



CORPORATE INFORMATION

DIRECTORS

Mr. Che Shujian (*Chairman*)

Mr. Zhang Xuewu (*Vice Chairman*)

Mr. Chen Shoujie

Mr. Zheng Hongqing

Mr. Zheng Heshui

Mr. Lo Sui On

Mr. Shen Zhuying (*Managing Director*)

Mr. Ng Chi Man, Michael

Mr. Zhang Fengchun

Dr. Yeh Meou-tsen, Geoffrey *#

Mr. Yeh V-nee *#

(Alternate Director to Dr. Yeh Meou-tsen, Geoffrey)

Dr. Fong Yun Wah *

Mr. Wong Man Kong, Peter *#

* *Independent Non-Executive Directors*

members of the audit committee

COMPANY SECRETARY

Woo Wai See, Alice, Solicitor

REGISTERED OFFICE

12th Floor, CTS House

78-83 Connaught Road Central

Hong Kong

AUDITORS

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

SHARE REGISTRAR

Tengis Limited

4th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

LEGAL ADVISER

Johnson Stokes & Master

16-19th Floors

Prince's Building

10 Chater Road

Central

Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited

BNP Paribas

Hang Seng Bank Limited

The Development Bank of Singapore Limited

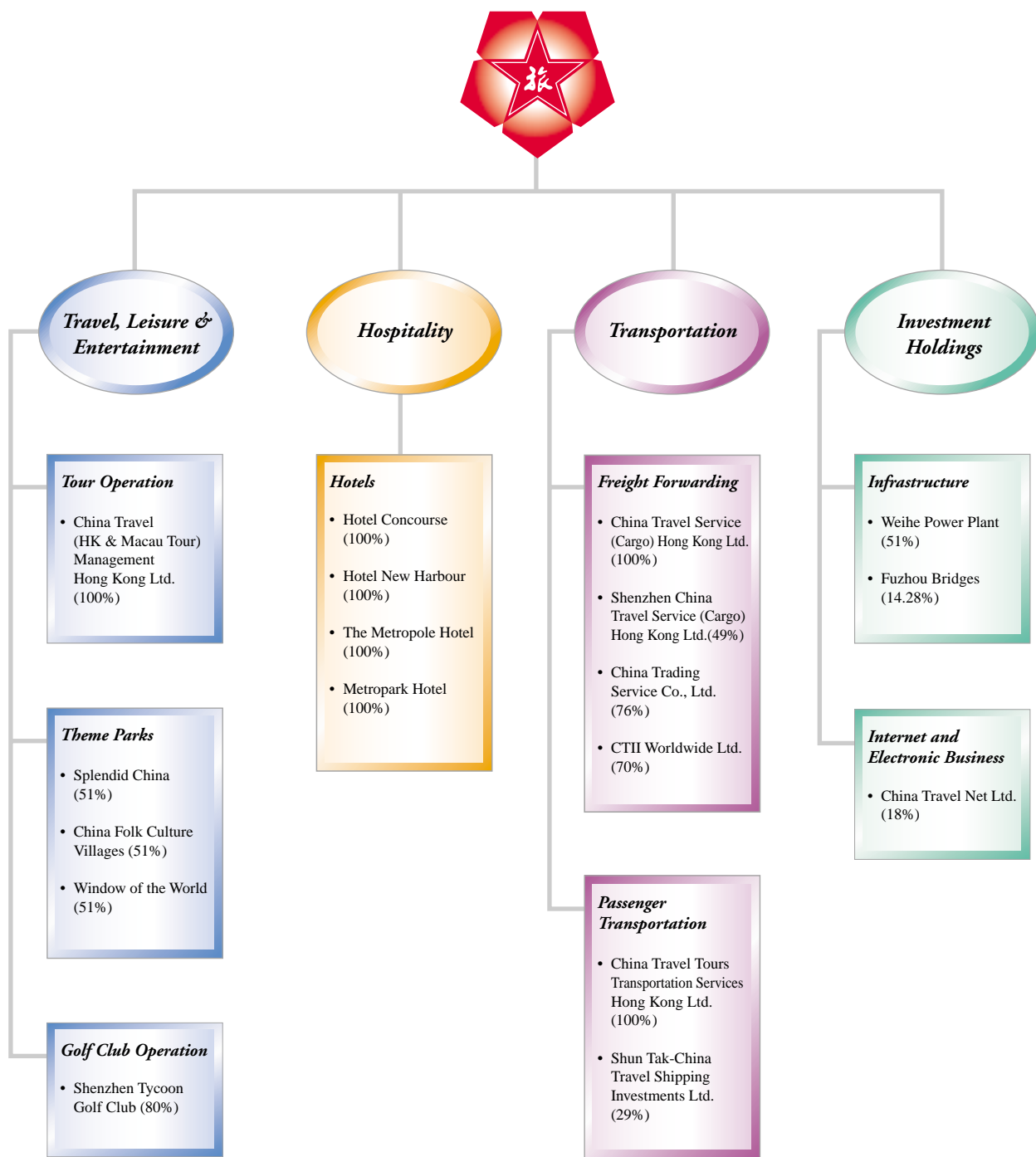
The Hongkong and Shanghai Banking

Corporation Limited

WEBSITE

<http://www.irasia.com/listco/hk/ctii>

MAJOR OPERATIONS



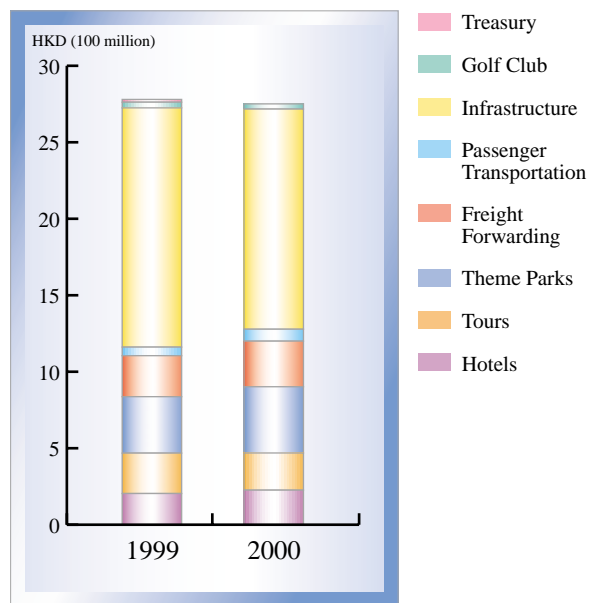
FINANCIAL REVIEW

FIVE YEAR FINANCIAL SUMMARY

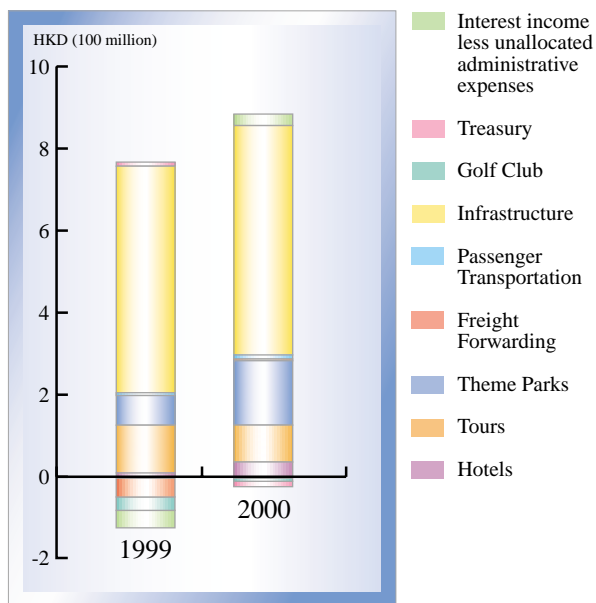
	2000 HK'000	1999 HK'000	1998 HK'000	1997 HK'000	1996 HK'000
Results					
Turnover	<u>2,751,390</u>	<u>2,766,954</u>	<u>1,566,007</u>	<u>2,107,377</u>	<u>1,452,748</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>150,919</u>	<u>250,132</u>	<u>(317,358)</u>	<u>376,140</u>	<u>264,447</u>
Dividends	<u>130,044</u>	<u>65,022</u>	<u>—</u>	<u>105,332</u>	<u>93,696</u>
Assets and liabilities					
Total assets	<u>8,524,603</u>	<u>11,666,428</u>	<u>11,384,745</u>	<u>9,911,399</u>	<u>7,057,917</u>
Total liabilities	<u>2,203,909</u>	<u>5,305,005</u>	<u>5,408,282</u>	<u>2,705,351</u>	<u>3,294,322</u>
Total liabilities (excluding minority interests)	<u>1,886,658</u>	<u>3,999,617</u>	<u>4,299,080</u>	<u>2,520,540</u>	<u>3,069,309</u>

