

Notes to Financial Statements

31 December 2004

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

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKAS”), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far preliminarily concluded that the adoption of Statement of Standard Accounting Practice (“SSAP”) Interpretation 23 “The Appropriate Policies for Hotel Properties”, HKAS 40 “Investment Property” and HKFRS 3 “Business Combinations” may have a significant impact on its consolidated accounts as set out below:

- (a) At present, the Group records its hotel properties at valuation in accordance with SSAP 17 “Property, Plant and Equipment”. No depreciation is provided on the hotel properties as they are maintained in a continuous state of sound repair so that their residual values are not currently diminished by the passage of time. For the financial year beginning 1 January 2005, the Group will adopt the requirements of SSAP Interpretation 23 and apply them retrospectively. The Group’s hotel properties will be stated at valuation less accumulated depreciation and impairment, if any. Additional depreciation will be provided for the hotel properties and the leasehold land on which they are situated. Annual valuation will be performed by the Group on the hotel properties at each year end date.

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2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

- (b) At present, surpluses or deficits arising on the annual revaluation of the Group's investment properties are recognised in the investment property revaluation reserve. On adoption of the new HKAS 40, the Group's investment properties will continue to be stated at fair values. However, any revaluation movements will be taken directly to the profit and loss account for that period, instead of the revaluation reserve.
- (c) At present, the Group has adopted SSAP 30 "Business Combinations" for negative goodwill arising on acquisition since 2001, which requires the negative goodwill amount be carried in the consolidated balance sheet and amortised into the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. On adoption of the HKFRS 3, for the financial year beginning 1 January 2005, the Group will discontinue amortising such negative goodwill and the remaining unamortised negative goodwill amount should be derecognised on 1 January 2005, with a corresponding adjustment to the opening balance of retained profits. The Group's net assets would be increased by HK\$165,390,000.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include SSAPs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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/registered 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

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

The joint venture agreement 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:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital/registered capital or controls the composition of their boards of directors;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) 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
- (d) 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.

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. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

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.

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

Goodwill

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

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

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 and 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 in 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)

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 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 listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities 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.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities 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 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 completion and disposal.

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or sale, 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 or sale. 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 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.

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 and prior years by the employees and carried forward.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits scheme

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

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Provisions

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of freight forwarding and transportation services, 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;

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

Revenue recognition *(Continued)*

- (d) income related to scenic spots, when the admission tickets are sold;
- (e) income from the sale of golf club memberships, on a straight-line 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 a straight-line basis.

Related parties

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

Cash and cash equivalents

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

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

Dividends

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

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the passenger transportation segment engages in the provision of ground and sea 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 and transportation 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 Group's 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/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Passenger transportation services 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment revenue:										
Sales to external customers	213,166	379,514	1,857,028	372,488	1,935,272	42,933	-	1,620	-	4,802,021
Intersegment revenue	3,164	2,531	109	8,877	88,925	-	-	28,841	(132,447)	-
Other revenue and gains	2,732	10,200	16,127	4,076	8,728	385	22,670	19,528	-	84,446
Total	219,062	392,245	1,873,264	385,441	2,032,925	43,318	22,670	49,989	(132,447)	4,886,467
Segment results	40,238	136,080	55,258	350,389	226,621	(12,149)	21,399	(17,586)	-	800,250
Interest income and unallocated gains										21,236
Profit from operating activities										821,486
Finance costs										(29,873)
Share of profits and losses of:										
Jointly-controlled entities	-	-	(670)	-	5,585	-	289,739	-	-	294,654
Associates	58,054	115	(2)	-	(2)	-	-	(51)	-	58,114
Profit before tax										1,144,381
Tax										(174,865)
Profit before minority interests										969,516
Minority interests										(67,862)
Net profit from ordinary activities attributable to shareholders										901,654

Notes to Financial Statements

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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 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 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight	Hotel operations 2004 HK\$'000	Travel and	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
			forwarding and trans- portation services 2004 HK\$'000		related travel- related operations 2004 HK\$'000					
Segment assets	137,200	776,647	594,040	3,773,891	2,581,136	286,852	8,499	990,937	-	9,149,202
Interests in jointly- controlled entities	-	-	(494)	-	51,138	-	1,440,187	-	-	1,490,831
Interests in associates	415,038	-	(200)	-	187	-	-	1,523	-	416,548
Unallocated assets										663,555
Total assets										11,720,136
Segment liabilities	22,916	75,404	340,091	62,028	384,985	164,966	2,019	75,042	-	1,127,451
Unallocated liabilities										1,858,042
Total liabilities										2,985,493
Other segment information:										
Capital expenditure	27,836	12,495	71,734	3,152	77,836	16,774	-	288,397	-	498,224
Depreciation and amortisation	16,707	68,113	11,214	897	58,207	15,667	-	1,735	-	172,540
Impairment losses recognised/(reversed) in the profit and loss account	-	-	(6,039)	-	-	-	-	210	-	(5,829)
Other non-cash expenses	30	1,282	1,393	410	2,798	44	-	-	-	5,957
Surplus/(deficit) on revaluation recognised in the profit and loss account	-	-	(847)	239,761	24,779	-	-	6,700	-	270,393
Surplus on revaluation recognised directly in equity	-	-	6,869	120,323	27,000	-	-	-	-	154,192

Notes to Financial Statements

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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 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/ revaluation deficit 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

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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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	1,600,456	1,240,973	2,781,445	1,766,861	420,120	293,082	-	-	4,802,021	3,300,916
Other revenue and gains	18,705	25,281	59,143	6,971	6,598	4,743	-	-	84,446	36,995
	1,619,161	1,266,254	2,840,588	1,773,832	426,718	297,825	-	-	4,886,467	3,337,911
Other segment information:										
Segment assets	6,770,432	7,394,399	4,313,179	3,597,705	636,525	225,845	-	-	11,720,136	11,217,949
Capital expenditure	51,961	52,612	441,344	320,430	4,919	4,523	-	-	498,224	377,565

