

Notes to Financial Statements

31 December 2002

I. CORPORATE INFORMATION

The registered office of China Travel International Investment Hong Kong Limited is located at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.

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 are effective for the first time for the current year's financial statements:

- SSAP I (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

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, are summarised as follows:

SSAP I (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 33 of the Annual Report in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and note 36(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and note 28 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong 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 2002. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

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 results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, directly or indirectly, over the joint venture company;
- (ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly, 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.

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 interests in associates are treated as long term assets and are stated at cost less any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities 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 the application of tourist visas and travel permits for entry 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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly controlled entities, 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 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 and jointly controlled entities 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the consolidated capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly controlled entities, 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 consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of negative goodwill, including negative goodwill remaining credited to consolidated capital reserve, is reviewed annually, by reference to the value of the acquired depreciable/amortisable assets, and the relevant proportion is recognised as income to the profit and loss account to match against the impairment of the underlying assets.

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.

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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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets *(continued)*

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 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.

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.

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 is capitalised into plant and machinery when they are used for replacements or for the improvement of plant and machinery, or is 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 exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

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.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 28 to the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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. 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 was still operating at the balance sheet date.

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. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of 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.

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 expenditures 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

- (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) rental income, on a time proportion basis over the lease terms;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) 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.

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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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.

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4. SEGMENT INFORMATION

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.

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 others 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 are attributed to the segments based on the location of the customers, 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.

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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	Tourist	Freight forwarding and trans-	Hotel	Travel and	Golf club	Power	Corporate	Eliminations	Consolidated
	transportation services	attraction operations	portation services	operations	travel-related operations	operations	generation	and others		
	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	116,028	401,064	264,730	310,017	1,743,250	34,645	-	230	-	2,869,964
Intersegment revenue	6,008	746	80	11,668	65,123	-	-	1,384	(85,009)	-
Other revenue and gains	3,135	8,919	2,268	55,170	13,615	-	-	28	-	83,135
Total	125,171	410,729	267,078	376,855	1,821,988	34,645	-	1,642	(85,009)	2,953,099
Segment results	10,684	125,699	29,975	84,822	220,478	(28,319)	(1,011)	(53,153)	-	389,175
Interest income and unallocated gains										50,248
Unallocated expenses										(373)
Profit from operating activities										439,050
Finance costs										(43,114)
Share of profits and losses of:										
Jointly controlled entities	-	-	(6,859)	-	-	-	268,102	-	-	261,243
Associates	46,850	221	(121)	-	-	-	-	-	-	46,950
Profit from ordinary activities before tax										704,129
Tax										(96,264)
Profit before minority interests										607,865
Minority interests										(67,545)
Net profit from ordinary activities attributable to shareholders										540,320

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Passenger transportation services 2001 HK\$'000	Tourist attraction operations 2001 HK\$'000	Freight and transportation services 2001 HK\$'000	Hotel operations 2001 HK\$'000 (Restated)	Travel and travel-related operations 2001 HK\$'000 (Restated)	Golf club operations 2001 HK\$'000	Power generation 2001 HK\$'000	Corporate and others 2001 HK\$'000	Eliminations 2001 HK\$'000	Consolidated 2001 HK\$'000 (Restated)
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	544	11,654	9,186	5,319	8,880	2,400	150	22	–	38,155
Total	98,672	437,224	309,089	273,586	1,235,728	40,778	150	3,072	(30,909)	2,367,390
Segment results	11,717	158,019	22,493	14,132	239,441	1,720	150	(33,251)	–	414,421
Interest income and unallocated gains										143,031
Unallocated expenses										(233)
Profit from operating activities										557,219
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 and losses of:										
Jointly controlled entities	–	–	(1,833)	–	–	–	247,115	–	–	245,282
Associates	33,700	–	309	–	–	–	–	–	–	34,009
Profit from ordinary activities before tax										826,357
Tax										(103,364)
Profit before minority interests										722,993
Minority interests										(77,821)
Net profit from ordinary activities attributable to shareholders										645,172

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31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Passenger	Tourist	Freight forwarding and trans-	Hotel	Travel and	Golf club	Power	Corporate	Eliminations	Consolidated
	transportation	attraction	portation	operations	travel-related	operations	generation	and others		
	services	operations	services	operations	operations	operations	operations	operations		
	2002	2002	2002	2002	2002	2002	2002	2002		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment assets	81,353	810,221	401,201	3,890,972	2,691,357	423,342	308	456,958	-	8,755,712
Interests in jointly controlled entities	-	-	19,243	-	-	-	1,242,630	-	-	1,261,873
Interests in associates	420,120	3,051	151	-	2,076	-	-	312	-	425,710
Unallocated assets										5,638
Bank overdrafts included in segment assets	-	-	-	-	358	-	-	-	-	358
Total assets										10,449,291
Segment liabilities	9,403	112,023	235,840	43,753	424,188	142,951	539	11,644	-	980,341
Unallocated liabilities										1,088,071
Bank overdrafts included in segment assets	-	-	-	-	358	-	-	-	-	358
Total liabilities										2,068,770
Other segment information:										
Capital expenditure	11,830	108,905	17,703	17,090	22,173	70,943	-	47,447	-	296,091
Depreciation and amortisation	10,175	65,385	7,984	1,253	66,028	17,129	-	1,319	-	169,273
Impairment losses recognised in the profit and loss account	-	-	4,089	640	13,608	-	-	38,562	-	56,899
Impairment losses reversed in the profit and loss account	-	-	-	50,470	-	-	-	-	-	50,470
Other non-cash expenses	-	2,337	2,859	-	5,617	1,323	-	1,036	-	13,172
Surplus on revaluation recognised directly in equity	-	-	-	4,647	-	-	-	-	-	4,647

