1. Significant accounting policies

A. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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 denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings or forward exchange contracts, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items (other than loans to subsidiaries and associated companies which have the nature of equity) are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the general reserve.

All other exchange gains and losses are dealt with in the income statement, except those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings or forward exchange contracts, and the gains and losses on those foreign currency borrowings or forward exchange contracts (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to the general reserve.

H. **Off-balance sheet financial instruments**

Forward exchange contracts Exchange gains or losses arising on forward exchange contracts which are used as hedges against foreign currency assets are dealt with as a movement in the general reserve to the extent of exchange differences arising on the foreign currency assets.

Where non-speculative forward exchange contracts are used as hedges of monetary assets or liabilities, the gains or losses on the contracts are taken to the income statement and the discounts or premiums are either amortised over the periods of the contracts or taken to the income statement.

Where non-speculative forward contracts are used as hedges of commitments, no gains or losses are recognised during the commitment periods. At the end of those periods, any gains or losses are added to, or deducted from, the amount of the relevant transactions. The discounts or premiums are deferred with the gains or losses.

Interest rate and foreign currency derivatives Gains or losses arising on interest rate and foreign currency derivatives, which are used as hedges of cash flow risks associated with the interest on floating rate borrowings and currency exposures, 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 provision for impairment.

Other properties held for own use are stated in the balance sheet at their revalued amounts, adjusted for accumulated depreciation (see note 1.J) subsequent to the date of revaluation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

1. Significant accounting policies *continued*

I. Fixed assets *continued*

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, except:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset had previously been 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 provision for impairment. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

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 It is the group's practice to maintain hotel properties such that the residual values result in depreciation being 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 adjusted revalued amounts (see note 1.I) of other properties on a straight line basis over their remaining anticipated useful lives as follows:

Freehold land	– no depreciation
Leasehold land	– the unexpired period of the lease
Buildings	– the shorter of 40 years from the date of acquisition or the unexpired period of the lease

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

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the respective revaluation reserve to retained profits.

1. Significant accounting policies *continued*

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the group until the minority's share of losses previously absorbed by the group has been recovered.

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.

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. When the group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred obligations in respect of the associate.

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

N. Other investments

Investments, other than investments in subsidiaries and associated companies, held on a continuing basis for an identified long-term purpose are classified as other investments.

Other investments 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.

Provisions against the carrying value of other investments are written back when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Profits or losses on disposal of other investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

1. Significant accounting policies *continued*

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. Taxation

Taxation for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current taxation Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred taxation Commencing from 1 January 2003, a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions, is adopted. Details of the method are set out below.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1. Significant accounting policies *continued*

P. Taxation *continued*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax balances, and movements therein, are presented separately from each other and are not offset. Deferred tax assets are offset against deferred tax liabilities if, and only if, the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

The adoption of the above treatments is consistent with the Statement of Standard Accounting Practice 12 (Revised) “Income taxes” (“SSAP 12 (Revised)”). This represents a change in accounting policy as in previous years, partial provision was made for deferred tax using the income statement liability method whereby a deferred tax liability was recognised in respect of timing differences which could reasonably be expected to materialise in the foreseeable future; and a deferred tax asset was not recognised unless their realisation was assured beyond reasonable doubt.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The effects of the change in policy on the income statement and that on the balance sheet are shown in note 7.A and the Consolidated Statement of Changes in Equity respectively.

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;
- other investments;
- investment in hotel management contracts; and
- positive goodwill.

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).

1. Significant accounting policies *continued*

R. Impairment of assets *continued*

Reversals of impairment losses In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

Salaries, annual bonuses, paid annual leave and leave passage are accrued in the year in which the associated services are rendered by employees of the group.

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 to those plans in respect of the year are recognised as an expense in the income statement as incurred.

Termination benefits are recognised when and only when the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

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.

1. Significant accounting policies *continued*

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.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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. For example, segment assets may include inventories, trade debtors and fixed assets. Segment revenue, expenses, assets and liabilities 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. Inter-segment pricing is based on similar terms as those available to other external parties.

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 corporate assets, interest-bearing borrowings, corporate and financing charges and minority interests.

2. Turnover (HK$m)

The company is an investment holding company. Details of the group's principal activities appear on page 110.

Turnover represents the gross amount invoiced for all services, inventories and facilities which includes management fees and net rentals. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
Hotels		
Rooms	**835**	847
Food and beverage	**565**	575
Commercial	**384**	305
Other	**189**	214
	1,973	1,941
Rentals from non-hotel properties	**372**	410
Other businesses	**172**	202
Property sales	**–**	39
	2,517	2,592

3. Other revenue (HK$m)

	2003	2002
Insurance claim proceeds	**95**	–
Dividends from other investments	**2**	2
Interest income	**2**	2
	99	4

The insurance claim proceeds represent compensation receivable from an insurance company for estimated losses suffered by the group due to the outbreak of Severe Atypical Respiratory Syndrome during 2003.

4. Operating profit (HK$m)

	2003	2002
Operating profit is arrived at after charging/(crediting):		
Cost of inventories		
Food and beverage	**179**	180
Properties and land lots	**–**	22
	179	202
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	**102**	104
Foreign exchange loss/(gain)	**3**	(3)
Rental payable for land and buildings under operating leases	**62**	55
Rental receivable from investment properties		
less outgoings of **HK$30 million** (2002: HK$28 million)	**(648)**	(611)

5. Financing charges (HK$m)

	2003	2002
Interest payable on bank loans, overdrafts and other loans		
which are wholly repayable within 5 years (net of hedging costs)	**238**	269
Other financing charges	**15**	21
	253	290
Less: Amount capitalised on properties under development	**(4)**	(1)
	249	289

The average rate used to determine the amount of borrowing costs eligible for capitalisation for the year was **2.2%** (2002: 2.0%).

