

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- travel and travel-related operations
- hotel operations
- tourist attraction operations
- passenger transportation services
- golf club operations
- freight forwarding and transportation services
- power generation (conducted through a jointly controlled entity)
- investment holding
- treasury operations

In the opinion of the directors, the ultimate holding company is China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), which is incorporated in Hong Kong.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (revised) : "Events after the balance sheet date"
- SSAP 14 (revised) : "Leases"
- SSAP 18 (revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(continued)*

SSAP 9 (revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but not adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheets. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 31 and 38 to the financial statements.

SSAP 18 (revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11, 17 and 34 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

SSAP 29 prescribes the recognition and measurement criteria of intangible assets, together with the disclosure requirements. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements. The required new additional disclosures are included in notes 16, 18, 19 and 34 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for the impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of hotel properties, investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

Subsidiaries are companies, other than jointly controlled entities or associates, in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their boards of directors. The Company's interests in subsidiaries are stated at cost, less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreements between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Group has unilateral control over the joint venture company;
- (ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly controlled entities

A jointly controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity, operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates, jointly controlled entities and business segments represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 to 47 years. The useful life of 47 years is estimated on the basis that China Travel Service (Hong Kong) Limited, a wholly-owned subsidiary of the Group acquired in 2001, has been appointed by CTS Holdings as its exclusive agent up to the year 2047 to carry out the general administrative services provided in Hong Kong for the application of tourist visas and travel permits for entry into the mainland of the People's Republic of China (the "PRC"). CTS Holdings has been appointed by the PRC Government to provide general administration services in Hong Kong for application of tourist visas and travel permits into the PRC. The carrying amount of this goodwill is reviewed annually and written down for impairment when it is considered necessary. In the case of associates and jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates, jointly controlled entities and business segments, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates, jointly controlled entities and business segments represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets of 49 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates, jointly controlled entities and business segments, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account for the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than investment properties and hotel properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value, if any. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2.5% to 4.5%
Scenic spots establishment	3.6% to 19%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	20%
Furniture, fixtures and equipment	9% to 30%
Motor vehicles	18% to 20%

Land use rights are stated at cost less accumulated amortisation. The cost of land use rights is amortised on the straight-line basis over the term of the lease or the tenure of the relevant joint venture to which the land use rights were granted, whichever is shorter, save for the land use right on a piece of land in the PRC as further detailed in note 14 to the financial statements.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net proceeds on disposal and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property 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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Hotel properties

Hotel properties are stated at their open market values, based on their existing use, on the basis of annual professional valuations. Movements in the values of the hotel properties are dealt with in the hotel property revaluation reserve, on an individual basis, unless the reserve is exhausted, in which case the decrease is charged to the profit and loss account as incurred. Any surplus arising on revaluation of hotel properties is credited to the hotel property revaluation reserve, except to the extent that it reverses a revaluation deficit of the same hotel property previously recognised as an expense, in which case this surplus is first credited to the profit and loss account to the extent of the deficit previously charged.

It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time. The related repairs and maintenance expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the directors consider that depreciation is not necessary for the hotel properties. Depreciation is, however, provided on other hotel assets at the rates stated in the accounting policy for fixed assets and depreciation above.

Upon the disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

Properties under development are carried at cost less any impairment losses, and is not depreciated. Cost includes all construction expenditure, capitalised borrowing costs on related borrowed funds during the period of construction and other direct costs attributable to the construction of such properties. Properties under development are reclassified to the appropriate category of fixed assets when completed and ready for use.

Property held for sale

Property held for sale is stated at the lower of cost and net realisable value. Cost comprises all costs of acquisition of land, construction costs, other direct costs and borrowing costs capitalised on such property until it reaches a marketable state. Net realisable value represents the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in unlisted equity securities and debt investments intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors with reference to the fair values of the underlying assets and liabilities of each investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments (continued)

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment ceases to exist and there is persuasive evidence that the new circumstance and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or weighted average basis, where appropriate. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

The cost of inventories are capitalised into plant and machinery when they are used for replacements or for the improvement of plant and machinery, or are charged to the profit and loss account when they are used for daily operations.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. The capitalisation rate for the year is based on the actual cost of the related borrowings.

Direct expenses incurred in respect of the arrangement of borrowing long term bank loans are deferred and amortised over the terms of the relevant bank loans on the straight-line basis.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. The Prior Scheme is still operating after 1 December 2000.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of freight forwarding, passenger transportation services, travel-related services and hotel services, when the services are rendered;
- (c) from the rendering of tour services, based on the date of tour departure;
- (d) income related to scenic spots, when the admission tickets are sold;
- (e) income from the sale of golf club memberships, on a time proportion basis over the membership period;
- (f) from the sale of listed investments, on a trade date basis;
- (g) rental income, on a time proportion basis over the lease terms;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividends, when the shareholders' right to receive payment has been established.

Deferred income

Deferred income represents the proceeds received and receivable on the sale of memberships in the Group's golf club. Such income is deferred and amortised into the profit and loss account over the tenure of the relevant membership periods on the straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final and other dividends to shareholders, which were declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (revised) and SSAP 18 (revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 34 to the financial statements.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

4. SEGMENT INFORMATION (continued)

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the passenger transportation segment engages in the provision of land transportation services to individuals between Hong Kong and the PRC;
- (b) the tourist attraction operations segment is the operation of theme parks in Shenzhen;
- (c) the freight forwarding segment engages in the provision of export, re-export freight and logistic services between Hong Kong and the PRC; and sea and freight forwarding to overseas;
- (d) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong and Macau;
- (e) the travel and travel-related operations segment engages in the provision of tour and travel-related services in Hong Kong, the PRC, South East Asia, the United States of America and other countries in the European Union;
- (f) the golf club operations segment is to provide comprehensive facilities to individual or corporate members of the golf club in Shenzhen; and
- (g) the corporate and other segment comprises the Group's management services business, which provides management services to Group companies together with corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the Group's production and service facilities, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and transportation services	Hotel operations	Travel and travel-related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	96,422	425,570	299,721	250,693	1,218,269	38,378	-	182	-	2,329,235
Intersegment revenue	1,706	-	182	17,574	8,579	-	-	2,868	(30,909)	-
Other revenue and gains	-	11,138	2,198	2,475	5,625	-	-	-	-	21,436
Total	<u>98,128</u>	<u>436,708</u>	<u>302,101</u>	<u>270,742</u>	<u>1,232,473</u>	<u>38,378</u>	<u>-</u>	<u>3,050</u>	<u>(30,909)</u>	<u>2,350,671</u>
Segment results	<u>11,173</u>	<u>157,503</u>	<u>15,505</u>	<u>13,585</u>	<u>239,683</u>	<u>(680)</u>	<u>-</u>	<u>(33,273)</u>	<u>-</u>	<u>403,496</u>
Interest income and unallocated gains										159,750
Unallocated expenses										(233)
Profit from operating activities										563,013
Finance costs										(66,579)
Write-back of provisions for diminutions in values of interests in jointly controlled entities and associates										3,383
Gain on disposal of an associate										53,043
Share of profits less losses of:										
Jointly controlled entities	-	-	(1,833)	-	-	-	-	247,115	-	245,282
Associates	33,700	-	309	-	-	-	-	-	-	34,009
Profit from ordinary activities before tax										832,151
Tax										(103,364)
Profit before minority interests										728,787
Minority interests										(77,821)
Net profit from ordinary activities attributable to shareholders										<u>650,966</u>

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and transportation services	Hotel operations	Travel and travel-related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000
Segment revenue:										
Sales to external customers	77,982	432,733	297,911	225,927	243,270	33,926	1,439,641	-	-	2,751,390
Intersegment revenue	512	-	-	13,456	-	-	-	2,956	(16,924)	-
Other revenue and gains	-	11,977	1,428	2,436	-	-	-	-	-	15,841
Total	<u>78,494</u>	<u>444,710</u>	<u>299,339</u>	<u>241,819</u>	<u>243,270</u>	<u>33,926</u>	<u>1,439,641</u>	<u>2,956</u>	<u>(16,924)</u>	<u>2,767,231</u>
Segment results	<u>6,237</u>	<u>153,242</u>	<u>11,832</u>	<u>16,201</u>	<u>81,540</u>	<u>(9,258)</u>	<u>549,446</u>	<u>(12,236)</u>	<u>-</u>	<u>797,004</u>
Interest income and unallocated gains										114,888
Unallocated expenses										(45,095)
Profit from operating activities										866,797
Finance costs										(151,831)
Provision for impairment in an associate										(56,152)
Loss on deemed disposal of an associate										(62,767)
Provisions for diminutions in values of interests in jointly controlled entities and associates										(13,131)
Share of profits less losses of:										
Jointly controlled entities	-	-	(3,104)	-	-	-	-	8,670	-	5,566
Associates	16,981	-	(134)	-	-	-	-	(69,702)	-	(52,855)
Profit from ordinary activities before tax										535,627
Tax										(104,446)
Profit before minority interests										431,181
Minority interests										(280,262)
Net profit from ordinary activities attributable to shareholders										<u>150,919</u>