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Passenger	Tourist	Freight forwarding and trans-	Hotel	Travel and	Golf club	Power	Corporate	Eliminations	Consolidated
	transportation services 2001 HK\$'000 (Restated)	attraction operations 2001 HK\$'000 (Restated)	portation services 2001 HK\$'000 (Restated)	operations 2001 HK\$'000 (Restated)	travel-related operations 2001 HK\$'000 (Restated)	operations 2001 HK\$'000	generation 2001 HK\$'000	and others 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	433,015	2,827	681	–	(1,932)	–	–	312	–	434,903
Unallocated assets										3,737
Bank overdrafts included in segment assets	–	–	–	–	4,666	–	–	–	–	4,666
Total assets										10,638,392
Segment liabilities	7,383	127,311	185,800	50,557	373,122	64,011	–	11,098	–	819,282
Unallocated liabilities										1,471,637
Bank overdrafts included in segment assets	–	–	–	–	4,666	–	–	–	–	4,666
Total liabilities										2,295,585
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

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments:

Group	Hong Kong		PRC		Overseas		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	1,610,045	1,489,937	797,006	593,666	462,913	245,632	-	-	2,869,964	2,329,235
Other revenue and gains	65,980	22,056	11,362	14,514	5,793	1,585	-	-	83,135	38,155
	1,676,025	1,511,993	808,368	608,180	468,706	247,217	-	-	2,953,099	2,367,390
Other segment information:										
Segment assets	6,946,755	7,732,959	3,287,946	2,746,616	214,232	154,151	-	-	10,448,933	10,633,726
Bank overdrafts included in segment assets	-	-	-	-	358	4,666	-	-	358	4,666
									10,449,291	10,638,392
Capital expenditure	45,699	842,492	246,737	605,088	3,655	42,015	-	-	296,091	1,489,595

Notes to Financial Statements

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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.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Freight forwarding and transportation services	264,730	299,721
Travel and travel-related operations	1,743,250	1,218,269
Hotel operations	310,017	250,693
Golf club operations	34,645	38,378
Tourist attraction operations	401,064	425,570
Passenger transportation services	116,028	96,422
Others	230	182
	2,869,964	2,329,235
Other revenue		
Gross rental income	16,069	21,436
Interest income	22,723	93,861
Compensation income	–	7,070
Indemnity income on withholding tax	–	1,806
Others	10,097	10,068
	48,889	134,241
Gains		
Dividend income from unlisted investments	351	–
Gain on disposal of fixed assets, net	1,365	621
Exchange gains, net	5,134	5,378
Gain on changes in fair values of short term investments	–	551
Write-back of long outstanding payables	27,174	39,743
Reversal of hotel property revaluation deficits	50,470	652
	84,494	46,945
Other revenue and gains	133,383	181,186

Notes to Financial Statements

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6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000 (Restated)
Depreciation	135,095	117,463
Goodwill amortisation for the year*	38,316	27,015
Negative goodwill recognised as income during the year**	(4,138)	(3,231)
Auditors' remuneration:		
Current year	6,485	6,353
Underprovision in the prior year	149	794
	6,634	7,147
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	550,017	534,590
Pension contributions	29,424	29,335
Less: Forfeited contributions	(3,483)	(6,194)
	25,941	23,141
Net pension contributions***	25,941	23,141
Total staff costs	575,958	557,731
Minimum lease payments under operating leases:		
Land and buildings	46,589	32,305
Motor vehicles	1,214	1,991
Provisions for doubtful debts and bad debts written off	10,464	5,031
Write-back of provisions for doubtful debts	(10,338)	(1,094)
Provisions for slow-moving inventories	544	1,102
Loss on disposal of a subsidiary	372	–
Loss on changes in fair values of long term investments	28	233
Loss/(gain) on changes in fair values of short term investments	1,035	(551)
Write-off of properties under development	1,101	–
Impairment of depreciable investment properties	3,030	–
Revaluation deficit of other investment properties	53,869	–
Hotel property revaluation deficit	116,603	–
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	(116,603)	–
Net rental income	(11,893)	(16,394)

Notes to Financial Statements

31 December 2002

6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

* 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 2002, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(31,729)	(86,070)
Finance lease and hire purchase contracts	(149)	(348)
Amortisation of deferred borrowing costs	(12,069)	(6,116)
Total finance costs	(43,947)	(92,534)
Less: Interest capitalised	833	25,955
	(43,114)	(66,579)

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8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	1,520	1,320
Independent non-executive directors	480	480
	2,000	1,800
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	7,481	5,324
Pension scheme contributions	200	105
	7,681	5,429
Total remuneration	9,681	7,229

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	10	12
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
	14	14

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining (2001: three) non-director, highest paid employees is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	944	2,742
Pension scheme contributions	47	90
	991	2,832

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

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	–	1
	1	3

Notes to Financial Statements

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10. TAX

	2002 HK\$'000	2001 HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(46,514)	(56,143)
Elsewhere	(24,450)	(30,534)
Overseas	(2,474)	(1,645)
Overprovision in prior years	13,626	2,650
Deferred tax – note 32	(177)	(316)
	(59,989)	(85,988)
Share of tax attributable to:		
Jointly controlled entities	(33,371)	(12,339)
Associates	(2,904)	(5,037)
	(36,275)	(17,376)
Tax charge for the year	(96,264)	(103,364)

Hong Kong profits tax has been provided at the rate of 16% (2001: 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 attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$316,331,000 (2001: HK\$541,047,000).

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\$24,805,000 (2001: HK\$232,928,000) and a profit of HK\$32,240,000 (2001: HK\$28,212,000), respectively.

Notes to Financial Statements

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12. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim – 5 cents (2001: 5 cents) per ordinary share	211,135	189,644
Underaccrual of 2001/2000 final dividends	74	16,226
	211,209	205,870
Proposed final – 4 cents (2001: 4 cents) per ordinary share	168,909	168,809
	380,118	374,679

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$540,320,000 (2001: as restated HK\$645,172,000), and the weighted average of 4,221,683,129 (2001: 3,647,613,303) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$540,320,000 (2001: as restated HK\$665,344,000, 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 4,221,683,129 (2001: 3,647,613,303) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 113,575,507 shares assumed to have been issued at no consideration on the deemed exercise of all bonus warrants outstanding during the year (2001: 403,904,523 shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options and bonus warrants, 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).

