

Notes to Financial Statements

31 December 2003

1. 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 revised SSAP and new Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

This SSAP and Interpretation 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 SSAP and Interpretation are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

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

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s investment properties and hotel properties;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 33 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for income tax in note 3 and note 33 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability which arises from the revaluation of certain non-depreciable assets and investment properties to be measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12 (Revised).

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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 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 2003. 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.

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;

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies (Continued)

- (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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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.

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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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the consolidated capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP 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 any 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

Hotel properties

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

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

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

Properties under development

Properties under development are carried at cost less any impairment losses, and are 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property held for sale

Property held for sale is stated at the lower of cost and net realisable value. Cost comprises acquisition costs. Net realisable value represents the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leased assets

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

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

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

Long term investments

Long term investments are non-trading investments in unlisted equity securities 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 in 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 replacement or for the improvement of plant and machinery, or is charged to the profit and loss account when they are used for daily operations.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or, in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

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 into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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.

Expenses in respect of the issue of zero coupon guaranteed convertible bonds due 2008 in the aggregate principal amount of US\$150,000,000 (the "Bonds") are deferred and amortised over the term of the Bonds on a straight-line basis.

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

Convertible bonds

Convertible bonds are stated at par value, adjusted for the accretion of premium on redemption on a straight-line basis over the terms of the bonds.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of freight forwarding, passenger transportation services, travel-related services and hotel services, when the services are rendered;
- (c) from the rendering of tour services, based on the date of tour departure;
- (d) income related to scenic spots, when the admission tickets are sold;
- (e) income from the sale of golf club memberships, on a time proportion basis over the membership period;
- (f) 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

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 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 transportation services 2003 HK\$'000 | Tourist attraction operations 2003 HK\$'000 | Freight forwarding and trans- portation services 2003 HK\$'000 | Hotel operations 2003 HK\$'000 | Travel and travel- related operations 2003 HK\$'000 | Golf club operations 2003 HK\$'000 | Power generation 2003 HK\$'000 | Corporate and others 2003 HK\$'000 | Eliminations 2003 HK\$'000 | Consolidated 2003 HK\$'000 |
|---|---|---|--|---|--|---|---|---|----------------------------------|----------------------------------|
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 127,416 | 294,686 | 1,284,969 | 255,464 | 1,307,896 | 29,802 | - | 683 | - | 3,300,916 |
| Intersegment revenue | 4,241 | 1,451 | 280 | 11,776 | 7,327 | - | - | 22,335 | (47,410) | - |
| Other revenue and gains | 2,582 | 6,461 | 2,928 | 3,835 | 20,451 | 207 | 377 | 154 | - | 36,995 |
| Total | 134,239 | 302,598 | 1,288,177 | 271,075 | 1,335,674 | 30,009 | 377 | 23,172 | (47,410) | 3,337,911 |
| Segment results | 11,726 | 66,149 | 27,062 | (150,763) | (61,107) | (98,523) | (1,172) | (34,051) | - | (240,679) |
| Interest income and unallocated gains | | | | | | | | | | 20,872 |
| Unallocated expenses | | | | | | | | | | (2,286) |
| Loss from operating activities | | | | | | | | | | (222,093) |
| Finance costs | | | | | | | | | | (28,066) |
| Share of profits and losses of: | | | | | | | | | | |
| Jointly-controlled entities | - | - | (2,068) | - | 405 | - | 280,659 | - | - | 278,996 |
| Associates | 3,669 | 185 | - | - | - | - | - | - | - | 3,854 |
| Profit from ordinary activities before tax | | | | | | | | | | 32,691 |
| Tax | | | | | | | | | | (37,976) |
| Loss before minority interests | | | | | | | | | | (5,285) |
| Minority interests | | | | | | | | | | (34,525) |
| Net loss from ordinary activities attributable to shareholders | | | | | | | | | | (39,810) |

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

| | Passenger transportation services 2002 HK\$'000 | Tourist attraction operations 2002 HK\$'000 | Freight forwarding and trans- portation services 2002 HK\$'000 (Restated) | Hotel operations 2002 HK\$'000 (Restated) | Travel and travel- related operations 2002 HK\$'000 (Restated) | Golf club operations 2002 HK\$'000 | Power generation 2002 HK\$'000 | Corporate and others 2002 HK\$'000 | Eliminations 2002 HK\$'000 | Consolidated 2002 HK\$'000 (Restated) |
|---|---|---|--|---|--|---|---|---|----------------------------------|--|
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 116,028 | 401,064 | 796,461 | 310,017 | 1,743,250 | 34,645 | - | 230 | - | 3,401,695 |
| 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 | 798,809 | 376,855 | 1,821,988 | 34,645 | - | 1,642 | (85,009) | 3,484,830 |
| Segment results | 10,684 | 125,699 | 29,975 | 66,442 | 219,199 | (28,319) | (1,011) | (53,153) | - | 369,516 |
| Interest income and unallocated gains | | | | | | | | | | 50,248 |
| Unallocated expenses | | | | | | | | | | (373) |
| Profit from operating activities | | | | | | | | | | 419,391 |
| 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 | | | | | | | | | | 684,470 |
| Tax | | | | | | | | | | (84,327) |
| Profit before minority interests | | | | | | | | | | 600,143 |
| Minority interests | | | | | | | | | | (67,545) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | | 532,598 |

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

| Group | Passenger | Tourist | Freight | | Travel and | | | | | |
|---|----------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|
| | transportation | attraction | forwarding | Hotel | related | Golf club | Power | Corporate | Eliminations | Consolidated |
| | services | operations | and trans- | operations | operations | operations | generation | and others | 2003 | 2003 |
| | 2003 | 2003 | portation | 2003 | 2003 | 2003 | 2003 | 2003 | 2003 | 2003 |
| | HK\$'000 | HK\$'000 | services | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 127,731 | 775,785 | 451,391 | 3,868,015 | 2,676,917 | 321,622 | 308 | 1,222,197 | - | 9,443,966 |
| Interests in jointly-controlled entities | - | - | 15,923 | - | 47,583 | - | 1,288,284 | 5 | - | 1,351,795 |
| Interests in associates | 401,375 | 2,819 | 504 | - | 2,695 | - | - | - | - | 407,393 |
| Unallocated assets | | | | | | | | | | 14,795 |
| Total assets | | | | | | | | | | 11,217,949 |
| Segment liabilities | 23,843 | 94,374 | 277,980 | 64,802 | 370,527 | 186,378 | 1,329 | 1,179,569 | - | 2,198,802 |
| Unallocated liabilities | | | | | | | | | | 1,432,329 |
| Total liabilities | | | | | | | | | | 3,631,131 |
| Other segment information: | | | | | | | | | | |
| Capital expenditure | 25,762 | 71,142 | 53,075 | 23,063 | 91,246 | 27,140 | - | 86,137 | - | 377,565 |
| Depreciation and amortisation | 10,157 | 72,758 | 8,247 | 75 | 60,517 | 15,342 | - | 1,029 | - | 168,125 |
| Impairment losses recognised in the profit and loss account | - | - | 5,620 | 177,684 | 196,457 | 67,380 | - | 4,500 | - | 451,641 |
| Other non-cash expenses | 10 | 2,549 | 5,859 | - | 1,674 | - | - | - | - | 10,092 |
| Deficit on revaluation recognised directly in equity | - | - | - | 80,191 | - | - | - | - | - | 80,191 |

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

| Group | Passenger | Tourist | Freight | | Travel and | | | | | |
|---|----------------|------------|-------------------------------------|------------|------------|------------|------------|------------|--------------|-------------------|
| | transportation | attraction | forwarding | Hotel | related | Golf club | Power | Corporate | Eliminations | Consolidated |
| | services | operations | and trans- portation services | operations | operations | operations | generation | and others | 2002 | 2002 |
| | 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 |
| | (Restated) | | | (Restated) | (Restated) | | | | | (Restated) |
| Segment assets | 81,353 | 810,221 | 401,201 | 3,904,973 | 2,747,958 | 423,342 | 308 | 456,958 | – | 8,826,314 |
| Interests in jointly-controlled entities | – | – | 19,243 | – | – | – | 1,242,630 | – | – | 1,261,873 |
| Interests in associates | 411,768 | 3,051 | 151 | – | 2,076 | – | – | 312 | – | 417,358 |
| Unallocated assets | | | | | | | | | | 5,638 |
| Bank overdrafts included in segment assets | – | – | – | – | 358 | – | – | – | – | 358 |
| Total assets | | | | | | | | | | <u>10,511,541</u> |
| Segment liabilities | 9,403 | 112,023 | 235,840 | 43,753 | 424,188 | 142,951 | 539 | 11,644 | – | 980,341 |
| Unallocated liabilities | | | | | | | | | | 1,378,128 |
| Bank overdrafts included in segment assets | – | – | – | – | 358 | – | – | – | – | 358 |
| Total liabilities | | | | | | | | | | <u>2,358,827</u> |
| 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 | 977 | 67,307 | 17,129 | – | 1,319 | – | 170,276 |
| Impairment losses recognised in the profit and loss account | – | – | 4,089 | 19,296 | 13,608 | – | – | 38,562 | – | 75,555 |
| 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 | – | – | – | 3,965 | – | – | – | – | – | 3,965 |

