1. CORPORATE INFORMATION

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

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

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

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

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

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

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 33 of the Annual Report in place of the consolidated statement of recognised gains and losses that was previously required.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

Subsidiaries are companies, other than jointly controlled entities or associates, in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their boards of directors. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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

Joint venture companies

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

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

A joint venture company is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

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

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly controlled entities

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

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

Associates

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

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

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

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

Goodwill

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

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

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

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

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

Negative goodwill

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

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

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

Negative goodwill *(continued)*

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

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

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

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

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

Impairment of assets

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

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

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

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

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

Fixed assets and depreciation

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

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

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

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

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

Investment properties

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

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

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

Hotel properties

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

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

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

Properties under development

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

Property held for sale

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

Leased assets

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

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

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

Leased assets *(continued)*

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

Long term investments

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

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

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

Short term investments

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

Inventories

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

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

Deferred tax

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

Foreign currencies

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

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

Foreign currencies *(continued)*

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

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

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

Borrowing costs

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

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

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

Employee benefits

Paid leave carried forward

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

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

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

Employee benefits *(continued)*

Employment Ordinance long service payments

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

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

Retirement benefits scheme

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

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

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

Provisions

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

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

Revenue recognition

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

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

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

Revenue recognition *(continued)*

(b) from the rendering of freight forwarding, passenger transportation services, travel-related services and hotel services, when the services are rendered;

(c) from the rendering of tour services, based on the date of tour departure;

(d) income related to scenic spots, when the admission tickets are sold;

(e) income from the sale of golf club memberships, on a time proportion basis over the membership period;

(f) rental income, on a time proportion basis over the lease terms;

(g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(h) dividends, when the shareholders' right to receive payment has been established.

Deferred income

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

Related parties

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

Cash and cash equivalents

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

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

Dividends

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

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

4. SEGMENT INFORMATION

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

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

(a) the passenger transportation segment engages in the provision of land transportation services to individuals between Hong Kong and the PRC;

(b) the tourist attraction operations segment is the operation of theme parks in Shenzhen;

(c) the freight forwarding segment engages in the provision of export, re-export freight and logistic services between Hong Kong and the PRC; and sea and freight forwarding to overseas;

(d) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong and Macau;

(e) the travel and travel-related operations segment engages in the provision of tour and travel-related services in Hong Kong, the PRC, South East Asia, the United States of America and other countries in the European Union;

(f) the golf club operations segment is to provide comprehensive facilities to individual or corporate members of the golf club in Shenzhen; and

(g) the corporate and others segment comprises the Group's management services business, which provides management services to Group companies together with corporate income and expense items.

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

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

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

Group

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Passenger transportation services 2001 *HK$'000*	Tourist attraction operations 2001 *HK$'000*	Freight forwarding and transportation services 2001 *HK$'000*	Hotel operations 2001 *HK$'000* *(Restated)*	Travel and travel-related operations 2001 *HK$'000* *(Restated)*	Golf club operations 2001 *HK$'000*	Power generation 2001 *HK$'000*	Corporate and others 2001 *HK$'000*	Eliminations 2001 *HK$'000*	Consolidated 2001 *HK$'000* *(Restated)*
Segment revenue:										
Sales to external customers	96,422	425,570	299,721	250,693	1,218,269	38,378	–	182	–	2,329,235
Intersegment revenue	1,706	–	182	17,574	8,579	–	–	2,868	(30,909)	–
Other revenue and gains	544	11,654	9,186	5,319	8,880	2,400	150	22	–	38,155
Total	98,672	437,224	309,089	273,586	1,235,728	40,778	150	3,072	(30,909)	2,367,390
Segment results	11,717	158,019	22,493	14,132	239,441	1,720	150	(33,251)	–	414,421
Interest income and unallocated gains										143,031
Unallocated expenses										(233)
Profit from operating activities										557,219
Finance costs										(66,579)
Write-back of provisions for diminutions in values of interests in jointly controlled entities and associates										3,383
Gain on disposal of an associate										53,043
Share of profits and losses of:										
Jointly controlled entities	–	–	(1,833)	–	–	–	247,115	–	–	245,282
Associates	33,700	–	309	–	–	–	–	–	–	34,009
Profit from ordinary activities before tax										826,357
Tax										(103,364)
Profit before minority interests										722,993
Minority interests										(77,821)
Net profit from ordinary activities attributable to shareholders										645,172

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Passenger transportation services 2001 *HK$'000* *(Restated)*	Tourist attraction operations 2001 *HK$'000* *(Restated)*	Freight forwarding and trans-portation services 2001 *HK$'000* *(Restated)*	Hotel operations 2001 *HK$'000* *(Restated)*	Travel and travel-related operations 2001 *HK$'000* *(Restated)*	Golf club operations 2001 *HK$'000*	Power generation 2001 *HK$'000*	Corporate and others 2001 *HK$'000*	Eliminations 2001 *HK$'000*	Consolidated 2001 *HK$'000* *(Restated)*
Segment assets	70,050	807,305	327,106	3,923,435	2,561,465	349,273	–	1,127,739	–	9,166,373
Interests in jointly controlled entities	–	–	22,210	–	–	–	1,006,503	–	–	1,028,713
Interests in associates	433,015	2,827	681	–	(1,932)	–	–	312	–	434,903
Unallocated assets										3,737
Bank overdrafts included in segment assets	–	–	–	–	4,666	–	–	–	–	4,666
Total assets										10,638,392
Segment liabilities	7,383	127,311	185,800	50,557	373,122	64,011	–	11,098	–	819,282
Unallocated liabilities										1,471,637
Bank overdrafts included in segment assets	–	–	–	–	4,666	–	–	–	–	4,666
Total liabilities										2,295,585
Other segment information:										
Capital expenditure	14,760	112,369	11,233	673,033	671,884	5,642	–	674	–	1,489,595
Depreciation and amortisation	10,053	59,950	6,314	1,801	48,899	12,194	–	2,036	–	141,247
Impairment losses recognised in the profit and loss account	–	–	1,492	–	–	–	–	–	–	1,492
Impairment losses reversed in the profit and loss account	–	2,827	2,048	–	–	–	–	–	–	4,875
Other non-cash expenses	71	3,705	682	544	2,083	–	–	1,018	–	8,103
Surplus on revaluation recognised directly in equity	–	–	–	22,838	–	–	–	–	–	22,838

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group

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

5. TURNOVER, REVENUE AND GAINS

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

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

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

6. PROFIT FROM OPERATING ACTIVITIES

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

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

6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

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

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

*** *At 31 December 2002, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).*

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

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

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

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