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14. FIXED ASSETS

Group

	Investment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establishment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	87,473	3,520,524	1,166,569	705,813	681,431	6,161,810
Additions	–	13,016	69,477	3,944	75,807	162,244
Acquisition of a subsidiary	–	–	–	–	206	206
Disposal of a subsidiary	–	–	–	–	(1,733)	(1,733)
Transfer from properties under development	–	484,895	11,068	61,206	59,926	617,095
Disposals and write-off	–	–	(33,691)	(2,834)	(43,966)	(80,491)
Deficit on revaluation	(53,869)	(61,486)	–	–	–	(115,355)
Reclassification	118,783	–	(126,222)	–	–	(7,439)
Exchange realignments	(424)	–	4,001	866	1,310	5,753
At 31 December 2002	151,963	3,956,949	1,091,202	768,995	772,981	6,742,090
At cost	23,170	–	1,091,202	768,995	772,981	2,656,348
At 2002 valuation	128,793	3,956,949	–	–	–	4,085,742
	151,963	3,956,949	1,091,202	768,995	772,981	6,742,090
Accumulated depreciation and impairment:						
At beginning of year	3,976	–	127,534	373,605	473,650	978,765
Provided during the year	1,107	–	30,695	39,599	63,694	135,095
Impairment during the year	3,030	–	–	–	–	3,030
Disposal of a subsidiary	–	–	–	–	(427)	(427)
Disposals and write-off	–	–	(8,087)	(20)	(39,432)	(47,539)
Reclassification	–	–	(7,439)	–	–	(7,439)
Exchange realignments	–	–	393	490	483	1,366
At 31 December 2002	8,113	–	143,096	413,674	497,968	1,062,851
Net book value:						
At 31 December 2002	143,850	3,956,949	948,106	355,321	275,013	5,679,239
At 31 December 2001	83,497	3,520,524	1,039,035	332,208	207,781	5,183,045

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14. FIXED ASSETS (continued)

Company

	Land and building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At beginning of year	–	1,950	2,273	1,202	5,425
Additions	1,165	28	231	1,199	2,623
Write-off	–	–	(181)	–	(181)
At 31 December 2002	1,165	1,978	2,323	2,401	7,867
Accumulated depreciation:					
At beginning of year	–	1,616	1,923	1,202	4,741
Provided during the year	–	110	241	240	591
Write-off	–	–	(181)	–	(181)
At 31 December 2002	–	1,726	1,983	1,442	5,151
Net book value:					
At 31 December 2002	1,165	252	340	959	2,716
At 31 December 2001	–	334	350	–	684

The Group's investment properties and 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:			
Long term leases	40,427	15,791	56,218
Medium term leases	67,281	5,293	72,574
Short term leases	–	23,171	23,171
	107,708	44,255	151,963
Land and buildings, at cost:			
Long term leases	375,481	34,079	409,560
Medium term leases	150,700	521,033	671,733
Short term leases	–	9,909	9,909
	526,181	565,021	1,091,202

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14. FIXED ASSETS (continued)

The land use right for a piece of the Group's land with a carrying value of HK\$176,543,000 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 another 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 2002 were 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 investment properties and hotel properties were revalued at 31 December 2002 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

The Group's investment properties, with gross carrying amount, accumulated depreciation and accumulated impairment loss of HK\$112,210,000 (2001: HK\$87,473,000), nil (2001: HK\$3,976,000) and HK\$640,000 (2001: nil), respectively, are leased to third parties under operating leases, further summary details of which are included in note 39 to the financial statements.

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14. FIXED ASSETS (continued)

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 2002 amounted to HK\$1,019,000 (2001: HK\$6,597,000).

15. PROPERTIES UNDER DEVELOPMENT

	2001 HK\$'000	Additions HK\$'000	Group		2002 HK\$'000
			Write-off HK\$'000	Transfer to fixed assets HK\$'000	
Building and plant	–	44	–	–	44
Scenic spots establishment	101,607	127,305	(1,101)	(131,245)	96,566
Golf course	604	5,459	–	(955)	5,108
Hotel properties	484,062	833	–	(484,895)	–
	586,273	133,641	(1,101)	(617,095)	101,718

The costs of building and plant, scenic spots establishment, golf course and hotel properties comprise the following:

	2002 HK\$'000	2001 HK\$'000
Land and buildings in Hong Kong held under long term leases	–	484,062
Land and buildings outside Hong Kong held under medium term leases	101,718	102,211
	101,718	586,273

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

No interest and borrowing costs were capitalised in properties under development at the balance sheet date (2001: accumulated HK\$57,509,000 and HK\$3,577,000, respectively).

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16. GOODWILL AND NEGATIVE GOODWILL

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 <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
Cost:		
At beginning of year	1,412,959	(202,779)
Acquisition of subsidiaries	62,553	–
At 31 December 2002	1,475,512	(202,779)
Accumulated amortisation/(recognition as income):		
At beginning of year	(27,015)	3,231
Recognised as income/(amortisation provided) during the year	(38,316)	4,138
At 31 December 2002	(65,331)	7,369
Net book value:		
At 31 December 2002	1,410,181	(195,410)
At 31 December 2001	1,385,944	(199,548)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted 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 consolidated capital reserve, respectively. Such amounts are subject to an annual impairment test.

The amounts of goodwill and negative goodwill remaining in consolidated reserves at the balance sheet date were approximately HK\$1,041 million (2001: HK\$1,041 million) and HK\$687 million (2001: HK\$1,254 million), respectively. The amounts of goodwill are stated at its cost.

During the year, a prior year adjustment of HK\$451,048,000 has been made to align with the Group's accounting policy on negative goodwill. Further details of this prior year adjustment are included in note 35 to the financial statements.

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	3,305,681	3,270,587
Due from subsidiaries	3,337,565	3,511,399
Loans to subsidiaries	1,632,663	2,442,295
Due to subsidiaries	(1,482,156)	(1,560,538)
	6,793,753	7,663,743
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(273,797)	(276,389)
	6,519,956	7,387,354

Except for certain balances due from subsidiaries with an aggregate amount of HK\$35,771,000 (2001: HK\$383,119,000) which bear interest at 6% (2001: 4.25% to 6%) per annum, the remaining balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

All loans to subsidiaries are interest-free, unsecured and not repayable within one year. In the prior years, certain loans to subsidiaries with an aggregate amount of HK\$72,000,000 bore interest at 6% per annum.