FINANCIAL REVIEW

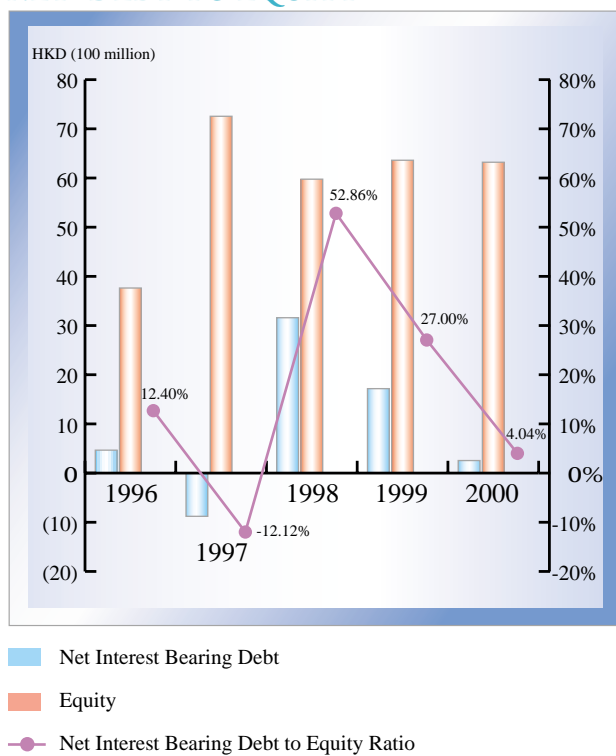
TURNOVER



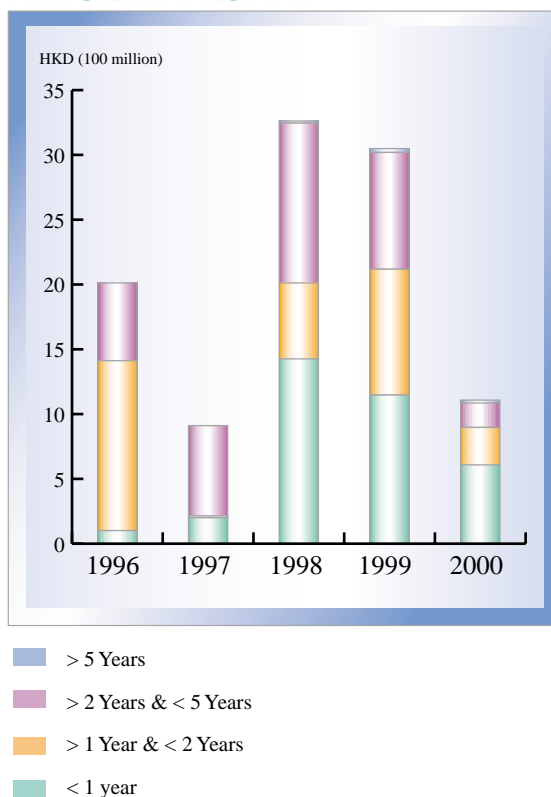
OPERATING PROFIT



NET DEBT TO EQUITY



MATURITY PROFILE



FINANCIAL RATIOS HIGHLIGHTS

	2000	1999
Profit & loss account ratios		
Interest coverage ratio	3.81	3.43
Earnings per share (cents)	4.64	7.69
Dividend per share (cents)	4.00	2.00
Dividend payout ratio (%)	86.21	26.01
Balance sheet ratios		
Current ratio	1.12	1.13
Quick ratio	1.11	1.08
Assets coverage ratio	4.52	2.92
Total debt to capitalization ratio	0.22	0.34
Net assets value per share (HK\$)	1.94	1.96
Net interest-bearing debt to equity	0.04	0.27
Cash flow statements ratios		
Capital expenditures to depreciation ratio	0.56	0.31
Capital expenditures coverage ratio	4.96	8.04
Depreciation to operating cash flow (%)	36.33	39.49
Cash flow from operation per share (HK\$)	0.38	0.38
Rate of return ratios		
Return on average equity (%)	2.38	4.05
Return on total capital and borrowings (%)	8.06	6.20
Total debt to cash flow ratios		
Total debt to operating cash flow	1.52	3.20
Market price ratios		
Dividend yield		
Year low (%)	1.68	1.50
Year high (%)	5.13	2.90
Price to earning ratio		
Year high	51.19	17.30
Year low	16.81	8.97

DIRECTORS

Mr. Che Shujian, aged 58, was appointed Chairman of the Company in June 2000. He graduated from the Department of Economy of Jilin University in China and was entitled Senior Engineer of Economic Management. He has been engaged in economic development work since 1968. Mr. Che was the dean of the Designing Laboratory, the deputy director and then the director of the Northeast Academy of the China Civil Engineering Institute during 1968 to 1991. He was the director of the Administrative Affairs Office of the Ministry of Construction and Development of the State Council of China during 1991 to 1998. He took charge of the management of many large state-owned enterprises under the Ministry during that time. He was then a specially appointed investigator of the State Council of China during 1998 to 2000. Mr. Che has extensive experience in corporate management and economic development. He joined China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”) as chairman in April 2000.

Mr. Zhang Xuewu, aged 47, was appointed Vice Chairman of the Company in February 2001. He holds a Master degree in Business Administration and is a Senior Economist. He was the vice president and a director of Minmetals UK Ltd., the senior vice president of China National Metals & Minerals Import and Export Corp. and the first president of Minmetals Development Co. Ltd., a listed company. Mr. Zhang has extensive management and overseas working experience. He joined CTS (Holdings) in January 2001 as vice chairman and general manager. Mr. Zhang holds chairmanships and directorships in various subsidiaries and joint-venture companies of CTS (Holdings).

Mr. Chen Shoujie, aged 56, was appointed Executive Director of the Company in June 2000. He graduated from Xian Communication University and has extensive experience in business management. Prior to joining the Group, he was the plant manager of the Main Plant of Lanzhou Oil Refinement and Chemical Works in China. He is also a director and deputy general manager of CTS (Holdings) and holds directorships in various subsidiaries of CTS (Holdings).

Mr. Zheng Hongqing, aged 53, was appointed Executive Director of the Company in January 1997. He graduated from the Planning and Statistics Department of the People’s University of China and holds a Master Degree in Economics. He has over 20 years of experience in economic development work and is a Qualified Senior Economist. Prior to joining the Group, he was a committee member of the State Commission for Restructuring Economic System and director of the Comprehensive Planning Department and general manager of the China Container Corporation. He is also a director and deputy general manager of CTS (Holdings) and holds directorships in various subsidiaries of CTS (Holdings).

Mr. Zheng Heshui, aged 50, was appointed Executive Director of the Company in September 1998. He graduated from the Xiamen University and has been engaged in economic development work for over 20 years. Mr. Zheng is a director and deputy general manager of CTS (Holdings) and holds chairmanships and directorships in various subsidiaries of CTS (Holdings) and the Group.



MANAGEMENT PROFILE

Mr. Lo Sui On, aged 50, was appointed Executive Director of the Company in June 2000. He has over 29 years' experience in tourism management since he joined China Travel Service (Hong Kong) Limited in 1971. He was the executive director and general manager of Shenzhen The Splendid China Development Co., Limited from 1990 to 1996. He was also appointed executive director and general manager of China Travel (HK & Macau Tour) Management Hong Kong Limited in September 1993. He is currently the director and general manager of China Travel Service (Hong Kong) Limited and is in charge of CTS (Holdings) group's tourism service. He is also a director and deputy general manager of CTS (Holdings) and holds directorships in various subsidiaries of CTS (Holdings).

