1. Significant accounting policies

A. Statement of compliance

These financial statements 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 financial statements

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

C. Basis of consolidation

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

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

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

D. Borrowing costs

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

E. Revenue recognition

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

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

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.

1. Significant accounting policies *continued*

F. Operating leases

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

G. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities 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 financial statements 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 income statement.

H. Off-balance sheet financial instruments

Forward exchange contracts Exchange differences arising on non-speculative forward exchange contracts which are used as hedges of 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 income statement over the periods of the respective instruments.

I. Fixed assets

Investment, hotel and other properties Investment and hotel properties with an unexpired lease term of more than 20 years are included in the balance sheet at their open market value, on the basis of an annual third party professional valuation, except for newly opened or newly renovated hotels which are considered not to have reached a steady state of operations, which are stated at cost less any provisions required. Other properties are stated at their open market value, on the basis of a third party professional valuation conducted on a three-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 a deficit arises on revaluation and any such reserve is insufficient, the excess of the deficit is charged to the income statement.

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

Other fixed assets Other fixed assets are stated at cost less accumulated depreciation and 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.

1. Significant accounting policies *continued*

J. Depreciation of fixed assets

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

Hotel properties No depreciation is provided on hotel properties (including their integral fixed plant) with unexpired lease terms exceeding 20 years. It is the group's practice to maintain these properties in such condition that the residual values are such that depreciation would be insignificant. The related maintenance expenditure is dealt with in the income statement in the year in which it is incurred.

Other properties Depreciation is calculated to write off the costs or the revalued amounts of other properties on a straight line basis over their anticipated useful lives. The rates used are:

Freehold land	– no depreciation
Leasehold land	– over the unexpired period of the lease
Buildings	– 2.5% 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 income statement. 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 income statement 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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

1. Significant accounting policies *continued*

M. Associated companies

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

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 income statement 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 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 income statement, such provisions being determined for each investment individually.

O. Investment in hotel management contracts

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

P. 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 less the estimated additional costs necessary to make the sale.

R. Impairment of assets

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

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

1. Significant accounting policies *continued*

R. Impairment of assets *continued*

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

Calculation of recoverable amount The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that 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 an asset's impairment loss is limited to its carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

S. Provisions and contingent liabilities

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

T. Cash and cash equivalents

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

U. Employee benefits

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

Short-term employment benefits in the form of paid leave Commencing from 1 January 2002, employee entitlements to annual holidays are recognised when they accrue to employees, in a manner consistent with the Statement of Standard Accounting Practice 34 "Employee benefits" ("SSAP 34"). With the adoption of SSAP 34, a provision is made for the estimated liability for outstanding annual holidays at the balance sheet date. This represents a change in accounting policy as in previous years no provision was made for this liability. This change in accounting policy has not given rise to material impact on the group's financial statements, and no prior year adjustment is required.

1. Significant accounting policies *continued*

v. Related parties

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

w. Segment reporting

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

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 borrowings, financing charges and minority interests.

2. Turnover

The company is an investment holding company. Details of the group's principal activities appear in the chief executive officer's and the general managers' reports on pages 6 to 34.

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

3. Other revenue (HK$m)

	2002	2001
Dividends from unlisted investment securities	**2**	4
Interest income	**2**	5
	4	9

4. Operating profit (HK$m)

	2002	2001
Operating profit is arrived at after charging/(crediting):		
Cost of inventories		
Properties for sale	**17**	193
Land lots	**5**	5
	22	198
Food and beverage and others	**180**	165
	202	363
Amortisation of investment in hotel management contract	**6**	6
Auditors' remuneration		
Audit service	**4**	4
Tax and other non-audit services	**1**	1
Depreciation of fixed assets	**104**	108
Rental payable for land and buildings under operating leases	**55**	56
Rental from investment properties held for letting under operating leases, less outgoings of **HK$28 million** (2001: HK$27 million)	**(611)**	(649)
Net gain on restructuring of Thai subsidiary companies (note 28C)	**3**	–

Profit attributable to shareholders to the extent of **HK$18 million** (2001: HK$207 million) has been dealt with in the company's financial statements (see note 21).

5. Financing charges (HK$m)

	2002	2001
Interest payable on bank loans, overdrafts and other loans which are wholly repayable within 5 years (net of hedging costs)	**269**	367
Other financing charges	**21**	25
	290	392
Less: Amount capitalised on properties under development	**(1)**	(46)
	289	346

The average rate used to determine the amount of borrowing costs eligible for capitalisation for the year was **2.0%** (2001: 7.2%).