Notes to Financial Statements (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Passenger	Tourist	Freight	Hotel	Travel and	Golf club	Power	Corporate	Elimin-	Con-
	trans- portation services 2001 HK\$'000	attraction operations 2001 HK\$'000	forwarding and trans- portation services 2001 HK\$'000	operations 2001 HK\$'000	travel- related operations 2001 HK\$'000	operations 2001 HK\$'000	generation 2001 HK\$'000	and others 2001 HK\$'000	ations 2001 HK\$'000	solidated 2001 HK\$'000
Segment assets	70,050	807,305	327,106	3,923,435	2,561,465	349,273	-	1,127,739	-	9,166,373
Interests in jointly controlled entities	-	-	22,210	-	-	-	1,006,503	-	-	1,028,713
Interests in associates	440,951	2,827	681	-	(1,932)	-	-	312	-	442,839
Unallocated assets	-	-	-	-	-	-	-	-	-	3,737
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	-	4,666
Total assets										10,646,328
Segment liabilities	7,383	123,815	185,154	44,318	372,943	64,011	-	11,098	-	808,722
Unallocated liabilities	-	-	-	-	-	-	-	-	-	1,471,637
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	-	4,666
Total liabilities										2,285,025
Other segment information:										
Capital expenditure	14,760	112,369	11,233	673,033	671,884	5,642	-	674	-	1,489,595
Depreciation and amortisation	10,053	59,950	6,314	1,801	48,899	12,194	-	2,036	-	141,247
Impairment losses recognised in the profit and loss account	-	-	1,492	-	-	-	-	-	-	1,492
Impairment losses reversed in the profit and loss account	-	2,827	2,048	-	-	-	-	-	-	4,875
Other non-cash expenses	71	3,705	682	544	2,083	-	-	1,018	-	8,103
Surplus on revaluation recognised directly in equity	-	-	-	22,838	-	-	-	-	-	22,838

Group	Passenger	Tourist	Freight	Hotel	Travel and	Golf club	Power	Corporate	Elimin-	Con-
	trans- portation services 2000 HK\$'000	attraction operations 2000 HK\$'000	forwarding and trans- portation services 2000 HK\$'000	operations 2000 HK\$'000	travel- related operations 2000 HK\$'000	operations 2000 HK\$'000	generation 2000 HK\$'000	and others 2000 HK\$'000	ations 2000 HK\$'000	solidated 2000 HK\$'000
Segment assets	59,550	756,550	413,894	3,501,383	216,276	324,510	-	731,917	-	6,003,080
Interests in jointly controlled entities	-	-	34,257	-	-	-	1,576,935	-	-	1,611,192
Interests in associates	452,886	-	2,178	-	-	-	-	451,567	-	906,631
Unallocated assets	-	-	-	-	-	-	-	-	-	3,700
Total assets										8,524,603
Segment liabilities	3,857	126,674	267,991	40,930	75,750	53,104	-	62,609	-	630,915
Unallocated liabilities	-	-	-	-	-	-	-	-	-	1,158,210
Total liabilities										1,789,125
Other segment information:										
Capital expenditure	11,291	116,140	8,273	128,791	10,813	7,354	2,635	323	-	285,620
Depreciation and amortisation	10,370	60,580	8,219	5,012	1,531	15,566	348,222	2,041	-	451,541
Impairment losses recognised in the profit and loss account	-	2,827	10,304	-	-	-	-	56,152	-	69,283
Unallocated amounts	-	-	-	-	-	-	-	-	-	6,174
										75,457
Other non-cash expenses	174	2,458	33,692	2,797	4,475	-	-	70,122	-	113,718
Deficit on revaluation recognised directly in equity	-	-	-	15,166	-	-	-	-	-	15,166

4. SEGMENT INFORMATION (continued)**(b) Geographical segments**

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		PRC		Overseas		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Revenue from external customers	<u>1,498,497</u>	<u>773,737</u>	<u>604,957</u>	<u>1,993,494</u>	<u>247,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,350,671</u>	<u>2,767,231</u>
Segment results	<u>227,173</u>	<u>91,682</u>	<u>180,442</u>	<u>705,322</u>	<u>(4,119)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>403,496</u>	<u>797,004</u>
Other segment information:										
Segment assets	7,740,895	5,564,820	2,746,616	2,959,783	154,151	-	-	-	10,641,662	8,524,603
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	4,666	-
									<u>10,646,328</u>	<u>8,524,603</u>
Capital expenditure	<u>842,492</u>	<u>155,041</u>	<u>605,088</u>	<u>130,579</u>	<u>42,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,489,595</u>	<u>285,620</u>

5. TURNOVER, REVENUE AND GAINS

Turnover primarily represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and the value of services rendered during the year.

5. TURNOVER, REVENUE AND GAINS (continued)

Revenue from the following activities has been included in turnover. An analysis of turnover, other revenue and gains is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Continuing operations reclassified to a jointly controlled entity in December 2000:		
Power generation income	-	1,439,641
Other continuing operations:		
Freight forwarding and transportation services income	299,721	297,911
Travel and travel-related operations income	1,218,269	243,270
Hotel operations income	250,693	225,927
Golf club operations income	38,378	33,926
Tourist attraction operations income	425,570	432,733
Passenger transportation services income	96,422	77,982
Others	182	-
	<u>2,329,235</u>	<u>1,311,749</u>
	<u>2,329,235</u>	<u>2,751,390</u>
Other revenue		
Rental income	21,436	15,841
Interest income	93,861	56,121
Compensation income	7,070	-
Indemnity income on withholding tax	1,806	3,083
Others	10,068	14,232
	<u>134,241</u>	<u>89,277</u>
Gains		
Gain on disposal of long term investments	-	10,261
Gain on disposal of short term investments	-	502
Gain on disposal of fixed assets, net	621	4,098
Exchange gains, net	5,378	6,667
Gain on changes in fair values of short term investments, net	551	-
Write-back of long outstanding payables	39,743	3,286
Hotel property revaluation surplus	652	16,638
	<u>46,945</u>	<u>41,452</u>
Other revenue and gains	<u>181,186</u>	<u>130,729</u>

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Depreciation	117,463	451,541
Goodwill amortisation for the year*	27,015	-
Negative goodwill recognised as income during the year**	(3,231)	-
Auditors' remuneration:		
Current year	6,353	4,522
Underprovision in the prior year	794	513
	<u>7,147</u>	<u>5,035</u>
Staff costs (including directors' remuneration - note 8):		
Wages and salaries	409,268	332,946
Pension contributions	29,335	29,945
Less: Forfeited contributions	(6,194)	(1,433)
Net pension contributions***	<u>23,141</u>	<u>28,512</u>
Total staff costs	<u>432,409</u>	<u>361,458</u>
Minimum lease payments under operating leases:		
Land and buildings	32,305	15,979
Motor vehicles	1,991	-
Provisions for doubtful debts and bad debts written off	5,031	37,155
Provisions for slow-moving inventories	1,102	1,131
Provisions for impairments in values of short term investments	-	6,174
Loss on changes in fair values of long term investments	233	-
Loss/(gain) on changes in fair values of short term investments	<u>(551)</u>	<u>6,215</u>

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** At 31 December 2001, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2000: Nil).

Notes to Financial Statements (continued)

31 December 2001

7. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(86,070)	(165,839)
Finance lease and hire purchase contracts	(348)	(388)
Amortisation of deferred borrowing costs	(6,116)	(14,075)
	<u>(92,534)</u>	<u>(180,302)</u>
Total finance costs	(92,534)	(180,302)
Less: Interest capitalised	25,955	28,471
	<u>(66,579)</u>	<u>(151,831)</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	1,320	1,050
Independent non-executive directors	480	450
	<u>1,800</u>	<u>1,500</u>
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	5,324	4,834
Pension scheme contributions	105	253
	<u>5,429</u>	<u>5,087</u>
Total remuneration	<u>7,229</u>	<u>6,587</u>

8. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	12	15
HK\$1,000,001 to HK\$1,500,000	-	1
HK\$2,000,001 to HK\$2,500,000	1	-
HK\$2,500,001 to HK\$3,000,000	-	1
HK\$3,000,001 to HK\$3,500,000	1	-
	<u>14</u>	<u>17</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2000: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2000: three) non-director, highest paid employees are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	2,742	2,520
Pension scheme contributions	90	79
	<u>2,832</u>	<u>2,599</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2001	2000
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>3</u>

10. TAX

	2001 HK\$'000	2000 HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(56,143)	(14,135)
Elsewhere	(30,534)	(58,843)
Overseas	(1,645)	-
Over/(under)provisions in prior years	2,650	(19,625)
Deferred tax – note 32	(316)	(9,231)
	<u>(85,988)</u>	<u>(101,834)</u>
Share of tax attributable to:		
Jointly controlled entities	(12,339)	(937)
Associates	(5,037)	(1,675)
	<u>(17,376)</u>	<u>(2,612)</u>
Tax charge for the year	<u>(103,364)</u>	<u>(104,446)</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$541,047,000 (2000: loss (as restated) of HK\$322,897,000).