Mr. Shen Zhuying, aged 53, was appointed Executive Director and General Manager of the Company in October 2000. He has over 20 years' experience in trading and business management. He was Executive Director and General Manager of the Company from 1992 to 1997 and has extensive experience in managing listed company. He is also a director of CTS (Holdings) and holds directorships in various subsidiaries of CTS (Holdings) and the Group.

Mr. Ng Chi Man, Michael, aged 42, was appointed Executive Director and Deputy General Manager of the Company in November 2000. He is a Certified Public Accountant licensed in the United States and a Fellow member of the Hong Kong Society of Accountants. He holds a Master degree in Business Administration from St John's University in New York. He has worked for the Company in the same capacity during the period from 1996 to 1998. He was on the board of several listed Hong Kong companies including Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited) and Citybus Group Limited. He has many years of corporate and financial management experience. He was the senior management in several other listed Hong Kong companies including Consolidated Electric Power Asia Limited and Hong Kong Construction (Holdings) Limited. Mr. Ng holds directorships in various subsidiaries of the Group.

Mr. Zhang Fengchun, aged 36, was appointed Executive Director of the Company in June 2000. He graduated from the People's University of China in the discipline of Accountancy and is a Certified Public Accountant in China. He has many years of experience in investment planning, finance operation and management. He joined CTS (Holdings) in January 1994. He is also a director of CTS (Holdings) and holds directorships in various subsidiaries of CTS (Holdings).

Dr. Yeh Meou-tsen, Geoffrey*#, S.B.S., M.B.E., J.P., D.C.S., aged 70, was appointed an Independent Non-Executive Director of the Company in January 2001. Dr. Yeh obtained a Master degree (in Civil Engineering) from the Graduate School of Arts & Sciences of Harvard University. He is the chairman of Hsin Chong Construction Group Ltd. and also a director of Hysan Development Company Limited, listed companies in Hong Kong. Dr. Yeh was the chairman of The Hong Kong Futures Exchange Ltd. until its merger into the Hong Kong Exchanges and Clearing Limited. He is the father of Mr. Yeh V-nee.

Mr. Yeh V-nee*#, B.A., J.D. American Attorney-at-law, aged 42, was appointed an Alternate Director to Dr. Yeh Meou-tsen, Geoffrey of the Company in January 2001. He is the deputy chairman of Hsin Chong Construction Group Ltd.; co-founder of Value Partners Limited, VP Private Equity Limited and Orient Partners, the last is a real estate partnership with the Blackstone Group of the United States. Mr. Yeh is a member of the Listing Committee of The Stock Exchange of Hong Kong Ltd. and a member of the Listing Committee of the China Securities Regulatory Commission. He also sits on the Takeover & Mergers Panel and the Takeover Appeals Committee of Securities and Futures Commission. He is also a director of i-Onyx Limited, Guangdong Brewery Holdings Limited and Next Media Limited, listed companies in Hong Kong. Mr. Yeh is the son of Dr. Yeh Meou-tsen, Geoffrey.

Dr. Fong Yun Wah*, S.B.S., M.B.E., J.P., aged 76, was appointed an Independent Non-Executive Director of the Company in December 1998. He is the chairman of Hip Shing Hong (Holdings) Co., Ltd., Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is the Honorary Adviser of the Real Estate Developers Association of Hong Kong, the Council Member of United College at the Chinese University of Hong Kong and a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region. Dr. Fong was awarded the Silver Bauhinia Star in 2000 by the Government of the Hong Kong Special Administrative Region. He has been appointed as Honorary Professor and Honorary Adviser of a number of universities in the People's Republic of China and has served as chairman and council member of many charitable organisations in Hong Kong.

Mr. Wong Man Kong, Peter*#, J.P., BSc, F.C.I.T., MRINA, aged 52, was appointed an Independent Non-Executive Director of the Company in December 1998. Mr. Wong graduated from the University of California at Berkeley in U.S.A. with a bachelor of science degree in Mechanical Engineering (Naval Architecture). He has over 25 years of industrial, commercial and public service experience, and served as managing director of Chung Wah Shipbuilding & Engineering (Holdings) Company Limited, chief executive of Hong Kong Ferry (Holdings) Co., Ltd., vice chairman of The Chinese General Chamber of Commerce, director of First Pacific Bank and Kowloon-Canton Railway Corporation and member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He is the chairman of M.K. Corporation Limited, chairman of North West Development Limited, director of Hong Kong Ferry (Holdings) Co., Ltd., director of Glorious Sun Enterprises Limited, and is currently serving as a Deputy to the People's Republic of China 9th National People's Congress.

* Independent Non-Executive Director

member of audit committee

MANAGEMENT

Mr. Jian Dian, aged 50, is the general manager of Shenzhen The World Miniature Co., Ltd. He graduated from Hunan Commercial College and has over 20 years' experience in corporate management and is qualified as a Senior Statistician. Prior to joining the Group, he was the deputy director of Hunan Taoyuan Commerce Bureau, the general manager of Hunan Province International Exchange Services Co., Ltd. and the general manager of Shenzhen Overseas Chinese Town Trading Co., Ltd.

Mr Zhang Yuanxing, aged 61, was appointed the director and general manager of Shenzhen The Splendid China Development Co., Limited in May 1996. He has over 20 years' experience in corporate management and administration and has extensive experience in travel industry. Prior to joining the Group, he was the general manager of China Travel Service Yunnan Office and the President of Florida Splendid China Inc. U.S.A.

