Harbour Centre Development Limited

Annual Report 2002

HARBOUR

CENTRE

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Directors and Corporate Information

Board of Directors
G. W. J. Li *(Chairman)*
B. S. Forsgate
T. Y. Ng
C. L. Pan, *J.P.*
H. M. V. de Lacy Staunton
P. Y. C. Tsui

Secretary
W. W. S. Chan, *F.C.I.S.*

Registered Office
16th Floor, Ocean Centre,
Harbour City, Canton Road,
Kowloon,
Hong Kong

Registrars
Tengis Limited
Ground Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road, Wanchai,
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited

Auditors
KPMG

Financial Highlights and Historical Record

	2002	2001
		Restated
	HK$ Million	*HK$ Million*
Turnover	**335.2**	404.1
Profit/(Loss) Attributable to Shareholders	**16.2**	(113.1)
Net Asset Value Per Share	**HK$13.49**	HK$15.28
Earnings/(Loss) Per Share	**HK$0.05**	HK$(0.36)
Dividends Per Share	**17.0¢**	17.0¢

	Profit/(loss) attributable to shareholders	**Shareholders' funds**	**Earnings/ (loss) per share**	**Dividends per share**	**Distribution cover**
	HK$ Million	*HK$ Million*	*HK¢*	*HK¢*	*Times*
1998	162.4	4,268.4	51.6	20.0	2.58
1999	116.0	4,755.9	36.8	17.0	2.16
2000	114.5	4,959.8	36.3	17.0	2.14
2001#	(113.1)	4,814.1	(35.9)	17.0	N/A
2002	16.2	4,249.0	5.1	17.0	0.30

Restated

Chairman's Statement

2002 saw a gradual recovery of the local hotel market while the property rental market remained adversely affected by the economic downturn. The Group achieved a total turnover of HK$335.2 million in 2002, representing a decrease of 17% from the previous year. Group profit after taxation for the year ended 31st December, 2002 amounted to HK$16.2 million against a loss of HK$113.1 million for 2001. Earnings per share were HK$0.05, against a loss of HK$0.36 per share last year.

Hotel Operations

Tourist arrivals to Hong Kong increased in 2002 by 21% compared to the previous year following a continuous surge of visitors from Mainland China. Under intensely competitive market conditions, The Marco Polo Hongkong Hotel recorded a mild increase both in occupancy and average room rate in 2002 over the previous year. Its food and beverage operations had also been adversely affected by its renovation project.

Commercial Property

The Group's commercial space in The Marco Polo Hongkong Hotel reported a decrease in rental income. Average occupancies were affected by the remodelling and upgrading of the retail podium which is scheduled for completion in March 2003. The Group concluded with Lane Crawford a long-term lease, which is effective from 2nd January, 2003, in respect of a retail area of 57,000 square feet.

Property Projects in Hong Kong

Following recent Government rezoning, lease modification of this property situated at Kennedy Town into a residential project is under application. A provision of HK$43.3 million for impairment in the value of this project has been made in the Group accounts for the year ended 31st December, 2002.

For the development of Sorrento (Kowloon Station Package II development), in which the Group has a 20% interest, phase pre-sale has progressed satisfactorily. The Group's share of its losses (including a provision for the impairment in the value of this project) amounted to HK$103.8 million for the year under review.

Investments

Steady income from the Group's investment portfolio comprising blue chip stocks for the year was reported.

Prospects

The tourism industry in Hong Kong in 2003 will certainly be affected by the recent outbreak of atypical pneumonia and the war in Iraq. While the full impact of these events remain to be seen, the hotel manager will continue its flexible pricing policy to maximise the Group hotel's room yield.

Rental revenues are anticipated to return to a steady level after completion of the retail podium upgrade project.

Gonzaga W. J. Li
Chairman

Hong Kong, 20th March, 2003

Disclosure of Further Corporate Information

Set out below is information disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(A) Commentary on Annual Results

(I) Review of 2002 Results and Segmental Performance

Group profit attributable to shareholders for the year amounted to HK$16.2 million, compared to a loss of HK$113.1 million for 2001. Included in the results of 2001 was a provision of HK$301.5 million for impairment in value of listed securities. Earnings per share for 2002 amounted to HK$0.05 (2001: loss per share HK$0.36).

The Group's turnover for the year under review was HK$335.2 million, a decrease of 17% from the restated turnover of HK$404.1 million for 2001. Operating profit in 2002 was HK$130.2 million, a decrease of 20% from that of HK$161.9 million reported last year.

Though The Marco Polo Hongkong Hotel achieved satisfactory occupancy levels and average room rates in 2002, total revenue and operating profit of the hotel segment decreased by 9% and 15% respectively, partly due to the intense competition in the hotel industry and temporary closure of some food and beverage outlets for renovation during 2002. In terms of room yield, the hotel ranked highly against its competitors in 2002. The Coffee Shop, the major food and beverage income contributor, temporarily stopped its operation from late May 2002 to Mid January 2003 because of renovation.

Rental revenue and operating profit from the commercial section of The Marco Polo Hongkong Hotel were also adversely affected following the commencement of the retail podium upgrade project, which will enhance the value and quality of the whole retail space at the hotel.

Profit before taxation for the year under review includes deferred interest income of HK$70.9 million, arising from a loan advanced to an associate for a property development, recognised as in previous years on the basis of the pre-sale progress of the development. Profit before taxation also includes a HK$20.4 million net loss on disposal of certain investment securities and a HK$43.3 million provision made for impairment in value of the Group's property under redevelopment, namely, the Victoria Road site, having taken into account the prevailing market conditions.

Share of losses of associates amounted to HK$102.2 million compared to a profit of HK$10.3 million in 2001. The losses in 2002 mainly resulted from an impairment provision made by an associate in respect of its property development, namely, Sorrento.

Full year taxation charged for 2002 was HK$19.0 million compared to HK$12.7 million last year.

(II) Liquidity and Financial Resources

At 31st December, 2002, the Group's shareholders' funds decreased to HK$4,249.0 million, compared to the restated shareholders' funds of HK$4,814.1 million at 31st December, 2001, primarily due to the downward revaluation of the Group's properties.

As at 31st December, 2002, the Group had net cash of HK$572.8 million, an increase of 23% from HK$467.4 million as at 31st December, 2001. Most of the cash surpluses were placed on deposit. In addition, the Group maintained a portfolio of listed investments with market value aggregating HK$523 million at the year end. The investment revaluation deficit of HK$155.6 million arising from revaluation of the investment portfolio at 31st December, 2002 has been dealt with in the investment securities revaluation reserve. The performance of the investment portfolio is basically in line with the general market trend of the stock markets.

The project loan facility relating to the development of Sorrento (Kowloon Station Package II), in which the Group has a 20% interest, has been reduced to HK$438 million as a result of loan repayment from pre-sale proceeds during the year under review.

At the year end, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries and associates are the operation of hotel and restaurants, investment property, property development and investments. Further information on the segmental details is provided in Note 2 to the Accounts on pages 35 to 36.

(IV) Employees

The Group has approximately 440 employees working at the Group's hotel. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for year ended 31st December, 2002 amounted to HK$85.3 million.

Detailed information is set out in Note 3 to the Accounts on page 36.

(B) Biographical Details of Directors and Senior Managers

(I) Directors

Gonzaga Wei Jen LI, Chairman (Age: 73)

Mr. Li was appointed a Director of the Company in 1980 and became Chairman in 1989. He is also the senior deputy chairman of Wheelock and Company Limited ("Wheelock") and The Wharf (Holdings) Limited ("Wharf") and the chairman of New Asia Realty and Trust Company, Limited ("New Asia") and of Marco Polo Developments Limited ("MPDL") in Singapore and also a director of Joyce Boutique Holdings Limited ("Joyce"). Furthermore, he is a director of Kowloon Estates Limited ("Kowloon Estates"), WF Investment Partners Limited ("WF Investment"), which, as well as Wheelock and Wharf, are each deemed under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") to have an interest in the share capital of the Company discloseable to the Company under the provisions of Part II of the SDI Ordinance.