6. Non-operating items (HK$m)

	2003	2002
Revaluation credit/(charge) to income statement on hotel and other properties (note 10.B)	**62**	(62)
Reversal of impairment losses on properties under development	**4**	6
Reversal of impairment loss on other investments as a result of the restructuring of The Palace Hotel Co., Ltd.	**–**	238
Provision against interest and other expenses capitalised during construction on a recently completed hotel	**–**	(155)
	66	27

7. Taxation in the consolidated income statement (HK$m)

A. **Taxation in the consolidated income statement represents:**

	2003	2002 *(Restated)*
Current tax – Provision for Hong Kong profits tax		
Tax for the year	**39**	35
Over provision in respect of prior years	**(4)**	(2)
Total current tax for Hong Kong	**35**	33
Current tax – Overseas		
Tax for the year	**6**	4
Over provision in respect of prior years	**(3)**	(3)
Total current tax for overseas	**3**	1
Deferred tax		
Origination and reversal of temporary differences	**38**	39
Effect of increase in tax rate on deferred tax balances at 1 January	**(6)**	–
Total deferred tax (note 14.B)	**32**	39
Total taxation for the year	**70**	73

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the group's 2003 financial statements. Accordingly, the provision for Hong Kong profits tax for 2003 is calculated at **17.5%** (2002: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. There was no share of taxation attributable to associated companies (2002: HK$nil).

As a result of the adoption of SSAP 12 (Revised) (see note 1.P), the group's profit attributable to shareholders for the year has been decreased by **HK$18 million** (2002: HK$15 million), which comprises an additional deferred tax charge of **HK$20 million** (2002: HK$17 million) less share of **HK$2 million** (2002: HK$2 million) by minority interests.

7. Taxation in the consolidated income statement (HK$m) *continued*

B. Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003		2002 *(Restated)*	
	HK$m	**%**	HK$m	%
Profit before taxation	**430**		371	
Tax at the domestic income tax rate of **17.5%** (2002: 16%)	**75**	**17.5**	59	16.0
Tax effect of non-deductible expenses	**14**	**3.3**	98	26.4
Tax effect of non-taxable revenue	**(44)**	**(10.3)**	(96)	(25.9)
Tax effect of tax losses not recognised	**27**	**6.3**	26	7.0
Tax effect of utilisation of tax losses	**(3)**	**(0.7)**	–	–
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**(6)**	**(1.4)**	–	–
Over-provision in prior years	**(7)**	**(1.6)**	(5)	(1.4)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**14**	**3.2**	(9)	(2.4)
Actual tax expense and effective tax rate for the year	**70**	**16.3**	73	19.7

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the group's properties has been charged directly to reserves (note 21).

8. Dividends (HK$m)

	2003	2002
A. Dividends declared in respect of the year: Final dividend for 2003 proposed after the balance sheet date of **8 cents** per share (2002: 8 cents per share)	**112**	93

The final dividend for 2003 proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

	2003	2002
B. Dividends paid during the financial year: Final dividend for 2002 of **8 cents** (2001: 5 cents) per share paid during the year (note 21)	**93**	58

9. Earnings per share

Earnings per share, which includes non-operating items, is computed as follows:

	2003	2002 *(Restated)*
Earnings for the year (HK$m)	**351**	293
Weighted average number of shares in issue (million shares)	**1,208**	1,169
Earnings per share (HK cents)	**29**	25

9. Earnings per share *continued*

Earnings per share excluding non-operating items is computed as follows:

	2003	2002 *(Restated)*
Earnings for the year (HK$m)	**351**	293
Non-operating items (HK$m) (note 6)	**(66)**	(27)
Earnings excluding non-operating items (HK$m)	**285**	266
Earnings per share excluding non-operating items (HK cents)	**24**	23

10. Fixed assets (HK$m)

A. Movements of fixed assets:

		Properties				
	Total	Investment	Hotel	Development	Other	Other fixed assets*
Group						
Cost or valuation:						
At 1 January 2003	18,981	11,798	5,231	618	18	1,316
Exchange adjustments	104	11	43	38	–	12
Additions	475	107	96	103	–	169
Transfer	–	7	196	(203)	–	–
Disposals	(37)	–	–	–	–	(37)
Net surplus/(deficit) on revaluation (note 10.B)	577	454	124	–	(1)	–
Reversal of impairment loss	4	–	–	4	–	–
At 31 December 2003	**20,104**	**12,377**	**5,690**	**560**	**17**	**1,460**
Representing:						
Cost, less provision (note 10.C)	3,446	–	1,426	560	–	1,460
Valuation – 2003	16,658	12,377	4,264	–	17	–
At 31 December 2003	**20,104**	**12,377**	**5,690**	**560**	**17**	**1,460**
Depreciation:						
At 1 January 2003	962	–	–	–	–	962
Exchange adjustments	6	–	–	–	–	6
Charge for the year	102	–	–	–	1	101
Written back on disposal	(34)	–	–	–	–	(34)
At 31 December 2003	**1,036**	**–**	**–**	**–**	**1**	**1,035**
Net book value:						
At 31 December 2003	**19,068**	**12,377**	**5,690**	**560**	**16**	**425**
At 31 December 2002	18,019	11,798	5,231	618	18	354

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

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

B. The revaluation surplus/(deficit), net of deferred taxation and minority interest, have been dealt with as follows:

	Total	Investment properties	Hotel properties	Other properties
Surplus/(deficit) on revaluation for the year (note 10.A)	577	454	124	(1)
Less:				
Corresponding deferred tax liability (note 14.B)	(5)	(5)	–	–
Minority share of revaluation surplus, net of deferred tax (note 19)	(4)	(4)	–	–
Net surplus/(deficit) attributable to the group	568	445	124	(1)
Credited/(debited) to:				
Income statement (note 6)	62	–	62	–
Investment properties revaluation reserve (note 21)	445	445	–	–
Hotel properties revaluation reserve (note 21)	62	–	62	–
Other properties revaluation reserve (note 21)	(1)	–	–	(1)
	568	445	124	(1)

C. Hotel properties stated at cost, less provision represent those newly opened or newly renovated hotels which are considered not to have reached a steady state of operations.