Mr. Liu Jingping, Jean Paul, aged 41, is the general manager of Hotel Concourse. He graduated from the Lausanne Hotel School of Switzerland. He worked as deputy general manager in the Beijing City Hotel, general manager in 3I Apartments Building managed by Swiss Belhotel Group, deputy chief of Hotel Section in the China National Tourism Administration and deputy general manager in the China Travel Hotel Management Services (Hong Kong) Limited. He has over 17 years' professional experience in hotel administrative management.

Mr. Harold Yung, aged 49, was appointed as general manager of Metropark Hotel in 2000 and in charge of hotel projects. He was appointed by China Travel Service (Hong Kong) Limited as general manager of The Metropole Hotel and Development Director of China Travel Hotel Management Services (Hong Kong) Limited in 1988. He has over 30 years' experience in hotel industry. He graduated from the Travel Industry Management School of the University of Hawaii. Mr. Yung was designated as Certified Hotel Administrators by the Education Institute of The American Hotel & Motel Association in 1990. He has worked with major hotel and management companies in both Hong Kong and overseas, responsible for many hotel projects. He was formerly the first vice chairman (1990-1992) of Hong Kong Hotels Association and has been an executive committee member until 1999. He was invited to join the advisory members of Hotel & Tourism of Hong Kong Polytechnic University between 1995 and 1999.

Mr. Chan Ting Pong, Ricky, aged 55, joined CTS (Holdings) in 1990 and is the general manager of The Metropole Hotel. He had worked with Hyatt Regency Hong Kong, New World Hotel, Park Lane Hotel and Hongkong Hotel responsible for the hotel administrative management. He has over 30 years' experience in hotel and corporate administration and had been in charge of many hotel planning and renovation projects.

Mr. Sun Jiangang, aged 46, was appointed deputy general manager of China Travel (HK & Macau Tour) Management Hong Kong Limited in July 2000. He graduated from the Law Department of the People's University of China. He served in the Personnel Department of Overseas Chinese Office of The State Council of the PRC and joined China Travel (HK & Macau Tour) Management Hong Kong Limited in March 1997.

Mr. Feng Weixiang, aged 38, is the director and deputy general manager of China Travel Tours Transportation Services Hong Kong Limited ("CT Tours"), and the chairman and general manager of China Travel Express Limited. He holds a bachelor degree from the College of Arts of the Jinan University and is a graduate in Economics and Management. Prior to joining the CTS (Holdings) group, he worked in Strategy and Countermeasure Research Office of Guangzhou Soft-Science Co., Ltd. and the Economic Department of Policy Researching Office of Guangdong Province. He joined CTS (Holdings) as the manager of the General Manager Office, and the assistant general manager of the Corporate Management Department in 1994 and subsequently joined CT Tours in 1996. He has extensive experience in corporate management, economic research as well as the management experience in cross-border passenger transportation between Hong Kong and Guangdong Province and passenger transportation within the People's Republic of China.

Mr. Bai Bing, aged 44, has joined CTS (Holdings) since April 1996 and was appointed director and general manager of China Travel Service (Cargo) Hong Kong Limited in August 1998. He graduated from Chinese Literature Department of Heilongjiang College of Education. He was the deputy general manager of Beijing Capital Hotel, the general manager of Shenzhen Xingyuan Hotel and a director of Shenzhen Affair Office in Beijing. He has over 15 years' experience in travel and hotel industries as well as administrative management.

Mr. Wang Fei, aged 36, was appointed the director and general manager of Shenzhen Tycoon Golf Club Co., Limited in August 1999. He graduated from the Economics Department of Northern Jiao Tong University. He has served in The Government Authority of the PRC and Shenzhen Overseas Chinese Town Economic Development Company for several years. He was formerly the deputy general manager (1994-1996) of Lao Aviation (International) Company and joined China Travel Air Service Co. Limited as deputy general manager in February 1996.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of China Travel International Investment Hong Kong Limited and its subsidiaries ("the Group"), I am pleased to announce that the Group has recorded an operating profit of HK\$866,797,000 for the year ended 31 December 2000, which is an increase of 32.9% as compared with last year.

However, the Group has recorded an audited net profit attributable to shareholders of HK\$150,919,000 for the year ended 31 December 2000, which is a decrease of 39.7% as compared with last year. The decrease in net profit was principally attributable to the provision for the disposal of the Group's 23% interest in Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited) ("Vision Century"). As the operating profit of the Group for the year ended 31 December 2000 reflects an increase of 32.9% as compared with last year, the Board of Directors has resolved to recommend the payment of a final dividend of HK1 cent and a special dividend of HK2 cents per ordinary share. Furthermore, the Board of Directors has also resolved to recommend a bonus issue of warrants made in the proportion of one warrant for every five ordinary shares of HK\$0.10 each.

