Jardine Matheson Limited
48th Floor Jardine House
Central, Hong Kong
Tel (852) 2843 8388 Fax (852) 2845 9005
nl@jardines.com

24 March 2003

Sir David Tweedie
Chairman
International Accounting Standards Board
London

Dear Sir David

IAS Improvements Project

I am writing to request that you and your Board give consideration under the IAS Improvements Project to a further amendment to IAS 40 to permit hotel properties to be treated consistently with leasehold investment properties and be carried at fair value. This would result in substantial convergence between the information that the market demands from us and our IFRS financial statements.

Investors and analysts that follow our companies and their competitors focus on the change in the net asset value of property interests during a period, and on the relative value of those assets when compared to the amount of equity capital and borrowings that they support. Investors are also keenly interested in our cash flows from operations and our capital expenditure in respect of planned property improvements, and often exclude amounts charged for depreciation from their models. This is true in relation to all of our property interests whether they are office, retail or hotel assets. We believe that the use of fair values for all of our property interests is the most relevant and meaningful basis to communicate with our shareholders.

To assist the Board the attached appendix sets out more detailed arguments and I would be happy to elaborate further if this would be helpful.

Yours sincerely

Norman Lyle

APPENDIX

In Hong Kong and some other territories, title to land is retained by Government authorities thus all investors have no option but to seek access to land through leasehold interests. In Hong Kong, many of these leasehold interests were granted for a period of 999 years and for an initial payment that represents all of the fair value of the land at the time; annual rentals are for wholly immaterial amounts. The substance of these leasehold land interests is the same as holding the freehold, even though the legal form is different.

In a fair value model, the change in value from all sources is encompassed in one amount, ie: the total change in value between one period and another. We do not believe that in a fair value model there is useful information to be gained by separating out one element of the change in value and attempting to relate that to the physical consumption that took place during a reporting period. Thus we support the conclusion not to permit depreciation in IAS 40, when using the fair value option. Even under the historical cost model, there are circumstances where depreciation has little or no meaning, particularly in relation to assets of historical significance, such that there is no reasonable basis for concluding when the end of their useful life will be reached, or the residual value that will be present at that time.

Current IFRS prevents us from being able to measure all of our property interests at fair value or recording all the changes in value immediately in the income statement in our audited financial statements. The current standards force us to amortise our lease costs and depreciate our leasehold improvements at a time when the fair value of these assets vastly exceeds their carrying values. You will be aware that IAS 17.11 contains a rule that a lease of land is an operating lease unless title is transferred at the end of the lease period, whilst IAS40.B11 confirms that the operating lease treatment must be applied even for very long leasehold interests. Whilst we are able to revalue the physical property element, we have been unable to find a robust basis for allocating changes in fair value between the land and the physical property elements of investment properties, and a partial valuation approach is confusing to investors and analysts.

This partial valuation approach also arises in relation to our hotel investments. IAS 40.B38 discusses the approach to owner-occupied property and concludes that there should not be an arbitrary rule for specific classes of property. It thus dismisses the possibility of classifying hotels as investment properties. The consequence under the current model for freehold properties is that gains arising from the revaluation of hotels are reported in equity.

For us to be able to include this information within our audited financial statements in future periods, the following adjustments would need to be made to the current standards:

(1) Investment properties (not being hotels)

- Amend IAS 40 to permit leasehold interests in land where title will not be transferred to be accounted for under IAS 40 and not IAS 17 (as the Board has proposed in its improvements project); or
- Remove the prohibition in IAS 17 on treating a lease of land as a finance lease.

(2) Hotel properties

- Amend IAS 40 to permit hotel properties to be treated as investment properties, even where the hotel is also operated by the entity (this is the approach that we suggest); or
- Remove the IAS 17 prohibition on finance leases of land and amend IAS 16 to permit fair value gains on fixed assets to be reported in the income statement and dispense with the requirement for depreciation when the fair value model is being used (to be consistent with IAS 40).

In relation to the Board's current projects we understand that proposals for amendments to IAS 17 are some years away. However, the Board is in the process of considering revisions to IAS 40. Thus we ask that further consideration be given to these issues before the Board finalises the improvements to that standard.

Proposed additional amendment

We have been following the development of the Board's thinking in relation to a comprehensive performance statement and specifically the proposal that all remeasurements should be reported together in an additional column in the income statement. We believe that this would be a very valuable step forward and would result in fair value gains and losses on both investment property and owner-occupied property being reported in the same part of the performance statement. We would be delighted to assist with any field trials that you are proposing during the development of this standard. However, we assume that a final standard would not become available before the end of 2005, at the earliest.

To enable us to apply the proposed revision to IAS 40 as soon as possible in a way that achieves a consistent and comparable basis for all of our property interests, we urge the Board to extend the scope of IAS 40 to include hotel properties (provided that they are carried at fair value) as a temporary measure, until such time as the new performance statement is available.

If the Board feels unable to do this, we recommend that consideration be given to amendments to IAS 16 and IAS 17, to enable consistent accounting for all types of property interests.