Notes to Financial Statements

31 December 2004

5. TURNOVER, REVENUE AND GAINS

Turnover primarily represents the net invoiced value of goods sold, after allowances 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	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Freight forwarding and transportation services	1,857,028	1,284,969
Travel and travel-related operations	1,935,272	1,307,896
Hotel operations	372,488	255,464
Golf club operations	42,933	29,802
Tourist attraction operations	379,514	294,686
Passenger transportation services	213,166	127,416
Others	1,620	683
	4,802,021	3,300,916
Other revenue		
Gross rental income	13,412	13,512
Interest income	21,189	20,825
Reinvestment tax credit	37,563	–
Others	9,858	17,107
	82,022	51,444
Gains		
Dividend income from listed investments	47	47
Gain on disposal of fixed assets, net	3,941	533
Exchange gains, net	8,514	5,607
Write-back of long outstanding payables	8,908	–
Gain on changes in fair values of short term investments	248	–
Gain on disposal of short term investments	66	–
Gain on disposal of a jointly-controlled entity	1,936	–
Gain on disposal of associates	–	236
	23,660	6,423
Other revenue and gains	105,682	57,867

Notes to Financial Statements

31 December 2004

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Depreciation	141,821	134,488
Goodwill amortisation for the year (i)	34,377	37,951
Negative goodwill recognised as income during the year (ii)	(3,658)	(4,314)
Auditors' remuneration:		
Current year	8,226	6,731
Underprovision in the prior year	506	–
	8,732	6,731
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	585,523	516,869
Pension scheme contributions	37,830	33,587
Less: Forfeited contributions	(2,284)	(4,117)
Net pension contributions (v)	35,546	29,470
Total staff costs	621,069	546,339
Minimum lease payments under operating leases:		
Land and buildings	47,349	52,927
Plant and machinery and motor vehicles	21,547	23,405
Provisions for doubtful debts, net	2,870	2,315
Loss on disposal of long term investments	–	771
Gain on changes in fair values of short term investments	(248)	(645)
Impairment of short term investment	–	803
Impairment/(write-back of impairment) of interests in jointly-controlled entities (iii)	(7,479)	1,515
Impairment of interest in an associate (iii)	210	–
Write-off of properties under development	1,301	2,805
Impairment of fixed assets	1,440	77,466
Impairment of depreciable investment properties	–	4,389
Revaluation deficit/(surplus) of other investment properties	(30,632)	27,763
Hotel property revaluation deficit/(surplus)	(239,761)	492,950
Recognition of negative goodwill from capital reserve upon impairment of underlying assets (iv)	–	(307,219)
Impairment of goodwill (iv)	–	150,475
Impairment of goodwill previously carried in capital reserve (iii)	–	13,061
Recognition of negative goodwill upon impairment of underlying assets (iv)	–	(8,047)
Net rental income	(10,984)	(12,908)
Provisions for slow-moving inventories	44	–

Notes to Financial Statements

31 December 2004

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

Notes:

- (i) The amortisation of goodwill for the year is included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (ii) The movements in negative goodwill recognised in the profit and loss account for the year are included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (iii) The impairment of goodwill previously carried in capital reserve and the impairment of interests in jointly-controlled entities and an associate are included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (iv) The recognition of negative goodwill from capital reserve upon impairment of underlying assets, impairment of goodwill and recognition of negative goodwill upon impairment of underlying assets are included in “Revaluation surplus/(deficit) of hotel properties and impairment of fixed assets and goodwill, net” on the face of the consolidated profit and loss account.
- (v) At 31 December 2004, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans		
wholly repayable within five years	(10,888)	(20,216)
Finance lease and hire purchase contracts	(4)	(41)
Amortisation of deferred borrowing costs	(7,207)	(2,907)
Accretion of premium on convertible bonds, net	(11,774)	(4,902)
Total finance costs	(29,873)	(28,066)

Notes to Financial Statements

31 December 2004

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	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	2,000	1,714
Independent non-executive directors	600	510
	2,600	2,224
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	8,153	7,820
Pension scheme contributions	209	208
	8,362	8,028
Total remuneration	10,962	10,252

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

	Number of directors	
	2004	2003
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
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	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 2004

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: two) non-director, highest paid employee for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	1,154	1,991
Pension scheme contributions	12	24
	1,166	2,015

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	1	1
	1	2

10. TAX

	2004 HK\$'000	2003 HK\$'000
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	(56,407)	(45,840)
Overprovision in prior years	3,929	298
Current – Elsewhere	(35,665)	(12,876)
Overseas – Current tax charge for the year	(680)	(329)
Deferred tax – note 33	(37,688)	65,923
	(126,511)	7,176
Share of tax attributable to:		
Jointly-controlled entities	(43,461)	(42,559)
Associates	(4,893)	(2,593)
	(48,354)	(45,152)
Total tax charge for the year	(174,865)	(37,976)

Notes to Financial Statements

31 December 2004

10. TAX (Continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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:

Group – 2004

	Hong Kong		Overseas		PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	678,537		(6,209)		472,053		1,144,381	
Tax at the applicable tax rate	118,744	17.5	(2,484)	40.0	155,778	33.0	272,038	23.8
Lower tax rate for specific provinces or local authority	(4,285)	(0.6)	202	(3.3)	(82,715)	(17.5)	(86,798)	(7.6)
Adjustments in respect of current tax of previous periods	(3,929)	(0.6)	–	–	–	–	(3,929)	(0.3)
Income not subject to tax	(53,587)	(7.9)	(937)	15.1	(2,944)	(0.6)	(57,468)	(5.0)
Expenses not deductible for tax	35,613	5.2	3,899	(62.8)	9,007	1.9	48,519	4.2
Tax losses utilised from previous periods	(2,165)	(0.3)	–	–	–	–	(2,165)	(0.2)
Tax losses not recognised	4,668	0.7	–	–	–	–	4,668	0.4
Tax charge at the Group's effective rate	95,059	14.0	680	(11.0)	79,126	16.8	174,865	15.3