On the back of the continuous growth of the economy in the People's Republic of China ("PRC") and the recovery in the Hong Kong economy, the Group has benefited from the favorable financial and operating conditions. For the tour operation and leisure business, China Travel (HK & Macau Tour) Management Hong Kong Limited had received more than 200,000 tourists from Mainland China into Hong Kong and Macau in 2000. During the year, China Travel Tours Transportation Services Hong Kong Limited had also added new bus routes and strengthened its management control, which resulted in an increase in turnover of 37.9% as compared with last year despite fierce market competition. In 2000, Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd. accelerated their internal reorganisation programme in order to exercise effective cost control,





CHAIRMAN'S STATEMENT

have also offered new attractions and interactive programmes, and renovated the aged facilities to attract more than 4.5 million visitors, which is an increase of 13.9% as compared with last year. In addition to achieving satisfactory results, the three theme parks were rated as Class 1 theme parks in the PRC. The businesses of the three hotels of the Group in Hong Kong have bottomed out and recorded an average occupancy rate in excess of 80% during the year. The market share of Shun Tak-China Travel Shipping Investments Limited ("Shun Tak-CTS"), an associate of the Group, in the Hong Kong-Macau passenger ferry route was approximately 92% during the year. Despite the sharp increase in fuel price in 2000, Shun Tak-CTS still managed to record favorable results. Shenzhen Tycoon Golf Club has narrowed its loss in 2000 due to tightened management control. With respect to the freight forwarding business, despite the reduction in the volume of cargo transportation between Hong Kong and China, the compensating development in courier and air freight businesses has helped to maintain comparable operating results to those of last year. Due to the strengthening of management and effective cost controls, the net profit of Weihe Power Plant in Shaanxi Province had increased by 26.9% in 2000 as compared with last year. Weihe Power Plant has not only contributed significant profits to the Group, it has also provided the Group with substantial cash flows. In terms of quality of management and performance, Weihe Power Plant is a leading enterprise amongst its peers in the northwestern region of the PRC.

The Group has also achieved encouraging results through business restructuring and mergers and acquisitions. At the beginning of 2001, the Group had disposed of its 23% interest in Vision Century and received cash proceeds of approximately HK\$389 million which has significantly increased the Group's cash resources. Although the Group had to make a one-off provision for the loss on disposal, this has no adverse effect on the cash flow position of the Group.

The Group intended to dispose of its non-core and non-controlling of 40% holding in China Travel Roads and Bridges JV Investment Limited to its controlling shareholder, China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") for approximately a gain of HK\$53 million. The Group also intended to acquire quality assets including China Travel Service (Hong Kong) Limited with its overseas branches, China Travel Net Limited and Hotel Grandeur Macau from CTS (Holdings). The transactions will not only enhance the earnings of the Group, these will also strengthen its core travel businesses, re-emphasize its travel concept, complement its existing travel services, augment its competitive advantages, and lay down the solid foundation for the continuous development of the Group. The transactions are expected to be completed in the first half of 2001. After completion, the results of the acquired businesses will be included in the consolidated profit and loss account of the Group in 2001 starting from its effective date of acquisition.



CHAIRMAN'S STATEMENT

The travel industry is a fast growing industry with promising outlook. With China's imminent entry into the World Trade Organization, the rapid increase in the number of tourists from China, the economic development of Hong Kong and the construction of the Disney Theme Park in Hong Kong, the number of inbound and outbound tourists in Hong Kong and China will increase, thus creating robust business opportunities for the Group.

The Group will seize the opportunity by adapting to the needs of the market and establishing strategic target to develop comprehensive services encompassing food and beverage, hospitality, tours, entertainment and shopping, thus becoming an integrated travel service provider. We shall increase our pace in acquiring and merging with quality travel agencies in the PRC to complement our sales network covering Hong Kong, the PRC and overseas countries. We shall strive our best to increase our market share and increase shareholders' value.

The Board of Directors is confident in the future development of the Group.

Finally, on behalf of the Board of Directors, I would like to thank our Independent Non-Executive Directors, Dr. Yeh Meou-tsen, Geoffrey, Mr. Yeh V-nee, Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter and our former Independent Non-Executive Director Dr. The Honourable Wong Yu Hong, Philip, for their invaluable support and contributions. I would also like to thank my fellow members of the Board and all staff of the Group for their hard work and dedication.

By Order of the Board

Che Shujian

Chairman

Hong Kong, 25 April 2001

T'YCOON GOLF CLUB



HONG KONG AND MACAU TOUR



The overall business of the Group has improved from last year. This is attributable to the excellent operating results achieved by the three theme parks in Shenzhen, the substantial improvement in passenger traffic and results of the cross-border bus operations, the increase in both the occupancy rate and room rate of the Group's hotels, the noticeable improvement in the operating results of the golf club operation, the maintaining of operating results of the freight forwarding business as last year's, the profit, and cash flow contribution from the Group's investment in the power plant, and significant increase in the number of Mainland visitors received by the Hong Kong & Macau Tour which broke the 200,000 threshold for the first time. The Group has also improved its management quality and enhanced the competitiveness of its business, while maintaining a sound financial position.

TOUR OPERATION AND LEISURE BUSINESS

The three theme parks of the Group in Shenzhen, namely Window of the World, Splendid China and China Folk Culture Villages, attracted more than 4.5 million visitors in 2000, which is an increase of 13.9% as compared with last year. During the year, Window of the World had undergone comprehensive upgrading and restructuring to its facilities. It has introduced new games and attractions such as the Alps Indoor Ski Dome, the Grand Canyon Flume Ride and the Pyramid Fantasy Hall which combined hi-tech and entertaining effects, and resulted in an increase in operating profit by 68%. By bringing out intellectual, entertaining and participatory games and programs such as the Flight by Ropeway, the Drifting River, the Kerqin Grass skiing and the Mysterious Tibet, and strengthening promotional efforts in the overseas markets, Splendid China and China Folk Culture Villages had recorded growth in the visitor number by 14.8% and the operating profit by 47% during the year.

In 2000, the three theme parks were also rated Class I "Quadruple A" theme parks in the People's Republic of China ("PRC") and earned acclaims from local and overseas visitors.