Notes to Financial Statements

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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 | |
|--|------------------|------------|------------------|------------|----------------|----------|--------------|----------|-------------------|------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Restated) | | (Restated) | | | | | | (Restated) |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 1,240,973 | 1,610,045 | 1,766,861 | 1,328,737 | 293,082 | 462,913 | - | - | 3,300,916 | 3,401,695 |
| Other revenue and gains | 25,281 | 65,980 | 6,971 | 11,362 | 4,743 | 5,793 | - | - | 36,995 | 83,135 |
| | 1,266,254 | 1,676,025 | 1,773,832 | 1,340,099 | 297,825 | 468,706 | - | - | 3,337,911 | 3,484,830 |
| Other segment information: | | | | | | | | | | |
| Segment assets | 7,394,399 | 7,009,005 | 3,597,705 | 3,287,946 | 225,845 | 214,232 | - | - | 11,217,949 | 10,511,183 |
| Bank overdrafts included in segment assets | - | - | - | - | - | 358 | - | - | - | 358 |
| | | | | | | | | | 11,217,949 | 10,511,541 |
| Capital expenditure | 52,612 | 45,699 | 320,430 | 246,737 | 4,523 | 3,655 | - | - | 377,565 | 296,091 |

Notes to Financial Statements

31 December 2003

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 | |
|---|------------------|------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Turnover | | |
| Freight forwarding and transportation services | 1,284,969 | 796,461 |
| Travel and travel-related operations | 1,307,896 | 1,743,250 |
| Hotel operations | 255,464 | 310,017 |
| Golf club operations | 29,802 | 34,645 |
| Tourist attraction operations | 294,686 | 401,064 |
| Passenger transportation services | 127,416 | 116,028 |
| Others | 683 | 230 |
| | 3,300,916 | 3,401,695 |
| Other revenue | | |
| Gross rental income | 13,512 | 16,069 |
| Interest income | 20,825 | 22,723 |
| Others | 17,107 | 10,097 |
| | 51,444 | 48,889 |
| Gains | | |
| Dividend income from unlisted investments | 47 | 351 |
| Gain on disposal of fixed assets, net | 533 | 1,365 |
| Gain on disposal of associates | 236 | – |
| Exchange gains, net | 5,607 | 5,134 |
| Write-back of long outstanding payables | – | 27,174 |
| Reversal of hotel property revaluation deficits | – | 50,470 |
| | 6,423 | 84,494 |
| Other revenue and gains | 57,867 | 133,383 |

Notes to Financial Statements

31 December 2003

5. TURNOVER, REVENUE AND GAINS (Continued)

In prior years, a PRC subsidiary of the Group engaged in the freight forwarding business had recorded its net commission income as turnover.

Starting from 2003, the Group has aligned the accounting policy of this PRC subsidiary with those subsidiaries in Hong Kong so that the turnover from its freight forwarding business is recorded at the invoiced sales amount and direct costs are recorded as cost of sales. In the opinion of the directors, this change in accounting policy for the classification of revenue and direct costs for the freight forwarding business results in a more appropriate presentation of these transactions in the financial statements and provides more relevant information about the performance of the Group.

This change in accounting policy has resulted in an increase in the Group's turnover and cost of sales for the years ended 31 December 2003 and 2002 by HK\$1,049,470,000 and HK\$531,731,000, respectively. This has no impact on the Group's gross or net profit for the years ended 31 December 2003 and 2002 and the Group's net assets as at 31 December 2003 and 2002.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | 2003 | 2002 |
|--|-----------------|------------|
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Depreciation | 134,488 | 135,095 |
| Goodwill amortisation for the year* | 37,951 | 39,595 |
| Negative goodwill recognised as income during the year** | (4,314) | (4,414) |
| Auditors' remuneration: | | |
| Current year | 6,731 | 6,485 |
| Underprovision in the prior year | - | 149 |
| | 6,731 | 6,634 |

Notes to Financial Statements

31 December 2003

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

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

| | 2003 HK\$'000 | 2002 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| Staff costs (including directors' remuneration – note 8): | | |
| Wages and salaries | 516,869 | 550,017 |
| Pension contributions | 33,587 | 29,424 |
| Less: Forfeited contributions | (4,117) | (3,483) |
| Net pension contributions**** | 29,470 | 25,941 |
| Total staff costs | 546,339 | 575,958 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | 52,927 | 44,194 |
| Motor vehicles | 23,405 | 21,214 |
| Provisions for doubtful debts and bad debts written off | 5,771 | 10,464 |
| Write-back of provisions for doubtful debts | (3,456) | (10,338) |
| Provisions for slow-moving inventories | – | 544 |
| Loss on disposal of a subsidiary | – | 372 |
| Loss on changes in fair values of long term investments | – | 28 |
| Loss/(gain) on changes in fair values of short term investments | (645) | 1,035 |
| Write-off of properties under development | 2,805 | 1,101 |
| Impairment of fixed assets | 77,466 | – |
| Impairment of depreciable investment properties | 4,389 | 3,030 |
| Revaluation deficit of other investment properties | 27,763 | 53,869 |
| Hotel property revaluation deficit | 492,950 | 116,603 |
| Recognition of negative goodwill from capital reserve upon impairment of underlying assets | (307,219) | (97,947) |
| Impairment of goodwill | 150,475 | – |
| Impairment of goodwill previously carried in capital reserve*** | 13,061 | – |
| Recognition of negative goodwill upon impairment of underlying assets | (8,047) | – |
| Net rental income | (12,908) | (11,893) |
| Loss on disposal of long term investments | 771 | – |
| Impairment of short term investment | 803 | – |
| Impairment of interests in jointly-controlled entities*** | 1,515 | – |

Notes to Financial Statements

31 December 2003

6. PROFIT/(LOSS) 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.
- *** The impairment of goodwill previously carried in capital reserve and the impairment of interests in jointly-controlled entities are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- **** At 31 December 2003, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

7. FINANCE COSTS

| | Group | |
|--|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Interest expense on: | | |
| Bank loans, overdrafts and other loans wholly repayable within five years | (20,216) | (31,729) |
| Finance lease and hire purchase contracts | (41) | (149) |
| Amortisation of deferred borrowing costs | (2,907) | (12,069) |
| Accretion of premium on convertible bond | (4,902) | – |
| Total finance costs | (28,066) | (43,947) |
| Less: Interest capitalised | – | 833 |
| | (28,066) | (43,114) |

Notes to Financial Statements

31 December 2003

8. DIRECTORS' REMUNERATION

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

| | Group | |
|--|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors | 1,714 | 1,520 |
| Independent non-executive directors | 510 | 480 |
| | 2,224 | 2,000 |
| Other emoluments payable to executive directors: | | |
| Salaries, allowances and benefits in kind | 7,820 | 7,481 |
| Pension scheme contributions | 208 | 200 |
| | 8,028 | 7,681 |
| Total remuneration | 10,252 | 9,681 |

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

| | Number of directors | |
|--------------------------------|----------------------------|------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 10 | 10 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | 2 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | 1 |
| | 14 | 14 |

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

Notes to Financial Statements

31 December 2003

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the two (2002: one) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 1,991 | 944 |
| Pension scheme contributions | 24 | 47 |
| | 2,015 | 991 |

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

| | Number of employees | |
|--------------------------------|----------------------------|------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 1 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | – |
| | 2 | 1 |