6. Non-operating items (HK$m)

	2002	2001
Revaluation deficits on hotel and other properties	**(62)**	(98)
Reversal of impairment loss on investment securities (note 11)	**238**	–
Provision against interest and other expenses capitalised during construction on a recently completed hotel (note 10A)	**(155)**	–
Reversal of/(provision for) impairment losses on properties under development and other assets	**6**	(46)
Impairment losses on investment securities	**–**	(10)
Profit on disposal of investment securities	**–**	6
	27	(148)

7. Taxation (HK$m)

Hong Kong profits tax has been provided for on the basis of **16%** (2001: 16%) of estimated assessable profits arising in Hong Kong. Overseas taxation has been provided for at appropriate rates on estimated assessable profits.

	2002	2001
Income statement:		
Hong Kong profits tax	**35**	38
Over provision in prior years	**(2)**	(6)
Overseas taxation	**1**	6
Deferred taxation (note 14)	**22**	8
Charge for the year	**56**	46

	Group		Company	
	2002	2001	2002	2001
Balance sheet:				
Estimated liability to Hong Kong profits tax	**35**	38	**6**	12
Provisional profits tax paid	**(30)**	(32)	**(7)**	(13)
	5	6	**(1)**	(1)
Overseas taxation	**9**	9	**–**	–
Liability/(asset) at 31 December	**14**	15	**(1)**	(1)

8. Dividends (HK$m)

	2002	2001
A. Dividends attributable to the year:		
Final dividend proposed after the balance sheet date of **8 cents per share** (2001: 5 cents per share)	**93**	58

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

	2002	2001
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** (2001: 5 cents per share) (note 21)	**58**	59

9. Earnings per share

The prescribed figure for earnings per share, which includes non-operating items, is computed as follows:

	2002	2001
Earnings for the year (HK$m)	**308**	33
Weighted average number of shares in issue (million shares)	**1,169**	1,170
Earnings per share (HK cents)	**26**	3

To enable investors to better understand the group's results, an additional earnings per share figure, excluding non-operating items, is provided below:

	2002	2001
Earnings for the year (HK$m)	**308**	33
Non-operating items (HK$m) (note 6)	**(27)**	148
Earnings excluding non-operating items (HK$m)	**281**	181
Earnings per share excluding non-operating items (HK cents)	**24**	15

10. Fixed assets (HK$m)

A. Movements of fixed assets

	Total	Properties: Investment	Properties: Hotel	Properties: Development	Properties: Other	Other fixed assets*
Group						
Cost or valuation:						
At 1 January 2002	18,120	11,740	5,018	160	28	1,174
Exchange adjustments	20	3	11	3	–	3
Additions	191	7	38	108	–	38
Acquisition of subsidiary (see note 22B)	1,125	579	430	–	–	116
Transfer from/(to) inventories (see note 15)	209	–	–	216	(7)	–
Transfer (see B below)	–	–	(125)	125	–	–
Disposals	(15)	–	–	–	–	(15)
Net (deficit)/surplus on revaluation	(520)	(531)	14	–	(3)	–
Provision against interest and other expenses capitalised during construction (see note 6)	(155)	–	(155)	–	–	–
Reversal of impairment loss	6	–	–	6	–	–
At 31 December 2002	**18,981**	**11,798**	**5,231**	**618**	**18**	**1,316**
Representing:						
Cost, less provision	3,171	–	1,237	618	–	1,316
Valuation – 2002	15,810	11,798	3,994	–	18	–
At 31 December 2002	**18,981**	**11,798**	**5,231**	**618**	**18**	**1,316**
Depreciation:						
At 1 January 2002	782	–	–	–	3	779
Exchange adjustments	2	–	–	–	–	2
Charge for the year	104	–	–	–	1	103
Acquisition of subsidiary (see note 22B)	89	–	–	–	–	89
Transfer	(2)	–	–	–	(2)	–
Written back on disposal	(11)	–	–	–	–	(11)
Written back on valuation	(2)	–	–	–	(2)	–
At 31 December 2002	**962**	**–**	**–**	**–**	**–**	**962**
Net book value:						
At 31 December 2002	**18,019**	**11,798**	**5,231**	**618**	**18**	**354**
At 31 December 2001	17,338	11,740	5,018	160	25	395

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

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

B. The hotel resort at the Quail Lodge is subject to a major renovation programme with a total cost of US$18 million (HK$138 million) to re-develop and upgrade the existing facilities. Accordingly, this property was transferred to properties under development at its carrying value of HK$125 million. The directors consider that there is no impairment loss in respect of this development property.