Brian Stuart FORSGATE, Director (Age: 55)

Mr. Forsgate has been a Director of the Company since November 2001. He is also the managing director of Eralda Industries Limited.

Tze Yuen NG, Director (Age: 55)

Mr. Ng has been a Director of the Company since 1994. He is also a director of Wharf, Joyce, New Asia and MPDL in Singapore. Furthermore, he is a director of Kowloon Estates, WF Investment, which, as well as Wharf, are each deemed under the SDI Ordinance to have an interest in the share capital of the Company discloseable to the Company under the provisions of Part II of the SDI Ordinance.

Chia Lu PAN, JP, Director (Age: 86)

Mr. Pan has been a Director of the Company since 1994. He is also a director of New Asia.

Hugh Maurice Victor de LACY STAUNTON, Director (Age: 67)

Mr. de Lacy Staunton has been a Director of the Company since May 2001. He was formerly a director of The Cross-Harbour (Holdings) Limited.

Paul Yiu Cheung TSUI, Director (Age: 56)

Mr. Tsui has been a Director of the Company since 1998. He is also an executive director of Wheelock, the senior managing director of Harriman Realty Company, Limited, the senior deputy managing director of Wheelock Properties Limited and a director of Joyce and MPDL in Singapore. Furthermore, he is a director of Diplock Holdings Limited, Kowloon Estates, Upfront International Limited and WF Investment, which, as well as Wheelock, are each deemed under the SDI Ordinance to have an interest in the share capital of the Company discloseable to the Company under the provisions of Part II of the SDI Ordinance.

(II) Senior Managers

During the year, the senior management responsibilities of the Group were vested with the Chairman in conjunction with two other Directors, namely, Messrs. T. Y. Ng and P. Y. C. Tsui. Only these three Directors are regarded as members of the Group's senior management.

(C) Pension Schemes

(I) Nature of the Pension Schemes

The Group currently operates a number of pension schemes. The schemes are available to the employees of the Group.

The assets of the schemes are held separately by independently administered funds.

(II) Funding of the Pension Schemes

For defined contribution schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds.

The principal defined benefit scheme is funded by contributions from the employers, which are in accordance with recommendations made by the actuaries based on their valuation.

(III) Forfeited Contributions

For defined contribution schemes, the contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

(IV) Cost of Pension Schemes

The total employers' cost in respect of all pension schemes of the Group, including costs relating to the Mandatory Provident Fund which is not operated by the Group, charged to profit and loss account during the financial year ended 31st December, 2002 amounted to HK$4.8 million, after deducting forfeiture of contributions by the Group of HK$0.5 million.

(V) Outline of the Results of Valuation

The outline of results of valuation of the Group's defined benefit schemes are set out below:

Name of valuers	Method of valuation	Date of valuation	Funding ratio
HSBC Life	Projected Unit Credit Method	31st December, 2002	90.1%
Watson Wyatt Hong Kong Limited	Projected Unit Credit Method	31st December, 2002	118.8%

(D) Major Customers and Suppliers

For the year ended 31st December, 2002:

(I) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(II) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(E) Disclosure Under Practice Note 19

In relation to the provision of financial assistance by the Company and/or its subsidiaries to two wholly-owned subsidiaries of an associate of the Company, namely, Hopfield Holdings Limited ("Hopfield") (together, the "Borrowers"), as previously disclosed in the Company's interim report for the half-year period ended 30th June, 2002, obligations in relation to the aforesaid financial assistance by the Group continued to exist as at 31st December, 2002.

Set out below is a proforma combined balance sheet of the Borrowers as at 28th February, 2003 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Listing Rules:

Proforma Combined Balance Sheet of the Borrowers
As at 28th February, 2003

	HK$ Million
Properties under development	3,167.6
Properties held for sale	895.1
Other net current liabilities	(524.9)
	3,537.8
Shareholders' loan	(3,994.0)
Shareholders' deficit	(456.2)

Financial assistance given by the Company and/or its subsidiary(ies) is loan advances amounted to HK$798.8 million.

Note: The Group's interest in Hopfield was 20% as at 28th February, 2003.

Terms of the Financial Assistance
The loan in the amount of HK$798.8 million made to the Borrowers bears interest at such rate as may from time to time be agreed among all Hopfield's shareholders, with reference to interest rates prevailing in the lending market, currently being fixed at 2.5% per annum (also applicable to all the loans made to Hopfield's subsidiaries by all other shareholders of Hopfield). No security is provided to the Group for the loan.

(F) Directors' Interests in Competing Business
Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules of the Stock Exchange:

Three Directors of the Company, namely, Messrs. G. W. J. Li, T. Y. Ng and P. Y. C. Tsui, being also directors of the Company's parent company, namely, Wharf, and/or subsidiaries of Wharf, are considered as having an interest in Wharf under paragraph 8.10 of the Listing Rules.

Ownership of property for letting and ownership of hotels by wholly-owned subsidiaries of Wharf constitute competing businesses to the Group.

The commercial premises at Harbour City, being in the vicinity of The Marco Polo Hongkong Hotel, owned by the Wharf group for rental purposes are considered as competing with the commercial premises in The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's extensive experience and expertise in property letting and management, the Group has appointed a subsidiary of Wharf (the "Agents") as the agent for a term of 5 years commencing from 1st January, 1999 for the letting, reletting, management, licensing and re-licensing of the commercial premises in The Marco Polo Hongkong Hotel. Since the Group's commercial premises are targeted at different customers and would attract different tenants compared to those owned by the Wharf group, the Group considers that its interest regarding the business of owning and letting of commercial premises is adequately safeguarded.

Two hotels, namely, The Marco Polo Gateway and The Marco Polo Prince, owned by the Wharf group are also considered as competing businesses of The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has entered into an operations agreement (the "Agreement") with a wholly-owned subsidiary (the "Operator") of Wharf for the appointment of the Operator as manager for an initial term of 5 years commencing from 1st January, 1999 to operate, direct, manage and supervise The Marco Polo Hongkong Hotel. The Operator is also responsible for the operation of The Marco Polo Gateway and The Marco Polo Prince. Under the terms and conditions of the Agreement, the Operator has agreed, *inter alia*, to operate The Marco Polo Hongkong Hotel as a first class hotel. In the event of the Operator failing to perform the terms and conditions of the Agreement for a period of 20 days after a relevant notice has been served by the Group on the Operator, a 20-day notice of termination may then be given by the Group for terminating the Agreement. Hence, the Group is capable of carrying on its hotel business independently of the Wharf group.

For safeguarding the interests of the Group, the independent non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's hotel and property leasing and management businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of the Wharf group.

(G) Compliance with Code of Best Practice

The Company has complied throughout the financial year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Statement of Accounts for the financial year ended 31st December, 2002.

Principal Activities and Operations

The principal activity of the Company is investment holding and those of its principal subsidiaries and associates are set out on page 56.

An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year is set out in Note 2 to the Accounts on pages 35 to 36.

Subsidiaries

Particulars of the Company's principal subsidiaries at 31st December, 2002 are set out on page 56.

Results, Appropriations and Reserves

The results of the Group for the financial year ended 31st December, 2002 are set out in the Consolidated Profit and Loss Account on page 18.

Appropriations of profits and movements in reserves during the financial year are set out in Note 18 to the Accounts on pages 51 to 52.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 57.

