NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The recognition of exchange differences on certain long-term liabilities in CITIC Pacific's associated company Cathay Pacific Airways Limited ("Cathay Pacific") does not comply with Hong Kong SSAP 11 but does comply with International Accounting Standards ("IAS") and Cathay Pacific's policy is explained in accounting policy No. 1(o) below.

The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties as explained in the accounting policies set out below.

b Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and all its subsidiary companies made up to the balance sheet date. The results of subsidiary companies acquired or disposed of during the year are included as from the effective dates of acquisition or up to the effective dates of disposal respectively.

c Goodwill and capital reserve

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiary companies and associated companies acquired and is written off to reserves in the year of acquisition or amortised over a period no longer than its estimated useful life to the Group.

Where the fair values of net assets of subsidiary companies and associated companies exceed the purchase consideration, such differences, being discounts on acquisition, are taken to capital reserve in the year of acquisition.

d Subsidiary companies

Investments in subsidiary companies are carried at cost less provision.

NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e Associated companies

Associated companies are companies, other than subsidiary companies, in which the Group holds not more than 50 per cent of their equity share capital for the long term and can exercise significant influence in their management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of net assets of the associated companies, after attributing fair values to the net assets at the date of acquisition.

In the Company's balance sheet the investments in associated companies are stated at cost less provision. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

f Depreciation

All fixed assets except investment properties, properties held for development and construction in progress are carried at cost less accumulated depreciation.

Changes in the value of investment properties reflecting market conditions, depreciation and other factors are incorporated in the annual accounts on the basis set out in note 1(g).

Freehold land is not amortised. Leasehold land is depreciated over the remaining portion of the relevant lease.

Amortisation of vehicular tunnel (including land and buildings) is provided for over the franchise period on the basis of a sinking fund calculation whereby annual amounts compounded at the rate of 7% per annum will equal the net cost of the tunnel.

Other fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight line basis at the following annual rates:

Buildings	2%-4% or the remaining lease period of the land
Other fixed assets, comprising telecommunications equipment, traffic equipment, cargo lighters, computer installations, motor vehicles, plant and machinery, furniture, fixtures and equipment	10%-25%

NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by independent valuers; in each of the intervening years, valuations are undertaken by professionally qualified personnel. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment property revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit.

Investment properties held on leases with unexpired periods of twenty years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

h Properties held for development

Properties held for development consist of investments in land for future development and buildings under construction and properties under development pending any positive intention either to retain them for investment purposes or to sell them for proceeds. The investments are stated at cost less provision for diminution in value.

NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i Capitalisation of development costs

Property development expenditure, inclusive of interest and professional fees, is capitalised as cost of development.

Borrowing costs incurred on assets under development that take a substantial period of time to get ready for their intended use or sale are capitalised into the carrying value of the assets under development.

The capitalisation rate applied to funds borrowed for the development of the assets is based on the attributable cost of funds to the Group.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

j Revenue recognition

(i) Motor vehicles

Revenue arising from the sale of motor vehicles is recognised when the registration document is issued or on delivery of motor vehicles, whichever is earlier, which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Sales of properties under development and properties held for sale

Income from sales of properties under development is recognised when the properties developed for sale are sold in advance of completion and the outcome of projects can be ascertained with reasonable certainty by reference to the construction progress. Profit is recognised over the course of the development and is computed in each year as a proportion of the total estimated profit of the development. The proportion used is calculated by reference to the proportion of construction costs incurred to date to the estimated total construction costs to completion of the development and the extent of the sales proceeds received, after taking into account due allowance for contingencies.

Income from properties held for sale is recognised at the date when sale agreement is signed.

NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Income from co-operative joint venture

Where the Group has been guaranteed a minimum rate of return on its investment in co-operative joint ventures, income is accrued at the minimum rate of return, and any return in excess of the minimum is recognised in the year in which it is received, or becomes receivable.

Other income or dividend from co-operative joint venture is recognised when the right to receive is established.

Income from disposal of co-operative joint venture is recognised at the date when sale agreement is signed.

(iv) Other goods

Revenue arising from the sale of other goods is recognised on the delivery of goods to customers. Revenue is determined after deduction of any trade discounts.

(v) Rendering of services

Commission income and revenue arising from the rendering of repairing services are recognised when the goods concerned are sold to customers and when the relevant work is completed respectively.

(vi) Revenue from the provision of telecommunications services is recognised upon delivery of the services.

(vii) Dividend income

Dividend income is recognised when the right to receive the dividend is established.

k Properties held for sale

Properties held for sale are classified under current assets and are stated at the lower of cost and net realisable value.

NOTES TO THE ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l Investments

Co-operative joint ventures in the People's Republic of China are stated at cost (net of capital repayment) less provision for permanent diminution in value or where appropriate, amortised over a period no longer than its estimated useful life to the Group.