C. Included in properties under development are expenses incurred with respect to the development of The Peninsula Tokyo of **HK$99 million** (2001: HK$nil). The hotel is scheduled for completion in 2007.

Estimated total expenditure, before financing charges, of this project is in the region of ¥13 billion or HK$855 million and will mainly be financed by Yen borrowings. The balance of anticipated project expenditure is included in capital commitments and disclosed in note 26A.

D. Investment properties, all held through 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	Commercial
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 People's Republic of China:	
Medium term lease (between 20 and 50 years):	
The Palace Hotel shopping arcade 8 Goldfish Lane, Wangfujing, Beijing	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 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

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

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

	2002	2001
Investment properties	**3,760**	3,171
Hotel properties	**5,005**	4,677
Other properties	**30**	37
	8,795	7,885

F. The group's investment, hotel and other properties have been revalued as at 31 December 2002 on an open market basis by valuers independent of the group, details of which are as follows:

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

G. The value of all properties held for letting to third parties under operating leases totalled **HK$11,593 million** (2001: HK$11,543 million) and there is no accumulated depreciation. The leases of these properties to third parties typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. Contingent rentals of these leases were immaterial during 2002 and 2001. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 26D.

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

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

		2002	2001
Hong Kong	– long term leases	**9,626**	9,985
	– medium term leases	**839**	834
		10,465	10,819
People's Republic of China	– medium term lease	**151**	–
Thailand	– freehold	**543**	289
Vietnam	– medium term lease	**49**	49
Other Asia Pacific		**743**	338
United States of America	– freehold	**134**	135
		11,342	11,292

11. Interests in subsidiary companies (HK$m)

	2002	2001
Unlisted shares at cost	**–**	47
Amounts due from subsidiary companies	**11,288**	11,740
Amounts due to subsidiary companies	**(25)**	(426)
	11,263	11,361
Less: Impairment losses	**(2,877)**	(2,939)
	8,386	8,422

Hong Kong Construction Kam Lung Limited ("HKCKL") previously held 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, which included: (i) the restructure of TPH from a sino-foreign equity joint venture into a sino-foreign co-operative joint venture; (ii) an increase of HKCKL's interest to 76.6% of the registered capital of TPH; and (iii) an extension of the joint venture term to 11 November 2033.

Completion of the above agreements was 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 would expire on 11 November 2033. These conditions were completed and the restructuring effected in December 2002 since when HKCKL and TPH became subsidiary companies of the group and are consolidated.

Upon completion of the restructuring, HKCKL became a 55% indirect subsidiary of the company and the group now controls the board of directors of HKCKL and TPH as well as the financial and operating policies of TPH. Pursuant to the agreements, TPH's future cash distributions are to be applied to repay the original shareholder loans made by HKCKL amounting to RMB 976 million (HK$919 million) of which RMB 479 million (HK$451 million) is due to a subsidiary of the company and RMB 497 million (HK$468 million) is due to the minority shareholder of HKCKL and is included in minority interests in the consolidated balance sheet. Following repayment of the original shareholder loans, the group will be entitled to 82% of TPH's cash distributions.

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

The above restructuring has resulted in a write back of impairment loss previously recognised in respect of the group's cost of investment in HKCKL and TPH to the extent of HK$238 million, details of which are as follows:

	HK$m	HK$m
Net assets acquired (note 22B)	**416**	
Less: Cash consideration paid during the year	**(178)**	
		238
Investment costs	**397**	
Less: Impairment loss previously recognised	**(397)**	
		–
Reversal of impairment loss (notes 6 and 22B)		**238**

As the restructuring was completed in December 2002, the impact on the group's operating profit for the year ended 31 December 2002 was immaterial.

Details of principal subsidiary companies at 31 December 2002 are given on page 95.

12. Interests in associated companies (HK$m)

	Group		Company	
	2002	2001	**2002**	2001
Unlisted shares, at cost	**147**	147	**24**	24
Less: Amounts written off against general reserve				
Goodwill	**(1)**	(1)	**–**	–
Exchange on translation	**(33)**	(29)	**–**	–
	113	117	**24**	24
Less: Share of post acquisition losses	**(39)**	(35)	**–**	–
Share of net assets	**74**	82	**24**	24
Loans to associated companies	**40**	43	**–**	–
	114	125	**24**	24

The group's share of post acquisition losses of associated companies at 31 December 2002 includes the share of revaluation deficit of a hotel property owned by an associated company amounting to **HK$49 million** (2001: HK$42 million).