Notes to Financial Statements

31 December 2003

10. TAX

| | 2003 | 2002 |
|---------------------------------|-----------------|------------|
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Group: | | |
| The People's Republic of China: | | |
| Current – Hong Kong | | |
| Charge for the year | (45,840) | (46,514) |
| Overprovision in prior years | 298 | 13,626 |
| Current – Elsewhere | (12,876) | (24,450) |
| Current – Overseas | (329) | (2,474) |
| Deferred tax – note 33 | 65,923 | 12,606 |
| | 7,176 | (47,206) |
| Share of tax attributable to: | | |
| Jointly-controlled entities | (42,559) | (33,371) |
| Associates | (2,593) | (3,750) |
| | (45,152) | (37,121) |
| Total tax charge for the year | (37,976) | (84,327) |

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Notes to Financial Statements

31 December 2003

10. TAX (Continued)

Group – 2003

| | Hong Kong | | Overseas | | PRC | | Total | |
|---|------------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit/(loss) before tax | (216,861) | | (15,010) | | 264,562 | | 32,691 | |
| Tax at the applicable tax rate | (37,951) | 17.5 | (6,004) | 40 | 87,305 | 33 | 43,350 | 133 |
| Lower tax rate for specific provinces or local authority | (874) | – | 2,073 | (14) | (49,179) | (19) | (47,980) | (147) |
| Effect on opening deferred tax of increase in rates | 13,377 | (6) | – | – | – | – | 13,377 | 41 |
| Adjustments in respect of current tax of previous periods | (298) | – | – | – | – | – | (298) | (1) |
| Income not subject to tax | (43,676) | 20 | (1,129) | 8 | (1,867) | (1) | (46,672) | (143) |
| Expenses not deductible for tax | 37,876 | (17) | 5,389 | (36) | 19,176 | 8 | 62,441 | 191 |
| Tax losses utilised from previous periods | (1,691) | 1 | – | – | – | – | (1,691) | (5) |
| Tax losses not recognised | 15,449 | (7) | – | – | – | – | 15,449 | 47 |
| Tax charge at the Group's effective rate | (17,788) | 8.5 | 329 | (2) | 55,435 | 21 | 37,976 | 116 |

Group – 2002

| | Hong Kong | | Overseas | | PRC | | Total | |
|---|-----------------|-------------|----------------|-------------|-----------------|-------------|-----------------|-------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | 272,669 | | 5,841 | | 405,960 | | 684,470 | |
| Tax at the applicable tax rate | 43,627 | 16 | 2,336 | 40 | 133,967 | 33 | 179,930 | 26 |
| Lower tax rate for specific provinces or local authority | (3,962) | (1) | (249) | (4) | (70,792) | (17) | (75,003) | (11) |
| Adjustments in respect of current tax of previous periods | (13,626) | (5) | – | – | – | – | (13,626) | (2) |
| Income not subject to tax | (31,307) | (11) | (1,567) | (27) | (9,930) | (2) | (42,804) | (6) |
| Expenses not deductible for tax | 24,684 | 9 | 1,954 | 33 | 4,576 | 1 | 31,214 | 5 |
| Tax loss utilised from previous periods | (2,946) | (1) | – | – | – | – | (2,946) | (1) |
| Tax losses not recognised | 7,562 | 3 | – | – | – | – | 7,562 | 1 |
| Tax charge at the Group's effective rate | 24,032 | 10 | 2,474 | 42 | 57,821 | 15 | 84,327 | 12 |

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11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$186,548,000 (2002: HK\$316,331,000) (note 36).

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\$21,781,000 (2002: HK\$24,805,000) and a loss of HK\$10,744,000 (2002: HK\$32,240,000), respectively.

12. DIVIDENDS

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Interim – nil (2002: 5 cents) per ordinary share | – | 211,135 |
| Underaccrual of 2002/2001 final dividends | 10 | 74 |
| | 10 | 211,209 |
| Proposed final – 4 cents (2002: 4 cents) per ordinary share | 169,288 | 168,909 |
| | 169,298 | 380,118 |

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/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$39,810,000 (2002: profit (as restated) of HK\$532,598,000), and the weighted average of 4,227,324,010 (2002: 4,221,683,129) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2003 has not been disclosed, as the Company's convertible bonds and bonus warrants outstanding during the year had anti-dilutive effect on the basic loss per share for the year.

For the year ended 31 December 2002, the calculation of diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders (as restated) of HK\$532,598,000. The weighted average number of ordinary shares used in the calculation of 4,221,683,129 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 outstanding share options and bonus warrants.

Notes to Financial Statements

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14. FIXED ASSETS

| Group | Investment | Hotel | Land and | Scenic spots | Other | Total |
|--|------------|------------|-----------|---------------|--------------|-----------|
| | properties | properties | buildings | establishment | fixed assets | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Cost or valuation: | | | | | | |
| At beginning of year | 151,963 | 3,956,949 | 1,091,202 | 768,995 | 772,981 | 6,742,090 |
| Additions | – | 19,500 | 15,338 | 4,274 | 82,210 | 121,322 |
| Acquisition of a subsidiary | – | – | – | 81 | 18,546 | 18,627 |
| Transfer from properties under development (note 15) | – | – | 86,198 | 26,865 | 24,380 | 137,443 |
| Transfer from property held for sale | – | – | 92,000 | – | – | 92,000 |
| Disposals and write-off | – | – | (2,196) | (17,874) | (37,090) | (57,160) |
| Deficit on revaluation | (27,763) | (577,768) | – | – | – | (605,531) |
| Reclassification | 11,541 | – | (11,793) | – | – | (252) |
| Exchange realignments | 959 | – | 956 | (2,964) | 755 | (294) |
| At 31 December 2003 | 136,700 | 3,398,681 | 1,271,705 | 779,377 | 861,782 | 6,448,245 |
| At cost | 23,594 | – | 1,271,705 | 779,377 | 861,782 | 2,936,458 |
| At 2003 valuation | 113,106 | 3,398,681 | – | – | – | 3,511,787 |
| | 136,700 | 3,398,681 | 1,271,705 | 779,377 | 861,782 | 6,448,245 |
| Accumulated depreciation and impairment: | | | | | | |
| At beginning of year | 8,113 | – | 143,096 | 413,674 | 497,968 | 1,062,851 |
| Provided during the year | 1,081 | – | 27,113 | 40,500 | 65,794 | 134,488 |
| Impairment during the year | 4,389 | – | 87,466 | – | – | 91,855 |
| Disposals and write-off | – | – | (570) | (9,730) | (31,198) | (41,498) |
| Reclassification | (323) | – | 71 | – | – | (252) |
| Exchange realignments | – | – | (127) | (1,592) | 424 | (1,295) |
| At 31 December 2003 | 13,260 | – | 257,049 | 442,852 | 532,988 | 1,246,149 |
| Net book value: | | | | | | |
| At 31 December 2003 | 123,440 | 3,398,681 | 1,014,656 | 336,525 | 328,794 | 5,202,096 |
| At 31 December 2002 | 143,850 | 3,956,949 | 948,106 | 355,321 | 275,013 | 5,679,239 |

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS (Continued)

Company

| | Land and building | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Total |
|---------------------------|------------------------------|-----------------------------------|--|---------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | | | |
| At beginning of year | 1,165 | 1,978 | 2,323 | 2,401 | 7,867 |
| Additions | 265 | 354 | 487 | 429 | 1,535 |
| Write-off | – | (1,529) | (738) | (399) | (2,666) |
| At 31 December 2003 | 1,430 | 803 | 2,072 | 2,431 | 6,736 |
| Accumulated depreciation: | | | | | |
| At beginning of year | – | 1,726 | 1,983 | 1,442 | 5,151 |
| Provided during the year | – | 85 | 180 | 233 | 498 |
| Write-off | – | (1,529) | (715) | (153) | (2,397) |
| At 31 December 2003 | – | 282 | 1,448 | 1,522 | 3,252 |
| Net book value: | | | | | |
| At 31 December 2003 | 1,430 | 521 | 624 | 909 | 3,484 |
| At 31 December 2002 | 1,165 | 252 | 340 | 959 | 2,716 |

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

| | Hong Kong | Elsewhere | Total |
|--|------------------|------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Investment properties, at cost or valuation: | | | |
| Long term leases | 43,963 | 14,342 | 58,305 |
| Medium term leases | 49,508 | 5,294 | 54,802 |
| Short term leases | – | 23,593 | 23,593 |
| | 93,471 | 43,229 | 136,700 |
| Land and buildings, at cost: | | | |
| Long term leases | 456,294 | 68,421 | 524,715 |
| Medium term leases | 150,700 | 586,381 | 737,081 |
| Short term leases | – | 9,909 | 9,909 |
| | 606,994 | 664,711 | 1,271,705 |

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS (Continued)

The land use right for a piece of the Group's land with a carrying value of HK\$171,401,000 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 an additional 30 years up to 17 August 2037. Accordingly, amortisation of the cost (including the extension premium payable) 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 2003 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 |
| The Metropole Hotel 75 Waterloo Road Kowloon Hong Kong | Hotel | 100% | Long |
| Metropark Hotel 148 Tung Lo Wan Road Causeway Bay Hong Kong | Hotel | 100% | Long |
| Hotel Grandeur Macau Rua de Pequim 199 Macau | Hotel | 100% | Medium |

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS (Continued)

The investment properties and hotel properties were revalued at 31 December 2003 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\$136,700,000 (2002: HK\$112,210,000), HK\$5,841,000 (2002: HK\$5,083,319) and HK\$7,419,000 (2002: HK\$640,000), respectively, are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

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 2003 amounted to HK\$3,318,183 (2002: HK\$1,019,000).