Notes to Financial Statements

31 December 2004

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)	40.0	87,305	33.0	43,350	132.6
Lower tax rate for specific provinces or local authority	(874)	0.5	2,073	(13.8)	(49,179)	(18.5)	(47,980)	(146.7)
Effect on opening deferred tax of increase in rates	13,377	(6.2)	–	–	–	–	13,377	40.9
Adjustments in respect of current tax of previous periods	(298)	0.1	–	–	–	–	(298)	(0.9)
Income not subject to tax	(43,676)	20.1	(1,129)	7.5	(1,867)	(0.7)	(46,672)	(142.8)
Expenses not deductible for tax	37,876	(17.5)	5,389	(35.9)	19,176	7.2	62,441	191.0
Tax losses utilised from previous periods	(1,691)	0.8	–	–	–	–	(1,691)	(5.2)
Tax losses not recognised	15,449	(7.1)	–	–	–	–	15,449	47.3
Tax charge/(credit) at the Group's effective rate	(17,788)	8.2	329	(2.2)	55,435	21.0	37,976	116.2

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 2004 dealt with in the financial statements of the Company was HK\$354,042,000 (2003: HK\$186,548,000) (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\$50,678,000 (2003: HK\$21,781,000) and a profit of HK\$4,096,000 (2003: loss of HK\$10,744,000), respectively.

Notes to Financial Statements

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12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – 5 cents (2003: Nil) per ordinary share	211,817	–
Underaccrual of 2002 final dividend	–	10
Proposed final – 5 cents (2003: 4 cents) per ordinary share	223,383	169,288
	435,200	169,298

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 profit from ordinary activities attributable to shareholders for the year of HK\$901,654,000 (2003: loss of HK\$39,810,000), and the weighted average of 4,251,613,372 (2003: 4,227,324,010) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$901,654,000. The weighted average number of ordinary shares used in the calculation is the weighted average of 4,251,613,372 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 142,962,367 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all bonus warrants outstanding during the year. The Company's convertible bonds outstanding during the year had an anti-dilutive effect on the basic earnings per share for 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 that year had an anti-dilutive effect on the basic loss per share for that year.

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14. FIXED ASSETS

Group

	Investment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establishment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	136,700	3,398,681	1,271,705	779,377	861,782	6,448,245
Additions	–	–	51,242	172	94,650	146,064
Acquisition of subsidiaries (note 37(b))	–	–	–	–	7,339	7,339
Transfer from properties under development	–	–	4,742	798	2,698	8,238
Disposals and write-off	(3,400)	–	(2,934)	(734)	(52,934)	(60,002)
Surplus on revaluation	51,872	384,324	–	–	–	436,196
Reclassification	2,561	133	25,140	(39,279)	11,373	(72)
Exchange realignments	1,343	–	2,627	1,129	678	5,777
At 31 December 2004	189,076	3,783,138	1,352,522	741,463	925,586	6,991,785
At cost	–	–	1,352,522	741,463	925,586	3,019,571
At 2004 valuation	189,076	3,783,138	–	–	–	3,972,214
	189,076	3,783,138	1,352,522	741,463	925,586	6,991,785
Accumulated depreciation and impairment:						
At beginning of year	13,260	–	257,049	442,852	532,988	1,246,149
Provided during the year	–	–	35,209	29,626	76,986	141,821
Written back on revaluation	(13,260)	–	–	–	–	(13,260)
Impairment during the year	–	–	–	–	1,440	1,440
Disposals and write-off	–	–	(1,954)	(658)	(44,563)	(47,175)
Reclassification	–	–	3,838	(4,483)	573	(72)
Exchange realignments	–	–	1,342	645	457	2,444
At 31 December 2004	–	–	295,484	467,982	567,881	1,331,347
Net book value:						
At 31 December 2004	189,076	3,783,138	1,057,038	273,481	357,705	5,660,438
At 31 December 2003	123,440	3,398,681	1,014,656	336,525	328,794	5,202,096

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31 December 2004

14. FIXED ASSETS (Continued)

Company

	Land and building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At beginning of year	1,430	803	2,072	2,431	6,736
Additions	–	–	354	20	374
Write-off	–	–	(109)	–	(109)
At 31 December 2004	1,430	803	2,317	2,451	7,001
Accumulated depreciation:					
At beginning of year	–	282	1,448	1,522	3,252
Provided during the year	–	156	277	249	682
Write-off	–	–	(109)	–	(109)
At 31 December 2004	–	438	1,616	1,771	3,825
Net book value:					
At 31 December 2004	1,430	365	701	680	3,176
At 31 December 2003	1,430	521	624	909	3,484

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Investment properties, at valuation:			
Long term leases	43,750	15,240	58,990
Medium term leases	109,330	20,756	130,086
	153,080	35,996	189,076
Land and buildings, at cost:			
Long term leases	474,792	37,850	512,642
Medium term leases	150,700	689,180	839,880
	625,492	727,030	1,352,522

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14. FIXED ASSETS (Continued)

The land use right for a piece of the Group's land with a carrying value of HK\$109,590,000 (2003: HK\$113,211,000) will expire on 17 August 2007. The Group has applied for an extension of the relevant land use right for an additional 30 years up to 17 August 2037 and is in the process of applying to obtain a new land use right certificate for the extended tenure. Accordingly, amortisation of the cost (including the extension premium paid) 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 2004 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

The investment properties and hotel properties were revalued at 31 December 2004 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

Notes to Financial Statements

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14. FIXED ASSETS (Continued)

The Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) 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 2004 amounted to HK\$1,324,167 (2003: HK\$3,318,183).