Details of associated companies are as follows:

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

13. Investment securities (HK$m)

	Group 2002	Group 2001	Company 2002	Company 2001
Unlisted equity securities, at cost	**160**	169	**–**	–
Loans	**–**	376	**–**	2
	160	545	**–**	2
Less: Repayment of capital contribution	**(31)**	–	**–**	–
Impairment loss	**(77)**	(462)	**–**	(2)
	52	83	**–**	–

Unlisted equity securities include:	Ownership interest held indirectly	Place of incorporation/ establishment
The Belvedere Hotel Partnership	20%	USA
PT Ciputra Adigraha	20%	Indonesia

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

The group's investment in and loans to Hong Kong Construction Kam Lung Limited ("HKCKL") and the related impairment loss were included in investment securities in prior years. HKCKL became a subsidiary company during the year. Further details of the reclassification are described in note 11.

14. Deferred taxation (HK$m)

	2002	2001
At 1 January	**(134)**	(142)
Transfer to income statement (note 7)	**22**	8
At 31 December	**(112)**	(134)
Major components of the deferred taxation asset are:		
Depreciation allowances in excess of book depreciation	**5**	8
General provisions	**(7)**	(6)
Future benefit of tax losses	**(112)**	(139)
Other items	**2**	3
	(112)	(134)

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:

	2002	2001
Depreciation allowances in excess of book depreciation	**10**	15
General provisions	**–**	(1)
Future benefit of tax losses	**(64)**	(63)
	(54)	(49)

No deferred tax has been provided for on the revaluation surpluses and deficits of the group's properties as the directors consider that these timing differences that will not materialise in the foreseeable future.

15. Inventories (HK$m)

	2002	2001
Properties for sale	**–**	13
Land lots	**4**	219
	4	232
Food and beverage and others	**74**	65
	78	297

Land lots which are expected to be developed or sold after more than one year with a book value amounting to **HK$216 million** were transferred to properties under development during the year. All other inventories are expected to be developed or sold within one year.

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

	Group		Company	
	2002	2001	**2002**	2001
Trade debtors (ageing analysis is shown below)	**92**	77	**–**	–
Rental deposits and payments in advance				
Expected to be recovered within one year	**54**	88	**6**	5
Expected to be recovered after one year	**49**	30	**–**	–
	195	195	**6**	5

The group maintains a defined credit policy for trade debtors. Trade debtors included in debtors and payments in advance amounted to **HK$92 million** (2001: HK$77 million) and the ageing analysis of these balances is as follows:

	Group		Company	
	2002	2001	**2002**	2001
0 – 3 months	**86**	68	**–**	–
4 – 6 months	**5**	3	**–**	–
> 6 months	**1**	6	**–**	–
	92	77	**–**	–

17. Creditors (HK$m)

	Group		Company	
	2002	2001	**2002**	2001
Trade creditors (ageing analysis is shown below)	**87**	84	**–**	–
Interest payable	**17**	18	**–**	–
Accruals of fixed assets	**128**	145	**–**	–
Tenants and membership deposits				
Expected to be settled within one year	**79**	46	**–**	–
Expected to be settled after one year	**193**	181	**–**	–
Other amounts payable	**304**	218	**10**	15
	808	692	**10**	15
The ageing analysis of trade creditors is as follows:				
0 – 3 months	**84**	48	**–**	–
4 – 6 months	**2**	1	**–**	–
> 6 months	**1**	35	**–**	–
	87	84	**–**	–

18. Interest-bearing borrowings (HK$m)

	2002	2001
Total facilities available:		
Bank loans and revolving credits	**6,591**	7,359
Uncommitted facilities, including bank overdrafts	**1,069**	1,064
	7,660	8,423
Utilised at 31 December:		
Bank loans and revolving credits	**5,601**	5,539
Uncommitted facilities, including bank overdrafts	**242**	216
	5,843	5,755
Represented by:		
Short-term loans	**691**	1,225
Current portion of long-term borrowings	**65**	53
Bank overdrafts	**21**	14
	777	1,292
Long-term borrowings, repayable:		
Within 1 year	**65**	53
Between one and two years	**2,001**	739
Between two and five years	**3,065**	3,724
	5,131	4,516
Less: Current portion of long-term borrowings	**(65)**	(53)
	5,066	4,463
Total interest-bearing borrowings	**5,843**	5,755