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

	2003	2002
Investment properties	**3,885**	3,760
Hotel properties	**5,367**	5,005
Other properties	**30**	30
	9,282	8,795

E. Hotel and investment properties, all held through subsidiary companies, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and 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, 19-21 Nathan Road, Kowloon	Hotel and commercial
The Peak Tower, 128 Peak Road	Commercial

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

E. Hotel and investment properties, all held through subsidiary companies *continued*

	Usage
Held in the People's Republic of China:	
Medium term lease (between 20 and 50 years):	
The Peninsula Palace Beijing,	
8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial
Held in the United States of America:	
Freehold:	
Quail Lodge Resort and Golf Club,	
8205 Valley Greens Drive, Carmel, California	Hotel and golf club
Freehold/long term leasehold to air rights (over 50 years):	
The Peninsula Chicago,	
108 East Superior Street (at North Michigan Avenue)	
Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial
Held in Thailand:	
Freehold/leasehold*:	
The Peninsula Bangkok,	
333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Freehold:	
Thai Country Club, Bangna-Trad, Chachoengsao	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

* A parcel of the land, representing approximately 23% by area, is leased from an independent third party under an operating lease expiring in 2022. The remaining 77% by area is owned by the group on a freehold basis.

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

F. The group's investment, hotel and other properties have been revalued as at 31 December 2003 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/ Jones Lang LaSalle Hotels	Members of The Hong Kong Institute of Surveyors
Thailand Vietnam	Sallmanns (Far East) 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$12,108 million** (2002: HK$11,593 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 2003 and 2002. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 26.C.

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

		Group	
		2003	2002
Hong Kong	– long term leases	**10,036**	9,626
	– medium term leases	**921**	839
		10,957	10,465
People's Republic of China	– medium term lease	**151**	151
Thailand	– freehold/short term lease (note 10.E)	**607**	543
Vietnam	– medium term lease	**58**	49
Other Asia Pacific		**816**	743
United States of America	– freehold	**422**	407
		12,195	11,615

11. Interests in subsidiary companies (HK$m)

	Company	
	2003	2002
Unlisted shares, at cost	**145**	–
Amounts due from subsidiary companies	**12,244**	11,288
Amounts due to subsidiary companies	**(23)**	(25)
	12,366	11,263
Less: Impairment losses	**(2,877)**	(2,877)
	9,489	8,386

12. Interests in associated companies (HK$m)

	Group		Company	
	2003	2002	**2003**	2002
Unlisted shares, at cost	**147**	147	**24**	24
Less: Amounts written off against general reserve				
Goodwill	**(1)**	(1)	**–**	–
Exchange losses on translation	**(37)**	(33)	**–**	–
	109	113	**24**	24
Less: Share of post acquisition losses	**(44)**	(39)	**–**	–
Share of net assets	**65**	74	**24**	24
Loans to associated companies	**38**	40	**26**	–
	103	114	**50**	24

The group's share of post acquisition losses of associated companies at 31 December 2003 includes the share of revaluation deficit of a hotel property owned by an associated company amounting to **HK$52 million** (2002: HK$49 million).

Details of associated companies are as follows:

				Proportion of ownership interest			
Company name	Form of business structure	Place of incorporation/ formation	Particulars of issued and paid up capital	Group's effective interest	Held by company	Held by subsidiary	Principal activity
Manila Peninsula Hotel, Inc.	Incorporated	The Philippines	94,420,107 shares of Peso 10 each	40%	7.55%	32.45%	Hotel investment
RipBion! Limited	Incorporated	Hong Kong	2 shares of HK$1 each	50%	–	50%	Museum operation
Valley Resort Management, LLC	Limited liability corporation	United States of America	Contributed capital of US$50,000	50%	–	50%	Resort management

13. Other investments (HK$m)

	Group	
	2003	2002
Unlisted investments, at cost	**129**	160
Loan	**4**	–
	133	160
Less: Repayment of capital contribution	**–**	(31)
Impairment loss	**(77)**	(77)
	56	52

Unlisted investments include:

	Ownership interest held indirectly	Place of incorporation/ establishment
The Belvedere Hotel Partnership	20%	United States of America
PT Ciputra Adigraha	20%	Indonesia

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

BHP has pledged its hotel property to an independent financial institution as security for a loan facility amounting to US$79 million.

14. Taxation in the balance sheet (HK$m)

A. **Current taxation in the balance sheet represents:**

	Group		Company	
	2003	2002 *(Restated)*	**2003**	2002
Provision for Hong Kong profits tax for the year	**39**	35	**9**	6
Provisional profits tax paid	**(13)**	(30)	**(3)**	(7)
	26	5	**6**	(1)
Overseas taxation	**2**	9	**–**	–
Liability/(asset) at 31 December	**28**	14	**6**	(1)

14. Taxation in the balance sheet (HK$m) *continued*

B. Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Group				
	Total	Depreciation allowances in excess of related depreciation	Revaluation of properties	Tax losses	Provisions and others
Deferred taxation arising from:					
At 1 January 2002					
As previously reported	(134)	8	–	(139)	(3)
Prior period adjustments	157	48	115	(6)	–
As restated	23	56	115	(145)	(3)
Charged to income statement	39	6	7	27	(1)
Charged to revaluation reserves	4	–	4	–	–
At 31 December 2002 *(restated)*	66	62	126	(118)	(4)
At 1 January 2003					
As previously reported	(112)	6	–	(114)	(4)
Prior period adjustments	178	56	126	(4)	–
As restated	66	62	126	(118)	(4)
Charged to income statement (note 7.A)	32	10	4	16	2
Charged to revaluation reserve (note 10.B)	5	–	5	–	–
Charged to general reserve (note 21)	11	–	11	–	–
At 31 December 2003	**114**	**72**	**146**	**(102)**	**(2)**

	Group	
	2003	2002 *(Restated)*
Net deferred tax asset recognised on the balance sheet	**(69)**	(88)
Net deferred tax liability recognised on the balance sheet	**183**	154
	114	66

No provision for deferred tax assets and liabilities has been made in the company's balance sheet as there are no deductible and taxable temporary differences, unused tax losses or unused tax credits.