Last year's balance due from a subsidiary of HK\$4,711,000 was repayable in 2002 and, accordingly, such balance was included in current assets.

Particulars of the Company's principal subsidiaries are set out in note 37 to the financial statements.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	1,183,359	1,158,792
Due from jointly controlled entities	88,546	16,285
Due to jointly controlled entities	(1,360)	(137,692)
	1,270,545	1,037,385
Less: Provisions for impairment	(8,672)	(8,672)
	1,261,873	1,028,713

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18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted 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 consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$3,693,000 as at 1 January and 31 December 2002. The amount of goodwill is stated at its cost.

Except for the balances of HK\$1,359,000, HK\$1,439,000 and HK\$4,566,000 which are interest-bearing at 6% per annum, 8% per annum and at one-year interest rate of China working capital loans, respectively, the remaining 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
			2002	2001	
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
Sichuan Jeida Freight Transportation Co., Ltd. #	Corporate	PRC	–	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 cargo transportation services

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

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18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Extracts of the audited financial statements of the Group's material jointly controlled entity are as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2002 HK\$'000	2001 HK\$'000
Profit and loss account		
Turnover	1,578,752	1,576,787
Profit attributable to shareholders	469,420	469,894
Net profit attributable to the Group	234,738	234,787
Balance sheet		
Non-current assets	2,894,144	3,258,842
Current assets	600,275	747,650
Current liabilities	(974,964)	(972,780)
Non-current liabilities	(108,656)	(689,906)
Net assets	2,410,799	2,343,806
Net assets attributable to the Group	1,174,499	1,142,828

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–	311	311
Share of net assets	423,592	396,957	–	–
Due from associates	2,207	46,531	–	–
Due to associates	(89)	(4,956)	–	–
	425,710	438,532	311	311
Less: Provisions for impairment	–	(3,629)	–	–
	425,710	434,903	311	311

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19. INTERESTS IN ASSOCIATES (continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted 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 consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$49,089,000 as at 1 January and 31 December 2002. The amount of goodwill is stated at its cost.

As explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements, SSAP 34 was adopted during the year. This change in accounting policy has resulted in a decrease in the Group's share of net assets in an associate of HK\$7,936,000 as at 31 December 2002 and 2001. Further details of this prior year adjustment are included in note 28 to the financial statements.

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
			2002	2001	
China Railway-China Travel Express Co. (HK) Ltd. *	Corporate	Hong Kong	50	50	Dormant
Shun Tak-China Travel Shipping Investments Limited * #	Corporate	British Virgin Islands/ Hong Kong	29	29	Shipping operations
Storman Ltd. *	Corporate	Hong Kong	38	38	Dormant
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.

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19. INTERESTS IN ASSOCIATES (continued)

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

	Shun Tak-China Travel Shipping Investments Limited	
	2002 HK\$'000	2001 HK\$'000 (Restated)
Profit and loss account		
Turnover	1,415,955	1,359,042
Net profit attributable to shareholders	151,537	98,857
Balance sheet		
Non-current assets	1,572,602	1,715,900
Current assets	401,387	366,768
Current liabilities	(222,280)	(242,528)
Non-current liabilities	(303,449)	(507,416)
Net assets	1,448,260	1,332,724

20. INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Long term investments				
Unlisted equity investments outside Hong Kong:				
Unlisted shares, at fair value	21,956	21,947	13,949	13,949
Unlisted equity and debt investments in Hong Kong:				
Unlisted shares, at fair value	30	123	–	–
Unlisted convertible bonds, at fair value	–	66,000	–	66,000
	30	66,123	–	66,000
	21,986	88,070	13,949	79,949
Short term investments				
Listed equity investments in Hong Kong, at market value	865	1,900	–	–

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21. INVENTORIES, AT COST

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	9,458	9,170
Spare parts and consumables	1,082	1,150
General stores	5,885	6,278
General merchandise	299	138
	16,724	16,736

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	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with age:		
Less than 1 month	204,949	119,876
Within:		
1-3 months	25,912	49,005
4-6 months	14,981	20,764
7-12 months	11,068	9,811
1-2 years	3,538	2,025
Over 2 years	7,135	15,838
	267,583	217,319

23. OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Deferred borrowing costs	7,298	11,809	–	11,809
Deposits and other debtors	142,574	81,934	3,711	4,026
Amounts due from minority shareholders	5,951	7,332	–	–
	155,823	101,075	3,711	15,835

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24. PLEDGED TIME DEPOSITS

The Company and the Group have pledged bank deposits of approximately nil (2001: HK\$2,147,000) and HK\$2,688,000 (2001: HK\$3,302,000), respectively, to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and a bank guarantee given in lieu of rental deposits. Last year's pledged bank deposits were made to banks to secure certain bank guarantees given in lieu of utility and rental deposits.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	855,255	516,700	23,910	78,005
Time deposits	319,324	1,130,455	136,220	489,719
	1,174,579	1,647,155	160,130	567,724
Less: Pledged time deposits – note 24	(2,688)	(3,302)	–	(2,147)
Cash and cash equivalents	1,171,891	1,643,853	160,130	565,577

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

The balances with ultimate holding company and fellow subsidiaries mainly represent trade receivables and payables.

The balances with ultimate holding company and fellow subsidiaries are unsecured, interest-free and repayable on the third business day following the month of transactions.