18. Interest-bearing borrowings (HK$m) *continued*

The total borrowings of **HK$5,843 million** at 31 December 2002 (2001: HK$5,755 million) comprised the following variable rate bank loans and overdrafts that were:

	2002	2001
Unsecured	**4,684**	4,766
Secured by mortgages over investment, hotel and other properties of certain Thai subsidiary companies	**367**	402
Secured by mortgage over investment and hotel properties of a PRC subsidiary company	**170**	–
Secured by the assets of a subsidiary company which owns and operates a hotel in the USA	**622**	587
Consolidated borrowings	**5,843**	5,755
Additionally, and not dealt with in the consolidated balance sheet are the portion of bank loans attributable to the group's share holdings in:		
The Belvedere Hotel Partnership (20%)	**123**	88
The Manila Peninsula Hotel, Inc. (40%)	**4**	20
The Palace Hotel Co., Ltd. (20%)	**–**	34
Unconsolidated borrowings	**127**	142
	5,970	5,897

Total value of pledged assets attributable to the group amounted to **HK$3,743 million** (2001: HK$2,858 million).

19. Minority interests (HK$m)

	2002	2001
At 1 January	**57**	26
Minority share of profit	**7**	3
Minority share of revaluation surplus/(deficit) of investment properties	**1**	(2)
Dividends paid to minority shareholders	**(2)**	(2)
Amount due to minority shareholder (note 11)	**468**	–
Increase in minority interest as a result of Thai restructuring	**68**	–
Liquidation of a subsidiary company	**–**	(2)
Capital contributed by minority interest	**–**	34
At 31 December	**599**	57

20. Share capital

	2002	2001
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued	**1,169**	1,169
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued and fully paid	**584**	584

21. Reserves (HK$m)

	Group 2002	Group 2001	Company 2002	Company 2001
Investment properties revaluation reserve:				
At 1 January	**8,689**	9,541		
Revaluation deficit	**(532)**	(852)		
At 31 December	**8,157**	8,689		
Hotel properties revaluation reserve:				
At 1 January	**515**	776		
Revaluation surplus/(deficit)	**76**	(261)		
At 31 December	**591**	515		
Other properties revaluation reserve:				
At 1 January and 31 December	**3**	3		
Share premium:				
At 1 January and 31 December	**1,564**	1,564	**1,564**	1,564
Capital redemption reserve:				
At 1 January	**9**	8	**9**	8
Repurchase of shares	**–**	1	**–**	1
At 31 December	**9**	9	**9**	9
Capital reserve:				
At 1 January and 31 December	**4**	4	**4,975**	4,975
Total non-distributable reserves	**10,328**	10,784		
Retained profit:				
At 1 January	**62**	63	**339**	166
Dividend approved in respect of the previous year (note 8B)	**(58)**	(59)	**(58)**	(59)
Profit for the year	**308**	33	**18**	207
Transfer from general reserve	**–**	25	**–**	25
At 31 December	**312**	62	**299**	339
General reserve:				
At 1 January	**513**	545	**980**	1,011
Exchange differences arising on consolidation	**(14)**	(1)	**–**	–
Repurchase of shares	**–**	(6)	**–**	(6)
Transfer to retained profit	**–**	(25)	**–**	(25)
At 31 December	**499**	513	**980**	980
Total distributable reserves	**811**	575		
Total reserves at 31 December	**11,139**	11,359	**7,827**	7,867
Profit/(loss) for the year is as follows:				
Company	**18**	207	**18**	207
Subsidiary companies	**294**	(166)	**–**	–
Associated companies	**(4)**	(8)	**–**	–
	308	33	**18**	207

21. Reserves (HK$m) *continued*

The group's general reserves at the balance sheet date are stated after charging exchange losses and goodwill arising on consolidation in respect of the group's investments in the following countries:

	2002		2001	
	Exchange	**Goodwill**	Exchange	Goodwill
Indonesia	**252**	**–**	252	–
Thailand	**316**	**–**	305	–
The Philippines	**33**	**1**	30	1
Vietnam	**3**	**–**	3	–
United States of America	**–**	**14**	–	14
	604	**15**	590	15

22. Consolidated cash flow statement (HK$m)

A. Cash and cash equivalents

	2002	2001
Cash and cash equivalents at 31 December are as follows:		
Cash and bank balances	**232**	99
Bank overdrafts repayable within three months	**(21)**	(14)
	211	85

