(Expressed in Hong Kong dollars)

1. SIGNIFICANT 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. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of accounts

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

(c) Basis of consolidation

The consolidated accounts include the accounts of China Motor Bus Company, Limited and its subsidiaries made up to 30th June each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Investment in subsidiaries

A subsidiary 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.

Investments in subsidiaries in the company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as expenses in the profit and loss account.

(e) Jointly controlled entities

A joint venture is a contractual arrangement whereby the group or company and at least one other party undertake an economic activity which is subject to joint control and none of the parties involved unilaterally has control over the economic activity.

The group's interests in jointly controlled entities are accounted for in the consolidated accounts under the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of net assets of the jointly controlled entities. The consolidated profit and loss account reflects the group's share of the post-acquisition results of operations of the jointly controlled entities for the year.

The results of jointly controlled entities are included in the company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the company and the company's right to receive the dividend is established before the accounts of the company are approved by the directors. In the company's balance sheet, interests in jointly controlled entities are classified as long-term investments, stated at cost less any provisions for diminution in value which are other than temporary as determined by the directors for each jointly controlled entity individually. Any such provisions are recognised as expenses in the profit and loss account.

(f) Other investments

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

(g) Fixed assets

(i) Investment properties

Freehold investment properties and those with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value assessed annually by persons holding recognised professional qualifications and every three years by qualified external valuers. Surpluses arising on revaluations on a portfolio basis are credited to the profit and loss account to the extent of any deficits arising on revaluations previously charged to the profit and loss account and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account.

On disposal of the investment properties, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve are transferred to the profit and loss account.

(ii) Property held for redevelopment

Property held for redevelopment for investment purposes is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

(iii) Other fixed assets

All leasehold land held by the company at 30th June, 2001 is stated at cost except for one piece of land owned by the company which is stated at valuation at 30th June, 1962.

All other fixed assets are stated in the balance sheet at cost less accumulated depreciation.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Depreciation

Depreciation is calculated to write off the cost or valuation of the company's and the group's fixed assets over their estimated useful lives as follows:-

Buildings	–	over the period of the lease plus any renewal period
Motor buses	–	on a straight line basis, over 12 years for new buses and 7 years for converted or second hand buses, to a residual value of $10,000 and $7,000 respectively
Plant, fixtures and equipment	–	on a straight line basis to write off the assets over 10 or 5 years

No depreciation is provided on property held for redevelopment. Leasehold land is depreciated over its estimated useful life to the extent that the charge would be material.

No depreciation is provided in respect of freehold investment properties or those with an unexpired lease term of over 20 years since the valuation takes into account the state of each property at the date of valuation.

(i) 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. Lease rental receivable arising from operating leases is recognised in accordance with the group's income recognition policies, as set out in note 1(o)(i) below.

(j) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account. Investment properties denominated in a foreign currency are translated into Hong Kong dollars at the exchange rates ruling at the valuation date. Exchange gains and losses are taken directly to investment properties revaluation reserves.

(k) Employees' retirement schemes

Regular contributions to the schemes are made by the company with reference to the rates of contribution calculated by the actuary.

(l) Contingency reserves – insurance

The company sets aside annually, on the basis of an independent actuarial valuation, an amount to meet possible liabilities arising from third party claims in connection with the operation of franchised motor buses.

(m) Deferred taxation

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences 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.

(n) Deferred profits

Profits from the sale of land and buildings to jointly controlled entities for development for resale and investment are deferred to the extent of the group's attributable interest in the jointly controlled entities. The deferred profits will be recognised and taken to profit and loss account as and when the properties are sold by the jointly controlled entities.

(o) Income recognition

(i) Rental income receivable under operating leases is recognised on a straight line basis over the term of the lease.

(ii) Interest income from bank deposits is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

(iii) Dividend income from listed investments is recognised at the time when the right to receive payment is established.

(p) 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 entities.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2. SEGMENTAL INFORMATION

The principal activities of the company and the group are property development and investment. The principal activities of the subsidiaries are set out in note 10 on the accounts.

Turnover represents rental income from investment properties.

The analysis of geographical location of the operations of the company and its subsidiaries during the year is as follows:

	Group turnover		Operating profit	
	2001	2000	2001	2000
	$000's	$000's	$000's	$000's
Geographical locations of operations				
Hong Kong	39,907	39,278	139,764	164,017
United Kingdom	27,720	13,009	26,829	13,466
	67,627	52,287	166,593	177,483

3. INCOME

	2001	2000
	$000's	$000's
Other Revenue		
Interest income	128,582	157,340
Dividend income from other investments	106	65
Management fee	496	496
Write back of provision for third party claims	1,128	3,837
Others	2,025	1,079
	132,337	162,817
Other net losses		
Exchange losses	(2,206)	(1,947)
Net unrealised gains/(losses) on other investments at fair value	222	(869)
Gain on disposal of fixed assets	597	2
Others	1,310	354
	(77)	(2,460)

4. OPERATING PROFIT

Operating profit is arrived at

	2001	2000
	$000's	$000's
after charging:-		
Auditors' remuneration	1,928	2,113
Property expenses	1,900	1,637
Operating lease charges for land and buildings	–	442
and after crediting:-		
Rental income less outgoings which includes	65,727	50,650
– gross rental income from investment properties	67,627	52,287

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:-

	2001	2000
	$000's	$000's
Fees	295	305
Bonus in accordance with article 155	1,376	3,015
Salaries, allowances and other benefits	13,208	14,450
	14,879	17,770

Fees and other emoluments in respect of independent non-executive directors for the year ended 30th June, 2001 amounted to $485,330 (2000: $941,352).

6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:-

	2001	2000
	$000's	$000's
Provision for Hong Kong profits tax for the year	259	71
Overseas taxation	1,251	770
	1,510	841
Overprovision in respect of previous year	(121)	(29,017)
Share of taxation of jointly controlled entities	11,048	2,805
	12,437	(25,371)

The provision for Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 30th June, 2001. The provision for overseas taxation is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. TAXATION (Continued)

(b) The liability to taxation represents:-

	The group		The company	
	2001	2000	2001	2000
	$000's	$000's	$000's	$000's
Estimated liability to profits tax for the year	1,510	841	–	–
Profits tax provision relating to previous year	204	5,779	–	5,747
	1,714	6,620	–	5,747

(c) No provision for deferred taxation is required as there are net deferred tax assets for both the company and the group. The major components of the unprovided deferred tax are:-

	Group and company	
	2001	2000
	$000's	$000's
Depreciation allowances in excess of related depreciation	959	1,400
General provisions:		
– third party claims	(9,136)	(11,424)
– others	18	21
Tax losses	(6,720)	(3,778)
Net deferred tax assets not recognised	(14,879)	(13,781)

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of $146,439,000 (2000: $221,994,000) which has been dealt with in the accounts of the company.

8. DIVIDENDS

	2001	2000
	$000's	$000's
First interim dividend of $0.10 per share paid (2000: $0.10)	4,502	4,627
Special dividend of $0.80 per share paid (2000: $0.76)	36,792	35,164
Second interim dividend of $0.40 per share declared (2000: $0.40)	18,348	18,507
Proposed final dividend of $0.10 per share (2000: $0.10)	4,584	4,613
Proposed special dividend of $1.80 per share (2000: $2.80)	82,510	129,163
	146,736	192,074