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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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amount due from ultimate holding company				
Within 1 year	30,562	34,525	225	2,414
1-2 years	–	3,980	–	–
Over 2 years	–	14,018	–	–
	30,562	52,523	225	2,414
Amounts due from fellow subsidiaries				
Within 1 year	2,587	1,805	–	–
Amounts due to fellow subsidiaries				
Within 1 year	1,558	2,886	–	–
Over 2 years	74	270	–	–
	1,632	3,156	–	–

27. TRADE PAYABLES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with age:		
Less than 1 month	145,058	211,690
Within:		
1-3 months	214,540	46,473
4-6 months	16,085	39,962
7-12 months	19,471	7,077
1-2 years	5,901	2,255
Over 2 years	9,421	9,432
	410,476	316,889

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28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000
Accruals and other liabilities	448,570	357,172	11,934	6,279
Staff bonus and welfare fund	28,122	37,533	–	–
Receipts in advance from customers	18,708	49,152	–	–
Due to minority shareholders	1,291	1,144	–	–
	496,691	445,001	11,934	6,279

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned by employees during the year, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$10,866,000 and HK\$10,560,000 being included in the balances of the Group's accruals in respect of paid annual leave carried forward as at 31 December 2002 and 2001, respectively, and a decrease in the Group's share of net assets from an associate of HK\$7,936,000 as at 31 December 2002 and 2001. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2002 and 2001 have been decreased by HK\$306,000 and HK\$5,794,000, respectively, and consolidated retained profits at 1 January 2002 and 2001 have been reduced by HK\$18,496,000 and HK\$12,702,000, respectively, as detailed in the consolidated summary statement of changes in equity.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts – unsecured		358	4,666	–	–
Current portion of bank and other loans		327,715	362,554	–	300,000
	30	328,073	367,220	–	300,000
Current portion of lease payables	31	516	2,503	–	–
		328,589	369,723	–	300,000

Notes to Financial Statements

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30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts:				
Unsecured	358	4,666	–	–
Syndicated bank loans:				
Secured – Note	1,000,000	–	–	–
Other bank loans:				
Unsecured	32,899	63,923	–	–
Secured	–	1,305,010	–	1,300,000
	1,032,899	1,368,933	–	1,300,000
Loans from minority shareholders	–	9,423	–	–
Golf club debentures	4,157	4,157	–	–
	4,157	13,580	–	–
	1,037,414	1,387,179	–	1,300,000
Bank overdrafts repayable within one year or on demand	358	4,666	–	–
Bank loans repayable:				
Within one year or on demand	327,715	362,554	–	300,000
In the second year	5,184	384,143	–	380,000
In the third to fifth years, inclusive	700,000	622,236	–	620,000
	1,032,899	1,368,933	–	1,300,000
Other loans repayable:				
Over five years	4,157	13,580	–	–
Total interest-bearing bank and other borrowings	1,037,414	1,387,179	–	1,300,000
Portion classified as current liabilities – note 29	(328,073)	(367,220)	–	(300,000)
Long term portion	709,341	1,019,959	–	1,000,000

Notes to Financial Statements

31 December 2002

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

Note: Included in HK\$1,000 million secured syndicated bank loans are revolving loans of HK\$300 million which are repayable in the following year. Interest is charged on the outstanding balance at 0.5% per annum over the Hong Kong Interbank Offered Rate for the applicable loan period. The loans are secured by the corporate guarantee given by the Company.

31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its business operations. These leases are classified as finance leases and have remaining lease terms of 2 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	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts repayable:				
Within one year	558	2,667	516	2,503
In the second year	144	628	141	571
In the third to fifth years, inclusive	–	156	–	151
Total minimum lease payments	702	3,451	657	3,225
Future finance charges	(45)	(226)		
Total net lease payables	657	3,225		
Portion classified as current liabilities – <i>note 29</i>	(516)	(2,503)		
Long term portion	141	722		

Notes to Financial Statements

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32. DEFERRED TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
Balance at beginning of year	9,558	7,173
Acquisition of subsidiaries	–	2,069
Charge for the year – note 10	177	316
At 31 December	9,735	9,558

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

	2002 HK\$'000	2001 HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
4,222,731,839 (2001: 4,220,233,742) ordinary shares of HK\$0.10 each	422,273	422,023

During the year, 2,498,097 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.22 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of approximately HK\$3,048,000.

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33. SHARE CAPITAL (continued)

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

	Number of shares in issue	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 January 2001	3,251,115,027	325,112	4,937,755	5,262,867
Shares issued on conversion of convertible bonds	530,859,472	53,086	547,210	600,296
Shares issued on conversion of convertible notes	427,272,727	42,727	427,273	470,000
Shares issued on exercise of share options	10,000,000	1,000	6,090	7,090
Shares issued on exercise of bonus warrants	986,516	98	1,105	1,203
At 31 December 2001 and 1 January 2002	4,220,233,742	422,023	5,919,433	6,341,456
Shares issued on exercise of bonus warrants	2,498,097	250	2,798	3,048
At 31 December 2002	4,222,731,839	422,273	5,922,231	6,344,504

Share options

Details of the Company's share option scheme are included in note 34 to the financial statements.

Warrants

On 28 June 2001, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members, 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. At the beginning of the year, there were 757,408,383 warrants outstanding.

During the year, 2,498,097 warrants were exercised for 2,498,097 shares of HK\$0.10 each at HK\$1.22 per share. At the balance sheet date, the Company had 754,910,286 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 754,910,286 additional shares of HK\$0.10 each in the Company, for a gross proceeds of approximately HK\$920,991,000.

34. SHARE OPTION SCHEME

On 3 June 2002, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme which was approved by the shareholders of the Company on 21 October 1992 (the "Old Scheme"). The Old Scheme was terminated on 20 October 2002. There were no options outstanding under the Old Scheme as at 1 January 2002 and 31 December 2002.

The Company operates the New Scheme for the purpose of attracting and retaining the best quality personnel for the development of the Group's businesses; providing additional incentives to employees, officers and executive directors of the Group; and promoting the long term financial success of the Company by aligning the interests of option holders to shareholders.

Eligible participants of the New Scheme include the Company's executive directors and employees of the Group. The New Scheme became effective on 3 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the New Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be notified by the Company's board of directors to each grantee and, in any event, such period of time shall not exceed a period of 10 years from the date of grant of the relevant option.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The subscription price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares (the "Shares") as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheet on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

At 31 December 2002, no share option was outstanding under the New Scheme and none of the Company's directors and none of the Group's employees were granted share options during the year.