Dividends

An interim dividend of 5.0 cents per share was paid on 7th October, 2002. The Directors now recommend the payment on 10th June, 2003 of a final dividend of 12.0 cents per share in respect of the financial year ended 31st December, 2002, payable to Shareholders on record as at 28th May, 2003. This recommendation has been disclosed in the Accounts.

Fixed Assets

Movements in fixed assets during the financial year are set out in Note 10 to the Accounts on pages 43 to 45.

Donations

The Group made donations during the financial year totalling HK$1,471,815.

Directors

The Directors of the Company during the financial year were Mr. G. W. J. Li, Mr. B. S. Forsgate, Mr. C. C. Haung (resigned on 3rd June, 2002), Mr. T. Y. Ng, Mr. C. L. Pan, Mr. H. M. V. de Lacy Staunton and Mr. P. Y. C. Tsui.

Mr. C. L. Pan and Mr. T. Y. Ng are due to retire from the Board by rotation in accordance with Article 103(A) of the Company's Articles of Association, at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election.

With the exception of the Chairman of the Company (who is not subject to retirement by rotation under the provisions of the Company's Articles of Association) together with Mr. C. L. Pan and Mr. T. Y. Ng (who are due to retire from the Board at the forthcoming Annual General Meeting as mentioned above), the remaining three present Directors would continue to serve on the Board for a period of one or two years in future until they become due to retire from the Board by rotation in 2004 and 2005 in accordance with Article 103(A) of the Company's Articles of Association.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation.

Directors' Interests in Shares

At 31st December, 2002, Directors of the Company held the following personal beneficial interests in ordinary shares of the Company's parent company, namely, The Wharf (Holdings) Limited:

Names of Directors	Number of Shares
Mr. Gonzaga W. J. Li	686,549
Mr. T. Y. Ng	178,016
Mr. C. L. Pan	56,304

Except as disclosed above, as recorded in the register kept by the Company under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") in respect of information required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests held as at 31st December, 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and

(ii) there existed during the financial year no rights to subscribe for equity or debt securities of the Company which were held by any Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 31st December, 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

	Names	No. of Ordinary Shares
(i)	Upfront International Limited	210,379,500
(ii)	Harbour City Limited	210,379,500
(iii)	Kowloon Estates Limited	210,379,500
(iv)	The Wharf (Holdings) Limited	210,379,500
(v)	Diplock Holdings Limited	210,379,500
(vi)	WF Investment Partners Limited	210,379,500
(vii)	Wheelock and Company Limited	210,379,500
(viii)	Bermuda Trust (Guernsey) Limited	210,379,500

Note: For the avoidance of doubts and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings stated against parties (i) to (viii) above represent the same block of shares; all of the abovenamed parties were deemed to be interested in the same shareholdings under the SDI Ordinance as at 31st December, 2002.

Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Management Contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

Arrangements to Purchase Shares or Debentures

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception of the options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf") granted under Wharf's Executive Share Incentive Scheme (the "Scheme") to certain executives of Wharf or its subsidiaries, some of whom were Directors of the Company during the financial year.

Under the rules of the Scheme (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of the Stock Exchange from time to time in force), shares of Wharf would be issued at such prices, not being less than 90% of the average closing price on the Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the board of directors of Wharf. During the financial year, no share of Wharf was issued to any Director of the Company under the Scheme.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

Auditors

The Accounts now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

KPMG was appointed as Auditors of the Company to fill the vacancy occasioned by the resignation of PricewaterhouseCoopers on 29th November, 2001 as Auditors of the Company.

By Order of the Board
Wilson W. S. Chan
Secretary

Hong Kong, 20th March, 2003

Auditors' Report

To the Shareholders of Harbour Centre Development Limited
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 18 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors
The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion the accounts give a true and fair view, of the state of affairs of the Company and the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 20th March, 2003

Consolidated Profit and Loss Account

For the year ended 31st December, 2002

	Note	**2002** HK$ Million	2001 Restated HK$ Million
Turnover	*2*	**335.2**	404.1
Direct costs and operating expenses		**(171.9)**	(208.0)
Selling and marketing expenses		**(13.9)**	(15.2)
Depreciation		**(13.3)**	(10.9)
Administrative and corporate expenses		**(5.9)**	(8.1)
Operating profit	*3*	**130.2**	161.9
Borrowing costs		**–**	(24.3)
Provision for impairment in value of investment securities		**–**	(301.5)
Other non-operating items	*4*	**7.2**	53.2
Share of profits less losses of associates		**(102.2)**	10.3
Profit/(loss) before taxation		**35.2**	(100.4)
Taxation	*5*	**(19.0)**	(12.7)
Profit/(loss) attributable to shareholders	*6*	**16.2**	(113.1)
Dividends attributable to the year	*7*		
Interim dividend declared during the year		**15.8**	15.8
Final dividend proposed after the balance sheet date		**37.8**	37.8
		53.6	53.6
Earnings/(loss) per share	*8*	**HK$0.05**	HK$(0.36)

The notes on pages 24 to 56 form part of these accounts.

CONSOLIDATED BALANCE SHEET

As at 31st December, 2002

	Note	2002	2002 HK$ Million	2001 Restated	2001 Restated HK$ Million
ASSETS					
Non-current assets					
Fixed assets	*10*		**2,404.6**		2,774.1
Interest in associates	*12*		**884.2**		897.0
Investment securities	*13*		**523.0**		851.5
Employee benefits	*14*		**9.3**		9.7
			3,821.1		4,532.3
Current assets					
Inventories		**3.7**		3.9	
Debtors	*15*	**24.8**		29.1	
Cash and cash equivalents		**572.8**		868.3	
		601.3		901.3	
Current liabilities					
Creditors	*16*	**72.4**		74.3	
Unsecured short term bank loan and overdrafts		**–**		400.9	
Taxation		**5.2**		8.4	
		77.6		483.6	
Net current assets			**523.7**		417.7
TOTAL ASSETS LESS CURRENT LIABILITIES			**4,344.8**		4,950.0
EQUITY AND NON-CURRENT LIABILITIES					
Capital and reserves					
Share capital	*17*		**157.5**		157.5
Reserves	*18*		**4,091.5**		4,656.6
			4,249.0		4,814.1
Non-current liabilities					
Deferred income	*19*		**95.8**		135.9
TOTAL EQUITY AND NON-CURRENT LIABILITIES			**4,344.8**		4,950.0

The notes on pages 24 to 56 form part of these accounts.

Gonzaga W. J. Li
Chairman

Paul Y. C. Tsui
Director

Company Balance Sheet

As at 31st December, 2002

	Note	2002	2002 HK$ Million	2001	2001 HK$ Million
ASSETS					
Non-current asset					
Interest in associates	12		**863.3**		865.0
Current assets					
Amounts due from subsidiaries	11	**80.7**		899.5	
Debtors	15	**0.3**		0.5	
Cash and cash equivalents		**570.0**		0.1	
		651.0		900.1	
Current liabilities					
Amounts due to subsidiaries	11	**621.0**		739.6	
Creditors	16	**2.0**		1.8	
Unsecured short term bank loan		**–**		100.0	
Taxation		**1.9**		–	
		624.9		841.4	
Net current assets			**26.1**		58.7
TOTAL ASSETS LESS CURRENT LIABILITIES			**889.4**		923.7
EQUITY AND NON-CURRENT LIABILITIES					
Capital and reserves					
Share capital	17		**157.5**		157.5
Reserves	18		**636.1**		630.3
			793.6		787.8
Non-current liabilities					
Deferred income	19		**95.8**		135.9
TOTAL EQUITY AND NON-CURRENT LIABILITIES			**889.4**		923.7

The notes on pages 24 to 56 form part of these accounts.