C. Deferred tax assets not recognised

The group has not recognised the following potential deferred tax assets:

	Group	
	2003	2002 *(Restated)*
Depreciation allowances in excess of book depreciation	**5**	3
Timing difference on amortisation	**18**	20
Future benefit of tax losses	**757**	698
	780	721

14. Taxation in the balance sheet (HK$m) *continued*

C. **Deferred tax assets not recognised** *continued*

Details of the expiry date of unused tax losses are as follows:

	Group	
	2003	2002
Within 1 year	**410**	16
After 1 year but within 5 years	**1,022**	1,273
After 5 years but within 10 years	**297**	301
After 10 years but within 15 years	**344**	324
Without expiry date	**399**	389
	2,472	2,303

D. **Deferred tax liabilities not recognised**

At 31 December 2003, temporary differences relating to the undistributed profits of subsidiaries amounted to **HK$43 million** (2002: HK$49 million). Deferred tax liabilities of **HK$2 million** (2002: HK$2 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

15. Inventories (HK$m)

	Group	
	2003	2002
Land lots for sale	**4**	4
Food and beverage and others	**68**	74
	72	78

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

	Group		Company	
	2003	2002	**2003**	2002
Trade debtors (ageing analysis is shown overleaf)	**85**	92	**–**	–
Insurance claim receivable	**95**	–	**–**	–
Rental deposits and payments in advance	**112**	103	**8**	6
	292	195	**8**	6

All of the above debtors and payments in advance, apart from rental deposits and payments in advance amounting to **HK$36 million** (2002: HK$49 million), are expected to be recovered within one year.

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

The group maintains a defined credit policy for trade debtors. Trade debtors included in debtors and payments in advance amounted to **HK$85 million** (2002: HK$92 million) and the ageing analysis of these balances is as follows:

	Group		Company	
	2003	2002	**2003**	2002
Less than 3 months	**82**	86	**–**	–
More than 3 months but less than 6 months	**2**	5	**–**	–
More than 6 months	**1**	1	**–**	–
	85	92	**–**	–

17. Creditors (HK$m)

	Group		Company	
	2003	2002	**2003**	2002
Trade creditors (ageing analysis is shown below)	**78**	87	**–**	–
Interest payable	**15**	17	**–**	–
Accruals of fixed assets	**167**	128	**–**	–
Tenants and membership deposits	**276**	272	**–**	–
Other amounts payable	**383**	304	**6**	10
	919	808	**6**	10

All of the above creditors, apart from tenants and membership deposits and other amounts payable amounting to **HK$201 million** and **HK$44 million** (2002: HK$193 million and HK$nil) respectively, are expected to be settled within one year.

The ageing analysis of trade creditors is as follows:

	Group		Company	
	2003	2002	**2003**	2002
Less than 3 months	**77**	84	**–**	–
More than 3 months but less than 6 months	**1**	2	**–**	–
More than 6 months	**–**	1	**–**	–
	78	87	**–**	–

18. Interest-bearing borrowings (HK$m)

	Group	
	2003	2002
Total facilities available:		
Bank loans and revolving credits	**5,652**	6,591
Uncommitted facilities, including bank overdrafts	**1,060**	1,069
	6,712	7,660
Utilised at 31 December:		
Bank loans and revolving credits	**4,753**	5,601
Uncommitted facilities, including bank overdrafts	**153**	242
	4,906	5,843
Represented by:		
Short-term bank loans, repayable within one year or on demand	**1,143**	691
Current portion of long-term bank loans, repayable within one year	**77**	65
Bank overdrafts, repayable on demand (note 22)	**14**	21
	1,234	777
Long-term bank loans, repayable:		
Within 1 year	**77**	65
Between one and two years	**615**	2,001
Between two and five years	**3,057**	3,065
	3,749	5,131
Less: Current portion of long-term bank loans	**(77)**	(65)
Non-current portion of long-term bank loans	**3,672**	5,066
Total interest-bearing borrowings	**4,906**	5,843

None of the non-current portion of long-term bank loans are expected to be settled within one year.

The total borrowings of **HK$4,906 million** at 31 December 2003 (2002: HK$5,843 million) comprised the following variable rate bank loans and overdrafts that were:

	Group	
	2003	2002
Unsecured	**4,092**	4,684
Secured by:		
Mortgages over investment, hotel and other properties of certain Thai subsidiary companies	**–**	367
Mortgage over investment and hotel properties of a PRC subsidiary company	**207**	170
Assets of a subsidiary company which owns and operates a hotel in the USA	**607**	622
Total interest-bearing borrowings	**4,906**	5,843

Total secured banking facilities and the corresponding value of the pledged assets amounted to **HK$984 million** (2002: HK$1,159 million) and **HK$2,687 million** (2002: HK$3,344 million), respectively .

19. Minority interests (HK$m)

	2003	2002 *(Restated)*
At 1 January		
As previously reported	**599**	57
Prior period adjustments in respect of deferred tax	**(32)**	(28)
As restated	**567**	29
Minority share of profit		
As previously reported		7
Prior period adjustments in respect of deferred tax		(2)
Minority share of profit (2002: as restated)	**9**	5
Exchange differences	**7**	–
Minority share of revaluation surplus/(deficit) of investment properties, net of deferred tax (note 10.B)	**4**	(1)
Dividends paid to minority shareholders	**(5)**	(2)
Increase in minority interests as a result of the restructuring of Thai subsidiaries and a PRC joint venture company	**–**	536
Minority share of exchange difference on deferred tax (note 21)	**(3)**	–
Net movement for the year	**12**	538
At 31 December	**579**	567

20. Share capital

	2003	2002
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,169**	1,169
New shares issued	**233**	–
At 31 December	**1,402**	1,169
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued and fully paid		
At 1 January	**584**	584
New shares issued	**117**	–
At 31 December	**701**	584