15. PROPERTIES UNDER DEVELOPMENT

Group

	31 December 2003 HK\$'000	Additions HK\$'000	Write-off HK\$'000	Transfer to fixed assets HK\$'000	31 December 2004 HK\$'000
Buildings and plant	–	55,778	(19)	(2,495)	53,264
Scenic spots establishment	128,534	279,149	(1,282)	(3,371)	403,030
Golf course	2,296	9,894	–	(2,372)	9,818
	130,830	344,821	(1,301)	(8,238)	466,112

The costs of buildings and plant, scenic spots establishment and golf course comprise land and buildings outside Hong Kong held under medium term leases of HK\$396,971,000 and under long term leases of HK\$69,141,000.

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.

Notes to Financial Statements

31 December 2004

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 HK\$'000	Negative goodwill HK\$'000
Cost:		
At beginning of year	1,539,422	(188,295)
Acquisition of subsidiaries	9,653	–
At 31 December 2004	1,549,075	(188,295)
Recognition as income/(accumulated amortisation and impairment):		
At beginning of year	(255,801)	19,247
Recognised as income/(amortisation provided) during the year	(33,795)	3,658
At 31 December 2004	(289,596)	22,905
Net book value:		
At 31 December 2004	1,259,479	(165,390)
At 31 December 2003	1,283,621	(169,048)

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 and HK\$170 million, respectively. The amounts of goodwill are stated at their costs, less cumulative impairment of approximately HK\$13 million which arose in prior years.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	3,726,361	3,601,695
Due from subsidiaries	3,375,220	2,977,705
Loans to subsidiaries	1,472,663	1,472,663
Due to subsidiaries	(1,499,625)	(1,505,445)
	7,074,619	6,546,618
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(307,954)	(307,954)
	6,766,665	6,238,664

The balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

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

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	1,287,538	1,240,245
Goodwill on acquisition (<i>Note</i>)	10,877	11,459
Due from jointly-controlled entities	196,607	111,631
Due to jointly-controlled entities	(1,483)	(1,353)
	1,493,539	1,361,982
Less: Provision for impairment	(2,708)	(10,187)
	1,490,831	1,351,795

Notes to Financial Statements

31 December 2004

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Note:

	Group	
	2004 HK\$'000	2003 HK\$'000
Goodwill on acquisition:		
Cost at beginning and at end of year	11,653	11,653
Less: Accumulated amortisation at beginning of year	(194)	–
Amortisation provided during the year	(582)	(194)
Net book value	10,877	11,459

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$3,693,000 as at the balance sheet date. The amount of goodwill is stated at cost.

Except for the balances of HK\$903,000 (2003: HK\$902,000), nil (2003: HK\$1,439,000) and nil (2003: 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 interest-free, unsecured 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 sharing attributable to the Group		Principal activities
			2004	2003	
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	25	25	Provision of cargo transportation services
Gansu Lida International Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd. # *	Corporate	PRC	–	30	Manufacture of brass products
Shaanxi Weihe Power Co., Ltd.	Corporate	PRC	51	51	Production and sale of electricity

Notes to Financial Statements

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Name	Business structure	Place of registration and operations	Percentage of equity and profit sharing attributable to the Group		Principal activities
			2004	2003	
Shanghai China Travel International Limited	Corporate	PRC	50	50	Tour operations
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. @	Corporate	PRC	–	49	Provision of freight forwarding and cargo transportation services

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

* Disposed of during the year.

@ This company has become a wholly-owned subsidiary of the Group during the year.

Extracts of the financial information of the Group's material jointly-controlled entity is as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2004 HK\$'000	2003 HK\$'000
Profit and loss account		
Turnover	1,767,275	1,612,109
Net profit attributable to joint venture partners	438,849	466,845
Balance sheet		
Non-current assets	2,224,596	2,559,697
Current assets	1,007,515	869,919
Current liabilities	(653,053)	(835,008)
Non-current liabilities	(61,888)	(128,115)
Net assets	2,517,170	2,466,493

Notes to Financial Statements

31 December 2004

19. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	407,089	404,526
Due from associates	10,371	2,867
Due to associates	(702)	–
	416,758	407,393
Less: Provision for impairment	(210)	–
	416,548	407,393

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$49,089,000 as at the balance sheet date. The amount of goodwill is stated at cost.

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

Particulars of the associates, all of which are held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2004	2003	
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
Dreamlike Lijiang Showbiz Co., Ltd. # @	Corporate	PRC	32	–	Production of art performances
China Heaven Creation International Performing Arts Co., Ltd. (“China Heaven”) @	Corporate	PRC	–	15.3	Production of art performances

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

@ Dreamlike Lijiang Showbiz Co., Ltd. is an associate of China Heaven, which has become a subsidiary of the Group 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	
	2004	2003
	HK\$'000	HK\$'000
Profit and loss account		
Turnover	1,585,758	1,283,431
Net profit attributable to shareholders	183,315	3,713
Balance sheet		
Non-current assets	1,265,314	1,436,422
Current assets	698,309	488,707
Current liabilities	(251,468)	(194,204)
Non-current liabilities	(314,667)	(347,753)
Net assets	1,397,488	1,383,172

20. INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments				
Equity investments outside Hong Kong:				
Listed shares, at market value	2,646	2,643	–	–
Unlisted shares, at fair value	20,420	18,912	13,949	13,949
Equity investments in Hong Kong:				
Unlisted shares, at fair value	30	30	–	–
	23,096	21,585	13,949	13,949