15. PROPERTIES UNDER DEVELOPMENT

Group

| | 31 December | | | Transfer | |
|----------------------------|-------------|-----------|-----------|-----------------|----------------|
| | 2002 | Additions | Write-off | to fixed assets | 31 December |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Building and plant | 44 | 23,681 | (257) | (23,468) | – |
| Scenic spots establishment | 96,566 | 126,616 | (2,548) | (92,100) | 128,534 |
| Golf course | 5,108 | 19,063 | – | (21,875) | 2,296 |
| | 101,718 | 169,360 | (2,805) | (137,443) | 130,830 |

The costs of building and plant, scenic spots establishment and golf course comprise land and buildings outside Hong Kong held under medium term leases.

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 (2002: Nil).

Notes to Financial Statements

31 December 2003

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 | Negative goodwill |
| | HK\$'000 | HK\$'000 |
| Cost: | | |
| At beginning of year | | |
| As previously reported | 1,475,512 | (202,779) |
| Prior year adjustment: | | |
| SSAP 12 – restatement of deferred tax | 58,839 | 14,484 |
| As restated | 1,534,351 | (188,295) |
| Acquisition of subsidiaries | 5,071 | – |
| At 31 December 2003 | 1,539,422 | (188,295) |
| Recognition as income/(accumulated amortisation and impairment): | | |
| At beginning of year | | |
| As previously reported | (65,331) | 7,369 |
| Prior year adjustment: | | |
| SSAP 12 – restatement of deferred tax | (2,238) | (483) |
| As restated | (67,569) | 6,886 |
| Recognised as income/(amortisation provided) during the year | (37,757) | 4,314 |
| Impairment provided during the year | (150,475) | 8,047 |
| At 31 December 2003 | (255,801) | 19,247 |
| Net book value: | | |
| At 31 December 2003 | 1,283,621 | (169,048) |
| At 31 December 2002 | | |
| As previously reported | 1,410,181 | (195,410) |
| Prior year adjustment: | | |
| SSAP 12 – restatement of deferred tax | 56,601 | 14,001 |
| As restated | 1,466,782 | (181,409) |

Notes to Financial Statements

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16. GOODWILL AND NEGATIVE GOODWILL (Continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, 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\$959 million (2002 as restated: HK\$972 million) and HK\$170 million (2002 as restated: HK\$477 million), respectively. The amounts of goodwill are stated at its cost.

SSAP 12 was adopted during the year, as explained in note 2 and under the heading "Income Tax" in note 3 to the financial statements. As a result, deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries and the corresponding goodwill/negative goodwill carrying amounts have been adjusted.

This change in accounting policy has resulted in an increase in goodwill amount of HK\$58,839,000 and a decrease in negative goodwill of HK\$14,484,000 as at 31 December 2002, and an increase in amortisation of goodwill of HK\$1,279,000 for each of the years ended 31 December 2002 and 2003 and a decrease in recognition of negative goodwill as income of HK\$276,000 for each of the years ended 31 December 2002 and 2003.

17. INTERESTS IN SUBSIDIARIES

| | Company | |
|--|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unlisted shares, at cost | 3,601,695 | 3,305,681 |
| Due from subsidiaries | 2,977,705 | 3,337,565 |
| Loans to subsidiaries | 1,472,663 | 1,632,663 |
| Due to subsidiaries | (1,505,445) | (1,482,156) |
| | 6,546,618 | 6,793,753 |
| Less: Provisions against amounts due from subsidiaries and loans to subsidiaries | (307,954) | (273,797) |
| | 6,238,664 | 6,519,956 |

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES (Continued)

The balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment. In prior year, certain balances due from subsidiaries with an aggregate amount of HK\$35,771,000 bore interest at 6% per annum.

All loans to subsidiaries are interest-free, unsecured and not repayable within one year.

Particulars of the Company's principal subsidiaries are set out in note 38 to the financial statements.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|--------------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Share of net assets | 1,240,245 | 1,183,359 |
| Goodwill on acquisition (Note) | 11,459 | – |
| Due from jointly-controlled entities | 111,631 | 88,546 |
| Due to jointly-controlled entities | (1,353) | (1,360) |
| | 1,361,982 | 1,270,545 |
| Less: Provisions for impairment | (10,187) | (8,672) |
| | 1,351,795 | 1,261,873 |

Note:

| | Group | |
|---|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Goodwill on acquisition | | |
| Cost addition | 11,653 | – |
| Less: Amortisation provided during the year | (194) | – |
| Net book value | 11,459 | – |

Notes to Financial Statements

31 December 2003

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 2002, 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 2003. The amount of goodwill is stated at cost.

Except for the balances of HK\$902,000, 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 PRC 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 |
|--|--------------------|--------------------------------------|---|------|---|
| | | | 2003 | 2002 | |
| Chongqing Long Sight International Container Co., Ltd. # | Corporate | PRC | 17 | 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 | Manufacture of brass products |
| Shaanxi Weihe Power Co., Ltd. | Corporate | PRC | 51 | 51 | Production and sale of electricity |
| Shanghai China Travel International Limited | Corporate | PRC | 50 | — | Tour operations |
| 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.

Notes to Financial Statements

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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. | |
|---|--------------------------------------|-----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Profit and loss account | | |
| Turnover | 1,612,109 | 1,578,752 |
| Profit attributable to joint venture partners | 466,845 | 461,543 |
| Balance sheet | | |
| Non-current assets | 2,559,697 | 2,894,144 |
| Current assets | 869,919 | 600,275 |
| Current liabilities | (835,008) | (974,964) |
| Non-current liabilities | (128,115) | (108,656) |
| Net assets | 2,466,493 | 2,410,799 |

19. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|--------------------------|-----------------|------------|-----------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Restated) | | |
| Unlisted shares, at cost | – | – | – | 311 |
| Share of net assets | 404,526 | 415,240 | – | – |
| Due from associates | 2,867 | 2,207 | – | – |
| Due to associates | – | (89) | – | – |
| | 407,393 | 417,358 | – | 311 |

Notes to Financial Statements

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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 2002, 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 2003. The amount of goodwill is stated at cost.

As explained in note 2 and under the heading "Income tax" in note 3 to the financial statements, SSAP 12 (Revised) 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\$8,352,000 as at 31 December 2003 and 2002. Further details of this prior year adjustment are included in note 33 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 |
|---|--------------------|--|---|------|--------------------------------|
| | | | 2003 | 2002 | |
| 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 | Dormant |
| Tianchuang International Art Production & Exchange Co. Ltd. * | Corporate | PRC | 30 | 30 | Production of art performances |
| China Resort International Limited *** | Corporate | Cayman Islands/ Hong Kong | — | 40 | Dormant |

* Held indirectly through subsidiaries.