The Group's share of aggregate profits less losses retained by its jointly controlled entities and associates for the year amounted to a profit of HK\$232,928,000 (2000: loss of HK\$3,111,000) and a profit of HK\$28,212,000 (2000: loss of HK\$54,910,000), respectively.

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net debit of HK\$270,000,000 to the Company's net loss for that year, and a net credit of the same amount to the amounts due to subsidiaries in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in a decrease in the amount of retained profits as at 1 January 2001 by HK\$270,000,000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 34 to the financial statements.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS*(continued)*

The effect of this change in accounting policy on the Company's net profit for the current year was to increase the net profit by HK\$270,000,000 to HK\$541,047,000, as disclosed above.

12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim – 5 cents (2000: 1 cent) per ordinary share	189,644	32,511
Underaccrual of proposed 2000 final dividend	16,226	–
	<u>205,870</u>	<u>32,511</u>
Proposed final – 4 cents (2000: 1 cent) per ordinary share	168,809	32,511
Proposed special dividend – Nil (2000: 2 cents) per ordinary share	–	65,022
	<u>168,809</u>	<u>97,533</u>
	<u><u>374,679</u></u>	<u><u>130,044</u></u>

The proposed final dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the aggregate proposed final and special dividends for the year ended 31 December 2000 of HK\$97,533,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheets. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK\$97,533,000.

The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividends of HK\$168,809,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheets at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$650,966,000 (2000: HK\$150,919,000), and the weighted average of 3,647,613,303 (2000: 3,251,115,027) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$671,138,000, after adjustment for the interest saved upon deemed conversion of all convertible notes at beginning of the year and all convertible bonds on the date of issue. The weighted average number of ordinary shares used in the calculation is 3,647,613,303 (2000: 3,251,115,027) shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 403,904,523 (2000: 427,272,727) shares assumed to have been issued at no consideration on the deemed exercise of the share options granted on 15 November 2000 and the bonus warrants allotted on 16 May 2001, and the deemed conversion of all of the convertible bonds and convertible notes at the beginning of the year, or the date of issue, whichever is later.

No diluted earnings per share for the year ended 31 December 2000 has been presented because the conversion of the convertible notes would have an anti-dilutive effect and the Company's share options did not have a dilutive effect on that year.

14. FIXED ASSETS

Group

	Invest- ment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots and establi- shment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	19,473	2,381,472	573,516	658,090	460,922	4,093,473
Additions	-	-	2,534	5,509	54,745	62,788
Acquisition of subsidiaries	68,000	453,724	585,534	-	184,895	1,292,153
Transfer from properties under development	-	661,838	3,836	43,735	18,457	727,866
Disposals and written off	-	-	(914)	(4,613)	(34,654)	(40,181)
Reclassification	-	-	-	3,092	(3,092)	-
Exchange realignments	-	-	2,063	-	158	2,221
Surplus on revaluation	-	23,490	-	-	-	23,490
At 31 December 2001	87,473	3,520,524	1,166,569	705,813	681,431	6,161,810
At cost	19,473	-	1,166,569	705,813	681,431	2,573,286
At 2001 valuation	68,000	3,520,524	-	-	-	3,588,524
	87,473	3,520,524	1,166,569	705,813	681,431	6,161,810
Accumulated depreciation:						
At beginning of year	2,869	-	100,568	334,884	310,395	748,716
Provided during the year	1,107	-	25,820	36,832	53,704	117,463
Acquisition of subsidiaries	-	-	1,273	-	144,340	145,613
Disposals and written off	-	-	(330)	(3,842)	(29,072)	(33,244)
Reclassification	-	-	-	5,731	(5,731)	-
Exchange realignments	-	-	203	-	14	217
At 31 December 2001	3,976	-	127,534	373,605	473,650	978,765
Net book value:						
At 31 December 2001	83,497	3,520,524	1,039,035	332,208	207,781	5,183,045
At 31 December 2000	16,604	2,381,472	472,948	323,206	150,527	3,344,757

Notes to Financial Statements (continued)

31 December 2001

14. FIXED ASSETS (continued)

Company	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	1,630	1,996	1,202	4,828
Additions	354	319	-	673
Write-off	(34)	(42)	-	(76)
At 31 December 2001	1,950	2,273	1,202	5,425
Accumulated depreciation:				
At beginning of year	1,545	1,652	962	4,159
Provided during the year	105	309	240	654
Write-off	(34)	(38)	-	(72)
At 31 December 2001	1,616	1,923	1,202	4,741
Net book value:				
At 31 December 2001	334	350	-	684
At 31 December 2000	85	344	240	669

The Group's investment properties, land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Investment properties, at cost or valuation:			
Medium term leases	68,000	-	68,000
Short term leases	-	19,473	19,473
	<u>68,000</u>	<u>19,473</u>	<u>87,473</u>
Land and buildings, at cost:			
Long term leases	252,418	48,728	301,146
Medium term leases	375,135	476,258	851,393
Short term leases	-	14,030	14,030
	<u>627,553</u>	<u>539,016</u>	<u>1,166,569</u>

14. FIXED ASSETS (continued)

The land use right for a piece of the Group's land with a carrying value of HK\$119,361,000 will expire on 17 August 2007. It is the intention of the Group to apply for an extension of the relevant land use right for 30 years up to 17 August 2037. Accordingly, amortisation of the cost of the relevant land use right has been calculated by reference to the extended land use right tenure up to 17 August 2037.

Particulars of the hotel properties held by the Group as at 31 December 2001 are as follows:

Location	Use	Group's interest	Lease term
Hotel Concourse 20-46 Lai Chi Kok Road Mongkok Kowloon Hong Kong	Hotel	100%	Medium
Hotel New Harbour 41-49 Hennessy Road 4 and 6 Fenwick Road Wanchai Hong Kong	Hotel	100%	Long term
The Metropole Hotel 75 Waterloo Road Kowloon Hong Kong	Hotel	100%	Long term
Metropark Hotel 148 Tung Lo Wan Road Causeway Bay Hong Kong	Hotel	100%	Long term
Hotel Grandeur Macau Rua de Pequim 199 Macau	Hotel	100%	Medium

The hotel properties were revalued at 31 December 2001 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

14. FIXED ASSETS (continued)

The investment properties located at Portland Street, Hong Kong were revalued at 31 December 2001 by RHL Appraisal Ltd., at HK\$68,000,000, on an open market value based on their existing use.

The Group's investment properties, with gross carrying amount and accumulated depreciation of HK\$87,473,000 and HK\$3,976,000, respectively, are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements.

Certain hotel properties and land and buildings held by the Group with aggregate carrying values of HK\$2,383,876,000 and HK\$12,008,000, respectively, were pledged to secure certain of the Group's bank facilities of HK\$1,305,010,000. Such facilities were fully utilised at 31 December 2001.

The net book value of the Group's fixed assets held under finance leases and hire purchase contracts included in the total amount of motor vehicles and furniture, fixtures and equipment at 31 December 2001 amounted to HK\$6,597,000 (2000: HK\$6,537,000).

15. PROPERTIES UNDER DEVELOPMENT

	Group			2001 HK\$'000
	2000 HK\$'000	Additions HK\$'000	Transfer to fixed assets HK\$'000	
Building and plant	1,010	-	(1,010)	-
Scenic spots establishment	63,612	99,007	(61,012)	101,607
Golf course	2,282	2,328	(4,006)	604
Hotel properties	966,968	178,932	(661,838)	484,062
	<u>1,033,872</u>	<u>280,267</u>	<u>(727,866)</u>	<u>586,273</u>

The costs of building and plant, scenic spots establishment, golf course and hotel properties comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings in Hong Kong held under long term leases	484,062	966,968
Land and buildings outside Hong Kong held under medium term leases	102,211	66,904
	<u>586,273</u>	<u>1,033,872</u>

15. PROPERTIES UNDER DEVELOPMENT (continued)

Upon completion, the balances will be transferred to the appropriate category of fixed assets.