Notes to Financial Statements

31 December 2004

20. INVESTMENTS (Continued)

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Short term investments				
Listed equity investments				
in Hong Kong, at market value	1,759	1,510	–	–
Listed equity investment outside				
Hong Kong, at market value	1	2	–	–
Unlisted equity investments outside				
Hong Kong, at fair value	11,248	12,051	–	–
Less: Provision for impairment	–	(803)	–	–
	13,008	12,760	–	–

21. INVENTORIES, AT COST

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	7,041	8,224
Spare parts and consumables	2,715	1,736
General merchandise	4,275	3,570
	14,031	13,530

22. TRADE RECEIVABLES

The Group allows an average credit period 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	
	2004 HK\$'000	2003 HK\$'000
Outstanding balances with age:		
Less than 1 month	239,102	198,011
Within:		
1 – 3 months	183,981	121,218
4 – 6 months	26,848	13,921
7 – 12 months	6,612	15,149
1 – 2 years	2,263	2,376
Over 2 years	829	265
	459,635	350,940

Notes to Financial Statements

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23. OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred borrowing costs	4,251	5,750	–	–
Deferred expenditure	14,485	26,876	–	–
Deposits and other debtors	235,412	185,936	19,020	4,524
Amounts due from minority shareholders	2,473	793	–	–
	256,621	219,355	19,020	4,524

24. PLEDGED TIME DEPOSITS

The Group has pledged bank deposits of approximately HK\$4,053,000 (2003: HK\$4,323,000) (*note 25*) 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	1,148,116	1,325,625	268,490	11,042
Time deposits	637,676	1,018,008	24,889	450,250
	1,785,792	2,343,633	293,379	461,292
Less: Pledged time deposits – <i>note 24</i>	(4,053)	(4,323)	–	–
Cash and cash equivalents	1,781,739	2,339,310	293,379	461,292

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$474,397,000 (2003: HK\$497,591,000). 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.

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 for the balance with ultimate holding company regarding the provision of travel permit administration services which is repayable on the 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.

Notes to Financial Statements

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

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount due from ultimate holding company				
Within 1 year	30,800	30,843	180	215
1 – 2 years	515	–	–	–
	31,315	30,843	180	215
Amounts due from fellow subsidiaries				
Within 1 year	3,215	3,416		
1 – 2 years	18	6		
Over 2 years	3	–		
	3,236	3,422		
Amounts due to fellow subsidiaries				
Within 1 year	3,874	4,307		
1 – 2 years	450	–		
Over 2 years	168	171		
	4,492	4,478		

27. TRADE PAYABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Outstanding balances with age:		
Less than 1 month	341,759	252,139
Within:		
1 – 3 months	168,559	123,976
4 – 6 months	19,302	45,503
7 – 12 months	10,251	27,306
1 – 2 years	11,508	6,561
Over 2 years	4,001	8,133
	555,380	463,618

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28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and other liabilities	324,884	359,112	18,311	7,376
Staff bonus and welfare fund	65,708	44,015	2,281	2,296
Receipts in advance from customers	44,497	44,960	–	–
Amounts due to minority shareholders	180	4,127	–	–
	435,269	452,214	20,592	9,672

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts – unsecured		–	5,255	–	690
Current portion of bank and other loans		7,108	464,725	–	–
	30	7,108	469,980	–	690
Current portion of finance lease and hire purchase contract payables	31	322	1,397	–	–
		7,430	471,377	–	690

Notes to Financial Statements

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30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts:				
Unsecured	–	5,255	–	690
Syndicated bank loans:				
Secured - <i>Note</i>	700,000	1,160,000	–	–
Other bank loans:				
Unsecured	12,128	6,338	–	–
	712,128	1,166,338	–	–
Golf club debentures	4,157	4,157	–	–
	716,285	1,175,750	–	690
Bank overdrafts repayable within one year or on demand	–	5,255	–	690
Bank loans repayable:				
Within one year or on demand	7,108	464,725	–	–
In the second year	5,020	1,613	–	–
In the third to fifth years, inclusive	700,000	700,000	–	–
	712,128	1,166,338	–	–
Other loans repayable:				
Over five years	4,157	4,157	–	–
Total interest-bearing bank and other borrowings	716,285	1,175,750	–	690
Portion classified as current liabilities – <i>note 29</i>	(7,108)	(469,980)	–	(690)
Long term portion	709,177	705,770	–	–

Note: 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 three to five 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 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts repayable:				
Within one year	322	1,401	322	1,397
In the second	180	327	180	327
In the third to fifth years, inclusive	98	198	98	198
Total minimum lease payments	600	1,926	600	1,922
Future finance charges	–	(4)		
Total net lease payables	600	1,922		
Portion classified as current liabilities – note 29	(322)	(1,397)		
Long term portion	278	525		

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 independent third parties. 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 each, at an adjusted conversion price of HK\$1.84, 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 the holder at 104.975% of their principal amount.