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35. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds (Note a) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001								
As previously reported	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Prior year adjustments:								
SSAP 34 "Employee benefits" – note 28	–	–	–	–	–	–	(12,702)	(12,702)
Recognition of negative goodwill upon impairment of underlying assets (Note c)	–	(451,048)	–	–	–	–	451,048	–
As restated	4,937,755	(233,733)	(122,000)	236,730	44,680	(5,939)	1,125,387	5,982,880
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 (as restated)	–	–	–	–	–	–	645,172	645,172
Underaccrual of 2000 final dividend – note 12	–	–	–	–	–	–	(16,226)	(16,226)
2001 interim dividend – note 12	–	–	–	–	–	–	(189,644)	(189,644)
Reclassification of a long term investment to interests in a subsidiary	–	–	122,000	–	–	–	–	122,000
Proposed 2001 final dividend – note 12	–	–	–	–	–	–	(168,809)	(168,809)
Transfer from retained profits	–	–	–	–	10,332	–	(10,332)	–
Transfer to retained profits (Note b)	–	(72,198)	–	–	–	–	72,198	–
Realisation of reserves on disposal of an associate	–	15,541	–	–	–	–	–	15,541
At 31 December 2001 (as restated)	5,919,433	(290,390)	–	259,568	55,012	(2,397)	1,457,746	7,398,972
Reserves retained by:								
Company and subsidiaries (as restated)	5,919,433	(237,608)	–	259,568	55,012	(2,397)	1,411,187	7,405,195
Jointly controlled entities	–	(3,693)	–	–	–	–	227,469	223,776
Associates (as restated)	–	(49,089)	–	–	–	–	(180,910)	(229,999)
At 31 December 2001 (as restated)	5,919,433	(290,390)	–	259,568	55,012	(2,397)	1,457,746	7,398,972

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35. RESERVES (continued)

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds (Note a) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002								
As restated	5,919,433	(290,390)	–	259,568	55,012	(2,397)	1,457,746	7,398,972
Premium on issue of new shares on exercise of bonus warrants	2,798	–	–	–	–	–	–	2,798
Exchange realignments	–	–	–	–	–	6,496	–	6,496
Recognition of negative goodwill upon impairment of underlying assets (Note c)	–	(116,603)	–	–	–	–	–	(116,603)
Surplus on revaluation	–	–	–	4,647	–	–	–	4,647
Transfer from retained profits	–	–	–	–	9,234	–	(9,234)	–
Net profit for the year	–	–	–	–	–	–	540,320	540,320
Underaccrual of 2001 final dividend – note 12	–	–	–	–	–	–	(74)	(74)
2002 interim dividend – note 12	–	–	–	–	–	–	(211,135)	(211,135)
Proposed 2002 final dividend – note 12	–	–	–	–	–	–	(168,909)	(168,909)
At 31 December 2002	5,922,231	(406,993)	–	264,215	64,246	4,099	1,608,714	7,456,512
Reserves retained by:								
Company and subsidiaries	5,922,231	(354,211)	–	264,215	64,246	4,099	1,505,110	7,405,690
Jointly controlled entities	–	(3,693)	–	–	–	–	252,274	248,581
Associates	–	(49,089)	–	–	–	–	(148,670)	(197,759)
At 31 December 2002	5,922,231	(406,993)	–	264,215	64,246	4,099	1,608,714	7,456,512

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35. RESERVES (continued)

Company	Share premium account <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2001	4,937,755	42,070	4,979,825
Premium on issue of new shares on exercise of convertible bonds, convertible notes, shares options and bonus warrants	981,678	–	981,678
Net profit for the year	–	541,047	541,047
Underaccrual of 2000 final dividend – note 12	–	(16,226)	(16,226)
2001 interim dividend – note 12	–	(189,644)	(189,644)
Proposed 2001 final dividend – note 12	–	(168,809)	(168,809)
Balance at 31 December 2001 and 1 January 2002	5,919,433	208,438	6,127,871
Premium on issue of new shares on exercise of bonus warrants	2,798	–	2,798
Net profit for the year	–	316,331	316,331
Underaccrual of 2001 final dividend – note 12	–	(74)	(74)
2002 interim dividend – note 12	–	(211,135)	(211,135)
Proposed 2002 final dividend – note 12	–	(168,909)	(168,909)
At 31 December 2002	5,922,231	144,651	6,066,882

Notes:

- (a) 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.
- (b) 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 in 2001.

35. RESERVES (continued)

Notes: (continued)

- (c) According to the Group's accounting policy, the carrying amount of negative goodwill, including that remaining credited to consolidated capital reserve, is reviewed annually, by reference to the value of the acquired depreciable/amortisable assets, and the relevant proportion is recognised as income to the profit and loss account to match against the impairment of the underlying assets. Included in the Group's consolidated capital reserve were negative goodwill amounts which arose from the acquisition of certain hotel property holding subsidiaries. During the years ended 31 December 1997 and 1998, revaluation deficits in respect of one of the Group's hotel properties of HK\$101,048,000 and HK\$350,000,000 were charged to the Group's profit and loss accounts, respectively, while the corresponding capital reserve amounts arising from the acquisition of the related subsidiary had remained in the consolidated capital reserve account.

In restating the results for the years ended 31 December 1997 and 1998 to align with the Group's accounting policy, a prior year adjustment has been made to recognise the attributable capital reserve amounts of HK\$101,048,000 and HK\$350,000,000 to the Group's 1997 and 1998 profit and loss accounts, respectively. This has resulted in a decrease in the consolidated capital reserve and an increase in the Group's retained profits brought forward as at 1 January 2001 by HK\$451,048,000. This prior year adjustment had no impact on the Group's audited results for the years ended 31 December 2001 and 2002.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Adoption of SSAP 15 (Revised)

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously, five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and interest and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. Such change has had no material effect on the comparative consolidated cash flow statement.

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

(b) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and a bank guarantee given in lieu of rental deposits, as further explained in note 24 to the financial statements.