The accumulated net interest and borrowing costs capitalised in properties under development were HK\$57,509,000 (2000: HK\$101,735,000) and HK\$3,577,000 (2000: Nil), respectively.

16. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	-	-
Acquisition of subsidiaries	1,412,959	(202,779)
At 31 December 2001	1,412,959	(202,779)
Accumulated amortisation/(recognition as income):		
At beginning of year	-	-
Recognised as income/(amortisation provided) during the year	(27,015)	3,231
At 31 December 2001	(27,015)	3,231
Net book value:		
At 31 December 2001	1,385,944	(199,548)
At 31 December 2000	-	-

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. Such amounts are subject to an annual impairment test.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, are HK\$1,041 million and HK\$1,254 million, respectively, as at 1 January and 31 December 2001. The amounts of goodwill are stated at its cost.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000 (Restated)
Unlisted share, at cost	3,270,587	1,312,290
Due from subsidiaries	3,511,399	3,012,337
Loans to subsidiaries	2,442,295	2,453,932
Due to subsidiaries	(1,560,538)	(1,076,076)
	<u>7,663,743</u>	<u>5,702,483</u>
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(276,389)	(270,000)
	<u>7,387,354</u>	<u>5,432,483</u>

Except for certain balances due from subsidiaries with an aggregate amount of HK\$383,119,000 (2000: HK\$378,121,000) which bear interest at 4.25% to 6% per annum, the remaining balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

The amounts due to subsidiaries in the prior year have been adjusted for the effect of the prior year adjustment of HK\$270,000,000 in respect of dividends proposed after the prior year's balance sheet date, as further explained in note 11 to the financial statements.

Except for certain loans to subsidiaries with an aggregate amount of HK\$72,000,000 which bear interest at 6% per annum, the remaining loans to subsidiaries are interest-free, unsecured and not repayable within one year.

A balance due from a subsidiary of HK\$4,711,000 is repayable in 2002 and, accordingly, such balance is included in current assets.

During the year, the Group acquired Alton Services Limited and its subsidiaries from its ultimate holding company. Further details of this acquisition are included in notes 35(c) and 40(b) to the financial statements.

Particulars of the Company's principal subsidiaries are set out in note 36 to the financial statements.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,158,792	925,864
Due from jointly controlled entities	16,285	132,152
Loan to a jointly controlled entity	-	561,788
Due to jointly controlled entities	(137,692)	(1,362)
	<u>1,037,385</u>	<u>1,618,442</u>
Less: Provisions for impairment	(8,672)	(7,250)
	<u><u>1,028,713</u></u>	<u><u>1,611,192</u></u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. The amount of goodwill remaining in consolidated reserves, arising from the acquisition of jointly controlled entities, is HK\$3,693,000 as at 1 January and 31 December 2001. The amount of goodwill is stated at its cost.

The balances with the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly controlled entities, all of which are held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2001	2000	
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	25	25	Provision of cargo transportation services
Gansu Lida International Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd. #	Corporate	PRC	30	30	Manufacturing of brass products

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Name	Business structure	Place of registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2001	2000	
Sichuan Jeida Freight Transportation Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd. #	Corporate	PRC	51	51	Production and sale of electricity
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. #	Corporate	PRC	49	49	Provision of freight forwarding and transportation services

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Extracts of the audited financial statements for the year ended 31 December 2001 of the Group's material jointly controlled entity are as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2001 HK\$'000	2000 HK\$'000
Profit and loss account		
Turnover	1,576,787	1,580,265
Profit attributable to shareholders	469,894	408,030
Net profit attributable to the Group	234,787	205,169
Balance sheet		
Non-current assets	3,258,842	3,616,778
Current assets	747,650	561,364
Current liabilities	(972,780)	(1,187,672)
Non-current liabilities	(689,906)	(1,116,558)
Net assets	2,343,806	1,873,912
Net assets attributable to the Group	1,142,828	908,041

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	-	-	311	311
Share of net assets	404,893	750,423	-	-
Due from associates	46,531	164,642	-	77,514
Due to associates	(4,956)	-	-	-
	446,468	915,065	311	77,825
Less: Provisions for impairment	(3,629)	(8,434)	-	-
	442,839	906,631	311	77,825

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. The amount of goodwill remaining in consolidated reserves, arising from the acquisition of associates, is HK\$64,629,000 and HK\$49,089,000 as at 1 January and 31 December 2001, respectively. The amount of goodwill is stated at its cost.

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2001	2000	
China Railway-China Travel Express Co. (HK) Ltd. *	Corporate	Hong Kong	50	50	Dormant
China Travel Roads & Bridges JV Investment Ltd. *	Corporate	British Virgin Islands/ Hong Kong	-	40	Investment holding
Vision Century Corporation Limited (formerly Hing Kong Holdings Limited) *#	Corporate	Bermuda/ Hong Kong	-	23.34	Investment holding

19. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2001	2000	
Shun Tak-China Travel Shipping Investments Limited *#	Corporate	British Virgin Islands/ Hong Kong	29	29	Shipping operations
Storman Ltd. *	Corporate	Hong Kong	38	38	Provision of cargo transportation services
Tianchuang International Art Production & Exchange Co. Ltd. *#	Corporate	PRC	30	30	Provision of art performance
China Resort International Limited #	Corporate	Cayman Islands/ Hong Kong	40	40	Dormant

* Held indirectly through subsidiaries.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

19. INTERESTS IN ASSOCIATES (continued)

Extracts of the audited financial statements of the Group's material associates are as follows:

	Shun Tak-China Travel Shipping Investments Limited		Vision Century Corporation Limited	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000 (Note)	2000 HK\$'000
Profit and loss accounts				
Turnover	<u>1,359,042</u>	<u>1,410,716</u>	<u>N/A</u>	<u>565,025</u>
Profit/(loss) attributable to shareholders	<u>98,857</u>	<u>54,321</u>	<u>N/A</u>	<u>(355,811)</u>
Balance sheets				
Non-current assets	<u>1,715,900</u>	<u>1,908,062</u>	<u>N/A</u>	<u>1,016,830</u>
Current assets	<u>365,562</u>	<u>341,837</u>	<u>N/A</u>	<u>1,787,263</u>
Current liabilities	<u>(206,467)</u>	<u>(331,669)</u>	<u>N/A</u>	<u>(820,058)</u>
Non-current liabilities	<u>(514,905)</u>	<u>(656,997)</u>	<u>N/A</u>	<u>(386,141)</u>
Net assets	<u>1,360,090</u>	<u>1,261,233</u>	<u>N/A</u>	<u>1,597,894</u>

Note: This associate was disposed of during the year on 5 February 2001.

20. INVESTMENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Long term investments				
Unlisted equity investments outside Hong Kong:				
Unlisted shares, at fair value	<u>21,947</u>	<u>3,665</u>	<u>13,949</u>	<u>-</u>
Unlisted equity and debt investments in Hong Kong:				
Unlisted shares, at fair value	<u>123</u>	<u>58,144</u>	<u>-</u>	<u>-</u>
Unlisted convertible bonds, at fair value	<u>66,000</u>	<u>66,000</u>	<u>66,000</u>	<u>66,000</u>
	<u>66,123</u>	<u>124,144</u>	<u>66,000</u>	<u>66,000</u>
	<u>88,070</u>	<u>127,809</u>	<u>79,949</u>	<u>66,000</u>

Notes to Financial Statements (continued)

31 December 2001

20. INVESTMENTS (continued)

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Short term investments				
Listed equity investments in Hong Kong, at market value	<u>1,900</u>	<u>1,349</u>	<u>-</u>	<u>-</u>

21. INVENTORIES, AT COST

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	9,170	12,828
Spare parts and consumables	1,150	68
General stores	6,278	2,995
General merchandise	<u>138</u>	<u>132</u>
	<u>16,736</u>	<u>16,023</u>

22. TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 to 90 days to its trade debtors. The aged analysis of the trade receivables as at the balance sheet date, based on invoice date, net of provisions for doubtful debts, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Outstanding balances with ages:		
Less than 1 month	119,876	86,950
Within:		
1-3 months	49,005	59,267
4-6 months	20,764	10,270
7-12 months	9,811	2,276
1-2 years	2,025	1,583
Over 2 years	<u>15,838</u>	<u>16,506</u>
	<u>217,319</u>	<u>176,852</u>

23. OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deferred borrowing costs	11,809	9,294	11,809	9,294
Deposits and other debtors	81,934	49,505	4,026	4,658
Amounts due from minority shareholders	7,332	3,754	-	-
	<u>101,075</u>	<u>62,553</u>	<u>15,835</u>	<u>13,952</u>

24. PLEDGED TIME DEPOSITS

The Company and the Group have pledged bank deposits of approximately HK\$2,147,000 (2000: HK\$42,869,000) and HK\$3,302,000 (2000: HK\$43,463,000) respectively, to banks to secure certain bank guarantees given in lieu of utility and rental deposits. Last year's pledged bank deposits were made to banks mainly to secure against the provision of bank facilities granted to one of the Group's associates.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	516,700	291,268	78,005	63,841
Time deposits	1,127,153	510,378	487,572	152,095
	<u>1,643,853</u>	<u>801,646</u>	<u>565,577</u>	<u>215,936</u>

26. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The amounts due from/to ultimate holding company and fellow subsidiaries mainly represent trade receivables/payables and reimbursement of PRC withholding tax on interest income receivable by the Group from a jointly controlled entity established in the PRC pursuant to an indemnity granted to the Group by the Company's ultimate holding company, as further set out in the Company's circular dated 14 November 1998.