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32. CONVERTIBLE BONDS (Continued)

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 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% 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% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

During the year, Bonds of HK\$375,848,000 (US\$48,190,000) were converted into ordinary shares. At the balance sheet date, the carrying value of the Bonds represented the par value of approximately HK\$790,911,000 (US\$101,810,000) (2003: HK\$1,163,250,000 (US\$150,000,000)) and an accumulated accretion of premium of approximately HK\$16,665,000 (2003: HK\$4,902,000). The exercise in full of the conversion rights of the remaining Bonds at the adjusted conversion price would result in the issue of approximately 431,547,138 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

	Accelerated tax depreciation 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 2003	58,494	233,680	(5,895)	286,279
Deferred tax charged/(credited) to the profit and loss account during the year (<i>note 10</i>)	6,452	(44,925)	(2,590)	(41,063)
Deferred tax credited to equity during the year	–	(4,627)	–	(4,627)
At 31 December 2003 and 1 January 2004	64,946	184,128	(8,485)	240,589
Deferred tax charged to the profit and loss account during the year (<i>note 10</i>)	4,889	23,085	3,086	31,060
Deferred tax charged to equity during the year	–	24,871	–	24,871
At 31 December 2004	69,835	232,084	(5,399)	296,520

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33. DEFERRED TAX (Continued)

Deferred tax assets

Group

	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 2003	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 and 1 January 2004	6,767	34,520	(39,616)	(13,018)	(11,347)
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	4,902	–	6,612	(4,886)	6,628
At 31 December 2004	11,669	34,520	(33,004)	(17,904)	(4,719)

The Group has cumulative tax losses arising from operations in Hong Kong of HK\$229,052,000 (2003: HK\$29,624,000) which can be used to offset against future taxable profits of the companies in which the losses arose. 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 2004, there was no significant unrecognised deferred tax liability (2003: 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.

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34. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
4,467,658,548 (2003: 4,232,198,475) ordinary shares of HK\$0.10 each	446,766	423,220

During the year, the movements in share capital were as follows:

- (a) The conversion rights attaching to the Bonds of HK\$375,848,000 (US\$48,190,000) were exercised at the conversion price of HK\$1.84, resulting in the issuance of 204,265,355 ordinary shares of HK\$0.10 each.
- (b) 33,194,718 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration before expenses, of HK\$50,057,000.
- (c) The cancellation of 2,000,000 ordinary shares of HK\$0.10 each upon the repurchase of shares by the Company on The Stock Exchange of Hong Kong Limited at market prices ranging from HK\$1.63 to HK\$1.91 per share resulting in an aggregate consideration of HK\$3,545,000.

Notes to Financial Statements

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34. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 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 and 1 January 2004	4,232,198,475	423,220	5,932,834	6,356,054
Shares issued upon exercise of bonus warrants	33,194,718	3,319	46,738	50,057
Shares issued upon conversion of the Bonds	204,265,355	20,427	355,421	375,848
Shares cancelled upon repurchase of own shares	(2,000,000)	(200)	–	(200)
Share issue expenses	–	–	(6,857)	(6,857)
At 31 December 2004	4,467,658,548	446,766	6,328,136	6,774,902

Share options

Details of the Company's share option scheme are included in note 35 to the financial statements.

Warrants

On 28 May 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members, resulting in 846,439,695 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\$1.508 per share, payable in cash and subject to adjustment, from the date of issue to 31 May 2006.

During the year, 33,194,718 bonus warrants were exercised for 33,194,718 ordinary shares of HK\$0.10 each at the subscription price of HK\$1.508 per share, resulting in the issue of 33,194,718 additional ordinary shares of HK\$0.10 each in the Company. At the end of the year, there were 813,244,977 bonus warrants outstanding.

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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 2004 and 31 December 2004.

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 highest 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 2004, no share option was outstanding under the New Scheme and none of the Company’s directors and none of the Group’s employees were granted share options during the year.

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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 2003	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 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 2004

36. RESERVES (Continued)

Group	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Investment 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 2004	5,932,834	–	(842,196)	148,002	–	71,590	7,709	1,341,616	6,659,555
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	402,159	–	–	–	–	–	–	–	402,159
Share issue expenses	(6,857)	–	–	–	–	–	–	–	(6,857)
Repurchase of own shares	–	200	–	–	–	–	–	(3,545)	(3,345)
Exchange realignments	–	–	–	–	–	–	6,023	–	6,023
Surplus on revaluation	–	–	–	119,692	34,500	–	–	–	154,192
Transfer from retained profits	–	–	–	–	–	10,567	–	(10,567)	–
Net profit for the year	–	–	–	–	–	–	–	901,654	901,654
2004 interim dividend – note 12	–	–	–	–	–	–	–	(211,817)	(211,817)
Proposed 2004 final dividend – note 12	–	–	–	–	–	–	–	(223,383)	(223,383)
At 31 December 2004	6,328,136	200	(842,196)	267,694	34,500	82,157	13,732	1,793,958	7,678,181
Reserves retained by:									
Company and subsidiaries	6,328,136	200	(789,414)	267,694	34,500	82,157	13,732	1,632,897	7,569,902
Jointly-controlled entities	–	–	(3,693)	–	–	–	–	324,732	321,039
Associates	–	–	(49,089)	–	–	–	–	(163,671)	(212,760)
At 31 December 2004	6,328,136	200	(842,196)	267,694	34,500	82,157	13,732	1,793,958	7,678,181

Notes to Financial Statements

31 December 2004

36. RESERVES (Continued)

Company	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 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 dividends	–	–	94	94
Proposed 2003 final dividend – note 12	–	–	(169,288)	(169,288)
Balance at 31 December 2003 and 1 January 2004	5,932,834	–	161,995	6,094,829
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	402,159	–	–	402,159
Share issue expenses	(6,857)	–	–	(6,857)
Repurchase of own shares	–	200	(3,545)	(3,345)
Net profit for the year	–	–	354,042	354,042
2004 interim dividend – note 12	–	–	(211,817)	(211,817)
Proposed 2004 final dividend – note 12	–	–	(223,383)	(223,383)
At 31 December 2004	6,328,136	200	77,292	6,405,628

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.

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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 certain bank guarantees given in lieu of utility and rental deposits, as further explained in note 24 to the financial statements.