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

** Liquidated during the year.

*** Disposed of during the year.

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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 | |
|---|---|------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Profit and loss account | | |
| Turnover | 1,283,431 | 1,415,955 |
| Net profit attributable to shareholders | 3,713 | 148,616 |
| Balance sheet | | |
| Non-current assets | 1,436,422 | 1,572,698 |
| Current assets | 488,707 | 401,387 |
| Current liabilities | (194,204) | (222,280) |
| Non-current liabilities | (347,753) | (332,345) |
| Net assets | 1,383,172 | 1,419,460 |

20. INVESTMENTS

| | Group | | Company | |
|--|-----------------|----------|-----------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Long term investments | | | | |
| Unlisted equity investments outside Hong Kong: | | | | |
| Unlisted shares, at fair value | 21,555 | 21,956 | 13,949 | 13,949 |
| Unlisted equity and debt investments in Hong Kong: | | | | |
| Unlisted shares, at fair value | 30 | 30 | – | – |
| | 21,585 | 21,986 | 13,949 | 13,949 |

Notes to Financial Statements

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20. INVESTMENTS (Continued)

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Short term investments | | | | |
| Listed equity investments | | | | |
| in Hong Kong, at market value | 1,510 | 865 | – | – |
| Listed equity investment outside Hong Kong, at market value | 2 | – | – | – |
| Unlisted equity investments outside Hong Kong, at fair value | 12,051 | – | – | – |
| Provision for impairment | (803) | – | – | – |
| | 12,760 | 865 | – | – |

21. INVENTORIES, AT COST

| | Group | |
|-----------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Raw materials | 8,224 | 9,458 |
| Spare parts and consumables | 1,736 | 1,082 |
| General merchandise | 3,570 | 6,184 |
| | 13,530 | 16,724 |

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 | |
|--------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Outstanding balances with age: | | |
| Less than 1 month | 198,011 | 204,949 |
| Within: | | |
| 1-3 months | 121,218 | 25,912 |
| 4-6 months | 13,921 | 14,981 |
| 7-12 months | 15,149 | 11,068 |
| 1-2 years | 2,376 | 3,538 |
| Over 2 years | 265 | 7,135 |
| | 350,940 | 267,583 |

Notes to Financial Statements

31 December 2003

23. OTHER RECEIVABLES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Deferred borrowing costs | 5,750 | 7,242 | – | – |
| Deferred expenditure | 26,876 | – | – | – |
| Deposits and other debtors | 185,936 | 142,630 | 4,524 | 3,711 |
| Amounts due from minority shareholders | 793 | 5,951 | – | – |
| | 219,355 | 155,823 | 4,524 | 3,711 |

24. PLEDGED TIME DEPOSITS

The Group have pledged bank deposits of approximately HK\$4,323,000 (2002: HK\$2,688,000) to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and certain bank guarantees given in lieu of utility and rental deposits.

25. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Cash and bank balances | 1,325,625 | 855,255 | 11,042 | 23,910 |
| Time deposits | 1,018,008 | 319,324 | 450,250 | 136,220 |
| | 2,343,633 | 1,174,579 | 461,292 | 160,130 |
| Less: Pledged time deposits – note 24 | (4,323) | (2,688) | – | – |
| Cash and cash equivalents | 2,339,310 | 1,171,891 | 461,292 | 160,130 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$497,591,000 (2002: HK\$450,936,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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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.

Except the balance with ultimate holding company regarding provision of travel permit administration repayable on third business day following the month of transactions, other balances with ultimate holding company and fellow subsidiaries are unsecured, interest-free and repayable on demand.

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

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Amount due from ultimate holding company | | | | |
| Within 1 year | 30,843 | 30,562 | 215 | 225 |
| Amounts due from fellow subsidiaries | | | | |
| Within 1 year | 3,416 | 2,587 | | |
| Over 1 year | 6 | – | | |
| | 3,422 | 2,587 | | |
| Amounts due to fellow subsidiaries | | | | |
| Within 1 year | 4,307 | 1,558 | | |
| Over 2 years | 171 | 74 | | |
| | 4,478 | 1,632 | | |

27. TRADE PAYABLES

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

| | Group | |
|--------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Outstanding balances with age: | | |
| Less than 1 month | 252,139 | 145,058 |
| Within: | | |
| 1-3 months | 123,976 | 214,540 |
| 4-6 months | 45,503 | 16,085 |
| 7-12 months | 27,306 | 19,471 |
| 1-2 years | 6,561 | 5,901 |
| Over 2 years | 8,133 | 9,421 |
| | 463,618 | 410,476 |

Notes to Financial Statements

31 December 2003

28. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Accruals and other liabilities | 425,733 | 448,570 | 7,376 | 11,934 |
| Staff bonus and welfare fund | 10,633 | 28,122 | 2,296 | – |
| Receipts in advance from customers | 11,721 | 18,708 | – | – |
| Due to minority shareholders | 4,127 | 1,291 | – | – |
| | 452,214 | 496,691 | 9,672 | 11,934 |

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

| Notes | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Bank overdrafts – unsecured | 5,255 | 358 | 690 | – |
| Current portion of bank and other loans | 464,725 | 327,715 | – | – |
| 30 | 469,980 | 328,073 | 690 | – |
| Current portion of lease payables | 1,397 | 516 | – | – |
| 31 | 471,377 | 328,589 | 690 | – |

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30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Bank overdrafts: | | | | |
| Unsecured | 5,255 | 358 | 690 | — |
| Syndicated bank loans: | | | | |
| Secured – Note | 1,160,000 | 1,000,000 | — | — |
| Other bank loans: | | | | |
| Unsecured | 6,338 | 32,899 | — | — |
| | 1,166,338 | 1,032,899 | — | — |
| Golf club debentures | 4,157 | 4,157 | — | — |
| | 1,175,750 | 1,037,414 | 690 | — |
| Bank overdrafts repayable within one year or on demand | 5,255 | 358 | 690 | — |
| Bank loans repayable: | | | | |
| Within one year or on demand | 464,725 | 327,715 | — | — |
| In the second year | 1,613 | 5,184 | — | — |
| In the third to fifth years, inclusive | 700,000 | 700,000 | — | — |
| | 1,166,338 | 1,032,899 | — | — |
| Other loans repayable: | | | | |
| Over five years | 4,157 | 4,157 | — | — |
| Total interest-bearing bank and other borrowings | 1,175,750 | 1,037,414 | 690 | — |
| Portion classified as current liabilities – note 29 | (469,980) | (328,073) | (690) | — |
| Long term portion | 705,770 | 709,341 | — | — |

Note: Included in the HK\$1,160 million secured syndicated bank loans are revolving loans of HK\$460 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.

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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 ranging from one to two 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 2003 HK\$'000 | Minimum lease payments 2002 HK\$'000 | Present value of minimum lease payments 2003 HK\$'000 | Present value of minimum lease payments 2002 HK\$'000 |
|---|---|---|--|---|
| Amounts repayable: | | | | |
| Within one year | 1,401 | 558 | 1,397 | 516 |
| In the second year | 525 | 144 | 525 | 141 |
| Total minimum lease payments | 1,926 | 702 | 1,922 | 657 |
| Future finance charges | (4) | (45) | | |
| Total net lease payables | 1,922 | 657 | | |
| Portion classified as current liabilities – note 29 | (1,397) | (516) | | |
| Long term portion | 525 | 141 | | |

Notes to Financial Statements

31 December 2003

32. CONVERTIBLE BONDS

On 30 September 2003, a wholly-owned subsidiary of the Company, China Chance Developments Limited ("China Chance"), issued an aggregate principal amount of approximately HK\$1,163,250,000 (US\$150,000,000) zero coupon guaranteed convertible bonds (the "Bonds") due September 2008 to outsiders. China Chance raised approximately HK\$1,134,959,000 (US\$146,352,000), net of expenses.

Each Bond is, at the option of the holder, convertible on or after 10 November 2003 up to and including 19 September 2008, into fully paid ordinary shares of the Company with a par value of HK\$0.10, at an initial conversion price of HK\$1.90, subject to adjustment in certain events. The number of shares to be issued on conversion of Bonds will be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.7993 = US\$1.00) by the conversion price in effect at the conversion date.

On 30 September 2006, the holder of each Bond will have the right, to require China Chance to redeem all or part of the Bonds of holder at 104.975 per cent of their principal amount.

On or at any time after 30 March 2005 and prior to 19 September 2008, China Chance may redeem all or, from time to time, part (being US\$1,000,000 in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the early redemption amount, as defined in offering circular dated 30 September 2003, on the redemption date if (a) the closing price of the shares of the Company, converted into United States dollars at the prevailing rate, for each of 20 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which such notice of redemption is published, was at least 130 per cent. of the conversion price in effect on each such trading day, converted into United States dollars at the rate of HK\$7.7993 = US\$1.00 or (b) at least 90 per cent in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

During the year, no Bonds were converted into ordinary shares. At the balance sheet date, the carrying value of the Bonds represented the par value of approximately HK\$1,163,250,000 (US\$150,000,000) and an accumulated accretion of premium of approximately HK\$4,902,000. The exercise in full of the conversion rights of the remaining Bonds at the initial conversion price would result in the issue of approximately 615,734,210 additional ordinary shares of the Company.