Gonzaga W. J. Li
Chairman

Paul Y. C. Tsui
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

	Note	2002 HK$ Million	2001 Restated HK$ Million
Total equity as at 1st January		**4,814.1**	4,959.8
Deficit on revaluation of investment properties	*18*	**(160.4)**	(55.1)
Deficit on revaluation of hotel properties	*18*	**(220.0)**	(130.0)
Deficit on revaluation of investment securities	*18*	**(155.6)**	(114.4)
Deficit on revaluation of investment securities transferred to the profit and loss account on impairment		**–**	301.5
Share of deficit on revaluation of investment securities of associates	*18*	**(6.1)**	(2.2)
Exchange differences on translation of the accounts of foreign entities		**–**	(2.0)
Net losses not recognised in the consolidated profit and loss account		**(542.1)**	(2.2)
Net profit/(loss) for the year		**16.2**	(113.1)
Final dividend approved in respect of the previous year	*7(b)*	**(37.8)**	(37.8)
Interim dividend approved in respect of the current year	*7(a)*	**(15.8)**	(15.8)
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of investment securities	*18*	**14.4**	3.0
Total equity as at 31st December as previously reported		**4,249.0**	4,793.9
Prior year adjustment arising from a change in accounting policy for employee benefits	*9 & 18*	**–**	20.2
Total equity as at 31st December as restated		**4,249.0**	4,814.1

The notes on pages 24 to 56 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

		2002		2001
				Restated
		HK$ Million		*HK$ Million*
Operating activities				
Operating profit		**130.2**		161.9
Depreciation		**13.3**		10.9
Dividend income from investment securities		**(29.9)**		(27.3)
Interest income		**(9.0)**		(32.3)
Exchange adjustment		**–**		(2.0)
Operating profit before changes in working capital		**104.6**		111.2
Increase in deferred income		**30.8**		63.0
Decrease in employee benefits		**0.4**		–
Decrease in inventories		**0.2**		0.2
Decrease in debtors		**1.4**		17.9
Decrease in creditors		**(5.6)**		(2.8)
Increase/(decrease) in amounts due to fellow subsidiaries (net)		**6.5**		(1.2)
Cash generated from operations		**138.3**		188.3
Interest received		**9.1**		32.2
Interest paid		**–**		(24.3)
Dividend received from associates		**0.4**		4.1
Dividend income from investment securities		**29.9**		27.9
Hong Kong profits tax paid		**(21.7)**		(115.9)
Net cash inflow from operating activities		**156.0**		112.3
Investing activities				
Payments for the purchase of fixed assets	**(67.5)**		(28.6)	
Net advances (to)/from associates	**(96.4)**		279.7	
Payments for the purchase of investment securities	**(305.6)**		(91.5)	
Proceeds from the sale of investment securities	**472.5**		16.7	
Net cash inflow from investing activities		**3.0**		176.3

Consolidated Cash Flow Statement (Cont'd)

For the year ended 31st December, 2002

		2002		2001
				Restated
		HK$		*HK$*
		Million		*Million*
Financing activities				
Repayment of short term bank loans	**(400.9)**		–	
Proceeds from				
new short term bank loans	**–**		300.9	
Dividends paid	**(53.6)**		(53.6)	
Net cash (outflow)/inflow from financing		**(454.5)**		247.3
Net (decrease)/increase in cash and cash equivalents		**(295.5)**		535.9
Cash and cash equivalents at 1st January		**868.3**		332.4
Cash and cash equivalents at 31st December		**572.8**		868.3
Analysis of the balance of cash and cash equivalents				
Deposits and cash		**572.8**		868.3

1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts 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 principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and hotel properties, and the marking to market of investment securities as explained in the accounting policies set out below.

(c) Basis of consolidation

(i) Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, 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 Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as for investment securities (see note 1(h)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation (Cont'd)

(i) Subsidiaries and controlled companies (Cont'd)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(f)), 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 same way as for investment securities (see note 1(h)).

The consolidated accounts include the accounts of the Company and all its subsidiaries ("the Group") which are made up to 31st December each year.

(ii) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts 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 associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case it is stated at fair value with changes in fair value recognised in the same way as for investment securities (see note 1(h)). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(c)(iii).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(f)), unless the associate is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the same way as for investment securities (see note 1(h)).

1. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(c) Basis of consolidation (Cont'd)

(iii) Goodwill/negative goodwill

Goodwill represents the excess/shortfall of the cost of investment over the appropriate share of the fair value of the identifiable assets and liabilities of a controlled subsidiary or associate acquired. Goodwill is recognised as an asset and is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/ amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

On disposal of a controlled subsidiary or an associate, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account is included in the calculation of the profit and loss on disposal.

The carrying amount of goodwill is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists an impairment loss is recognised as an expense in the consolidated profit and loss account.

(d) Fixed assets

(i) Investment properties

Investment properties are defined as properties which are income producing and intended to be held for the long term. Such properties are included in the balance sheet at their open market value, which is assessed annually by external qualified valuers. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the consolidated profit and loss account. When a surplus arises on subsequent revaluation on a portfolio basis, it will be credited to the consolidated profit and loss account if and to the extent that a deficit on revaluation had previously been charged to the consolidated profit and loss account. On disposal of investment properties, the revaluation surplus or deficit previously taken to the investment properties revaluation reserve is included in calculating the profit or loss on disposal.

1. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(d) Fixed assets (Cont'd)

(ii) Property held for redevelopment

Property held for redevelopment is stated at cost, including borrowing costs, less such provisions for impairment losses (see note 1(f)) considered necessary by the Directors.

All development costs including borrowing costs are capitalised up to the date of practical completion of redevelopment.

(iii) Hotel properties

Hotel properties are stated at their open market existing use value based on an annual professional valuation. Changes in the value of the hotel properties are dealt with as movements in the hotel properties revaluation reserve. When a deficit arises on revaluation, it will be charged to the consolidated profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same property. When a surplus arises on subsequent revaluation, it will be credited to the consolidated profit and loss account, if and to the extent that a deficit on revaluation in respect of that same property had previously been charged to the consolidated profit and loss account.

(iv) Other fixed assets

Other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(e) (iv)) and impairment losses (see note 1(f)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gain 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 profit and loss account on the date of retirement or disposal. On disposal of fixed assets other than investment properties, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(e) Depreciation of fixed assets

(i) Investment properties

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuation takes into account the state of each building at the date of valuation.

(ii) Property held for redevelopment

No depreciation is provided on property held for redevelopment.

(iii) Hotel properties

No depreciation is provided on hotel properties on leases with 20 years or more to run at the balance sheet date or on their integral fixed plant. It is the Group's practice to maintain these assets in a continuous state of sound repair and to make improvements thereto from time to time and, accordingly, the Directors consider that, given the estimated lives of these assets and their residual values, any depreciation would be immaterial.

(iv) Other fixed assets

Leasehold improvements are depreciated over the unexpired terms of the leases.

Other assets comprising plant, machinery, furniture, fixtures and equipment are depreciated at annual rates of 10% to 20% on a straight line basis on cost.

(f) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated profit and loss account. The recoverable amount of an asset is the greater of its net selling price and value in use. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and such reversal is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account.

1. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

– Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(l)(ii).

– Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

(h) Investment securities

(i) Investment securities, which are not held for trading purposes, are classified as non-current assets in the balance sheet and stated at fair value. Changes in fair value of individual securities are recognised in the investment securities revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment securities revaluation reserve to the consolidated profit and loss account. Transfers from the investment securities revaluation reserve to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that new circumstances and events will persist for the foreseeable future.

Profits or losses on disposal of investment securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the securities and are recognised in the consolidated profit and loss account as they arise. On disposal of investment securities, the revaluation surplus or deficit previously taken to the investment securities revaluation reserves is also transferred to the consolidated profit and loss account for the year.

1. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(h) Investment securities (Cont'd)

(ii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.