Renowned for its high quality and professional services, China Travel (HK & Macau Tour) Management Hong Kong Limited ("HK & Macau Tour") received more than 200,000 Mainland visitors in 2000, which is an increase of 25.4% as compared with last year, despite operating under fierce market competition. In the latter half of 2000, HK & Macau Tour had responded to the challenge by implementing measures such as strengthening its cooperation with the tour travel agencies in the PRC, especially in the Guangdong province, to promote sales, control costs, and enhance quality of services rendered.

Shenzhen Tycoon Golf Club ("Tycoon Club"), which operates a 27-hole golf course with comprehensive club facilities, is situated near the Shenzhen Huangtian Airport and the Shenzhen Fuyong Terminal. In 2000, the management had focused their efforts to promote the club, improve quality of services rendered, streamline staff, and utilize the available resources effectively. As a result, in 2000, the turnover and number of visitors increased by 41.9% and 29%, respectively.

CHINA FOLK
CULTURE VILLAGES



WINDOW OF THE WORLD



SPLENDID CHINA





BUSINESS REVIEW AND PROSPECTS

HOTEL OPERATION

The Group's three wholly-owned hotels, namely The Metropole Hotel, Hotel New Harbour and Hotel Concourse, had seized the opportunities brought by the economic recovery of Hong Kong and the increasing number of tourist arrival to develop new customer sources, control costs and increase its room rate accordingly. The average occupancy rate of the three hotels was 86% in 2000, which is an increase of 2.0% over 1999. The average room rate had also increased by 14.1% in 2000. Both of these factors contributed to the significant improvement in earnings during the year.

Metropark Hotel of the Group in Causeway Bay, which is currently under construction, is a four-star hotel with seaview and the view of the Victoria Park. Metropark Hotel is expected to commence operation in late 2001.

PASSENGER TRANSPORTATION

China Travel Tours Transportation Services Hong Kong Limited ("CT Tours"), which owns 60 buses, served approximately 578,000 passengers in 2000, which is an increase of 47.9% as compared with last year. The five main routes running between Hong Kong International Airport and various Mainland cities, and between Shenzhen and Zhuhai have achieved good financial results. By improving its market share, safety procedures and continuous replacement program with new buses, CT Tours is seeking to expand in this highly competitive market.

Shun Tak-China Travel Shipping Investments Limited ("Shun Tak-CTS"), an associate of the Group, recorded an increase of 11.6% in passenger traffic on the Hong Kong-Macau route in 2000 and commanded a market share of 92%. Shun Tak-CTS also recorded an increase of 4.9% in passenger traffic on the Shenzhen and Guangzhou routes. Despite the adverse impact of high fuel cost and increasing operating cost, Shun Tak-CTS had managed to increase its profit by approximately 260% when compared with last year.

FREIGHT FORWARDING

Due to the improving expressway networks and deep harbour facilities in the PRC, re-export freight volume, especially through railway, handled by Hong Kong for the PRC has continued to decline. Faced with fierce competition, China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") has still managed to command more than 50% market share in export freight volume through railway in Hong Kong by strengthening its marketing development and enhancing its quality of service. CTS Cargo has also devoted significant efforts to develop air freight, sea freight and courier services, principally by way of organizing a marketing sales team working through its PRC branches. China Trading Service Co., Ltd., which is a subsidiary of CTS Cargo, has actively developed its modern logistics business in Shanghai and recorded satisfactory results.



HOTEL CONCOURSE



THE METROPOLE HOTEL



HOTEL NEW HARBOUR



METROPARK HOTEL



INFRASTRUCTURE

The total volume and on-grid volume of electricity generated by Shaanxi Weihe Power Plant in 2000, a jointly controlled entity of the Group, were 5.97 billion kWh and 5.61 billion kWh, respectively, which were comparable with last year. Due to the strengthening of management control and the implementation of a performance incentive system, the production cost had decreased significantly, the ratio of normal operation of the generating units had improved, which also reduced the repairs and maintenance work on its generating units during the year. As a result, Weihe Power Plant has become a leading enterprise in the power industry in the northwestern region of the PRC. The net profit of Weihe Power Plant increased by 26.9% in 2000 and provided significant profit contribution and cash flows to the Group.

The Group had disposed of its entire 23% interest in Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited) in February 2001. In March 2001, the Group also entered into a conditional sale and purchase agreement to dispose of its investment in a joint venture which holds interests in road and bridge projects in the PRC to its controlling shareholder, China Travel Service (Holdings) Hong Kong Limited. The disposal of such non-core businesses has clarified the core travel business of the Group but also increased cash flow. After the disposal, Weihe Power Plant will be the only non-core business left in the Group.

The Company believes that with the continuous development of the PRC economy, the imminent entry of China into the World Trade Organization, the recovery in the economy of Hong Kong, and the business restructuring and reengineering of the Group, especially after the completion of the proposed acquisition of China Travel Service (Hong Kong) Limited (“CTS HK”), the core travel business of the Group will develop rapidly. The travel related businesses such as the theme parks, passenger transportation and hotels will benefit and the competitiveness of the businesses of the Group can be enhanced further. In addition, the tourism industry in the PRC has been developing rapidly with great market potentials, and it has become the leading industry amongst tertiary industries in the PRC. In 2000, the international tourism receipts and domestic tourism expenditure in the PRC reached United States dollars 16.2 billion and Renminbi 317.6 billion respectively. Through acquiring CTS HK and other mergers and acquisitions, the Group will actively explore opportunities to expand its tourism operation and create profit generating channels in the PRC. We are confident in the future prospect of the Group.



