

## 34. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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## 35. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds (Note a) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000
At 1 January 2001								
As previously reported	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Prior year adjustments:								
SSAP 34 "Employee benefits" – note 28	–	–	–	–	–	–	(12,702)	(12,702)
Recognition of negative goodwill upon impairment of underlying assets (Note c)	–	(451,048)	–	–	–	–	451,048	–
As restated	4,937,755	(233,733)	(122,000)	236,730	44,680	(5,939)	1,125,387	5,982,880
Premium on issue of new shares on exercise of convertible bonds, convertible notes, share options and bonus warrants	981,678	–	–	–	–	–	–	981,678
Exchange realignments	–	–	–	–	–	3,542	–	3,542
Surplus on revaluation	–	–	–	22,838	–	–	–	22,838
Net profit for the year (as restated)	–	–	–	–	–	–	645,172	645,172
Underaccrual of 2000 final dividend – note 12	–	–	–	–	–	–	(16,226)	(16,226)
2001 interim dividend – note 12	–	–	–	–	–	–	(189,644)	(189,644)
Reclassification of a long term investment to interests in a subsidiary	–	–	122,000	–	–	–	–	122,000
Proposed 2001 final dividend – note 12	–	–	–	–	–	–	(168,809)	(168,809)
Transfer from retained profits	–	–	–	–	10,332	–	(10,332)	–
Transfer to retained profits (Note b)	–	(72,198)	–	–	–	–	72,198	–
Realisation of reserves on disposal of an associate	–	15,541	–	–	–	–	–	15,541
At 31 December 2001 (as restated)	5,919,433	(290,390)	–	259,568	55,012	(2,397)	1,457,746	7,398,972
Reserves retained by:								
Company and subsidiaries (as restated)	5,919,433	(237,608)	–	259,568	55,012	(2,397)	1,411,187	7,405,195
Jointly controlled entities	–	(3,693)	–	–	–	–	227,469	223,776
Associates (as restated)	–	(49,089)	–	–	–	–	(180,910)	(229,999)
At 31 December 2001 (as restated)	5,919,433	(290,390)	–	259,568	55,012	(2,397)	1,457,746	7,398,972

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## 35. RESERVES (continued)

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

# Notes to Financial Statements

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## 35. RESERVES (continued)

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

Notes:

- (a) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to the enterprise expansion reserve funds which are restricted as to use.
- (b) Amount represented the release from capital reserve (which was transferred to capital reserve in 2000 upon deemed disposal of interests in an associate) into retained profits upon disposal of this associate in 2001.

## 35. RESERVES (continued)

Notes: (continued)

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

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

## 36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Adoption of SSAP 15 (Revised)

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

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

# Notes to Financial Statements

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

### (b) Restricted cash and cash equivalent balances

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

### (c) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	206	1,146,540
Property held for sale	–	92,000
Inventories	–	6,326
Cash and bank balances	6,100	125,521
Trade receivables and other receivables	10,444	189,595
Due from ultimate holding company	–	88,394
Due from fellow subsidiaries	–	71,969
Trade payables, other payables and accruals	(12,088)	(586,765)
Due to fellow subsidiaries	–	(206,483)
Bank and other borrowings	–	(888)
Bank overdrafts	–	(4,761)
Tax payable	(102)	(16,021)
Deferred tax	–	(2,069)
Minority interests	–	(12,881)
	<b>4,560</b>	890,477
Goodwill on acquisition	–	1,412,959
Negative goodwill on acquisition	–	(202,779)
	<b>4,560</b>	2,100,657
Accounted for and satisfied by:		
Cash	4,560	1,190,543
Convertible bonds	–	600,000
Interests in an associate	–	76,957
Gain on disposal of an associate	–	53,043
Reclassification to interests in subsidiaries from long term investments	–	58,114
Release from investment revaluation reserve	–	122,000
	<b>4,560</b>	2,100,657

# Notes to Financial Statements

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

### (c) Acquisition of subsidiaries (continued)

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

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

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

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

The subsidiaries acquired in the prior year contributed HK\$1,086,886,000 to the Group's turnover and HK\$192,920,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

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

### (d) Disposal of a subsidiary

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

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

### (d) Disposal of a subsidiary (continued)

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

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

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

## 37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Chadwick Developments Limited (Note)	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Provision of printing and advertising agency services
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Air ticketing agent
CTS International Transportation Co., Ltd. (Formerly known as China Trading Service Co., Ltd.)*	PRC	RMB26,000,000	76	76	Freight forwarding