(c) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	206	1,146,540
Property held for sale	–	92,000
Inventories	–	6,326
Cash and bank balances	6,100	125,521
Trade receivables and other receivables	10,444	189,595
Due from ultimate holding company	–	88,394
Due from fellow subsidiaries	–	71,969
Trade payables, other payables and accruals	(12,088)	(586,765)
Due to fellow subsidiaries	–	(206,483)
Bank and other borrowings	–	(888)
Bank overdrafts	–	(4,761)
Tax payable	(102)	(16,021)
Deferred tax	–	(2,069)
Minority interests	–	(12,881)
	4,560	890,477
Goodwill on acquisition	–	1,412,959
Negative goodwill on acquisition	–	(202,779)
	4,560	2,100,657
Accounted for and satisfied by:		
Cash	4,560	1,190,543
Convertible bonds	–	600,000
Interests 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
	4,560	2,100,657

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

(c) Acquisition of subsidiaries (continued)

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(4,560)	(1,190,543)
Cash and bank balances acquired	6,100	125,521
Bank overdrafts	–	(4,761)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>1,540</u>	<u>(1,069,783)</u>

On 31 March 2002, the Group acquired a 100% interest in Shenzhen Wantung Transportation Agency Co., Ltd.* ("Wantung") from an independent third party. Wantung is engaged in the provision of freight forwarding and transportation services. The purchase consideration for the acquisition was in the form of cash, with HK\$2,359,000 and HK\$2,201,000 being paid on 2 July 2002 and 3 July 2002, respectively.

Since its acquisition, Wantung contributed HK\$76,171,000 to the Group's turnover and HK\$171,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

The subsidiaries acquired in the prior year 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.

* The English name of the subsidiary is direct translation of its Chinese registered name.

(d) Disposal of a subsidiary

	2002 HK\$'000
Net assets disposed of:	
Fixed assets	1,306
Trade receivables and other receivables	14,946
Cash and cash equivalents	1,820
Trade payables, other payables and accruals	(14,408)
Minority interests	(1,100)
	<u>2,564</u>
Loss on disposal of a subsidiary	<u>(372)</u>
	<u>2,192</u>
Satisfied by:	
Cash	<u>2,192</u>

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

(d) Disposal of a subsidiary (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2002 HK\$'000
Cash consideration	2,192
Cash and cash equivalents disposed of	(1,820)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	372

The subsidiary disposed of contributed HK\$23,445,000 (2001: HK\$89,796,000) to the Group's turnover and HK\$532,000 (2001: HK\$450,000) to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

37. 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
			2002	2001	
Chadwick Developments Limited (Note)	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Provision of printing and advertising agency services
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	100	Air ticketing agent
CTS International Transportation Co., Ltd. (Formerly known as China Trading Service Co., Ltd.)*	PRC	RMB26,000,000	76	76	Freight forwarding

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37. 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
			2002	2001	
China Travel International Ltd. (Note)	PRC	RMB50,000,000	100	100	Tour operations
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	70	70	Passenger transportation
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	100	100	Tour operations
China Travel Service (Cargo) Hong Kong Limited (Note)	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	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	100	Passenger transportation
China Travel and Trading (Deutschland) GmbH	Germany	EURO125,267	100	100	Travel and air ticketing agent
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK\$1@	100	80	Trading of computer equipment, provision of computer services and investment holding
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. (Note)	PRC	US\$29,980,000	100	–	Operation of a hot spring resort
China Travel Net Hong Kong Limited	Hong Kong	150,000 ordinary shares of HK\$1@	100	80	Operation of a website
China Travel Service (Australia) Pty. Ltd.	Australia	AUD3,319,932	100	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.	Canada	CAD2,685,000	100	100	Travel and air ticketing agent

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37. 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
			2002	2001	
China Travel Service (France) SARL#	France	EURO220,000	100	100	Travel and air ticketing agent
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@ 1,000,000 non-voting deferred shares of HK\$100@	100	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.	Japan	¥95,000,000	100	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.	Korea	WON500,000,000	100	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd.	United Kingdom	486,000 ordinary shares of £1@ 1,072,000 preference shares of £1@	100	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	96.2	Dormant
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
CTII Worldwide Limited	British Virgin Islands/ Hong Kong	641,000 ordinary shares of US\$1@	–	70	Provision of freight forwarding and transportation services
Glading Development Limited	Hong Kong	2 ordinary shares of HK\$1@ 2 non-voting deferred shares of HK\$1@	100	100	Property investment holding and hotel operations
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations

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37. 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
			2002	2001	
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	100	100	Investment holding
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
Princess Capital Limited (Note)	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Dormant
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen The Splendid China Development Co., Ltd.* (Note)	PRC	RMB184,000,000	51	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* (Note)	PRC	US\$29,500,000	51	51	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1@	100	80	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.	PRC	RMB100,000,000	100	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	100	Property investment holding and hotel operations
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	100	100	Travel and air ticketing agent

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37. 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
			2002	2001	
Singa China Travel Service Pte. Limited	Singapore	SGD3,840,000	100	71.46	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	100	100	Property investment holding and hotel operations
Starsoft Computer Services Limited	Hong Kong	4,000 ordinary shares of HK\$100@	100	80	Investment holding
Starsoft Computer Services (Shenzhen) Co. Ltd.	PRC	RMB1,200,000	100	80	Computer software development and design
Tonkin Ltd.	Hong Kong	10,000 ordinary shares of HK\$1@	100	100	Property investment holding
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
U.S. China Travel Service Inc.	United States of America	US\$4,890,000	100	100	Travel and air ticketing agent
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Property investment holding and hotel operations

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.

Note: These subsidiaries were directly owned by the Company.

* These subsidiaries are Sino-foreign equity joint ventures.