Except for an amount of HK\$19,804,000, representing reimbursement of PRC withholding tax receivable from the ultimate holding company, which is repayable on the third business day after the Company has provided an auditor's certificate on the liability that has arisen under the indemnity, the remaining balances due from/to ultimate holding company/fellow subsidiaries are unsecured, interest-free and repayable on the third business day following the month of transactions.

26. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

(continued)

The aged analysis of balances with the ultimate holding company and fellow subsidiaries is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amount due from/(to) ultimate holding company				
Within 1 year	34,525	1,067	2,414	(2,164)
1-2 years	3,980	50,440	-	-
Over 2 years	14,018	-	-	-
	<u>52,523</u>	<u>51,507</u>	<u>2,414</u>	<u>(2,164)</u>
Amounts due from fellow subsidiaries				
Within 1 year	1,805	132,189	-	-
1-2 years	-	7,554	-	-
Over 2 years	-	3,781	-	3,781
	<u>1,805</u>	<u>143,524</u>	<u>-</u>	<u>3,781</u>
Amounts due to fellow subsidiaries				
Within 1 year	2,886	4,421	-	-
Over 2 years	270	-	-	-
	<u>3,156</u>	<u>4,421</u>	<u>-</u>	<u>-</u>

27. TRADE PAYABLES

The aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Less than 1 month	211,690	175,142
Within:		
1-3 months	46,473	51,931
4-6 months	39,962	4,205
7-12 months	7,077	17,281
1-2 years	2,255	2,922
Over 2 years	9,432	8,913
	<u>316,889</u>	<u>260,394</u>

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accruals and other liabilities	346,612	241,157	6,279	7,291
Staff bonus and welfare fund	37,533	40,548	-	105
Receipts in advance from customers	49,152	43,427	-	-
Due to minority shareholders	1,144	660	-	-
	<u>434,441</u>	<u>325,792</u>	<u>6,279</u>	<u>7,396</u>

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts – unsecured		4,666	-	-	-
Current portion of bank and other loans		<u>362,554</u>	<u>606,290</u>	<u>300,000</u>	<u>586,880</u>
	30	367,220	606,290	300,000	586,880
Current portion of lease payables	31	<u>2,503</u>	<u>2,110</u>	-	-
		<u>369,723</u>	<u>608,400</u>	<u>300,000</u>	<u>586,880</u>

30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS (continued)

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts:				
Unsecured	4,666	-	-	-
Syndicated bank loans:				
Secured	-	313,628	-	313,628
Other bank loans:				
Unsecured	63,923	19,410	-	-
Secured – Notes (i) – (iii)	1,305,010	280,000	1,300,000	280,000
	<u>1,368,933</u>	<u>613,038</u>	<u>1,300,000</u>	<u>593,628</u>
Loans from minority shareholders	9,423	9,346	-	-
Convertible notes	-	470,000	-	470,000
Golf club debentures	4,157	4,157	-	-
	<u>13,580</u>	<u>483,503</u>	<u>-</u>	<u>470,000</u>
	<u>1,387,179</u>	<u>1,096,541</u>	<u>1,300,000</u>	<u>1,063,628</u>
Bank overdrafts repayable within one year or on demand	<u>4,666</u>	-	-	-
Bank loans repayable:				
Within one year or on demand	362,554	136,290	300,000	116,880
In the second year	384,143	287,320	380,000	287,320
In the third to fifth years, inclusive	622,236	189,428	620,000	189,428
	<u>1,368,933</u>	<u>613,038</u>	<u>1,300,000</u>	<u>593,628</u>
Other loans repayable:				
Within one year or on demand	-	470,000	-	470,000
Over five years	13,580	13,503	-	-
	<u>13,580</u>	<u>483,503</u>	<u>-</u>	<u>470,000</u>
Total interest-bearing bank and other borrowings	<u>1,387,179</u>	<u>1,096,541</u>	<u>1,300,000</u>	<u>1,063,628</u>
Portion classified as current liabilities				
– note 29	<u>367,220</u>	<u>606,290</u>	<u>300,000</u>	<u>586,880</u>
Long term portion	<u>1,019,959</u>	<u>490,251</u>	<u>1,000,000</u>	<u>476,748</u>

30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS (continued)

Notes:

- (i) Included HK\$500 million secured other bank loan which is repayable in 4 semi-annual instalments commencing on 15 June 2002. Interest is charged on the outstanding balance at 0.9% over the Hong Kong Interbank Offered Rate for the applicable loan period. The loan is secured by one of the Group's hotel properties and certain fixed assets with an aggregate carrying value of HK\$838,045,000.
- (ii) Included HK\$800 million secured other bank loan which is repayable in 8 semi-annual instalments commencing on 21 January 2002. Interest is charged on the outstanding balances at HIBOR plus 1% for the applicable loan period. The loan is secured by two of the Group's hotel properties and certain fixed assets with an aggregate carrying value of HK\$1,545,831,000.
- (iii) Included HK\$5 million secured other bank loan which is repayable in 180 monthly instalments commencing on 28 February 1991. Interest is charged on the outstanding balances at 7.75% per annum. The loan is secured by three of the Group's land and buildings with an aggregate carrying value of HK\$12,008,000.

31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its freight, tour and passenger transportation businesses. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 3 years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	Group		Group	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts repayable:				
Within one year	2,667	2,325	2,503	2,110
In the second year	628	2,137	571	2,059
In the third to fifth years, inclusive	156	82	151	64
Total minimum lease payments	3,451	4,544	3,225	4,233
Future finance charges	(226)	(311)		
Total net lease payables	3,225	4,233		
Portion classified as current liabilities - note 29	(2,503)	(2,110)		
Long term portion	722	2,123		

31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES (continued)

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

32. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	7,173	17,245
Acquisition of subsidiaries	2,069	-
Charge for the year - note 10	316	9,231
Reclassification to interests in a jointly controlled entity	-	(19,303)
At 31 December	<u>9,558</u>	<u>7,173</u>

The provision for deferred tax, as shown in the balance sheet, relates principally to timing differences arising from accelerated capital allowances.

The revaluation of the Group's investment properties and hotel properties does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

There are no significant potential deferred tax liabilities for which provision has not been made.

33. SHARE CAPITAL**Shares**

	2001 HK\$'000	2000 HK\$'000
Authorised:		
7,000,000,000 (2000: 4,900,000,000) ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>490,000</u>
Issued and fully paid:		
4,220,233,742 (2000: 3,251,115,027) ordinary shares of HK\$0.10 each	<u>422,023</u>	<u>325,112</u>

33. SHARE CAPITAL (continued)**Shares** (continued)

During the year, the following movements in share capital were recorded.

- (a) Pursuant to a conditional sale and purchase agreement signed between CTS (Holdings), the Company's ultimate holding company, and the Company on 21 March 2001, the Company agreed to acquire the entire issued share capital of Alton Services Limited at a consideration of HK\$1,911 million. Part of the consideration was settled by the issuance of 2% convertible bonds by the Company for an amount of HK\$600 million which was convertible at an exercise price of HK\$1.1308 per share. Such convertible bonds were converted on 23 May 2001, together with accrued interest up to the date of conversion, for the issue of 530,859,472 ordinary shares of HK\$0.10 each in the Company issued at a premium of HK\$547,210,000.
- (b) On 6 November, 2001, CTS (Holdings) elected to convert its holding of the Company's outstanding convertible notes of HK\$470 million, at an exercise price of HK\$1.10 per share. The conversion resulted in the issuance of 427,272,727 ordinary shares of HK\$0.10 each in the Company.
- (c) The subscription rights attaching to 10,000,000 share options were exercised at the subscription price of HK\$0.709 per share, resulting in the issue of 10,000,000 shares of HK\$0.10 each for a total cash consideration, before expenses of HK\$7,090,000.
- (d) Pursuant to a circular dated 16 May 2001, the Company allotted 758,394,899 bonus warrants to the Company's shareholders on the basis of one warrant for every five shares then held. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$1.22 per share, payable in cash and subject to adjustment, from the date of issue to 30 June 2003. As at 31 December 2001, a total of 986,516 bonus warrants were subscribed in exchange for a total of 986,516 ordinary shares of the Company at HK\$0.10 each, for a gross consideration of approximately HK\$1,204,000.