(i) Inventories

Inventories comprise hotel consumables and are stated at the lower of cost, calculated on weighted average basis, and net realisable value. Net realisable value represents the estimated selling price less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the accounts of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange differences arising from the above are dealt with in the consolidated profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the weighted average exchange rates during the year while balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Recognition of income

(i) Income from hotel operations is recognised when the services are rendered.

(ii) Rentals receivable from investment properties held for use under operating leases are accounted for on a straight line basis over the respective periods of the lease. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.

(iv) Interest on a loan advanced to an associate involved in a property development project is deferred and is recognised from when the associate starts to generate profit from the property development project based on the percentage of total area sold to the total area available for sale.

(v) Investment income is recognised when the right to receive the income is established.

(m) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year 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 get ready 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.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits

(i) Defined contribution pension scheme

Contributions to the scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(ii) Defined benefit pension schemes

The Group's net obligation in respect of the defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date of high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

In calculating the Group's obligation in respect of a defined benefit scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

(iii) Mandatory Provident Fund

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits (Cont'd)

(iv) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services 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 the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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. 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 that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

(q) Related parties

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

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where 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.

(s) Deferred income

Deferred income is interest income less directly attributable interest expenses arising from a loan advanced to an associate, which has been deferred and is recognised in the consolidated profit and loss account from when the associate starts to generate profit from a property development project, undertaken by the associate, based on the percentage of total area sold to the total area available for sale.

2. 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's internal financial reporting.

(a) Business segments

	Hotel and restaurants		Property		Investments		Total	
	2002	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*	***HK$ Million***	*HK$ Million*	***HK$ Million***	*HK$ Million*
Segment revenue	**269.5**	296.3	**26.8**	48.2	**38.9**	59.6	**335.2**	404.1
Segment result	**67.1**	78.8	**17.9**	33.4	**45.2**	49.7	**130.2**	161.9
Provision for impairment in value of investment securities	**–**	–	**–**	–	**–**	(301.5)	**–**	(301.5)
Borrowing costs							**–**	(24.3)
Other non-operating items	**–**	–	**(43.3)**	(7.7)	**50.5**	60.9	**7.2**	53.2
Share of profits less losses of associates	**–**	–	**(103.3)**	5.9	**1.1**	4.4	**(102.2)**	10.3
Profit/(loss) before taxation							**35.2**	(100.4)
Taxation							**(19.0)**	(12.7)
Profit/(loss) attributable to shareholders							**16.2**	(113.1)
Segment assets	**1,698.0**	1,909.5	**744.0**	906.8	**523.4**	852.0	**2,965.4**	3,668.3
Interest in associates	**–**	–	**863.5**	869.9	**20.7**	27.1	**884.2**	897.0
Unallocated assets								
Cash and cash equivalents							**572.8**	868.3
Total assets							**4,422.4**	5,433.6
Segment liabilities	**(49.8)**	(31.0)	**(102.3)**	(152.2)	**(16.1)**	(27.0)	**(168.2)**	(210.2)
Unallocated liabilities								
Unsecured short term bank loan and overdrafts							**–**	(400.9)
Taxation							**(5.2)**	(8.4)
Total liabilities							**(173.4)**	(619.5)
Depreciation for the year	**13.3**	10.9	**–**	–	**–**	–	**13.3**	10.9
Capital expenditure incurred during the year	**22.6**	26.9	**44.9**	1.7	**–**	–	**67.5**	28.6

2. SEGMENT REPORTING (Cont'd)

(b) Geographical segments

	Segment revenue		Segment result	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
	Million	*Million*	***Million***	*Million*
Hong Kong	**310.3**	382.5	**105.3**	140.3
Singapore	**24.9**	21.6	**24.9**	21.6
	335.2	404.1	**130.2**	161.9

No inter-segment revenue was recorded during the years.

3. OPERATING PROFIT

(a) Operating profit is arrived at after charging:

	2002	2001
	HK$	*HK$*
	Million	*Million*
Cost of inventories sold	**21.7**	31.3
Depreciation	**13.3**	10.9
Staff costs including:	**85.3**	89.4
Contributions to defined contribution pension schemes	**2.6**	2.6
Increase in liability for defined benefit pension schemes	**2.2**	–
Auditors' remuneration	**0.5**	0.5
and after crediting:		
Gross rental income from investment properties	**26.8**	47.6
Less: direct outgoings	**(7.7)**	(7.7)
	19.1	39.9
Interest on bank deposits	**9.0**	32.3
Dividend income from listed securities	**29.9**	27.3

3. OPERATING PROFIT (Cont'd)

(b) Directors' emoluments

	2002 HK$ Million	2001 HK$ Million
Fees	**0.1**	0.1
Basic salaries, housing allowance, and other allowances and benefits in kind	**0.8**	0.8
Retirement scheme contributions	**–**	–
Discretionary bonuses and/or performance-related bonuses	**–**	–
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
	0.9	0.9

For the year under review, total emoluments (including any reimbursement), being wholly in the form of Directors' fees, were paid/payable at the rate of HK$20,000 (2001: HK$20,000) per annum to each Independent Non-executive Director of the Company.

The remuneration of the Directors is within the following bands:

Bands *(in HK$)*	2002 Number of Directors	2001 Number of Directors
Nil – $500,000	**6**	7
$500,001 – $1,000,000	**1**	1

3. OPERATING PROFIT (Cont'd)

(c) Highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31st December, 2002 of the five highest paid employees of the Group, none of whom is a Director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

	2002 *HK$ Million*	2001 *HK$ Million*
Basic salaries, housing allowances, and other allowances and benefits in kind	**5.1**	5.8
Retirement scheme contributions	**0.4**	0.4
Discretionary bonuses and/or performance-related bonuses	**0.2**	0.2
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
	5.7	6.4

The emoluments of the five highest individuals are within the following bands:

Bands *(in HK$)*	**2002 Number of Individuals**	2001 Number of Individuals
Not more than $1,000,000	**2**	1
$1,000,001 – $1,500,000	**2**	3
$1,500,001 – $2,000,000	**1**	1

4. OTHER NON-OPERATING ITEMS

	2002 HK$ Million	2001 HK$ Million
Release of deferred income	**70.9**	62.8
Loss on disposal of investment securities	**(20.4)**	(1.9)
Provision for impairment in value of property held for redevelopment	**(43.3)**	(7.7)
	7.2	53.2

Loss on disposal of investment securities includes a revaluation deficit of HK$14.4 million (2001: HK$3.0 million) transferred from the investment securities revaluation reserve to the profit and loss account upon disposal of the related investment securities.

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16.0% (2001: 16.0%) on the estimated assessable profit for the year.

	Group	
	2002 HK$ Million	2001 HK$ Million
Company and subsidiaries		
Hong Kong profits tax	**18.5**	11.8
Share of associates' Hong Kong profits tax for the year	**0.5**	0.9
	19.0	12.7

Unprovided deferred tax liabilities are:

	Group	
	2002 HK$ Million	2001 HK$ Million
Company and subsidiaries		
Depreciation allowances in excess of the related depreciation	**3.4**	3.6

5. TAXATION (Cont'd)

The major part of the unprovided potential liabilities represents the maximum taxation arising from balancing charges in the event of a future realisation of investment and hotel properties at an amount equal to the valuations recorded in the balance sheet.

Deferred taxation on the revaluation surplus of the investment and hotel properties has not been quantified as this does not constitute a timing difference for deferred taxation purposes.

6. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK$59.4 million (2001: HK$55.8 million).