(b) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	7,339	18,627
Interest in an associate	1,373	–
Long term investments	1,511	2,665
Inventories	59	73
Cash and bank balances	9,436	37,328
Trade receivables and other receivables	16,315	32,479
Amounts due from fellow subsidiaries	2,433	–
Amounts due to fellow subsidiaries	(18,566)	–
Trade payables, other payables and accruals	(10,641)	(57,302)
Bank and other borrowings	–	(50)
Tax payable	(119)	(369)
Minority interests	(4,281)	(10,540)
	4,859	22,911
Goodwill on acquisition	9,653	5,071
	14,512	27,982
Accounted for and satisfied by:		
Cash	10,340	27,982
Prepayment	922	–
Reclassification to interests in subsidiaries		
from interests in associates	2,823	–
Reclassification to interests in subsidiaries		
from interests in jointly-controlled entities	427	–
	14,512	27,982

Notes to Financial Statements

31 December 2004

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

(b) Acquisition of subsidiaries (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(10,340)	(27,982)
Cash and bank balances acquired and included in the cash consideration	9,436	37,328
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(904)	9,346

During the year, the Group acquired the following subsidiaries.

Date of acquisition	Name	Percentage of equity interest acquired	Principal activities	Consideration RMB
From independent third parties				
20 January 2004	China Travel International (Xian) Ltd.	51%	Tour operations	1,820,000
From CTS (Holdings)				
1 January 2004	Shenzhen CTS Cargo Transportation Co., Ltd.*	100%	Provision of freight forwarding and cargo transportation services and investment holding	980,000
1 January 2004	Shenzhen China Travel Service (Cargo) Hong Kong Ltd.	51%	Provision of freight forwarding and cargo transportation services	—**
10 August 2004	China Heaven	50%	Production of art performances	9,167,000

Further details of the acquisitions from subsidiaries of CTS (Holdings) are included in notes 42(b) and (c) to the financial statements.

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

(b) Acquisition of subsidiaries (Continued)

Since its acquisition, the acquired subsidiaries contributed HK\$78,093,000 to the Group's turnover and loss of HK\$1,616,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004. In the case of the jointly-controlled entity and associate which were reclassified to subsidiaries, these results exclude the former jointly-controlled entity's and associate's contribution to the results prior to their becoming subsidiaries.

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

** *This company is a joint venture company formed by Shenzhen CTS Cargo Transportation Co., Ltd. and China Travel Service (Cargo) Hong Kong Limited, a wholly-owned subsidiary of the Company.*

(c) Liquidation of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Cash and bank balances	3,235	—
Prepayment and other debtors	13,115	—
Minority interests	(7,333)	—
	9,017	—
Satisfied by:		
Cash	9,017	—

An analysis of the net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	9,017	—
Cash and bank balances realised and included in the cash consideration	(3,235)	—
Net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries	5,782	—

The results of the subsidiary liquidated during the year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

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31 December 2004

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

(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\$180,000 (2003: HK\$1,931,000).

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
			2004	2003	
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	100	100	Travel and air ticketing agent
Chadwick Developments Limited <i>(Note)</i>	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Chance <i>(Note)</i>	British Virgin Islands	1 share of US\$1	100	100	Provision of financial services
China Heaven	PRC	RMB10,000,000	65.3	15.3	Production of art performances
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

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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
			2004	2003	
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 (Cargo) Logistics Centre Limited (Formerly known as Rida Company Limited)	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Provision of logistic services
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\$128,700,000	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 service 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
China Travel International (Shandong) Ltd.*	PRC	RMB3,000,000	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
			2004	2003	
China Travel International (Shanxi) Travel Service Co., Ltd.	PRC	RMB5,000,000	71	–	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.*	PRC	RMB6,000,000	51	51	Tour operations
China Travel International (Xian) Ltd.*	PRC	RMB3,570,000	51	–	Tour operations
China Travel International (Xinjiang) Ltd.*	PRC	RMB4,000,000	51	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

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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
			2004	2003	
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
Coastline Development Limited	Hong Kong	2 ordinary shares of HK\$1@	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

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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
			2004	2003	
CTI Business Travel Management Company Ltd.**	PRC	RMB10,000,000	100	100	Air ticketing agent
CTI Cosco Travel Ltd.*	PRC	RMB26,287,300	70	70	Tour operations
CTS International Transportation Co., Ltd.*	PRC	RMB50,000,000	76	76	Freight forwarding
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
Metrocity Hotel Limited (Formerly known as 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
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	80	80	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
			2004	2003	
Princess Capital Limited (<i>Note</i>)	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen China Travel (Cargo) Hong Kong Ltd.	PRC	US\$1,500,000	100	49	Provision of freight forwarding and cargo transportation services
Shenzhen CTS Cargo Transportation Co., Ltd.	PRC	RMB5,000,000	100	–	Provision of freight forwarding and cargo transportation services and investment holding
Shenzhen The Splendid China Development Co., Ltd.* (<i>Note</i>)	PRC	RMB184,000,000	51	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* (<i>Note</i>)	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

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
			2004	2003	
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	100	100	Property investment holding and hotel operations
Special Asia Travel AB#	Sweden	SEK100,000	100	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
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.

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Note: These subsidiaries are 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.

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,611	2,911	1,724	2,024
Corporate guarantees given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	–	–	108,636	85,783
Corporate guarantee given to banks in connection with credit facilities granted to and utilised by subsidiaries	–	–	700,000	1,160,000
Guarantees given to banks in connection with facilities granted to and utilised by an associate	90,392	94,388	90,392	94,388
Guarantees given to banks in connection with banking facilities granted to and utilised by an investee company	–	18,329	–	–
Guarantee given to suppliers in connection with credit facilities granted	1,801	2,251	–	–
	94,804	117,879	900,752	1,342,195

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and equipment (note 14 to the financial statements) under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to three years, and those for equipment for terms ranging from one to two years. The terms of the leases generally require the tenants to pay security deposits.