A summary of the movements of the Company's share capital during the year is as follows:

	<i>Notes</i>	Number of shares in issue	Share capital HK\$'000
At 1 January 2001		3,251,115,027	325,112
Shares issued on conversion of convertible bonds	(a)	530,859,472	53,086
Shares issued on conversion of convertible notes	(b)	427,272,727	42,727
Shares issued on exercise of share options	(c)	10,000,000	1,000
Shares issued on exercise of bonus warrants	(d)	986,516	98
		<u>4,220,233,742</u>	<u>422,023</u>

33. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Information of share option scheme" in the Report of the Directors on page 26 of this Annual Report.

At the beginning of the year, there were 113,000,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 14 January 1998 to 20 October 2002. The subscription price payable upon the exercise of these options ranged from HK\$0.709 to HK\$3.580, subject to adjustment.

During the year, a total of 10,000,000 share options were exercised at an exercise price of HK\$0.709, and 101,900,000 and 1,100,000 share options with an exercise price of HK\$3.568 and HK\$3.580 were lapsed and cancelled, respectively.

At the balance sheet date, the Company had no share options outstanding under the Scheme.

Warrants

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 1 June 2001, resulting in 758,394,899 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$1.22 per share, payable in cash and subject to adjustment, from the date of issue to 30 June 2003.

During the year, 986,516 warrants were exercised for 986,516 shares of HK\$0.10 each at HK\$1.22 per share. At the balance sheet date, the Company had 757,408,383 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 757,408,383 additional shares of HK\$0.10 each in the Company, for a gross proceeds of approximately HK\$924,038,000.

34. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Group								
At 1 January 2000	4,937,755	77,209	(10,954)	251,896	34,766	(2,639)	748,278	6,036,311
Deemed disposal of an associate	-	27,947	5,540	-	-	(65)	-	33,422
Changes in fair values of long term investments	-	-	(122,000)	-	-	-	-	(122,000)
Deficit on revaluation	-	-	-	(15,166)	-	-	-	(15,166)
Goodwill adjustment	-	5,294	-	-	-	-	-	5,294
Share of movements in reserves of an associate	-	(30,435)	5,414	-	-	234	-	(24,787)
Exchange realignments	-	-	-	-	-	(3,300)	-	(3,300)
Net profit for the year (as restated)	-	-	-	-	-	-	150,919	150,919
2000 interim dividend	-	-	-	-	-	-	(32,511)	(32,511)
Proposed 2000 final dividend	-	-	-	-	-	-	(32,511)	(32,511)
Proposed special dividend	-	-	-	-	-	-	(65,022)	(65,022)
Transfer from retained profits	-	72,198	-	-	9,914	-	(82,112)	-
Impairment of goodwill previously eliminated directly against reserves at the time of acquisition, charged to profit and loss account	-	34,667	-	-	-	-	-	34,667
Realisation of reserves on impairment of an associate	-	30,435	-	-	-	(169)	-	30,266
At 31 December 2000 and 1 January 2001 (as restated)	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Premium on issue of new shares on exercise of convertible bonds, convertible notes, share options and bonus warrants	981,678	-	-	-	-	-	-	981,678
Exchange realignments	-	-	-	-	-	3,542	-	3,542
Surplus on revaluation	-	-	-	22,838	-	-	-	22,838
Net profit for the year	-	-	-	-	-	-	650,966	650,966
Underaccrual of proposed 2000 final dividend	-	-	-	-	-	-	(16,226)	(16,226)
2001 interim dividend	-	-	-	-	-	-	(189,644)	(189,644)
Reclassification of a long term investment to interests in a subsidiary	-	-	122,000	-	-	-	-	122,000
Proposed 2001 final dividend	-	-	-	-	-	-	(168,809)	(168,809)
Transfer from retained profits	-	-	-	-	10,332	-	(10,332)	-
Transfer to retained profits**	-	(72,198)	-	-	-	-	72,198	-
Realisation of reserves on disposal of an associate	-	15,541	-	-	-	-	-	15,541
At 31 December 2001	5,919,433	160,658	-	259,568	55,012	(2,397)	1,025,194	7,417,468
Reserves retained by:								
Company and subsidiaries	5,919,433	213,440	-	259,568	55,012	(2,397)	970,699	7,415,755
Jointly controlled entities	-	(3,693)	-	-	-	-	227,469	223,776
Associates	-	(49,089)	-	-	-	-	(172,974)	(222,063)
At 31 December 2001	5,919,433	160,658	-	259,568	55,012	(2,397)	1,025,194	7,417,468
Company and subsidiaries	4,937,755	213,440	(122,000)	236,730	44,680	(5,939)	965,884	6,270,550
Jointly controlled entities	-	(3,693)	-	-	-	-	(5,459)	(9,152)
Associates	-	7,568	-	-	-	-	(273,384)	(265,816)
At 31 December 2000	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582

34. RESERVES (continued)

* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to the enterprise expansion reserve funds which are restricted as to use.

** Amount represented the release from capital reserve (which was transferred to capital reserve in 2000 upon deemed disposal of interests in an associate) into retained profits upon disposal of this associate during the year.

Company	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2000	4,937,755	495,011	5,432,766
Net loss for the year (as restated)	-	(322,897)	(322,897)
2000 Interim dividend	-	(32,511)	(32,511)
Proposed 2000 final dividend	-	(32,511)	(32,511)
Proposed special dividend	-	(65,022)	(65,022)
Balance at 31 December 2000 (as restated)	<u>4,937,755</u>	<u>42,070</u>	<u>4,979,825</u>
At 31 December 2000 and beginning of year:			
As previously reported	4,937,755	312,070	5,249,825
Prior year adjustment:			
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (notes 2 and 11)	-	(270,000)	(270,000)
As restated	<u>4,937,755</u>	<u>42,070</u>	<u>4,979,825</u>
Premium on issue of shares on exercise of convertible bonds, convertible notes, share options and bonus warrants	981,678	-	981,678
Net profit for the year	-	541,047	541,047
Underaccrual of proposed 2000 final dividend	-	(16,226)	(16,226)
2001 interim dividend	-	(189,644)	(189,644)
Proposed 2001 final dividends	-	(168,809)	(168,809)
At 31 December 2001	<u>5,919,433</u>	<u>208,438</u>	<u>6,127,871</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	563,013	866,797
Interest income	(93,861)	(56,121)
Depreciation	117,463	451,541
Goodwill amortisation	27,015	-
Negative goodwill recognised as income	(3,231)	-
Loss/(gain) on changes in fair values of short term investments	(551)	6,215
Provisions for doubtful debts and bad debts written off	5,031	37,155
Write-back of long outstanding payables	(39,743)	(3,286)
Revaluation surplus on hotel properties, net	(652)	(16,638)
Provisions for slow-moving inventories	1,102	1,131
Gain on disposal of fixed assets	(621)	(4,098)
Loss on changes in fair values of long term investments	233	-
Decrease in inventories	4,511	6,634
Decrease/(increase) in trade receivables and other receivables	99,459	(91,811)
Decrease/(increase) in an amount due from ultimate holding company	87,378	(3,038)
Decrease/(increase) in amounts due from fellow subsidiaries	213,688	(50,079)
Increase/(decrease) in trade payables, other payables and accruals	(381,878)	101,114
Increase/(decrease) in amounts due to fellow subsidiaries	(207,748)	4,421
Increase in deferred income	10,370	10,251
Effect of foreign exchange rate changes	1,550	(10,365)
Decrease/(increase) in amounts due from jointly controlled entities, net	1,184	(2,392)
Gain on disposal of long term investments	-	(10,261)
Gain on disposal of short term investments	-	(502)
Provisions for impairments in values of short term investments	-	6,174
Net cash inflow from operating activities	<u>403,712</u>	<u>1,242,842</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium) HK\$'000	Convertible notes HK\$'000	Minority interests HK\$'000	Bank loans, amounts due to minority share- holders and lease and hire purchase contract payables HK\$'000
At 1 January 2000	5,262,867	470,000	1,305,388	2,570,985
Cash outflow from financing, net	-	-	-	(914,405)
Inception of finance lease and hire purchase contract arrangements	-	-	-	6,365
Reclassification from other payables	-	-	2,733	-
Share of profits for the year	-	-	280,262	-
Share of reserves	-	-	7,528	-
Dividends paid to minority shareholders	-	-	(148,301)	-
Reclassification to interests in a jointly controlled entity	-	-	(1,130,359)	(1,037,859)
Exchange realignments	-	-	-	1,531
At 31 December 2000 and 1 January 2001	5,262,867	470,000	317,251	626,617
Cash inflow from financing, net	8,294	-	-	754,076
Redemption of convertible notes	470,000	(470,000)	-	-
Conversion of convertible bonds and accrued interest	600,295	-	-	-
Acquisition of subsidiaries	-	-	12,881	888
Share of profits for the year	-	-	77,821	-
Dividends paid to minority shareholders	-	-	(54,962)	-
Exchange realignments	-	-	12	-
At 31 December 2001	<u>6,341,456</u>	<u>-</u>	<u>353,003</u>	<u>1,381,581</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries**