B. Acquisition of indirect subsidiary companies

	2002	2001
Fixed assets at cost and valuation (note 10A)	**1,125**	–
Less: Accumulated depreciation (note 10A)	**(89)**	–
	1,036	–
Inventories	**10**	–
Debtors	**21**	–
Cash at bank	**108**	–
Bank loan	**(170)**	–
Other liabilities	**(121)**	–
	884	–
Less: Amount due to minority shareholder (note 11)	**(468)**	–
Net assets acquired (note 11)	**416**	–
Reversal of impairment loss (note 11)	**(238)**	–
Cash consideration paid during the year	**178**	–
Less: Cash at bank acquired	**(108)**	–
Net cash outflow on acquisition	**70**	–

23. Remuneration of directors and senior management

Details of the remuneration of the directors and of the five highest paid employees, which include **two directors** (2001: two directors), are as follows:

	Directors (HK$m)		Employees (HK$m)	
	2002	2001	**2002**	2001
Fees	**1**	1	**–**	–
Other emoluments:				
Basic salaries, housing and other allowances and benefits	**9**	7	**16**	16
Retirement plan contributions	**1**	1	**2**	2
Performance related bonuses	**5**	2	**3**	2
Payment upon joining	**1**	–	**1**	–
Compensation for loss of office	**–**	–	**3**	–
	17	11	**25**	20

This remuneration falls within the following bands:

	Directors (number)		Employees (number)	
	2002	2001	**2002**	2001
HK$0 – HK$1,000,000	**9**	9	**–**	–
HK$1,000,001 – HK$1,500,000	**1**	–	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	1	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–	**–**	1
HK$3,000,001 – HK$3,500,000	**–**	–	**1**	2
HK$3,500,001 – HK$4,000,000	**–**	–	**1**	1
HK$5,000,001 – HK$5,500,000	**1**	–	**1**	–
HK$5,500,001 – HK$6,000,000	**–**	–	**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 2002.

24. Loans to officers

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

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

Name of borrower:	Mr. Peter Borer	Mr. Roger Henderson	Mr. Martyn Sawyer
Extent of guarantee given to a bank	HK$4,800,000	HK$1,895,000	GBP120,000
Maximum liability under the guarantee:			
at 1 January 2001	HK$4,325,000	HK$1,655,000	HK$1,405,000
at 31 December 2001 and 1 January 2002	HK$4,225,000	HK$1,615,000	HK$1,365,000
at 31 December 2002	HK$4,125,000	HK$nil	HK$1,325,000

No amount has been paid nor liability crystalised under these guarantees in 2002 and 2001.

24. Loans to officers *continued*

B. Loans made by the company

Name of borrower:	Mr. Peter Borer	Mr. Roger Henderson
Terms of the loan:		
duration and repayment terms	5 years to May 2007	Repayable on demand
interest rate	The company's borrowing rate	Interest-free
security	Borrower's retirement fund	None
Balance of the loan:		
at 1 January 2001	HK$nil	HK$75,000
at 31 December 2001 and 1 January 2002	HK$nil	HK$75,000
at 31 December 2002	HK$2,773,333	HK$nil
Maximum balance outstanding:		
during 2001	HK$nil	HK$75,000
during 2002	HK$3,200,000	HK$75,000

There was no interest due but unpaid nor any provision made against these loans at 31 December 2002 and 2001.

25. Employee retirement plan

The group has a defined contribution retirement plan and participates in mandatory provident fund schemes covering **1,738 Hong Kong employees** (2001: 1,765 employees). The defined contribution retirement 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.

The group also operates several separate defined contribution retirement plans and contributes to a union pension scheme for its overseas subsidiaries covering **1,572 employees** (2001: 1,515 employees) in other Asian countries and USA in accordance with the respective applicable labour regulations.

Total contributions made by the group amounted to **HK$51 million** (2001: HK$30 million, after netting of a credit of HK$21 million following the conversion from a defined benefit plan to a defined contribution plan in previous years) were charged to the income statement.

26. Commitments and contingent liabilities

A. Capital expenditure (HK$m)

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

	2002	2001
Contracted for	**7**	195
Not contracted for	**1,269**	223

26. Commitments and contingent liabilities *continued*

B. Financial instruments for hedging purposes

	Buy (million)		Sell (million)	
	2002	2001	**2002**	2001
Forward exchange contracts entered into by:				
Company				
Expiring in 2002	**–**	US$2	**–**	AUD4
Subsidiary companies				
Expiring in 2003	**US$2**	–	**¥274**	–
Expiring in 2005	**US$59**	US$59	**THB2,535**	THB2,291
Expiring in 2006	**US$30**	–	**¥3,305**	–
Expiring in 2007	**US$2**	–	**¥263**	–

At 31 December 2002, the group also had commitments in respect of interest rate swaps for hedging purposes, totalling **HK$3,407 million** (2001: HK$1,905 million) at interest rates of between **1.5%** and **7.5%** (2001: between 5.7% and 7.5%) up to 2017.