The Group's profit/(loss) attributable to shareholders for the year is retained/(absorbed) by:

	Group	
	2002	2001
	HK$	*HK$*
	Million	*Million*
The Company and its subsidiaries	**118.9**	(122.5)
Associates	**(102.7)**	9.4
	16.2	(113.1)

7. DIVIDENDS

(a) Dividends attributable to the year

	2002	2001
	HK$	*HK$*
	Million	*Million*
Interim dividend of 5.0 cents (2001: 5.0 cents) per share	**15.8**	15.8
Final dividend of 12.0 cents (2001: 12.0 cents) per share	**37.8**	37.8
	53.6	53.6

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

7. DIVIDENDS (Cont'd)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2002	2001
	HK$	*HK$*
	Million	*Million*
Final dividend in respect of the previous financial year, approved and paid during the year, of 12.0 cents per share (2001: 12.0 cents per share)	**37.8**	37.8

8. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit for the year of HK$16.2 million (2001: loss of HK$113.1 million) and on 315.0 million (2001: 315.0 million) ordinary shares in issue throughout the year ended 31st December, 2002.

9. CHANGES IN ACCOUNTING POLICIES

(a) SSAP 1 (Revised) "Presentation of financial statements"

With effect from 1st January, 2002, the consolidated statement of recognised gains and losses has been replaced by the consolidated statement of changes in equity.

(b) SSAP 11 (Revised) "Foreign currency translation"

In prior years, the results of foreign enterprises were translated at the exchange rates ruling at the balance sheet date. With effect from 1st January, 2002, these are translated into Hong Kong dollars at the weighted average exchange rates during the year. The effect of such change is not material to the accounts.

(c) SSAP 15 (Revised) "Cash flow statements"

With effect from 1st January, 2002, with the introduction of SSAP 15 (revised) "Cash flow statements", a revised classification of activities from which cash flows are derived has been made and the Group defines cash and cash equivalents as cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subjected to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

In prior years, for the purpose of preparing the consolidated cash flow statement, cash equivalents were shown net of advances from banks repayable within three months from the date of advances. By adoption of SSAP 15 (revised), bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of consolidated cash flow statement. The revised accounting policy has been adopted retrospectively. In adjusting prior year's figures, cash and cash equivalents as at 1st January, 2001 and 1st January, 2002 were restated and increased by HK$100 million and HK$400.9 million respectively. In addition, certain presentational changes have been made on adoption on SSAP 15 (revised).

9. CHANGES IN ACCOUNTING POLICIES (Cont'd)

(d) SSAP 34 "Employee benefits"

Defined benefit pension schemes provide benefits to employees based on their final pay and number of years of service. In prior years, contributions to the schemes were charged against profit and loss account in the period in which they were payable to the schemes. The contributions were determined based on the value of the pension scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations and were determined by a qualified actuary on the basis of triennial valuations using the attained age method. The assets of the schemes are held separately from those of the Group in an independently administered fund.

With effect from 1st January, 2002, in order to comply with SSAP 34 "Employee benefits" issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for defined benefit pension schemes as set out in note 1(o). The effect of adopting the new accounting policy has been applied retrospectively to the opening balance of revenue reserves as at 1st January, 2002. Revenue reserves as at 1st January, 2002 were restated and increased by HK$20.2 million, representing the write-back of previous provisions for defined benefit pension schemes. The Group's profit for the year has decreased by HK$2.1 million and shareholders' funds as at 31st December, 2002 have increased by HK$18.1 million. No restatement of other comparative information has been made as management consider it would be impractical to do so.

10. FIXED ASSETS

	Group				
	Investment properties HK$ Million	Property held for redevelopment HK$ Million	Hotel properties HK$ Million	Other fixed assets HK$ Million	Total HK$ Million
(a) Cost or valuation					
Balance at 1st January, 2002	822.0	78.8	1,840.0	164.0	2,904.8
Additions	43.4	1.5	–	22.6	67.5
Disposals	–	–	–	(5.8)	(5.8)
Provision for impairment	–	(43.3)	–	–	(43.3)
Revaluation deficit	(160.4)	–	(220.0)	–	(380.4)
Balance at 31st December, 2002	705.0	37.0	1,620.0	180.8	2,542.8
Accumulated depreciation					
Balance at 1st January, 2002	–	–	–	130.7	130.7
Charge for the year	–	–	–	13.3	13.3
Written back on disposals	–	–	–	(5.8)	(5.8)
Balance at 31st December, 2002	–	–	–	138.2	138.2
Net book value					
At 31st December, 2002	705.0	37.0	1,620.0	42.6	2,404.6
At 31st December, 2001	822.0	78.8	1,840.0	33.3	2,774.1

(b) The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Property held for redevelopment	Hotel properties	Other fixed assets	Total
2002 valuation	705.0	–	1,620.0	–	2,325.0
Cost less provisions	–	37.0	–	180.8	217.8
	705.0	37.0	1,620.0	180.8	2,542.8

The carrying value of the hotel properties would have been HK$71.1 million (2001: HK$71.1 million) had they been stated at cost.

10. FIXED ASSETS (Cont'd)

(c) Tenure of title to properties:

	Group				
	Investment properties *HK$ Million*	Property held for redevelopment *HK$ Million*	Hotel properties *HK$ Million*	Other fixed assets *HK$ Million*	Total *HK$ Million*
Long term lease held in Hong Kong					
Over 50 years	705.0	37.0	1,620.0	–	2,362.0

(d) Properties valuation

The Group's investment properties in Hong Kong and The Marco Polo Hongkong Hotel have been revalued as at 31st December, 2002 on an open market existing use value basis by Chesterton Petty Limited, a company engaged in professional property valuation. The deficits arising from the revaluations have been dealt with in the relevant revaluation reserves.

(e) Properties schedule at 31st December, 2002

Address	Lot number	Year of completion	Stage of completion	Lease expiry	Site area *(sq.ft.)*	Approximate gross floor areas: Office *(sq.ft.)*	Retail *(sq.ft.)*	Residential *(sq.ft.)*	Hotel *(rooms)*	Attributable interest
Investment property										
The Marco Polo Hongkong Hotel (Commercial Section) Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	*(Note)*	35,000	136,540	–	–	100%
Property held for Redevelopment										
60 Victoria Road Kennedy Town	IL 8079	N/A	Planning Stage	2064	6,100	–	–	48,800	–	100%
Hotel property										
The Marco Polo Hongkong Hotel Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	58,814	–	–	–	665	100%

Note: Part of The Marco Polo Hongkong Hotel building.

10. FIXED ASSETS (Cont'd)

(f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease upon expiry at which time all terms are renegotiated.

Contingent rental income derived from the Group for the year amounted to HK$1.1 million (2001: HK$1.8 million).

The gross carrying amounts of investment properties of the Group held for use in operating leases were HK$705 million (2001: HK$822.0 million).

(g) The Group's total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2002 ***HK$*** ***Million***	2001 *HK$* *Million*
Within 1 year	**22.4**	25.4
After 1 year but within 5 years	**36.8**	25.9
After 5 years	**0.8**	–
	60.0	51.3

11. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due from/(to) subsidiaries are unsecured, repayable on demand and interest free except for an amount due to a subsidiary of HK$300 million in 2001 which was interest bearing at market rates.

Details of principal subsidiaries at 31st December, 2002 are shown on page 56.

12. INTEREST IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
	Million	*Million*	***Million***	*Million*
Share of net tangible assets	**(67.1)**	42.1	**–**	–
Loan due from an associate	**962.3**	865.0	**863.3**	865.0
Amount due to an associate	**(11.0)**	(10.1)	**–**	–
	884.2	897.0	**863.3**	865.0

Details of principal associates at 31st December, 2002 are shown on page 56.

(a) The loan advanced to an associate involved in a property development project bears interest at rates as determined by the shareholders of the associate with reference to the prevailing market rates.