	2001 HK\$'000
Net assets acquired:	
Fixed assets	1,146,540
Property held for sale	92,000
Inventories	6,326
Cash and bank balances	125,521
Trade receivable and other receivables	189,595
Due from ultimate holding company	88,394
Due from fellow subsidiaries	71,969
Trade payable, other payables and accruals	(586,765)
Due to fellow subsidiaries	(206,483)
Bank and other borrowings	(888)
Bank overdrafts	(4,761)
Tax payable	(16,021)
Deferred tax	(2,069)
Minority interests	(12,881)
	<u>890,477</u>
Goodwill on acquisition	1,412,959
Negative goodwill on acquisition	(202,779)
	<u><u>2,100,657</u></u>
Accounted for and satisfied by:	
Cash	1,190,543
Convertible bonds	600,000
Interest in an associate	76,957
Gain on disposal of an associate	53,043
Reclassification to interests in subsidiaries from long term investments	58,114
Release from investment revaluation reserve	122,000
	<u><u>2,100,657</u></u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries (continued)**

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001 HK\$'000
Cash consideration	(1,190,543)
Cash and bank balances acquired	125,521
Bank overdrafts	(4,761)
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(1,069,783)</u>

On 21 March 2001, the Group acquired a 100% interest in Alton Services Limited ("Alton") and its subsidiaries ("Alton Group") from its ultimate holding company. Alton Group is engaged in the travel-related business. Further details of the transaction are included in note 40 to the financial statements. Part of the purchase consideration for the acquisition was in the form of cash, with HK\$1,180,749,000 being paid on 15 May 2001.

Since its acquisition, Alton Group contributed HK\$1,086,886,000 to the Group's turnover and HK\$192,920,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

For the year ended 31 December 2001, Alton Group contributed HK\$81,543,000 to the Group's net operating cash flows, paid HK\$33,922,000 and HK\$13,759,000, respectively, in respect of the cash flows for the payment of tax and investing activities, gave rise to financing cash inflows of HK\$15,341,000, but had no significant impact in respect of the Group's cash flows for net returns on investments and servicing of finance.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(d) Major non-cash transactions**

Reclassification from interests in a subsidiary to interests in a jointly controlled entity

	2000
	HK\$'000
Net assets transferred:	
Fixed assets	(3,635,567)
Inventories	(78,244)
Trade receivables	(335,657)
Other receivables, deposits and prepayments	(107,702)
Cash and cash equivalents	(157,221)
Other payables and accruals	269,416
Trade payables	67,298
Tax payable	21,942
Short term loans	282,673
Deferred tax	19,303
Loan due to a minority shareholder	755,186
Due to the Group	687,801
Minority interests	1,130,359
	<u>(1,080,413)</u>

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Chadwick Developments Limited	Hong Kong	1,000 ordinary shares of HK\$1@	100	-	Investment holding
		10,000 non-voting deferred shares of HK\$1@	39.8	-	
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@	-	100	Provision of printing and advertising agency services
		5,000 non-voting deferred shares of HK\$100@	-	100	

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	-	100	Air ticketing agent
China Trading Service Co., Ltd.*	PRC	RMB14,000,000	-	76	Freight forwarding
China Travel International Ltd.	PRC	RMB50,000,000	80	20	Tour operations
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	-	70	Passenger transportation
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	-	100	Tour operations
China Travel Service (Cargo) Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	-	Provision of freight forwarding and transportation services
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	-	100	Passenger transportation
China Travel and Trading (Deutschland) GmbH	Germany	DEM245,000	-	100	Travel and air ticketing agent
China Travel Hi-Tech Computer Hong Kong Limited #	Hong Kong	HK\$10,000,000	-	80	Trading of computer equipment, provision of computer services and investment holding
China Travel Net Hong Kong Limited #	Hong Kong	HK\$150,000	-	80	Operation of a website
China Travel Service (Australia) Pty. Ltd. #	Australia	AUD3,319,932	-	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.	Canada	CAD2,685,000	-	100	Travel and air ticketing agent

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
China Travel Service (France) SARL #	France	FRF500,000	-	100	Travel and air ticketing agent
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@	-	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
		1,000,000 non-voting deferred shares of HK\$100@	-	100	
China Travel Service (Japan) Co., Ltd.	Japan	JP¥95,000,000	-	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.	Korea	WON500,000,000	-	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd. #	United Kingdom	£486,000	-	100	Travel and air ticketing agent
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	-	96.2	Provision of cargo transportation services
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@	-	100	Property investment holding
		100 non-voting deferred shares of HK\$1@	-	100	
CTII Worldwide Limited	British Virgin Islands/ Hong Kong	641,000 shares of US\$1@	-	70	Provision of freight forwarding and transportation services
Glading Development Limited	Hong Kong	2 ordinary shares of HK\$1@	-	100	Property investment holding and hotel operations
		2 non-voting deferred shares of HK\$1@	-	100	
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	-	100	Property investment holding and hotel operations
		100 non-voting deferred shares of US\$1@	-	-	
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	-	100	Investment holding

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	-	100	Property investment holding
Princess Capital Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	-	Securities trading
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	-	100	Dormant
Rida Investment Company Limited	Macau	PTC99,000	-	100	Property investment holding
Shenzhen The Splendid China Development Co., Ltd.*	PRC	RMB184,000,000	51	-	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.*	PRC	US\$29,500,000	51	-	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1@	-	80	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Limited*	PRC	RMB100,000,000	-	80	Golf club operations
Smart Concord Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 100 non-voting deferred shares of US\$1@	-	100	Property investment holding and hotel operations
Agencia De Viagens E Turismo Grand, Limitada #	Macau	MOP1,000,000	-	100	Travel and air ticketing agent
Singa China Travel Service Pte. Limited #	Singapore	SGD3,840,000	-	71.46	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada #	Macau	MOP200,000	-	100	Hotel operations
Starsoft Computer Services Limited #	Hong Kong	HK\$400,000	-	80	Investment holding

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Starsoft Computer Services (Shenzhen) Co. Ltd. #	PRC	RMB1,200,000	-	80	Computer software development and design
Tonkin Ltd.	Hong Kong	HK\$10,000	-	100	Property Investment
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	-	100	Property investment holding
U.S. China Travel Service Inc. #	United States of America	US\$4,890,000	-	100	Travel and air ticketing agent
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US\$1	-	100	Property investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* These subsidiaries are Sino-foreign equity joint ventures.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

37. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Group and the Company had the following material contingent liabilities:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	-	-	499	2,024
Guarantees given to banks in connection with facilities granted to and utilised by an associate	107,762	136,383	107,762	136,383
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,885	1,888	-	-
	<u>109,647</u>	<u>138,271</u>	<u>108,261</u>	<u>138,407</u>

- (b) At the balance sheet date, Weihe Power, a jointly controlled entity of the Group, had contingent liabilities in respect of a sulphur dioxide treatment fee.

According to a regulation issued by the Shaanxi Provincial Environmental Protection Bureau (the "PEPB"), Weihe Power is required to accrue a sulphur dioxide treatment fee since 1997. Of such treatment fee, 10% should be paid to PEPB and 90% should be kept by the company for future expenditure on sulphur dioxide treatment, which may include capital expenditure.

In 1998, pursuant to a verbal confirmation from the State Environmental Protection Bureau (the "SEPB"), Weihe Power ceased making further accruals on the grounds that it is not located in one of the designated areas specified in the State regulations prescribing such sulphur dioxide treatment fee.