C. The Peninsula Tokyo leasing arrangement

During the year the group entered into a 50-year lease with respect to a hotel building to be built in Tokyo commencing on the date of completion which is expected to be in 2007. Future minimum annual rental amounts to ¥1,181 million, which will be adjusted based on an inflation index every ten years.

D. Minimum operating lease commitments (HK$m)

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases of the group are (receivable)/payable as follows:

	Receivable		Payable	
	2002	2001	**2002**	2001
Operating leases expiring:				
Within 1 year	**(406)**	(362)	**61**	53
Between 1 and 5 years	**(256)**	(231)	**204**	182
After 5 years	**(127)**	(49)	**4,156**	3,680
	(789)	(642)	**4,421**	3,915

E. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2002	2001	**2002**	2001
Guarantees given in respect of borrowing and other banking facilities by subsidiary companies	**–**	–	**5,495**	5,516
Other guarantees	**12**	14	**12**	14
Legal and other disputes	**4**	–	**2**	–
	16	14	**5,509**	5,530

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

27. Segment reporting

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.
Rentals from non-hotel properties	Leasing of commercial and office premises (other than those in hotel properties) and residential apartments.
Property sales	Development, purchase and sale of real estate.
Other businesses	Include operation of golf courses, 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 (HK$m)

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
Year ended 31 December 2002					
Turnover					
Total segment	2,617	1,946	410	39	222
Inter-segment	(25)	(5)	–	–	(20)
	2,592	1,941*	410	39	202
Segment operating profit	637	305	289	9	34
Financing charges	(289)	–	–	–	–
Share of losses of associated companies	(4)	(3)	–	–	(1)
Non-operating items					
Allocated	(217)	(216)	–	–	(1)
Unallocated	244	–	–	–	–
Profit before taxation	371				

27. Segment reporting *continued*

B. **Segment turnover and results** (HK$m) *continued*

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
Year ended 31 December 2001					
Turnover					
Total segment	2,617	1,716	482	213	206
Inter-segment	(33)	(6)	(4)	–	(23)
	2,584	1,710*	478	213	183
Segment operating profit/(loss)	584	224	341	(11)	30
Financing charges	(346)	–	–	–	–
Share of losses of associated companies	(8)	(6)	–	–	(2)
Non-operating items					
Allocated	(98)	(98)	–	–	–
Unallocated	(50)	–	–	–	–
Profit before taxation	82				

* *Analysis of hotels turnover*	**2002**	2001
Rooms	**847**	723
Food and beverage	**575**	517
Commercial	**305**	279
Others	**214**	191
	1,941	1,710

C. **Segment balance sheet** (HK$m)

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
At 31 December 2002					
Assets					
Fixed assets					
Investment properties	**11,798**	**4,774**	**6,819**	**–**	**205**
Hotel properties	**5,231**	**5,231**	**–**	**–**	**–**
Development properties	**618**	**282**	**–**	**–**	**336**
Other properties	**18**	**–**	**–**	**–**	**18**
Other fixed assets	**354**	**275**	**–**	**–**	**79**
	18,019	**10,562**	**6,819**	**–**	**638**
Interests in associated companies	**114**	**107**	**–**	**–**	**7**
Investment securities	**52**	**43**	**–**	**–**	**9**
Investment in hotel management contract	**185**	**185**	**–**	**–**	**–**
Other segment assets	**385**	**308**	**7**	**4**	**66**
Cash	**232**				
Total assets	**18,987**				
Liabilities					
Segment liabilities	**808**	**528**	**129**	**–**	**151**
Bank loans and other liabilities	**5,857**				
Total liabilities	**6,665**				

27. Segment reporting *continued*

C. Segment balance sheet (HK$m) *continued*

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
At 31 December 2001					
Assets					
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
Interests in associated companies	125	116	–	–	9
Investment securities	83	74	–	–	9
Investment in hotel management contract	191	191	–	–	–
Other segment assets	626	303	10	233	80
Cash	99				
Total assets	18,462				
Liabilities					
Segment liabilities	692	384	147	8	153
Bank loans and other liabilities	5,770				
Total liabilities	6,462				