21. Reserves (HK$m)

	Group		Company	
	2003	2002 *(Restated)*	**2003**	2002
Investment properties revaluation reserve:				
At 1 January				
As previously reported	**8,157**	8,689		
Prior period adjustments in respect of deferred tax	**(17)**	(15)		
Revaluation surplus/(deficit), net of deferred tax (note 10.B)	**445**	(534)		
At 31 December	**8,585**	8,140		
Hotel properties revaluation reserve:				
At 1 January	**591**	515		
Revaluation surplus, net of deferred tax (note 10.B)	**62**	76		
At 31 December	**653**	591		
Other properties revaluation reserve:				
At 1 January	**3**	3		
Revaluation deficit, net of deferred tax (note 10.B)	**(1)**	–		
At 31 December	**2**	3		
Share premium:				
At 1 January	**1,564**	1,564	**1,564**	1,564
New shares issued	**1,018**	–	**1,018**	–
At 31 December	**2,582**	1,564	**2,582**	1,564
Capital redemption reserve:				
At 1 January and 31 December	**9**	9	**9**	9
Capital reserve:				
At 1 January and 31 December	**4**	4	**4,975**	4,975
Total non-distributable reserves	**11,835**	10,311		
Retained profits:				
At 1 January				
As previously reported	**312**	62	**299**	339
Prior period adjustments in respect of deferred tax	**(129)**	(114)	**–**	–
At 1 January as restated	**183**	(52)	**299**	339
Dividend approved in respect of the previous year (note 8.B)	**(93)**	(58)	**(93)**	(58)
Profit for the year				
As previously reported		308		18
Prior period adjustments in respect of deferred tax		(15)		–
Profit for the year (2002: as restated)	**351**	293	**87**	18
Net movement for the year	**258**	235	**(6)**	(40)
At 31 December	**441**	183	**293**	299

21. Reserves (HK$m) *continued*

	Group		Company	
	2003	2002 *(Restated)*	**2003**	2002
General reserve:				
At 1 January	**499**	513	**980**	980
Exchange differences arising on:				
Consolidation	**(27)**	(14)	**–**	–
Deferred taxation (note 14.B)	**(11)**	–	**–**	–
Minority share of exchange difference on deferred tax (note 19)	**3**	–	**–**	–
At 31 December	**464**	499	**980**	980
Total distributable reserves	**905**	682		
Total reserves at 31 December	**12,740**	10,993	**8,839**	7,827
Profit/(loss) for the year is as follows:				
Company	**87**	18	**87**	18
Subsidiary companies	**269**	279	**–**	–
Associated companies	**(5)**	(4)	**–**	–
	351	293	**87**	18

Profit for the year to the extent of **HK$87 million** (2002: HK$18 million) has been dealt with in the company's financial statements.

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:

	2003		2002	
	Exchange	**Goodwill**	Exchange	Goodwill
Indonesia	**252**	**–**	252	–
Thailand	**346**	**–**	316	–
The Philippines	**37**	**1**	33	1
Vietnam	**4**	**–**	3	–
United States of America	**–**	**14**	–	14
	639	**15**	604	15

22. Cash and cash equivalents (HK$m)

	2003	2002
Cash and cash equivalents at 31 December are as follows:		
Cash and bank balances	**217**	232
Bank overdrafts (note 18)	**(14)**	(21)
	203	211

23. Remuneration of directors and senior management

A. Directors' remuneration

As at 31 December 2003 the Board had 12 directors consisting of 2 executive directors and 10 non-executive directors.

Details of the remuneration of the directors are as follows:

	2003 HK$m	2002 HK$m
Directors' fees	**1**	1
Other emoluments		
Basic compensation	**9**	9
Retirement benefits	**1**	1
Bonuses and incentives	**3**	5
Payment upon joining	**–**	1
	14	17

The remuneration of directors, including an executive director who retired in December 2003, falls within the following bands:

	2003 Number	2002 Number
HK$0 – HK$1,000,000	**11**	9
HK$1,000,001 – HK$1,500,000	**–**	1
HK$5,000,001 – HK$5,500,000	**1**	1
HK$7,500,001 – HK$8,000,000	**1**	1

Non-executive directors

The fees paid to the non-executive directors are set in line with market practice, taking account of comparable Hong Kong listed companies. The levels of remuneration for directors have remained unchanged since 1990. Non-executive directors' fees are fixed at HK$50,000 per annum payable in two equal instalments. Non-executive directors who were also members of the Executive Committee were also entitled to a fixed fee of HK$50,000 per annum payable in two equal instalments. In the year ended 31 December 2003, all non-executive directors waived the fees payable to each of them in the first half of 2003 due to the impact of Severe Atypical Respiratory Syndrome which affected the results for the first 6 months of 2003 ending 30 June 2003. In addition, the performance bonus previously paid to members of the Executive Committee was discontinued in 2003. Accordingly, the directors' fees and performance bonuses paid to each non-executive director for the two years ended 31 December 2003 and 2002 were as follows:

	2003 HK$	2002 HK$
The Hon. Michael David Kadoorie (chairman)	**50,000**	616,667
Ian Duncan Boyce (deputy chairman)	**50,000**	616,667
Sir Sidney Gordon (non-executive director)	**25,000**	50,000
Ronald James McAulay (non-executive director)	**25,000**	50,000
William Elkin Mocatta (non-executive director)	**25,000**	244,343
James Seymour Dickson Leach (non-executive director)	**50,000**	422,461
Pierre Roger Boppe (non-executive director)	**25,000**	41,851
Dr. The Hon. David Kwok Po Li (independent non-executive director)	**25,000**	50,000
Robert Chee Siong Ng (independent non-executive director)	**25,000**	50,000
Robert Warren Miller (independent non-executive director)	**25,000**	50,000
	325,000	2,191,989

23. Remuneration of directors and senior management *continued*

A. Directors' remuneration *continued*

Executive directors

The Board currently has two executive directors for whom there are three basic components of remuneration.

