1 January and 31 December	**8**	8	**8**	8
Capital:				
At 1 January	**4**	4	**4,975**	–
Transfer from general reserve	**–**	–	**–**	4,975
At 31 December	**4**	4	**4,975**	4,975
Total reserves at 31 December	**12,445**	11,144	**7,665**	7,396
Distributable reserves			**549**	571

Retained profit for the year is as follows:

	2000	1999 *(Restated)*
Company and subsidiary companies	**52**	512
Associated companies	**(26)**	(2)
	26	510

21. Prior year adjustment

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 are expensed in the profit and loss account in the year in which they are incurred, consistent with the Statement of Standard Accounting Practice 28.

The change in accounting policy with respect to the provision for planned maintenance resulted in reduction in net profit for the year ended 31 December 1999 of HK$6 million. Opening retained earnings for 1999 were increased by HK$98 million, being the amount of the adjustment in respect of the provision for planned maintenance relating to years prior to 1999. As a result certain comparative figures for 1999 have been restated.

22. Consolidated cash flow statement (HK$m)

a. Profit reconciliation

	2000	1999 *(Restated)*
Operating profit	**827**	630
Goodwill written back	**–**	3
Income from investment securities	**(6)**	(5)
Interest income	**(11)**	(12)
Amortisation and depreciation	**98**	115
Loss on disposal of fixed assets/impairment provision	**10**	58
Decrease in inventories	**724**	678
Decrease in debtors and payments in advance	**3**	48
Decrease in creditors	**(22)**	(94)
Exchange differences	**(112)**	131
Net cash inflow from operating activities	**1,511**	1,552

b. Changes in financing

	General reserve	Bank and other loans	Minority interests
At 1 January 1999	–	6,837	123
Net cash outflow	–	(783)	–
Exchange differences	5	116	2
Goodwill written back	3	–	–
Transfer from profit and loss account	470	–	–
Minority share of profit	–	–	5
Minority share of revaluation deficit of investment properties	–	–	(6)
Dividends paid to minority shareholders	–	–	(3)
At 31 December 1999	478	6,170	121
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 bond	–	(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**

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

c. Cash and cash equivalents	2000	1999
Cash and cash equivalents at 31 December are as follows:		
Cash and bank balances	272	132
Bank loans and overdrafts repayable within three months	(18)	(385)
	254	(253)

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** (1999: three directors), are as follows:

	Directors		Employees	
	2000	1999	**2000**	1999
Fees	**1**	1	**-**	–
Other emoluments:				
Basic salaries, housing and other allowances and benefits	**10**	15	**18**	22
Retirement plan contributions	**1**	1	**2**	1
Performance related bonuses	**2**	2	**1**	1
Non-contractual compensation for loss of office	**-**	–	**-**	2
	14	19	**21**	26

This remuneration falls within the following bands:

	Directors		Employees	
	2000 No.	1999 No.	**2000 No.**	1999 No.
HK$0 – HK$1,000,000	**9**	9	**-**	–
HK$2,500,001 – HK$3,000,000	**-**	–	**2**	–
HK$3,000,001 – HK$3,500,000	**-**	–	**1**	1
HK$4,000,001 – HK$4,500,000	**1**	–	**1**	–
HK$4,500,001 – HK$5,000,000	**-**	1	**-**	1
HK$5,000,001 – HK$5,500,000	**-**	1	**-**	1
HK$6,000,001 – HK$6,500,000	**-**	–	**-**	1
HK$7,000,001 – HK$7,500,000	**-**	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 2000 (except for one director who retired 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** (1999: HK$2 million) as at 31 December 2000 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 **1,650 employees** (1999: 1,577 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.

During the year the group converted its defined benefits plan to a defined contribution plan. After allowance had been made for changes in benefits there was sufficient surplus to reduce the current year's contribution to **HK$nil** (1999: HK$51 million).

26. Commitments and contingent liabilities (HK$m)

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

	2000	1999
Contracted for		
– Land and buildings	**422**	603
– Properties held for sale	**–**	10
– Plant and machinery	**137**	11
	559	624
Not contracted for		
– Land and buildings	**134**	641
– Properties held for sale	**–**	40
– Plant and machinery	**58**	27
	192	708

At 31 December 2000, the group had commitments under forward contracts for hedging purposes to buy Australian dollars 69 million and US dollars 62 million (net) during 2001, and to buy US dollars 59 million and to sell Thai Baht 2,291 million during 2005.

At 31 December 2000, the group had commitments in respect of interest rate derivatives, which are mostly interest rate swaps and are for hedging purposes, totalling HK$2,373 million at interest rates of between 5.845% and 8.34% up to 2009.

Commitments to make payments in the next year under operating leases in respect of land and buildings are as follows:

	Group		Company	
	2000	1999	**2000**	1999
Operating leases expiring:				
Within 1 year	**3**	6	**1**	2
Between 1 and 5 years	**10**	18	**–**	–
After 5 years	**43**	43	**–**	–
	56	67	**1**	2

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	
	2000	1999	**2000**	1999
Subsidiary companies	**–**	–	**5,681**	6,160
Other	**17**	20	**17**	17
	17	20	**5,698**	6,177

27. Connected transactions

a. Under a tenancy agreement dated 5 November 1998, due to expire on 30 November 2003, a 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 1 March 2001 Bermuda Trust Company Limited ("Bermuda") had a 58.99% attributable interest in the issued share capital of the company and Cobalt is an indirect wholly owned subsidiary company of Bermuda. Details of this transaction were published in the newspapers in accordance with the Listing Rules.

b. With reference to the purchase of MPHI shares disclosed in note 12, one of the parties was Actinium Holding Corporation ("Actinium"), which sold 10.61% of the issued capital of MPHI for a cash consideration of HK$44 million. Actinium 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. Actinium is an indirect wholly owned subsidiary company of Bermuda. This transaction was announced in the newspaper in accordance with the Listing Rules.

c. The company acts as a sole guarantor to the foreign exchange facility for an amount up to US$70 million granted by a bank to a 50% owned subsidiary company, HSH-Siam Chaophraya Holdings Company Limited. The company also acts as a sole guarantor to the foreign exchange facility totalling Thai Baht 108 million and to the loan facilities totalling Thai Baht 2,425 million granted by certain banks to the following 75% owned subsidiary companies: Siam Chaophraya Holdings Company Limited, Town and Country Sport Club Company Limited and Euromill Development Company Limited. There was no requirement to announce this transaction in the newspaper in accordance with the Listing Rules.