(b) The following supplementary financial information is disclosed relating to a significant associate of the Group, Hopfield Holdings Limited:

	2002	2001
	HK$	*HK$*
	Million	*Million*
Consolidated balance sheet		
Current assets	**5,780.7**	8,608.6
Current liabilities	**(1,463.3)**	(2,052.9)
Non-current liabilities	**(4,811.7)**	(6,531.1)
Consolidated profit and loss account		
Turnover	**3,185.1**	1,273.6
Operating (loss)/profit	**(516.7)**	29.3
Taxation	**(2.3)**	(4.7)

13. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK$	*HK$*
	Million	*Million*
Equity securities		
Listed in Hong Kong, at market value	**140.6**	327.9
Listed outside Hong Kong, at market value	**382.4**	523.6
	523.0	851.5

14. EMPLOYEE BENEFITS

	Group	
	2002	2001
		Restated
	HK$	*HK$*
	Million	*Million*
Defined benefit pension schemes	**9.3**	9.7

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement.

(a) The amount recognised in the consolidated balance sheet is as follows:

	2002
	HK$
	Million
Present value of funded obligations	**52.4**
Fair value of scheme assets	**(56.8)**
Net unrecognised actuarial losses	**(4.9)**
Balance at 31st December	**(9.3)**

14. EMPLOYEE BENEFITS (Cont'd)

(b) Movements in the net assets recognised in the consolidated balance sheet are as follows:

	2002
	HK$
	Million
Balance at 1st January	**(9.7)**
Contributions paid	**(1.8)**
Expense recognised in the consolidated profit and loss account	**2.2**
Balance at 31st December	**(9.3)**

(c) Expense recognised in the consolidated profit and loss account is as follows:

	2002
	HK$
	Million
Current service cost	**3.5**
Interest cost	**3.4**
Expected return on scheme assets	**(4.7)**
	2.2

The expense is recognised in the following line items in the consolidated profit and loss account:

	2002
	HK$
	Million
Direct costs and operating expenses	**2.2**
Actual return on scheme assets	**(0.6)**

14. EMPLOYEE BENEFITS (Cont'd)

(d) The principal actuarial assumptions used as at 31st December, 2002 (expressed as a range) are as follows:

		2002
Discount rate at 31st December		**5%**
Expected rate of return on scheme assets		**5 – 8%**
Future salary increases	2003	**0 – 2%**
	2004	**2%**
	2005	**2 – 4%**
	2006 onwards	**4%**

15. DEBTORS

	Group		Company	
	2002	2001	**2002**	2001
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Trade debtors				
Due within 30 days	**13.3**	14.8	**–**	–
Due after 30 days but within 60 days	**3.8**	4.4	**–**	–
Due after 60 days but within 90 days	**1.9**	1.3	**–**	–
Over 90 days	**1.1**	0.7	**–**	–
	20.1	21.2	**–**	–
Other debtors	**2.5**	2.9	**0.3**	0.4
Amounts due by fellow subsidiaries	**2.2**	5.0	**–**	0.1
	24.8	29.1	**0.3**	0.5

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days. The amounts due by fellow subsidiaries are unsecured, interest free and repayable on demand. The above includes deposits paid amounting to HK$0.1 million (2001: HK$0.1 million) which are expected to be recovered after one year.

16. CREDITORS

	Group		Company	
	2002	2001 Restated	**2002**	2001
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Trade creditors				
Due within 30 days	**8.1**	9.6	**–**	–
Due after 30 days but within 60 days	**4.3**	3.3	**–**	–
Due after 60 days but within 90 days	**0.3**	–	**–**	–
Over 90 days	**0.1**	0.1	**–**	–
	12.8	13.0	**–**	–
Other creditors and provisions	**52.7**	58.1	**1.6**	1.4
Amounts due to fellow subsidiaries	**6.9**	3.2	**0.4**	0.4
	72.4	74.3	**2.0**	1.8

The amounts due to fellow subsidiaries are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK$3.1 million (2001: HK$3.8 million) which are expected to be settled after one year.

17. SHARE CAPITAL

	2002		2001	
	No. of shares *Million*	***HK$ Million***	No. of Shares *Million*	*HK$ Million*
Authorised:				
Ordinary shares of HK$0.50 each	**380.0**	**190.0**	380.0	190.0
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**315.0**	**157.5**	315.0	157.5

18. RESERVES

	Share premium HK$ Million	Investment properties revaluation reserve HK$ Million	Hotel properties revaluation reserve HK$ Million	Investment securities revaluation reserve HK$ Million	Exchange and other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
(a) The Group							
(i) Company and subsidiaries							
Balance at 1st January, 2001	542.0	832.1	1,898.9	(271.2)	11.0	1,765.1	4,777.9
Dividend approved in respect of the previous year	–	–	–	–	–	(37.8)	(37.8)
Exchange reserve	–	–	–	–	(2.0)	–	(2.0)
Transferred to the profit and loss account on disposal of investment securities	–	–	–	3.0	–	–	3.0
Transferred to revenue reserves from exchange and other capital reserves	–	–	–	–	(9.0)	9.0	–
Revaluation deficit							
Investment properties	–	(55.1)	–	–	–	–	(55.1)
Hotel properties	–	–	(130.0)	–	–	–	(130.0)
Investment securities	–	–	–	(114.4)	–	–	(114.4)
Deficit transferred to the profit and loss account on impairment of investment securities	–	–	–	301.5	–	–	301.5
Loss for the year	–	–	–	–	–	(122.5)	(122.5)
Dividend declared in respect of the current year	–	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2001	542.0	777.0	1,768.9	(81.1)	–	1,598.0	4,604.8
Balance at 1st January, 2002							
– as previously reported	542.0	777.0	1,768.9	(81.1)	–	1,598.0	4,604.8
– prior year adjustment – employee benefits	–	–	–	–	–	20.2	20.2
– as restated	542.0	777.0	1,768.9	(81.1)	–	1,618.2	4,625.0
Dividend approved in respect of the previous year	–	–	–	–	–	(37.8)	(37.8)
Transferred to the profit and loss account on disposal of investment securities	–	–	–	14.4	–	–	14.4
Revaluation deficit							
Investment properties	–	(160.4)	–	–	–	–	(160.4)
Hotel properties	–	–	(220.0)	–	–	–	(220.0)
Investment securities	–	–	–	(155.6)	–	–	(155.6)
Retained profit for the year (note 6)	–	–	–	–	–	118.9	118.9
Dividend declared in respect of the current year	–	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2002	542.0	616.6	1,548.9	(222.3)	–	1,683.5	4,168.7

18. RESERVES (Cont'd)

	Share premium HK$ Million	Investment properties revaluation reserve HK$ Million	Hotel properties revaluation reserve HK$ Million	Investment securities revaluation reserve HK$ Million	Exchange and other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
(a) The Group (Cont'd)							
(ii) Associates							
Balance at 1st January, 2001	–	–	–	7.7	–	16.7	24.4
Revaluation deficit							
Investment securities	–	–	–	(2.2)	–	–	(2.2)
Retained profit for the year	–	–	–	–	–	9.4	9.4
Balance at 31st December, 2001 and 1st January, 2002	–	–	–	5.5	–	26.1	31.6
Revaluation deficit							
Investment securities	–	–	–	(6.1)	–	–	(6.1)
Loss for the year (Note 6)	–	–	–	–	–	(102.7)	(102.7)
Balance at 31st December, 2002	–	–	–	(0.6)	–	(76.6)	(77.2)
Total reserves							
At 31st December, 2002	542.0	616.6	1,548.9	(222.9)	–	1,606.9	4,091.5
At 31st December, 2001	542.0	777.0	1,768.9	(75.6)	–	1,644.3	4,656.6

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The exchange reserves and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted by the Group for foreign currency translation and the revaluation of investment and hotel properties and investment securities.