Basic compensation Basic compensation consists of base salary, housing and other allowances and benefits. Basic compensation is reviewed annually taking into account market conditions and individual performance.

Retirement benefits Executive directors are eligible to join The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The group contributes to the retirement funds a percentage of the base salary of the executive directors.

Bonuses and incentives The executive directors are entitled to receive bonus payments depending on individual performance and the performance of the group. In addition, certain incentive payments have been defined in the employment contracts of the directors concerned.

The total remuneration of executive directors is shown below:

	Basic compensation HK$'000	Bonuses & incentives HK$'000	Retirement benefits HK$'000	Total HK$'000
2003				
Clement King Man Kwok	**4,555**	**2,482**	**651**	**7,688**
Charles Mark Broadley*	**577**	**120**	**87**	**784**
Owen Mark Lewellin Rhys**	**3,560**	**949**	**494**	**5,003**
	8,692	**3,551**	**1,232**	**13,475**
2002				
Clement King Man Kwok	4,327	3,029	597	7,953
Owen Mark Lewellin Rhys**	3,748	1,000	521	5,269
Pierre Roger Boppe***	883	200	126	1,209
	8,958	4,229	1,244	14,431

* Charles Mark Broadley was appointed as an executive director of the company on 3 November 2003.
** Owen Mark Lewellin Rhys retired as an executive director of the company as of 11 December 2003.
*** Pierre Roger Boppe resigned as an executive director of the company as of 28 February 2002.

B. Senior management remuneration

Senior management remuneration follows the three key components of executive directors' remuneration as described above.

The five highest paid individuals in the group during the year included two who served as directors. The details of the remuneration of these five individuals were:

	2003 HK$m	2002 HK$m
Fees	**–**	–
Other emoluments		
Basic compensation	**17**	16
Retirement benefits	**2**	2
Bonuses and incentives	**3**	3
Payment upon joining	**–**	1
Compensation for loss of office	**–**	3
	22	25

23. Remuneration of directors and senior management *continued*

B. **Senior management remuneration** *continued*

The remuneration of senior management falls within the following bands:

	2003 **Number**	2002 Number
HK$2,500,001 – HK$3,000,000	**1**	–
HK$3,000,001 – HK$3,500,000	**2**	1
HK$3,500,001 – HK$4,000,000	**–**	1
HK$5,000,001 – HK$5,500,000	**1**	1
HK$5,500,001 – HK$6,000,000	**–**	1
HK$7,500,001 – HK$8,000,000	**1**	1

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. Martyn Sawyer
Extent of guarantee given to a bank	HK$4,800,000	GBP120,000
Maximum liability under the guarantee:		
at 1 January 2002	HK$4,225,000	HK$1,365,000
at 31 December 2002 and 1 January 2003	HK$4,125,000	HK$1,325,000
at 31 December 2003	HK$ nil	HK$1,285,000

No amount has been paid nor liability crystalised under these guarantees in 2003 and 2002.

B. **Loans made by the company**

Name of borrower:	Mr. Peter Borer	Mr. Niklaus Leuenberger
Terms of the loan:		
duration and repayment terms	5 years to May 2007	Approximately 2 years to December 2005
interest rate	The company's borrowing rate	Interest-free
security	Borrower's retirement fund	None
Balance of the loan:		
at 1 January 2002	HK$ nil	US$ nil
at 31 December 2002 and 1 January 2003	HK$2,773,333	US$ nil
at 31 December 2003	HK$1,349,932	US$45,000
Maximum balance outstanding:		
during 2002	HK$3,200,000	US$ nil
during 2003	HK$2,773,333	US$50,000

There was no interest due but unpaid nor any provision made against these loans at 31 December 2003 and 2002.

25. Employee retirement plan

The group has a defined contribution retirement plan covering **1,524 Hong Kong employees** (2002: 1,552 employees). The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested immediately. The average rate against employees' relevant income for the year was **12%** (2002: 12%).

In addition, the group also participates in the Mandatory Provident Fund Scheme to cover **181 Hong Kong waged employees** (2002: 186 waged employees) operated by an independent service provider. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, are made to the scheme and are vested immediately.

The group also operates several defined contribution retirement plans including union pension schemes for its overseas subsidiaries covering **2,258 employees** (2002: 1,572 employees) in other Asia Pacific countries and the USA in accordance with respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the group amounting to **HK$55 million** (2002: HK$51 million) were charged to the income statement.

Following the conversion of a defined benefit retirement plan to the defined contribution retirement plan for the group's Hong Kong employees in 1999, the group has ceased to have any defined benefit retirement plan since then.

26. Commitments and contingent liabilities

A. Capital commitments (HK$m)

Capital commitments authorised but not provided for in these financial statements are as follows:

	Group	
	2003	2002
Contracted for	**50**	7
Not contracted for	**1,308**	1,269

Capital commitments include amounts in respect of the group's ongoing capital expenditure at existing properties and its commitment to a project in Tokyo.

26. Commitments and contingent liabilities *continued*

B. Financial instruments for hedging purposes

	Buy (million)		Sell (million)	
	2003	2002	**2003**	2002
Forward exchange contracts entered into by:				
Company				
Expiring in 2004	**US$85**	–	**HK$659**	–
Subsidiary companies				
Expiring in 2003	**–**	US$2	**–**	¥274
Expiring in 2005	**US$59**	US$59	**THB2,535**	THB2,535
Expiring in 2006	**US$30**	US$30	**¥3,305**	¥3,305
Expiring in 2007	**US$2**	US$2	**¥263**	¥263

At 31 December 2003, the group also had commitments in respect of interest rate and/or currency swaps for hedging purposes, totalling **HK$4,561 million** (2002: HK$3,407 million) at floating interest rates or fixed interest rates of between **1.5%** and **7.5%** (2002: between 1.5% and 7.5%) up to 2017.