Unless previously redeemed, converted or purchased and cancelled, each Bond will be redeemed at 108.428% of its principal amount on 30 September 2008. Accordingly, the Bonds have been classified as non-current liabilities as at the balance sheet date.

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33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

| Group | 2003 | | | Total HK\$'000 |
|--|--|--|--|-------------------|
| | Accelerated tax depreciation HK\$'000 | Surplus/ (deficit) on revaluation of properties HK\$'000 | Losses available for offset against future taxable profit HK\$'000 | |
| At 1 January 2003 | | | | |
| As previously reported | 9,735 | – | – | 9,735 |
| Prior year adjustment: | | | | |
| SSAP 12 – restatement of deferred tax | 48,759 | 233,680 | (5,895) | 276,544 |
| As restated | 58,494 | 233,680 | (5,895) | 286,279 |
| Deferred tax charged/(credited) to the profit and loss account during the year (note 10) | 6,452 | (44,925) | (2,590) | (41,063) |
| Deferred tax credited to equity during the year | – | (4,627) | – | (4,627) |
| At 31 December 2003 | 64,946 | 184,128 | (8,485) | 240,589 |

Notes to Financial Statements

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33. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

| Group | 2002 | | | Total HK\$'000 |
|---|--|--|--|-------------------|
| | Accelerated tax depreciation HK\$'000 | Surplus on revaluation of properties HK\$'000 | Losses available for offset against future taxable profit HK\$'000 | |
| At 1 January 2002 | | | | |
| As previously reported | 9,558 | – | – | 9,558 |
| Prior year adjustment: | | | | |
| SSAP 12 – restatement of deferred tax | 45,357 | 226,396 | (5,933) | 265,820 |
| As restated | 54,915 | 226,396 | (5,933) | 275,378 |
| Deferred tax charged to the profit and loss account during the year (note 10) | 3,579 | 3,161 | 38 | 6,778 |
| Deferred tax charged to equity during the year | – | 4,123 | – | 4,123 |
| At 31 December 2002 | 58,494 | 233,680 | (5,895) | 286,279 |

Notes to Financial Statements

31 December 2003

33. DEFERRED TAX (Continued)

Deferred tax liabilities/(assets)

| Group | 2003 | | | | Total HK\$'000 |
|--|--|---|--|---|-------------------|
| | Accelerated tax depreciation HK\$'000 | Fair value adjustments arising from acquisition of subsidiaries HK\$'000 | Deficit on revaluation of properties HK\$'000 | Losses available for offset against future taxable profit HK\$'000 | |
| At 1 January 2003 | | | | | |
| As previously reported | – | – | – | – | – |
| Prior year adjustment: | | | | | |
| SSAP 12 – restatement of deferred tax | 4,270 | 34,520 | (18,656) | (6,621) | 13,513 |
| As restated | 4,270 | 34,520 | (18,656) | (6,621) | 13,513 |
| Deferred tax charged/(credited) to the profit and loss account during the year (note 10) | 2,497 | – | (20,960) | (6,397) | (24,860) |
| At 31 December 2003 | 6,767 | 34,520 | (39,616) | (13,018) | (11,347) |

Notes to Financial Statements

31 December 2003

33. DEFERRED TAX (Continued)

Deferred tax liabilities/(assets) (Continued)

| Group | 2002 | | | | |
|--|--|---|--|---|-------------------|
| | Accelerated tax depreciation HK\$'000 | Fair value adjustments arising from acquisition of subsidiaries HK\$'000 | Surplus/ (deficit) on revaluation of properties HK\$'000 | Losses available for offset against future taxable profit HK\$'000 | Total HK\$'000 |
| At 1 January 2002 | | | | | |
| As previously reported | – | – | – | – | – |
| Prior year adjustment: | | | | | |
| SSAP 12 – restatement of deferred tax | 2,249 | 34,520 | 3,441 | (3,872) | 36,338 |
| As restated | 2,249 | 34,520 | 3,441 | (3,872) | 36,338 |
| Deferred tax charged/(credited) to the profit and loss account during the year (note 10) | 2,021 | – | (18,656) | (2,749) | (19,384) |
| Deferred tax credited to equity during the year | – | – | (3,441) | – | (3,441) |
| At 31 December 2002 | 4,270 | 34,520 | (18,656) | (6,621) | 13,513 |

The Group has tax losses arising from operations in Hong Kong of HK\$29,624,000 (2002: HK\$26,509,000) which can be used to offset against future taxable profits of the companies in which the losses occurred. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2003

33. DEFERRED TAX (Continued)

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets and liabilities as at 31 December 2003 by HK\$9,173,000 and HK\$229,570,000 respectively, and an increase in deferred tax liabilities by HK\$290,057,000 as at 31 December 2002. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31 December 2003 has been decreased by HK\$1,771,000 and the consolidated net profit attributable to shareholders for the year ended 31 December 2002 has been decreased by HK\$7,722,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK\$50,740,000 and HK\$43,018,000, respectively, as detailed in note 36.

34. SHARE CAPITAL

Shares

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Authorised: | | |
| 7,000,000,000 ordinary shares of HK\$0.10 each | 700,000 | 700,000 |
| Issued and fully paid: | | |
| 4,232,198,475 (2002: 4,222,731,839) ordinary shares of HK\$0.10 each | 423,220 | 422,273 |

During the year, 9,466,636 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\$11,550,000.

Notes to Financial Statements

31 December 2003

34. 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 2002 | 4,220,233,742 | 422,023 | 5,919,433 | 6,341,456 |
| Shares issued upon exercise of bonus warrants | 2,498,097 | 250 | 2,798 | 3,048 |
| At 31 December 2002 and 1 January 2003 | 4,222,731,839 | 422,273 | 5,922,231 | 6,344,504 |
| Shares issued upon exercise of bonus warrants | 9,466,636 | 947 | 10,603 | 11,550 |
| At 31 December 2003 | 4,232,198,475 | 423,220 | 5,932,834 | 6,356,054 |

Share options

Details of the Company's share option scheme are included in note 35 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 754,910,286 warrants outstanding.

During the year, 9,466,636 warrants were exercised for 9,466,636 shares of HK\$0.10 each at HK\$1.22 per share, resulting in the issue of 9,466,636 additional shares of HK\$0.10 each in the Company. The 745,443,650 warrants outstanding were expired and lapsed on 30 June 2003.

Notes to Financial Statements

31 December 2003

35. 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 2003 and 31 December 2003.

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 those of the 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 the 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 2003, 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.

Notes to Financial Statements

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36. RESERVES

| Group | Share premium account HK\$'000 | Capital reserve HK\$'000 | Hotel property revaluation reserve HK\$'000 | Enterprise expansion reserve funds (Note) HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|---|---|--------------------------------|---|--|--|---|-------------------|
| At 1 January 2002 | | | | | | | |
| As previously reported | 5,919,433 | (290,390) | 259,568 | 55,012 | (2,397) | 1,457,746 | 7,398,972 |
| Prior year adjustment: | | | | | | | |
| SSAP 12 – restatement of deferred tax (note 33) | – | (159,701) | (35,340) | – | – | (43,018) | (238,059) |
| As restated | 5,919,433 | (450,091) | 224,228 | 55,012 | (2,397) | 1,414,728 | 7,160,913 |
| 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 (as restated) | – | (97,947) | – | – | – | – | (97,947) |
| Surplus on revaluation (as restated) | – | – | 3,965 | – | – | – | 3,965 |
| Transfer from retained profits | – | – | – | 9,234 | – | (9,234) | – |
| Net profit for the year (as restated) | – | – | – | – | – | 532,598 | 532,598 |
| 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 | (548,038) | 228,193 | 64,246 | 4,099 | 1,557,974 | 7,228,705 |
| Reserves retained by: | | | | | | | |
| Company and subsidiaries | 5,922,231 | (495,256) | 228,193 | 64,246 | 4,099 | 1,462,722 | 7,186,235 |
| Jointly-controlled entities | – | (3,693) | – | – | – | 252,274 | 248,581 |
| Associates | – | (49,089) | – | – | – | (157,022) | (206,111) |
| At 31 December 2002 | 5,922,231 | (548,038) | 228,193 | 64,246 | 4,099 | 1,557,974 | 7,228,705 |