	Share premium HK$ Million	Investment properties revaluation reserve HK$ Million	Hotel properties revaluation reserve HK$ Million	Investment securities revaluation reserve HK$ Million	Exchange and other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
(b) The Company							
Balance at 1st January, 2001	542.0	–	–	–	–	86.1	628.1
Dividend approved in respect of the previous year	–	–	–	–	–	(37.8)	(37.8)
Retained profit for the year	–	–	–	–	–	55.8	55.8
Dividend declared in respect of the current year	–	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2001	542.0	–	–	–	–	88.3	630.3
Balance at 1st January, 2002	542.0	–	–	–	–	88.3	630.3
Dividend approved in respect of the previous year	–	–	–	–	–	(37.8)	(37.8)
Retained profit for the year	–	–	–	–	–	59.4	59.4
Dividend declared in respect of the current year	–	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2002	542.0	–	–	–	–	94.1	636.1

Reserves of the Company available for distribution to shareholders at 31st December, 2002 amounted to HK$94.1 million (2001: HK$88.3 million)

19. DEFERRED INCOME

Details of accounting policies adopted for deferred income are set out in Note 1(s). The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2002	2001
	HK$	*HK$*
	Million	*Million*
Balance at 1st January	**135.9**	135.7
Additions	**30.8**	63.0
Release of deferred income	**(70.9)**	(62.8)
Balance at 31st December	**95.8**	135.9

20. MATERIAL RELATED PARTY TRANSACTIONS

(a) The Group has a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK$16.9 million (2001: HK$17.4 million) which included management fees of HK$13.2 million (2001: HK$13.3 million) and marketing fees of HK$3.7 million (2001: HK$4.1 million). The management fee includes a basic fee and an incentive fee which is calculated based on 3% and 5% of gross revenue and gross operating profit respectively. The marketing fee is calculated based on 1.5% of gross revenue. Such transactions also constitute connected transactions as defined under the Listing Rules, but are exempted from the requirements under paragraph 14.24(2) relating to connected transactions thereof.

(b) As disclosed in Note 22 to the accounts, the joint venturers have jointly and severally guaranteed the performance and observance of the terms under an agreement for the development of Sorrento (Kowloon Station Package II) undertaken by the project company. The joint venturers have also severally guaranteed loan facilities granted to the project company. The amount attributable to the Company in proportion of the Company's shareholding thereof, is HK$87.6 million (2001: HK$433.0 million). Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

20. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

(c) As stated in Note 12 to the accounts, loans totalling HK$962.3 million (2001: HK$865.0 million) due from an associate involved in the Sorrento project are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1994 and 1997 from complying with the relevant connected transaction requirements. The net interest earned by the Group from the above loan during the current year amounted to HK$30.8 million (2001: HK$63.0 million) which has been deferred and is recognised in the consolidated profit and loss account in accordance with the basis as set out in note 1(s) above.

21. COMMITMENTS

Capital commitments for property, plant and equipment

	Group	
	2002	2001
	HK$	*HK$*
	Million	*Million*
Contracted but not provided for	**67.8**	15.3
Authorised but not contracted for	**38.6**	3.8
	106.4	19.1

22. CONTINGENCIES

The Company, together with its ultimate holding company, The Wharf (Holdings) Limited ("Wharf"), the principal shareholder of Wharf and two subsidiaries thereof (together the "joint venturers"), have jointly and severally guaranteed the performance and observance of the terms under an agreement for the development of Sorrento (Kowloon Station Package II) undertaken by an associate (the "project company"). The joint venturers have also severally guaranteed loan facilities granted to the project company. The amount attributable to the Company in proportion of the Company's shareholding thereof, is HK$87.6 million (2001: HK$433.0 million).

23. ULTIMATE HOLDING COMPANY

The ultimate holding company is The Wharf (Holdings) Limited, a company incorporated and listed in Hong Kong.

24. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 7.

25. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for cash and cash equivalents in the consolidated cash flow statement and employee benefits and the consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity in order to comply with SSAPs 15 (revised), 34 and 1 (revised) respectively. Other income separately disclosed in prior years has been included in turnover in order to present better the results and financial condition of the Group. Comparative figures have been amended accordingly. The effect of this change in presentation is to increase turnover by HK$24.5 million (2001: HK$28.6 million).

26. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Directors on 20th March, 2003.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

At 31st December, 2002

	Place of incorporation/ operation	SUBSIDIARIES Issued share capital (all being ordinary shares and fully paid unless stated otherwise)	SUBSIDIARIES Percentage of equity attributable to the Group	ASSOCIATES Class of shares	ASSOCIATES Percentage of equity attributable to the Group	Principal activities
Subsidiaries (held directly)						
Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US$1 shares	100			Investment holding
Ocean New Investments Limited	British Virgin Islands	500 US$1 shares	100			Investment holding
Subsidiaries and Associates (held indirectly)						
Algebra Assets Limited	British Virgin Islands	500 US$1 shares	100			Investment
Billiard Investments Limited	British Virgin Islands	500 US$1 shares	100			Investment
Hopfield Holdings Limited	British Virgin Islands			Ordinary	20	Investment holding
Kowloon Properties Company Limited	Hong Kong			Ordinary	20	Property development
Mandelson Investments Limited	British Virgin Islands	500 US$1 shares	100			Investment
Manniworth Company Limited	Hong Kong	10,000 HK$1 shares	100			Property development
The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	100			Hotel operation

Five-Year Financial Summary

	1998 Restated *HK$ Million*	1999 Restated *HK$ Million*	2000 Restated *HK$ Million*	2001 Restated *HK$ Million*	**2002** ***HK$ Million***
Consolidated profit and loss account					
Turnover *(Note 1)*	720.4	412.3	431.4	404.1	**335.2**
Group profit/(loss) attributable to shareholders *(Note 2)*	162.4	107.8	109.5	(113.1)	**16.2**
Prior year adjustment	–	8.2	5.0	–	**–**
Restated amount	162.4	116.0	114.5	(113.1)	**16.2**
Consolidated balance sheet					
Fixed assets	2,911.1	2,897.8	2,949.2	2,774.1	**2,404.6**
Interest in associates *(Note 3)*	411.2	1,116.5	1,173.6	897.0	**884.2**
Investment securities	961.1	929.1	890.0	851.5	**523.0**
Employee benefits *(Note 4)*	–	–	–	9.7	**9.3**
Net current assets/(liabilities) *(Notes 2 & 4)*	35.1	(131.3)	82.7	417.7	**523.7**
	4,318.5	4,812.1	5,095.5	4,950.0	**4,344.8**
Representing:					
Share capital	157.5	157.5	157.5	157.5	**157.5**
Reserves *(Notes 2 & 4)*	4,110.9	4,598.4	4,802.3	4,656.6	**4,091.5**
Shareholders' funds	4,268.4	4,755.9	4,959.8	4,814.1	**4,249.0**
Planned maintenance *(Note 2)*	50.1	–	–	–	**–**
Deferred income *(Note 3)*	–	56.2	135.7	135.9	**95.8**
	4,318.5	4,812.1	5,095.5	4,950.0	**4,344.8**

Notes:

(1) Turnover figures for the years ended 31st December, 1998 onwards are restated in order to present better the results and financial condition of the Group.

(2) These figures have been restated pursuant to the adoption of Statement of Standard Accounting Practice ("SSAP") 9 "Events after the balance sheet date" and SSAP 28 "Provisions, contingent liabilities and contingent assets" as explained in Note 10 to the 2001 accounts. Figures for 1998 have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.

(3) These figures have been reclassified as set out in Note 20 to the 2001 accounts. Figures for 1998 have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.

(4) Employee benefits and creditors figures for the year ended 31st December, 2001 have been reclassified as set out in Note 14 to the accounts. Figures for 2000 and prior years have not been restated as management consider it would be impractical to do so.