C. Minimum operating lease commitments (HK$m)

At 31 December 2003 the total future minimum lease payments under non-cancellable operating leases of the group are (receivable)/payable as follows:

	Receivable		Payable	
	2003	2002	**2003**	2002
Within 1 year	**(400)**	(406)	**61**	61
Between 1 and 5 years	**(220)**	(256)	**395**	273
After 5 years	**(31)**	(127)	**8,221**	7,972
	(651)	(789)	**8,677**	8,306

The group leases out its investment properties under operating leases that 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. Certain leases include contingent rentals, based on turnover of lessees, the amounts of which are immaterial.

Following the completion of the restructuring of The Palace Hotel Co., Ltd. ("TPH") on 13 December 2002, the group is committed to making an annual payment of a minimum RMB 8 million to China Everbright Group Limited ("CEG") up to and including 11 November 2033 (the "Annual Payment"). CEG is a connected person of the company by virtue of its 23.4% interest in TPH's registered capital. The Annual Payment is a deemed lease payment which constitutes a connected transaction under the Listing Rules and is included as a payment under non-cancellable operating leases of the group (note 28.H).

The group also leases certain pieces of land in respect of its hotels located in USA and other Asia Pacific countries from third parties under medium to long term leases. In addition, the group leases a number of office premises under operating leases that typically run for an initial period of two to four years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

26. Commitments and contingent liabilities *continued*

D. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2003	2002	**2003**	2002
Guarantees given in respect of borrowing and other banking facilities by subsidiary companies	**–**	–	**4,744**	5,495
Other guarantees	**8**	12	**8**	12
Legal and other disputes	**2**	4	–	2
	10	16	**4,752**	5,509

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 Tram, 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 2003					
Turnover					
Total segment	**2,543**	**1,981**	**372**	**–**	**190**
Inter-segment	**(26)**	**(8)**	**–**	**–**	**(18)**
	2,517	**1,973***	**372**	**–**	**172**
Segment operating profit	**618**	**337**	**253**	**–**	**28**
Financing charges	**(249)**				
Share of losses of associated companies	**(5)**	**(4)**	**–**	**–**	**(1)**
Non-operating items					
Allocated	**62**	**62**	**–**	**–**	**–**
Unallocated	**4**				
Profit before taxation	**430**				

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 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				

* *Analysis of hotels' turnover*

	2003	2002
Rooms	**835**	847
Food and beverage	**565**	575
Commercial	**384**	305
Other	**189**	214
	1,973	1,941

C. Segment balance sheet (HK$m)

	Total	Hotels	Rentals from non-hotel properties	Property sales	Other businesses
At 31 December 2003					
Assets					
Fixed assets					
Investment properties	**12,377**	**4,929**	**7,179**	**–**	**269**
Hotel properties	**5,690**	**5,690**	**–**	**–**	**–**
Development properties	**560**	**191**	**–**	**–**	**369**
Other properties	**16**	**–**	**–**	**–**	**16**
Other fixed assets	**425**	**312**	**–**	**–**	**113**
	19,068	**11,122**	**7,179**	**–**	**767**
Interests in associated companies	**103**	**98**	**–**	**–**	**5**
Other investments	**56**	**47**	**–**	**–**	**9**
Investment in hotel management contract	**179**	**179**	**–**	**–**	**–**
Other segment assets	**364**	**289**	**9**	**–**	**66**
Deferred tax assets	**69**				
Cash	**217**				
Total assets	**20,056**				
Liabilities					
Segment liabilities	**919**	**575**	**128**	**–**	**216**
Bank loans and other liabilities	**5,117**				
Total liabilities	**6,036**				

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 2002 *(restated)*					
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
Other investments	52	43	–	–	9
Investment in hotel management contract	185	185	–	–	–
Other segment assets	273	196	7	4	66
Deferred tax assets	88				
Cash	232				
Total assets	18,963				
Liabilities					
Segment liabilities	808	528	129	–	151
Bank loans and other liabilities	6,011				
Total liabilities	6,819				

D. Other segment information (HK$m)

	Total	Hotels	Rentals from non-hotel properties	Other businesses
Year ended 31 December 2003				
Capital expenditure incurred	**475**	**306**	**27**	**142**
Depreciation and amortisation	**108**	**88**	**–**	**20**
Year ended 31 December 2002				
Capital expenditure incurred	191	172	5	14
Depreciation and amortisation	110	90	–	20

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	
	2003	2002 *(Restated)*	**2003**	2002	**2003**	2002
Turnover	**1,313**	1,541	**384**	242	**820**	809
Capital expenditure	**84**	21	**192**	141	**199**	29
Assets	**14,150**	13,661	**2,852**	2,452	**2,837**	2,618
Operating profit/(loss)	**584**	640	**95**	57	**(61)**	(60)

28. Connected and related party transactions

A. Under a tenancy agreement dated 5 November 1998 (the "Original Tenancy Agreement"), a wholly owned subsidiary, HSH Management Services Limited ("HMS"), 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 rates at the time of signing of the tenancy agreement.

Pursuant to a Surrender Agreement entered into between HMS and Kadoorie Estates dated 27 March 2003, the Original Tenancy Agreement was terminated as from 31 March 2003. On 27 March 2003, HMS entered into a new Tenancy Agreement with Kadoorie Estates for a period of four years commencing 1 April 2003 at a reduced rent of HK$469,650 (exclusive of rates, air-conditioning charge and management fee) based on market rates. 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 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. The entering into of the Surrender Agreement and the new Tenancy Agreement constituted connected transactions pursuant to the Listing Rules. Details of this transaction were published in the newspapers in accordance with the Listing Rules.

B. On 30 October 2002 the company agreed to provide a sole guarantee of THB1,433 million to an independent financial institution which would in turn provide certain Thai subsidiaries with banking facilities to replace certain existing facilities. The banking facilities comprise: (i) loan and overdraft facilities granted by the bank to the 75% owned subsidiaries, 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"), Town and Country Sport Club Company Limited ("TCC") and Town and Country Estate Development Company Limited and (ii) a foreign exchange facility granted by the bank to EDC, SCH and TCC.