Notes to Financial Statements

31 December 2003

36. RESERVES (Continued)

| Group | Share premium account HK\$'000 | Capital reserve HK\$'000 | Hotel property revaluation reserve HK\$'000 | Enterprise expansion reserve funds (Note) HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|---|--------------------------------|---|--|--|---|-------------------|
| At 1 January 2003 | | | | | | | |
| As previously reported | 5,922,231 | (406,993) | 264,215 | 64,246 | 4,099 | 1,608,714 | 7,456,512 |
| Prior year adjustment: | | | | | | | |
| SSAP 12 – restatement of deferred tax (note 33) | – | (141,045) | (36,022) | – | – | (50,740) | (227,807) |
| As restated | 5,922,231 | (548,038) | 228,193 | 64,246 | 4,099 | 1,557,974 | 7,228,705 |
| Premium on issue of new shares on exercise of bonus warrants | 10,603 | – | – | – | – | – | 10,603 |
| Exchange realignments | – | – | – | – | 3,610 | – | 3,610 |
| Recognition of negative goodwill upon impairment of underlying assets | – | (307,219) | – | – | – | – | (307,219) |
| Impairment of goodwill previously carried in capital reserve | – | 13,061 | – | – | – | – | 13,061 |
| Deficit on revaluation | – | – | (80,191) | – | – | – | (80,191) |
| Transfer from retained profits | – | – | – | 7,344 | – | (7,344) | – |
| Net loss for the year | – | – | – | – | – | (39,810) | (39,810) |
| Underaccrual of 2002 final dividend – note 12 | – | – | – | – | – | (10) | (10) |
| Forfeiture of unclaimed 1992-1996 final dividends | – | – | – | – | – | 94 | 94 |
| Proposed 2003 final dividend – note 12 | – | – | – | – | – | (169,288) | (169,288) |
| At 31 December 2003 | 5,932,834 | (842,196) | 148,002 | 71,590 | 7,709 | 1,341,616 | 6,659,555 |
| Reserves retained by: | | | | | | | |
| Company and subsidiaries | 5,932,834 | (789,414) | 148,002 | 71,590 | 7,709 | 1,235,329 | 6,606,050 |
| Jointly-controlled entities | – | (3,693) | – | – | – | 274,054 | 270,361 |
| Associates | – | (49,089) | – | – | – | (167,767) | (216,856) |
| At 31 December 2003 | 5,932,834 | (842,196) | 148,002 | 71,590 | 7,709 | 1,341,616 | 6,659,555 |

Notes to Financial Statements

31 December 2003

36. RESERVES (Continued)

| Company | Share premium account HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---|---------------------------------|-------------------|
| Balance at 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) |
| Balance at 31 December 2002 and 1 January 2003 | 5,922,231 | 144,651 | 6,066,882 |
| Premium on issue of new shares on exercise of bonus warrants | 10,603 | – | 10,603 |
| Net profit for the year | – | 186,548 | 186,548 |
| Underaccrual of 2002 final dividend – note 12 | – | (10) | (10) |
| Forfeiture of unclaimed 1992-1996 final dividends | – | 94 | 94 |
| Proposed 2003 final dividend – note 12 | – | (169,288) | (169,288) |
| At 31 December 2003 | 5,932,834 | 161,995 | 6,094,829 |

Note: 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 fund and reserve fund which are restricted as to use.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) 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.

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37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | 18,627 | 206 |
| Long term investments | 2,665 | – |
| Inventories | 73 | – |
| Cash and bank balances | 37,328 | 6,100 |
| Trade receivables and other receivables | 32,479 | 10,444 |
| Trade payables, other payables and accruals | (57,302) | (12,088) |
| Bank and other borrowings | (50) | – |
| Tax payable | (369) | (102) |
| Minority interests | (10,540) | – |
| | 22,911 | 4,560 |
| Goodwill on acquisition | 5,071 | – |
| | 27,982 | 4,560 |
| Accounted for and satisfied by: | | |
| Cash | 27,982 | 4,560 |

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Cash consideration | (27,982) | (4,560) |
| Cash and bank balances acquired | 37,328 | 6,100 |
| Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 9,346 | 1,540 |

Notes to Financial Statements

31 December 2003

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

During the year, the Group acquired the following subsidiaries from independent third parties.

| Date of acquisition | Name | Percentage of equity interest acquired | Principal activities | Consideration HK\$ |
|---------------------|--|--|--------------------------|-----------------------|
| 1 January 2003 | CTI Cosco Travel Ltd. (Formerly known as Cosco International Travel Ltd.) | 70% | Tour operations | 18,401,000 |
| 1 January 2003 | CTI Business Travel Management Company Ltd. (Formerly known as Sunshine Express International Ltd.) | 100% | Air ticketing agent | 1,910,000 ** |
| 1 January 2003 | Beijing Shangtai Jiye Information Company Limited* | 100% | Dormant | — ** |
| 24 February 2003 | China Travel International (Xinjiang) Ltd. | 51% | Tour operations | 2,040,000 |
| 20 November 2003 | China Travel International (Shandong) Ltd. | 51% | Tour operations | 1,530,000 |
| 8 December 2003 | China Travel International (Xiamen) ITG Travel Service Co., Ltd. | 51% | Tour operations | 3,060,000 |
| 31 December 2003 | New Bus Holdings Limited | 80% | Passenger transportation | 2,569,000 |

Since its acquisition, the newly-acquired subsidiaries contributed HK\$87,717,000 to the Group's turnover and HK\$2,816,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2003.

The subsidiaries acquired in the prior year 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 English name of the subsidiary is direct translation of its Chinese registered name.

** These two subsidiaries were acquired for an aggregate consideration of HK\$1,910,000.

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31 December 2003

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) 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 | (372) |
| | <u>2,192</u> |
| Satisfied by: | |
| Cash | <u>2,192</u> |

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 | <u>372</u> |

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

(d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,931,000 (2002: Nil).

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38. 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 |
|---|--|--|---|------|---|
| | | | 2003 | 2002 | |
| Agencia De Viagens E Turismo Grand, Limitada | Macau | MOP1,000,000 | 100 | 100 | Travel and air ticketing agent |
| 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 Chance Developments Limited (Note) | British Virgin Islands | 1 share of US\$1@ | 100 | – | Provision of financial services |
| China Travel and Trading (Deutschland) GmbH | Germany | EURO125,267 | 100 | 100 | Travel and air ticketing agent |
| China Travel (HK & Macau Tour) Management Hong Kong Limited | Hong Kong | 500,000 ordinary shares of HK\$1@ | 100 | 100 | Tour operations |
| 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 |

Notes to Financial Statements

31 December 2003

38. 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 |
|---|--|---|---|------|--|
| | | | 2003 | 2002 | |
| 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 |
| China Travel Express Limited | Hong Kong | 10,000 ordinary shares of HK\$1@ | 70 | 70 | Passenger transportation |
| China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** (Note) | PRC | US\$29,980,000 | 100 | 100 | Construction of a hot spring resort |
| China Travel Hi-Tech Computer Hong Kong Limited | Hong Kong | 10,000,000 ordinary shares of HK\$1 @ | 100 | 100 | Trading of computer equipment, provision of computer services and investment holding |
| China Travel International Ltd.** (Note) | PRC | RMB177,300,000 | 100 | 100 | Tour operations |
| China Travel International (Chengdu) Ltd.* | PRC | RMB4,220,000 | 51 | 51 | Tour operations |

Notes to Financial Statements

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38. 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 |
|---|--|--|---|------|---|
| | | | 2003 | 2002 | |
| China Travel International (Shandong) Ltd.* | PRC | RMB3,000,000 | 51 | – | Tour operations |
| China Travel International (Xiamen) ITG Travel Service Co., Ltd.* | PRC | RMB6,000,000 | 51 | – | Tour operations |
| China Travel International (Xinjiang) Ltd.* | PRC | RMB4,000,000 | 51 | – | Tour operations |
| China Travel Net Hong Kong Limited | Hong Kong | 150,000 ordinary shares of HK\$1@ | 100 | 100 | 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 | CAD2,922,750 | 100 | 100 | Travel and air ticketing agent |
| 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 Service (France) SARL# | France | EURO220,000 | 100 | 100 | Travel and air ticketing agent |

Notes to Financial Statements

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38. 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 |
|--|--|--|---|------|--|
| | | | 2003 | 2002 | |
| 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 (N.Z.) Limited | New Zealand | NZD30,000 | 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 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 |