D. Other segment information (HK$m)

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
Year ended 31 December 2002					
Capital expenditure incurred	**191**	**172**	**5**	**–**	**14**
Depreciation and amortisation	**110**	**90**	**–**	**–**	**20**
Year ended 31 December 2001					
Capital expenditure incurred	559	512	4	–	43
Depreciation and amortisation	114	91	–	–	23

27. Segment reporting *continued*

E. **Geographical segment** (HK$m)
The group's hotel operations and property rental businesses are principally located in Hong Kong, the mainland of the People's Republic of China, Thailand, Vietnam and the United States of America. The property sales businesses and the golf course operations are located in Thailand and the United States of America. Other miscellaneous businesses are all conducted in Hong Kong.

	Hong Kong		Other Asia Pacific		United States of America	
	2002	2001	**2002**	2001	**2002**	2001
Turnover	**1,541**	1,536	**242**	438	**809**	610
Capital expenditure	**21**	21	**141**	8	**29**	530
Assets	**13,685**	14,236	**2,452**	1,239	**2,618**	2,888
Operating profit/(loss)	**640**	649	**57**	6	**(60)**	(71)

28. 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 from Kadoorie Estates Limited ("Kadoorie Estates"). The rent of approximately HK$751,000 per month (exclusive of rates, air-conditioning charge and management fee) was based on market rate at the time of signing of the tenancy agreement. Kadoorie Estates acts as an agent for the registered owner, Cobalt Holding 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 27 February 2003 Bermuda Trust Company Limited ("Bermuda Trust") indirectly held a 59.5% 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 acted as a sole guarantor to a loan facility for an amount up to Thai Baht 1,000 million granted in 1999 by a bank to a 75% owned subsidiary company, Town and Country Sport Club Company Limited ("TCC"). There was no requirement to announce this transaction in the newspaper in accordance with the Listing Rules.

On 30 October 2002 an independent financial institution agreed to provide the Thai subsidiary companies with banking facilities to replace certain existing facilities. The company acted as a sole guarantor for Thai Baht 1,433 million of the banking facilities which relate to: (i) the loan facilities for an amount up to Thai Baht 1,325 million granted by the bank to the 75% owned subsidiary companies, Euromill Development Company Limited ("EDC"), HSH-Siam Chaophraya Holdings Company Limited ("HSH-SCH"), Siam Chaophraya Holdings Company Limited ("SCH"), Siam Chaophraya Land Company Limited ("SCL"), TCC and Town and Country Estate Development Company Limited and (ii) the foreign exchange facility of Thai Baht 108 million granted by the bank to EDC, SCH and TCC. Details of the transactions have been announced in the newspapers 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 28B ("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: EDC, SCH, SCL and TCC ("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 were 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 was necessary. To this end, under the MOA, the Thai Partner transferred 15% of its equity interest in the Thai Joint Ventures to PIL for US$6 million. This transfer was completed during the year.

In consideration of such transfer and the Thai Partner agreeing to enter into the MOA, PIL granted 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 granted 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. Details of the above transactions were announced in the newspapers in accordance with Listing Rules.

The Thai Partner exercised the option to recover its 15% interest in the Thai Joint Ventures on 17 December 2002. The transactions relating to the transfer of 15% equity interest in the Thai Joint Ventures to PIL and the subsequent buy back by the Thai Partner have resulted in an increase of HK$68 million in minority interests in the group's balance sheet at 31 December 2002 and a net gain of HK$3 million which has been included in the group's consolidated income statement for the year.

D. Tai Ping Carpets International Limited and its subsidiaries, collectively referred to as "TPC", is a supplier of carpets to the group. During the year the group bought carpets from TPC for a gross consideration of HK$1.3 million. Bermuda Trust, as referred to in note 28A, holds more than 30% of TPC's equity. As the gross amount of the carpets purchased during the year was less than 0.03% of the net tangible asset value of the group, these transactions were exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14.24(5) of the Listing Rules.

E. Banyan Tree Limited ("BTL"), a wholly owned subsidiary of TPC, is a supplier of leased furniture to the group. During the year the group leased furniture from BTL for a gross consideration of HK$2.8 million. Bermuda Trust as referred to in note 28A holds more than 30% of TPC's equity. As the gross amount of the furniture leased during the year was less than 0.03% of the net tangible asset value of the group, these transactions were exempted from disclosure by way of press announcement under the "de minimis" exception in Rule 14.24(5) of the Listing Rules.

29. Comparative figures

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