EDC, HSH-SCH, SCH, SCL and TCC are indirect non-wholly owned subsidiaries of the company in which the company owns 75% interest and Phatra Asset Company Limited ("Phatra") owns the remaining 25%. Phatra and its directors are connected persons of the company by virtue of its substantial shareholdings and their directorships in the above-named Thai subsidiaries. Details of the transactions were announced in the newspapers in accordance with the Listing Rules.

On 28 February 2003, an independent financial institution agreed to provide SCH with banking facilities amounting to JPY4 billion swapped into THB1,452 million to refinance its then existing loans. The company acts as a sole guarantor for the due and punctual payment by SCH of all monies payable under the facilities. Details of the transactions were announced in the newspapers in accordance with the Listing Rules.

On 24 November 2003, HSH Finance Limited, a wholly owned subsidiary of the company, agreed to make available an unsecured loan denominated in JPY of up to an equivalent of THB1 billion to HSH-SCH to refinance a then outstanding bank loan. The inter-company loan bears interest at a rate related to the JPY LIBOR and is repayable in full in December 2008. In this connection, HSH-SCH entered into a currency swap transaction with an independent financial institution for the same amount whereby HSH-SCH agreed to swap the JPY loan into a THB loan with the financial institution. The company acts as a sole guarantor for the due and punctual payment by HSH-SCH of all monies payable under the swap transaction. Details of the transactions were announced in the newspapers in accordance with the Listing Rules.

28. Connected and related party transactions *continued*

C. 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$1.7 million** (2002: HK$1.3 million) under similar terms as TPC trades with its normal customers. Bermuda Trust, as referred to in note 28.A, 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.

D. 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$1.9 million** (2002: HK$2.8 million) under similar terms as BTL supplies leased furniture to its normal customers. Bermuda Trust as referred to in note 28.A 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.

E. Heliservices Hong Kong Limited ("HHKL") is a provider of helicopter services to The Peninsula Hotel Limited ("PHL"), a wholly owned subsidiary of the company. During the year, PHL purchased helicopter services from HHKL for a gross consideration of **HK$3.2 million** (2002: HK$0.7 million) under normal commercial terms. HHKL is held by trusts, the beneficiaries of which include The Hon. Michael D Kadoorie and Mr. Ronald J McAulay and their respective family members. The provision of helicopter services by HHKL to PHL constituted a connected transaction pursuant to the Listing Rules. As the gross amount of the helicopter services purchased during the year was less than 0.03% of the net 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.

F. During the year, Quail Lodge, Inc.("QLI"), a wholly owned subsidiary of the company, paid a total of **HK$15.8 million** (2002: HK$11.6 million) marketing and management fees to Valley Resort Management, LLC ("VRM"), an associated company of which the company holds 50% equity interest indirectly. The fees were mutually agreed by both parties after taking into account VRM's operating and financial requirements. The balance of the fees due by QLI to VRM at the year end amounted to **HK$1.4 million** (2002: HK$0.2 million). While the provision of marketing and management services to QLI by VRM does not fall under the definition of connected transactions of the Listing Rules, QLI and VRM are related parties and the transaction is disclosed in accordance with Statement of Standard Accounting Practice 20 "Related Party Disclosures" ("SSAP 20") .

28. Connected and related party transactions *continued*

G. During the year, the group received a total of **HK$4.4 million** (2002: HK$3.5 million) marketing and management fees from Manila Peninsula Hotel, Inc. ("MPHI"), an associated company in which the company has a 40% effective equity interest. The marketing and management fees were agreed on an arm's length basis. As at 31 December 2003, **HK$2.1 million** (2002: HK$0.8 million) was due and owing to the group by MPHI.

Peninsula International (USA) Limited (formerly known as Peninsula International Limited) ("PIL"), a wholly owned subsidiary of the company, granted an unsecured facility of US$3.9 million ("Loan") to MPHI for the purpose of refinancing its working capital. The rate of interest was agreed on an arm's length basis with reference to the US dollar LIBOR. Pursuant to the terms of the Loan, PIL has the right to convert any un-repaid portion of the Loan into shares in MPHI in the event of a rights issue or public offering of shares at a price not higher than that of the shares offered to the stockholders or to the public. The Loan is repayable by instalments and would be fully repaid in June 2005 unless PIL has exercised its right of conversion prior thereto.

On 11 December 2003, as part of the group restructuring (see page 111), PIL, MPHI and the company entered into a Deed of Loan Assignment Agreement, whereby PIL assigned its entire rights and interests in the Loan (including the right of conversion) and all outstanding principal due and unpaid interest accrued thereto to the company on a dollar-to-dollar basis ("Loan Assignment"). As at the year end, the outstanding principal of the Loan and unpaid interest due by MPHI to the company totalled **US$3.4 million** (2002: US$3.5 million due to PIL). In 2003, interest payable by MPHI to PIL amounted to **US$0.1 million** (2002: US$0.1 million). The interest payable to the company in 2003 was immaterial (2002: US$nil).

While the provision of marketing and management services, the granting of Loan to MPHI and the Loan Assignment do not fall under the definition of connected transactions of the Listing Rules, MPHI, PIL and the company are related parties and these transactions are disclosed in accordance with SSAP 20.

H. The company announced on 6 December 2000 that Kam Lung Investments Limited, a wholly owned subsidiary of the company, entered into various agreements with the then independent third parties to carry out the restructuring of The Palace Hotel Co., Ltd. ("TPH"), owner of The Peninsula Palace Beijing. Upon completion of the restructuring, China Everbright Group Limited ("CEG") would be interested in 23.4% of TPH. Under the terms of the agreement as announced, CEG was entitled to receive a priority payment of minimum RMB 8 million up to and including 11 November 2033 ("Annual Payment"). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable.

The Annual Payment therefore became a connected transaction under the Listing Rules and is subject to disclosure requirements in this annual report. The Annual Payment in an amount of RMB 8 million was made in November 2003.

29. Comparative figures

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