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## 37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
China Travel International Ltd. (Note)	PRC	RMB50,000,000	100	100	Tour operations
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	70	70	Passenger transportation
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	100	100	Tour operations
China Travel Service (Cargo) Hong Kong Limited (Note)	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Provision of freight forwarding and transportation services
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Passenger transportation
China Travel and Trading (Deutschland) GmbH	Germany	EURO 125,267	100	100	Travel and air ticketing agent
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK\$1@	100	80	Trading of computer equipment, provision of computer services and investment holding
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. (Note)	PRC	US\$29,980,000	100	–	Operation of a hot spring resort
China Travel Net Hong Kong Limited	Hong Kong	150,000 ordinary shares of HK\$1@	100	80	Operation of a website
China Travel Service (Australia) Pty. Ltd.	Australia	AUD3,319,932	100	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.	Canada	CAD2,685,000	100	100	Travel and air ticketing agent

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## 37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
China Travel Service (France) SARL#	France	EURO220,000	100	100	Travel and air ticketing agent
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@ 1,000,000 non-voting deferred shares of HK\$100@	100	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.	Japan	¥95,000,000	100	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.	Korea	WON500,000,000	100	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd.	United Kingdom	486,000 ordinary shares of £1@ 1,072,000 preference shares of £1@	100	100	Travel and air ticketing agent
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	96.2	96.2	Dormant
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
CTII Worldwide Limited	British Virgin Islands/ Hong Kong	641,000 ordinary shares of US\$1@	–	70	Provision of freight forwarding and transportation services
Glading Development Limited	Hong Kong	2 ordinary shares of HK\$1@ 2 non-voting deferred shares of HK\$1@	100	100	Property investment holding and hotel operations
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations

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## 37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	100	100	Investment holding
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
Princess Capital Limited (Note)	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Dormant
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen The Splendid China Development Co., Ltd.* (Note)	PRC	RMB184,000,000	51	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* (Note)	PRC	US\$29,500,000	51	51	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1@	100	80	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.	PRC	RMB100,000,000	100	80	Golf club operations
Smart Concord Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOPI,000,000	100	100	Travel and air ticketing agent

# Notes to Financial Statements

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## 37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

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

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

Note: These subsidiaries were directly owned by the Company.

\* These subsidiaries are Sino-foreign equity joint ventures.

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

## Notes to Financial Statements

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### 38. CONTINGENT LIABILITIES

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

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

### 39. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 2 to 5 years. The terms of the leases generally also require the tenants to pay security deposits.

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

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

# Notes to Financial Statements

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## 39. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

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

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

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

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## 40. COMMITMENTS

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

### (a) Capital commitments

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

# Notes to Financial Statements

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## 40. COMMITMENTS (continued)

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

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

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

## 41. RELATED PARTY TRANSACTIONS

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

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

# Notes to Financial Statements

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## 41. RELATED PARTY TRANSACTIONS (continued)

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

# Notes to Financial Statements

31 December 2002

## 41. RELATED PARTY TRANSACTIONS (continued)

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

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

Notes:

- (a) The hotel management fees payable to China Travel Hotel Management Services Hong Kong Limited during the year was less than 3% of the audited consolidated net tangible assets of the Group.
- (b) The rental charge for the renting of office premises was determined with reference to the prevailing market rate.
- (c) The office decoration and maintenance expenses were determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (d) The insurance brokerage charges were determined according to the prices for these services which are substantially in line with those offered to independent third parties.
- (e) The stevedoring services fee and coolie charges paid or payable was determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (f) The sightseeing cruiser services fee payable to a jointly controlled entity of CTS (Holdings) was determined according to the prices which are substantially in line with those offered to independent third parties.
- (g) The application service provider service charges receivable were determined according to the prices which are substantially in line with those offered to independent third parties.
- (h) The sales of tourism services/products were made according to the published prices and conditions offered to the major customers of the Group.
- (i) The rental income for the leasing of an office unit was determined with reference to the prevailing market rate.
- (j) The travel permit administration income was determined in accordance with the terms of an agency agreement entered into between parties and charged at 45% of the gross fee revenue from travel permit applications. The fee did not exceed 20% of the audited consolidated turnover of the Group.

# Notes to Financial Statements

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## 41. RELATED PARTY TRANSACTIONS *(continued)*

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

## 42. COMPARATIVE AMOUNTS

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

## 43. APPROVAL OF FINANCIAL STATEMENTS

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