Had Weihe Power continued to accrue such fees from 1998 to 2001, the accrued amount in respect thereof would have been increased by approximately HK\$5,842,000 (of which the Group's share therein would have been approximately HK\$2,979,000) as of 31 December 2001 and the net income for the year ended 31 December 2001 would have been reduced by approximately HK\$2,073,000 (of which the Group's share therein would have been approximately HK\$1,057,000). The final outcome of the need to make further accruals for and the use of the existing accruals in accordance with the sulphur dioxide regulations will depend on the final negotiations with and agreement by the PEPB and SEPB.

38. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	7,330	4,689
In the second to fifth years, inclusive	3,131	2,423
	10,461	7,112
	10,461	7,112

(b) As lessee

The Group leases certain of its office properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 18 years, and those for office equipment for terms ranging from 1 to 5 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group
	2001
	HK\$'000
Land and buildings:	
Within one year	32,807
In the second to fifth years, inclusive	79,102
After five years	159,880
	271,789
	271,789

38. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

	Group 2001 HK\$'000
Plant and machinery:	
Within one year	1,111
In the second to fifth years, inclusive	2,580
	<u>3,691</u>

At 31 December 2000, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group 2000 HK\$'000
Land and buildings:	
Within one year	1,664
In the second to fifth years, inclusive	953
After five years	8,480
	<u>11,097</u>

SSAP 14 (revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

39. COMMITMENTS

In addition to the operating lease commitments as detailed in note 38(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	2001	Group 2000
	HK\$'000	HK\$'000
Properties under development:		
Contracted, but not provided for	29,944	177,866
Authorised, but not contracted for	91,743	64,435
	<u>121,687</u>	<u>242,301</u>
Leasehold improvements:		
Contracted, but not provided for	<u>2,632</u>	<u>-</u>
Unpaid capital contribution to jointly controlled entities:		
Contracted, but not provided for	<u>4,987</u>	<u>6,350</u>
Others:		
Contracted, but not provided for	<u>385</u>	<u>168</u>

(b) The Group's share of capital commitments of a jointly controlled entity is as follows:

	2001	2000
	HK\$'000	HK\$'000
Authorised, but not contracted for	<u>18,027</u>	<u>5,478</u>

(c) At the balance sheet date, the Company had no material commitments.

40. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year which also constitute connected transactions as defined in the Listing Rules:

(a) CTS (Holdings) or its subsidiaries and a jointly controlled entity

	Name of company	Nature of transaction	Group	
			2001 HK\$'000	2000 HK\$'000
	Paid or payable to:			
(i)	China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,829	2,256
(ii)	China Travel Hip Kee Godown Hong Kong Limited	Storage charges	767	776
(iii)	China Travel Service (Hong Kong) Limited	Train and boat tickets	4,142	20,451
(iv)	China Travel Service (Hong Kong) Limited	Bus ticket service fees	755	3,637
(v)	China Travel Service (Hong Kong) Limited	Office rental	1,035	4,304
(vi)	China Travel Service (Hong Kong) Limited	Management service fees	2,825	11,392
(vii)	CTS (Holdings)	Convertible notes interest	24,015	28,277
(viii)	CTS (Holdings)	Management fees	300	150
(ix)	CTS (Holdings)	Office rental (Note 3)	8,479	-
(x)	CTS (Holdings)	Refund on reimbursement of PRC withholding tax on interest income	15,676	-
(xi)	China Travel Advertising Hong Kong Limited	Advertising fees	837	1,716
(xii)	China Travel Building Contractors Hong Kong Limited	Decoration expenses (Note 4)	4,072	1,783
(xiii)	China Travel Insurance Advisers Hong Kong Limited	Insurance charges (Note 5)	6,195	6,744
(xiv)	Tai Sun Services Company Limited	Stevedoring services (Note 6)	1,301	-
(xv)	Tai Sun Services Company Limited	Coolie charges	1,125	1,158
(xvi)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charges	1,527	1,994
(xvii)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charges	897	6,033
(xviii)	China Travel Hotel Management Services Hong Kong Limited	Hotel management fees (Note 1)	3,810	3,918
(xix)	China Travel Hotel Management Services Hong Kong Limited	Management service fee	1,387	1,291

40. RELATED PARTY TRANSACTIONS (continued)

(a) CTS (Holdings) or its subsidiaries and a jointly controlled entity (continued)

	Name of company	Nature of transaction	Group	
			2001 HK\$'000	2000 HK\$'000
	Paid or payable to: (continued)			
(xx)	China Travel Hi-Tech Computer Hong Kong Limited	Equipment hiring fees	161	810
(xxi)	Sun Wah Printing Factory	Printing charges	88	635
(xxii)	China Travel Computer Service H.K. Limited	Computer maintenance fees	8,490	-
(xxiii)	Hubei Yangtze River Splendid China Cruise Co., Ltd	Sightseeing cruiser services (Note 7)	789	-
	Received or receivable from:			
(xxiv)	CTS (Holdings)	Reimbursement of PRC withholding tax on interest income	1,806	3,083
(xxv)	CTS (Holdings)	Hotel room rental	517	400
(xxvi)	CTS (Holdings)	Travel permit administration income (Note 11)	234,731	-
(xxvii)	CTS (Holdings)	Rental income	1,399	-
(xxviii)	CTS (Holdings)	Compensation	15,647	-
(xxix)	CTS (Holdings)	Sale of computer equipment and visa materials	2,623	-
(xxx)	China Travel Computer Service H.K. Limited	Application Service Provider services (Note 8)	18,225	-
(xxxi)	China Travel Service (Hong Kong) Limited	Admission tickets	11,623	37,899
(xxxii)	China Travel Service (Hong Kong) Limited	Hotel room rental	2,201	11,580
(xxxiii)	China Travel Service (Hong Kong) Limited	Coach income (Note 2)	156	733
(xxxiv)	China Travel Service (Thailand) Co., Limited	Sale of tourism services /products (Note 9)	1,138	-
(xxxv)	China Travel Service Inc.	Sale of tourism services /products (Note 9)	1,139	-
(xxxvi)	China Travel System (M) Sdn. Bhd.	Sale of tourism services /products (Note 9)	363	-
(xxxvii)	China Travel Hotel Management Services Hong Kong Limited	Rental income (Note 10)	33	-

The above transactions were carried out at market price or, where no market price was available, at cost plus a percentage of profit mark-up.

40. RELATED PARTY TRANSACTIONS (continued)

(a) CTS (Holdings) or its subsidiaries and a jointly controlled entity (continued)

Notes:

- (1) The hotel management fees payable to China Travel Hotel Management Services Hong Kong Limited during the year was less than 3% of the audited consolidated net tangible assets of the Group.
- (2) The coach income payable to China Travel Tours Transportation Services Hong Kong Limited by China Travel Service (Hong Kong) Limited during the year amounted to HK\$156,000, which was less than 0.3% of the audited consolidated net tangible assets of the Group.
- (3) The rental charge for the renting of office premises was determined with reference to the prevailing market rate.
- (4) The office decoration and maintenance expenses were determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (5) The insurance brokerage charges were determined according to the prices for these services which are substantially in line with those offered to independent third parties.
- (6) The stevedoring services fee paid or payable was determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (7) The sightseeing cruiser services fee payable to a jointly controlled entity of CTS (Holdings) was determined according to the prices which are substantially in line with those offered to independent third parties.
- (8) The application service provider service charges receivable were determined according to the prices which are substantially in line with those offered to independent third parties.
- (9) The sales to fellow subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.
- (10) The rental income for the leasing of an office unit was determined with reference to the prevailing market rate.
- (11) The travel permit administration fee payable was determined in accordance with the terms of an agency agreement entered into between parties and charged at 45% of the gross fee revenue from travel permit applications. The fee did not exceed 20% of the audited consolidated turnover of the Group.

For notes (3) to (10), each of the amounts incurred during the year did not exceed 3% of the audited consolidated net tangible assets of the Group.

40. RELATED PARTY TRANSACTIONS *(continued)***(b) Acquisition of the entire issued share capital of Alton**

On 21 March 2001, the Company entered into a conditional agreement ("Agreement") with CTS (Holdings) whereby the Company agreed to acquire the entire issued share capital of Alton, a wholly-owned subsidiary of CTS (Holdings). Alton is the holding company of China Travel Service (Hong Kong) Limited, China Travel Air Service Hong Kong Limited, China Travel Advertising Hong Kong Limited, China Travel Net Limited and China Travel e-Business Limited.

The consideration for the acquisition of Alton is HK\$1,911 million, of which HK\$1,181 million was satisfied by payment in cash, HK\$600 million was satisfied by the issue of the Company's 2% convertible bonds, and the remaining HK\$130 million was satisfied by the disposal of the Group's 40% interest in and a shareholder's loan to China Travel Roads & Bridges JV Investment Limited.

The acquisition was completed on 15 May 2001.

41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 10 April 2002.