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40. OPERATING LEASE ARRANGEMENTS (Continued)

(a) As lessor (Continued)

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	
	2004 HK\$'000	2003 HK\$'000
Land and buildings:		
Within one year	9,219	6,010
In the second to fifth years, inclusive	5,831	2,315
	15,050	8,325
Equipment:		
Within one year	1,023	—
In the second to fifth years, inclusive	298	—
	1,321	—

(b) As lessee

The Group leases certain of its office premises, plant and machinery and motor vehicles under operating lease arrangements. Leases for premises are negotiated for terms ranging from 1 to 18 years, and those for plant and machinery and motor vehicles for terms ranging from two to six years.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Land and buildings:		
Within one year	38,236	28,238
In the second to fifth years, inclusive	74,387	51,200
After five years	59,571	73,864
	172,194	153,302
Plant and machinery and motor vehicles:		
Within one year	370	642
In the second to fifth years, inclusive	405	639
	775	1,281

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31 December 2004

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Properties under development:				
Contracted, but not provided for	651,166	110,833	561	1,806
Authorised, but not contracted for	824,115	1,392,159	819,444	1,370,485
	1,475,281	1,502,992	820,005	1,372,291
Plant and equipment and motor vehicles:				
Contracted, but not provided for	14,644	17,549	743	—
Authorised, but not contracted for	7,725	11,510	—	—
	22,369	29,059	743	—
Leasehold improvements:				
Contracted, but not provided for	3,090	23,982	—	—
Authorised, but not contracted for	—	1,017	—	—
	3,090	24,999	—	—
Unpaid capital contribution to jointly-controlled entities:				
Contracted, but not provided for	777	3,326	—	—
Unpaid capital contribution to investee companies:				
Contracted, but not provided for	—	1,710	—	—
Unpaid capital contribution to subsidiaries:				
Contracted, but not provided for	—	—	651,460	—
Others:				
Contracted, but not provided for	—	7,956	—	—

Notes to Financial Statements

31 December 2004

41. COMMITMENTS (Continued)

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

	2004 HK\$'000	2003 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

(a) 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	
		2004 HK\$'000	2003 HK\$'000
Paid or payable to:			
(1) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,512	1,823
(2) China Travel Hip Kee Godown Hong Kong Limited	Storage charges	330	1,087
(3) CTS (Holdings)	Office rental	10,588	13,811
(4) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	10,467	9,487
(5) Tai Sun Services Company Limited	Stevedoring services and coolie charges	1,214	2,002
(6) China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	5,717	2,451
(7) Shenzhen Windsor Square Industrial Co., Ltd.	Hotel room rental	1,057	1,373
Received or receivable from:			
(8) China Travel Hip Kee Godown Hong Kong Limited	Application service provider services	312	313
(9) CTS (Holdings)	Hotel room rental	162	545
(10) CTS (Holdings)	Travel permit administration income (Note)	281,068	241,490

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42. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Name of company	Nature of transaction	Group	
		2004 HK\$'000	2003 HK\$'000
Received or receivable from: (Continued)			
(11) CTS (Holdings)	Sale of computer equipment and commission/sale of visa materials	355	458
(12) CTS (Holdings)	Application service provider services	248	374
(13) CTS (Holdings)	Advertising and printing	606	293
(14) China Travel Computer Service H.K. Limited	Application service provider services	12,938	10,002
(15) China Travel Service (Thailand) Co. Ltd.	Sale of tourism services /products	867	897
(16) China Travel Service, Inc.	Sale of tourism services /products	1,096	105
(17) China Travel System (M) Sdn. Bhd.	Sales of tourism services /products	–	439
(18) Tai Sun Services Company Limited	Management service income	652	652
(19) Hong Kong China Travel Services Investment (China) Ltd.	Sales of computer equipment and application service provider services	45	253

The above transactions were carried out at market prices 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.

- (b) As detailed in the Company's announcement dated 10 August 2004 (the "Announcement"), the Company acquired a subsidiary, China Heaven, from a subsidiary of CTS (Holdings) for RMB9,167,000. Further details of the transaction are included in note 37(b) to the financial statements and the Announcement.
- (c) As detailed in the Announcement, China Travel International Ltd., a wholly-owned subsidiary of the Company, acquired a property located in Beijing, the PRC, from a subsidiary of CTS (Holdings) for RMB23,408,000, with reference to a valuation based on its open market value performed by RHL Appraisal Ltd., independent professional qualified valuers, as at 24 November 2003.

Notes to Financial Statements

31 December 2004

43. POST BALANCE SHEET EVENTS

- (a) On 2 February 2005, China Travel Service (Hong Kong) Limited, a wholly-owned subsidiary of the Group, entered into a conditional agreement to dispose of its 100% interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada to an independent third party for an aggregate consideration of HK\$500 million (comprising cash consideration of HK\$250 million and convertible notes of HK\$250 million). There is no material gain or loss on the disposal.
- (b) On 4 April 2005, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement to dispose of its 100% interest in Shanghai Huajian Import-Export Company to seven individuals who are either senior management or directors of China Travel Service International Transportation Company Limited, a 76% owned subsidiary of the Group, for an aggregate consideration of approximately HK\$13.5 million (RMB14.3 million). The completion of the transaction is conditional, inter alia, upon the approval from the State Administration for Industry and Commerce. There is no material gain or loss on the disposal. Details of the transaction are set out in the Company's announcement dated 8 April 2005.
- (c) Subsequent to the balance sheet date and up to the date of approval of these financial statements, the Bonds of HK\$316,262,000 (US\$40,550,000) were exercised at the conversion price of HK\$1.84, resulting in the issuance of 171,881,306 ordinary shares of HK\$0.10 each of the Company. In addition, 4,591,000 ordinary shares of HK\$0.10 each of the Company were issued for cash at a subscription price of HK\$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$6,923,000.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2005.