Interest in other listed and unlisted investments held for the long term are stated at cost less provision for permanent diminution in value. The carrying amounts of individual listed investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

Interest in other listed investments not held for the long term are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of such investments are recognised in the profit and loss account. Profits or losses on disposal of such investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

m Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are accounted for on a straight line basis over the respective periods of the leases.

n Inventories

Inventories comprising mainly motor vehicles, spare parts, electrical appliances, food, trading items and steels are valued at the lower of cost and net realisable value. Cost represents the actual cost of purchase and is calculated on the first-in first-out, specific identification or weighted average basis as appropriate. Net realisable value is determined by reference to the sale proceeds of items sold in the ordinary course of business after the balance sheet date, and in other cases, to management's estimates based on prevailing market conditions and net replacement costs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o Foreign currencies

The accounts of subsidiary companies and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

Transactions arising in foreign currencies during the year are translated into Hong Kong dollars at rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at market rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account with the following exception:

Cathay Pacific prepares its accounts on the basis that borrowings and leasing obligations relating to aircraft and related equipment are so arranged that repayments are covered by the anticipated future operating cash flows in the related currencies in order to reduce exposure to exchange rate fluctuations. Any unrealised exchange differences on these borrowings, leasing obligations and currency derivatives, and on related security deposits in Cathay Pacific's balance sheet, are recognised directly in equity via the Statement of Recognised Gains and Losses. These exchange differences are included in the profit and loss account as an adjustment to revenue in the same period or periods during which the hedged transaction affects the net profit and loss. As mentioned in 1(a) this complies with IAS but does not comply with Hong Kong SSAP 11 which would have required the exchange differences to pass through the profit and loss account. The directors of Cathay Pacific consider the adopted treatment gives the accounts a true and fair view and the auditors of Cathay Pacific agree.

p Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of material timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

NOTES TO THE ACCOUNTS

2 TURNOVER

The principal activity of the Company is holding its subsidiary companies and the principal activities of its principal subsidiary companies are set out in Note 27 to the accounts.

Turnover of the Group comprises the total invoiced value of goods supplied net of government taxes where applicable, and services rendered to customers, gross proceeds from sale of investments and properties, amounts received and receivable in respect of dividends, income from co-operative joint ventures, toll income, gross property rental and godown and cold storage income, analysed as follows :

	Group	
in HK $ million	2000	1999
Sale of goods	10,535	8,430
Sale of investments		
- interest in power generation in Hong Kong	1,552	12,781
Services rendered to customers	679	447
Dividend income and income from co-operative joint ventures	1,664	3,808
Toll income	508	490
Others	1,070	468
	16,008	26,424

NOTES TO THE ACCOUNTS

3 PROFIT FROM CONSOLIDATED ACTIVITIES

	Group	
in HK $ million	2000	1999
The profit from consolidated activities is arrived at after charging :		
Cost of sales (note)	11,877	22,520
- including cost of inventories of HK$8,762 million(1999 : HK$6,802 million)		
Distribution costs (note)	449	363
Other operating costs (note)	1,462	1,282
Auditors' remuneration	10	9
Contributions to staff retirement schemes	34	31
Depreciation and amortisation	452	356
Management fee payable to China International Trust & Investment Corporation Hong Kong (Holdings) Limited	2	2
Operating lease rentals		
- land and buildings	86	80

note:
Included in cost of sales, distribution costs and other operating costs are staff costs of HK$1,078million (1999 : HK$991 million)

and after crediting :		
Dividend income from listed investments	252	164
Dividend income from unlisted investments	347	254
Rental income from		
- investment properties		
Gross income	212	183
Less: Direct outgoings	(63)	(68)
	149	115
- other operating leases	95	80
Unrealised net gain from listed investments	225	-

NOTES TO THE ACCOUNTS

4 NET FINANCE CHARGES

	Group	
in HK $ million	2000	1999
Interest expense		
Bank loans and overdrafts wholly repayable within five years	984	1,063
Bank loans not wholly repayable within five years	64	16
Less : Amount capitalised	(161)	(95)
	887	984
Other loans wholly repayable within five years	212	204
Other loans not wholly repayable within five years	58	58
	1,157	1,246
Interest income	(589)	(193)
	568	1,053
Other finance charges	46	37
	614	1,090

NOTES TO THE ACCOUNTS

5 TAXATION

Hong Kong profits tax has been calculated at the rate of 16% (1999 : 16%) on the estimated assessable profit for the year. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	Group	
in HK $ million	2000	1999
Company and subsidiary companies :		
Hong Kong profits tax	97	66
Overseas taxation	49	33
Deferred taxation (Note 22)	(8)	(21)
	138	78
Associated companies :		
Hong Kong profits tax	36	94
Overseas taxation	62	52
Deferred taxation	(7)	98
	91	244
	229	322

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$3,647 million (1999 : HK$2,673 million).