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

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38. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following material contingent liabilities:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,911	499	2,024	499
Corporate guarantee given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	–	–	47,662	–
Corporate guarantee given to banks in connection with credit facilities granted to and utilised by subsidiaries	–	–	1,002,985	–
Guarantees given to banks in connection with facilities granted to and utilised by an associate	98,688	107,762	98,688	107,762
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,885	1,885	–	–
	103,484	110,146	1,151,359	108,261

39. 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 2 to 5 years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	6,774	7,330
In the second to fifth years, inclusive	3,864	3,131
	10,638	10,461

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39. OPERATING LEASE ARRANGEMENTS (continued)

(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 plant and machinery for terms ranging from 1 to 5 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Land and buildings:		
Within one year	33,281	32,807
In the second to fifth years, inclusive	49,360	79,102
After five years	90,358	83,600
	<hr/>	<hr/>
	172,999	195,509
	<hr/>	<hr/>
Plant and machinery:		
Within one year	166	1,111
In the second to fifth years, inclusive	199	2,580
	<hr/>	<hr/>
	365	3,691
	<hr/>	<hr/>

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40. COMMITMENTS

In addition to the operating lease commitments as detailed in note 39(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Properties under development				
Contracted, but not provided for	31,714	29,944	1,885	–
Authorised, but not contracted for	1,709,600	91,743	1,703,774	–
	1,741,314	121,687	1,705,659	–
Plant and equipment:				
Contracted, but not provided for	3,908	–	–	–
Authorised, but not contracted for	9,611	–	–	–
	13,519	–	–	–
Land and buildings:				
Contracted, but not provided for	11,068	–	265	–
Leasehold improvements:				
Contracted, but not provided for	–	2,632	–	–
Unpaid capital contribution to jointly controlled entities:				
Contracted, but not provided for	3,540	4,987	–	–
Unpaid capital contribution to investee companies:				
Contracted, but not provided for	768	–	299,293	–
Others:				
Contracted, but not provided for	7,619	385	–	–

Notes to Financial Statements

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40. COMMITMENTS (continued)

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

	2002 HK\$'000	2001 HK\$'000
Authorised, but not contracted for	–	18,027

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

41. RELATED PARTY TRANSACTIONS

In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with CTS (Holdings) or its subsidiaries, associates and a jointly controlled entity during the year which also constitute connected transactions as defined in the Listing Rules:

		Group	
		2002 HK\$'000	2001 HK\$'000
Name of company	Nature of transaction		
Paid or payable to:			
(1) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	2,077	1,829
(2) China Travel Hip Kee Godown Hong Kong Limited	Storage charges	975	767
(3) China Travel Service (Hong Kong) Limited	Train and boat tickets	–	4,142
(4) China Travel Service (Hong Kong) Limited	Bus ticket service fees	–	755
(5) China Travel Service (Hong Kong) Limited	Office rental	–	1,035
(6) China Travel Service (Hong Kong) Limited	Management service fees	–	2,825
(7) CTS (Holdings)	Convertible notes interest	–	24,015
(8) CTS (Holdings)	Management fees	–	300
(9) CTS (Holdings)	Office rental (note b)	13,982	8,479
(10) CTS (Holdings)	Refund on reimbursement of PRC withholding tax on interest income	–	15,676
(11) China Travel Advertising Hong Kong Limited	Advertising fees	–	837
(12) China Travel Building Contractors Hong Kong Limited	Decoration expenses (note c)	544	4,072

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41. RELATED PARTY TRANSACTIONS (continued)

Name of company	Nature of transaction	Group	
		2002 HK\$'000	2001 HK\$'000
Paid or payable to: (continued)			
(13) China Travel Insurance Advisers Hong Kong Limited	Insurance charges (note d)	8,003	6,195
(14) Tai Sun Services Company Limited	Stevedoring services and coolie charges (note e)	2,167	2,426
(15) Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charges	–	1,527
(16) Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charges	–	897
(17) China Travel Hotel Management Services Hong Kong Limited	Hotel management fees (note a)	3,450	3,810
(18) China Travel Hotel Management Services Hong Kong Limited	Management service fee	–	1,387
(19) China Travel Hi-Tech Computer Hong Kong Limited	Equipment hiring fees	–	161
(20) Sun Wah Printing Factory	Printing charges	–	88
(21) China Travel Computer Service H.K. Limited	Computer maintenance fees	–	8,490
(22) Hubei Yangtze River Splendid China Cruise Co., Ltd	Sightseeing cruiser services (note f)	924	789
Received or receivable from:			
(23) CTS (Holdings)	Reimbursement of PRC withholding tax on interest income	–	1,806
(24) CTS (Holdings)	Hotel room rental	1,006	517
(25) CTS (Holdings)	Travel permit administration income (note j)	326,029	234,731
(26) CTS (Holdings)	Rental income	–	1,399
(27) CTS (Holdings)	Compensation	–	15,647
(28) CTS (Holdings)	Sale of computer equipment and visa materials	1,671	2,623
(29) China Travel Computer Service H.K. Limited	Application service provider services (note g)	14,800	18,225
(30) China Travel Service (Hong Kong) Limited	Admission tickets	–	11,623
(31) China Travel Service (Hong Kong) Limited	Hotel room rental	–	2,201

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41. RELATED PARTY TRANSACTIONS (continued)

Name of company	Nature of transaction	Group	
		2002 HK\$'000	2001 HK\$'000
Received or receivable from: (continued)			
(32) China Travel Service (Hong Kong) Limited	Coach income	–	156
(33) China Travel Service (Thailand) Co., Limited	Sale of tourism services /products (note h)	1,412	1,138
(34) China Travel Service, Inc.	Sale of tourism services /products (note h)	489	1,139
(35) China Travel System (M) Sdn. Bhd.	Sales of tourism services /products (note h)	875	363
(36) China Travel Hotel Management Services Hong Kong Limited	Rental income (note i)	43	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.

Notes:

- (a) 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.
- (b) The rental charge for the renting of office premises was determined with reference to the prevailing market rate.
- (c) 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.
- (d) 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.
- (e) The stevedoring services fee and coolie charges 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.
- (f) 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.
- (g) 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.
- (h) The sales of tourism services/products were made according to the published prices and conditions offered to the major customers of the Group.
- (i) The rental income for the leasing of an office unit was determined with reference to the prevailing market rate.
- (j) The travel permit administration income 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.

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41. RELATED PARTY TRANSACTIONS *(continued)*

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

42. 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, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 14 April 2003.