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38. 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 |
|---|--|---|---|------|-----------------------------|
| | | | 2003 | 2002 | |
| China Travel Wing Dah Hong (H.K.) Limited | Hong Kong | 1,000 ordinary shares of HK\$100@ | 96.2 | 96.2 | Dormant |
| Coastline Development Limited | Hong Kong | 2 ordinary shares of HK\$1.00@ | 100 | 100 | Property investment holding |
| Common Well Limited | Hong Kong | 2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@ | 100 | 100 | Property investment holding |
| CTI Business Travel Management Company Ltd. (Formerly known as Sunshine Express International Ltd.)** | PRC | RMB10,000,000 | 100 | — | Air ticketing agent |
| CTI Cosco Travel Ltd. (Formerly known as Cosco International Travel Ltd.)* | PRC | RMB26,287,300 | 70 | — | Tour operations |
| CTS International Transportation Co., Ltd.* | PRC | RMB26,000,000 | 76 | 76 | Freight forwarding |

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38. 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 |
|----------------------------------|--|---|---|------|--|
| | | | 2003 | 2002 | |
| 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 |
| 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 |
| New Bus Holdings Limited | Hong Kong | 1,000,000 ordinary shares of HK\$1@ | 80 | — | Passenger transportation |
| Princess Capital Limited (Note) | British Virgin Islands/ Hong Kong | 1 share of US\$1 | 100 | 100 | Securities trading |

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38. 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 |
|---|--|---|---|------|--|
| | | | 2003 | 2002 | |
| 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 | 100 | Provision of leisure services |
| Shenzhen Tycoon Golf Club Co., Ltd.** | PRC | RMB100,000,000 | 100 | 100 | Golf club operations |
| Singa China Travel Service Pte. Limited | Singapore | SGD6,740,000 | 100 | 100 | Travel and air ticketing agent |
| 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 |

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38. 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 |
|---|--|---|---|------|--|
| | | | 2003 | 2002 | |
| Sociedade De Fomento Predial Fu Wa (Macau) Limitada | Macau | MOP200,000 | 100 | 100 | Property investment holding and hotel operations |
| Special Asia Travel AB | Sweden | SEK40,000 | 100 | – | Travel and air ticketing agent |
| Starsoft Computer Services Limited | Hong Kong | 4,000 ordinary shares of HK\$100@ | 100 | 100 | Investment holding |
| Starsoft Computer Services (Shenzhen) Co. Ltd.** | PRC | RMB1,200,000 | 100 | 100 | Computer software development and design |
| Tonkin Limited | 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 |

Notes to Financial Statements

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38. 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 |
|--------------------------------|--|---|---|------|--|
| | | | 2003 | 2002 | |
| 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.

** These subsidiaries are registered as wholly-foreign owned enterprises under the PRC law.

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

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39. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Bank guarantees given in lieu of utility and rental deposits | 2,911 | 2,911 | 2,024 | 2,024 |
| Corporate guarantee given to suppliers in connection with credit facilities granted to and utilised by subsidiaries | – | – | 85,783 | 47,662 |
| Corporate guarantee given to banks in connection with credit facilities granted to and utilised by subsidiaries | – | – | 1,160,000 | 1,002,985 |
| Guarantees given to banks in connection with facilities granted to and utilised by an associate | 94,388 | 98,688 | 94,388 | 98,688 |
| Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly-controlled entity | – | 1,885 | – | – |
| Guarantees given to vendor in connection with banking facilities granted to and utilised by an investee company | 18,329 | – | – | – |
| Guarantee given to a supplier in connection with credit facilities granted | 2,251 | – | – | – |
| | 117,879 | 103,484 | 1,342,195 | 1,151,359 |

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40. 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 two to five 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 | |
|---|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Within one year | 6,010 | 6,774 |
| In the second to fifth years, inclusive | 2,315 | 3,864 |
| | 8,325 | 10,638 |

(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 one to eighteen years, and those for plant and machinery for terms ranging from one to five years.

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

| | Group | |
|---|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Land and buildings: | | |
| Within one year | 28,238 | 33,281 |
| In the second to fifth years, inclusive | 51,200 | 49,360 |
| After five years | 73,864 | 90,358 |
| | 153,302 | 172,999 |
| Plant and machinery: | | |
| Within one year | 642 | 166 |
| In the second to fifth years, inclusive | 639 | 199 |
| | 1,281 | 365 |

Notes to Financial Statements

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41. COMMITMENTS

In addition to the operating lease commitments as detailed in note 40(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Properties under development: | | | | |
| Contracted, but not provided for | 110,833 | 31,714 | 1,806 | 1,885 |
| Authorised, but not contracted for | 1,392,159 | 1,709,600 | 1,370,485 | 1,703,774 |
| | 1,502,992 | 1,741,314 | 1,372,291 | 1,705,659 |
| Plant and equipment and motor vehicles: | | | | |
| Contracted, but not provided for | 17,549 | 3,908 | - | - |
| Authorised, but not contracted for | 11,510 | 9,611 | - | - |
| | 29,059 | 13,519 | - | - |
| Land and buildings: | | | | |
| Contracted, but not provided for | - | 11,068 | - | 265 |
| Leasehold improvements: | | | | |
| Contracted, but not provided for | 23,982 | - | - | - |
| Authorised, but not contracted for | 1,017 | - | - | - |
| | 24,999 | - | - | - |
| Unpaid capital contribution to jointly-controlled entities: | | | | |
| Contracted, but not provided for | 3,326 | 3,540 | - | - |
| Unpaid capital contribution to investee companies: | | | | |
| Contracted, but not provided for | 1,710 | 768 | - | 299,293 |
| Others: | | | | |
| Contracted, but not provided for | 7,956 | 7,619 | - | - |

Notes to Financial Statements

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41. COMMITMENTS (Continued)

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|----------------------------------|------------------|------------------|
| Contracted, but not provided for | 6,082 | – |

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

42. 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:

| Name of company | Nature of transaction | Group | |
|---|--|------------------|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 |
| Paid or payable to: | | | |
| (1) China Travel Hip Kee Godown Hong Kong Limited | Car parking fees | 1,823 | 2,077 |
| (2) China Travel Hip Kee Godown Hong Kong Limited | Storage charges | 1,087 | 975 |
| (3) CTS (Holdings) | Office rental | 13,811 | 13,982 |
| (4) China Travel Building Contractors Hong Kong Limited | Decoration expenses | – | 544 |
| (5) China Travel Insurance Advisers Hong Kong Limited | Insurance premium | 9,487 | 8,003 |
| (6) Tai Sun Services Company Limited | Stevedoring services and coolie charges | 2,002 | 2,167 |
| (7) China Travel Hotel Management Services Hong Kong Limited | Hotel management fees | 2,451 | 3,450 |
| (8) Hubei Yangtze River Splendid China Cruise Co., Ltd | Sightseeing cruiser services | – | 924 |
| (9) Shenzhen Windsor Square Industrial Co., Ltd. | Hotel room rental | 1,373 | – |

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42. RELATED PARTY TRANSACTIONS (Continued)

| Name of company | Nature of transaction | Group | |
|--|---|------------------|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 |
| Received or receivable from: | | | |
| (10) China Travel Hip Kee Godown Hong Kong Limited | Application service provider services | 313 | – |
| (11) CTS (Holdings) | Hotel room rental | 545 | 1,006 |
| (12) CTS (Holdings) | Travel permit administration income (Note) | 241,490 | 326,029 |
| (13) CTS (Holdings) | Sale of computer equipment and commission on sale of visa materials | 458 | 1,671 |
| (14) CTS (Holdings) | Application service provider services | 374 | – |
| (15) CTS (Holdings) | Advertising and printing | 293 | – |
| (16) China Travel Computer Service H.K. Limited | Application service provider services | 10,002 | 14,800 |
| (17) China Travel Service (Thailand) Co. Ltd. | Sale of tourism services /products | 897 | 1,412 |
| (18) China Travel Service, Inc. | Sale of tourism services /products | – | 489 |
| (19) China Travel System (M) Sdn. Bhd. | Sales of tourism services /products | 439 | 875 |
| (20) China Travel Hotel Management Services Hong Kong Limited | Rental income | – | 43 |
| (21) Tai Sun Services Company Limited | Management service income | 652 | 602 |
| (22) Hong Kong China Travel Services Investment (China) Ltd. | Sales of computer equipment and application service provider services | 253 | – |

Notes to Financial Statements

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42. RELATED PARTY TRANSACTIONS (Continued)

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.

Note: 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.

43. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 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 restated to conform with the current year's presentation.

In addition, as further explained in note 5 to the financial statements, turnover and cost of sales have been increased by HK\$531,731,000 respectively for the year ended 31 December 2002 to conform with the Group's accounting policy. In the opinion of the directors, this classification would better reflect the results of the Group.

44. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 31 March 2004.