FREIGHT FORWARDING

PASSENGER
FERRY OPERATION



PASSENGER
TRANSPORTATION

POWER PLANT



FINANCIAL POSITION

As at 31 December 2000, the Group's total interest-bearing bank loans and other borrowings amounted to HK\$1,101 million, which represented only 36% of the balances in 1999. The substantial decrease in interest-bearing bank loans and other borrowings was mainly due to the repayment of net bank loans of about HK\$520 million during the year, and the reclassification of Weihe Power Plant to a jointly controlled entity in the Consolidated Balance Sheet since 1 December 2000, whereas it was treated as a subsidiary in 1999.

As at 31 December 2000, the total amount of cash and cash equivalents of the Group was HK\$845 million, which gave rise to a net debt of the Group to HK\$256 million. The net debt to equity ratio was then resulted to a very healthy level of 4.1%.

In addition to the strong cash position, the Group has unutilised banking facilities of HK\$220 million as at 31 December 2000.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 33 to the financial statements. There were no changes in the nature of the Group's principal activities during the year. However, owing to a change in the control of the board of directors of Shaanxi Weihe Power Co., Ltd., the Group's interests in the power generating operations have been accounted for as interests in a jointly controlled entity since December 2000.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations is as follows:

	Turnover		Contribution to profit from operating activities	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Originating in the People's Republic of China ("PRC")				
Hong Kong:				
Hotel operations	225,927	204,660	35,936	9,404
Tour operations	243,270	264,011	91,796	116,390
Passenger transportation	55,764	56,531	7,053	2,449
Freight forwarding and transportation services	244,912	236,358	(11,370)	(50,547)
Treasury operations	—	3,893	(12,243)	7,114
	<u>769,873</u>	<u>765,453</u>	<u>111,172</u>	<u>84,810</u>

REPORT OF THE DIRECTORS

SEGMENTAL INFORMATION (continued)

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Elsewhere:				
Passenger transportation	22,218	—	3,920	—
Freight forwarding and transportation services	52,999	31,715	12,150	7,822
Tourist attraction operations	432,733	369,134	159,328	72,226
Power generation	1,439,641	1,576,741	559,110	556,545
Golf club management and membership sale	33,926	23,911	(7,136)	(30,258)
	<u>1,981,517</u>	<u>2,001,501</u>	<u>727,372</u>	<u>606,335</u>
	<u>2,751,390</u>	<u>2,766,954</u>	<u>838,544</u>	<u>691,145</u>
Interest income less unallocated corporate administrative expenses			<u>28,253</u>	<u>(39,091)</u>
			<u>866,797</u>	<u>652,054</u>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 92.

An interim dividend of 1 cent per ordinary share was paid on 31 October 2000. The Directors recommend the payment of a final dividend of 1 cent and a special dividend of 2 cents per ordinary share in respect of the year to shareholders on the register of members on 1 June 2001. This recommendation has been incorporated in the financial statements.



REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified/restated as appropriate, is set out on page 4. This summary is not part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 14 and 33 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of the Group's interests in jointly controlled entities are set out in note 15 to the financial statements.

ASSOCIATES

Particulars of the Company's and the Group's interests in associates are set out in note 16 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group are set out in notes 26 to 28 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$28,471,000 (1999: HK\$25,668,000) was capitalised during the year in respect of the Group's properties under development.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 30 to the financial statements.



REPORT OF THE DIRECTORS

CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$312,070,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$6,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 57% of the Group's turnover for the year and sales to the largest customer included therein amounted to approximately 53% of the Group's turnover.

Purchases from the five largest suppliers accounted for less than 30% of the Group's purchases for the year.

As far as the Directors are aware, neither the Directors, their associates, nor those shareholders which to the best knowledge of the Directors own more than 5% of the Company's share capital, had any beneficial interest in the Group's five largest customers.



REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Che Shujian (<i>Chairman</i>)	(appointed on 21 June 2000)
Mr. Zhu Yuening (<i>Vice-Chairman</i>)	
Mr. Qiu Yiyong	(retired on 23 June 2000)
Mr. Zheng Hongqing	
Mr. Xu Shiquan	(retired on 23 June 2000, re-appointed on 10 August 2000 and then resigned on 20 December 2000)
Mr. Chen Shoujie	(appointed on 21 June 2000)
Mr. Zheng Heshui	
Mr. Lo Sui On	(appointed on 21 June 2000)
Mr. Shen Zhuying	(appointed on 23 October 2000)
Mr. Ng Chi Man, Michael	(appointed on 7 November 2000)
Mr. Zhang Fengchun	(appointed on 21 June 2000)
Mdm. Wu Yingqiu	(resigned on 7 December 2000)
Mr. Chen Wangtao	(resigned on 21 June 2000)
Mr. Wang Changle	(resigned on 21 June 2000)

Independent Non-Executive Directors:

Dr. The Honourable Philip Wong Yu Hong	(resigned on 26 October 2000)
Dr. Fong Yun Wah	
Mr. Peter Wong Man Kong	

Subsequent to the balance sheet date, the following changes in respect of the Directors were noted:

- (1) On 18 January 2001, Dr. Yeh Meou-tsen, Geoffrey was appointed as an Independent Non-Executive Director of the Company and Mr. Yeh V-nee was appointed as alternate Director for Dr. Yeh Meou-tsen, Geoffrey.
- (2) On 6 February 2001, Mr. Zhu Yuening resigned as an Executive Director of the Company and Mr. Zhang Xuewu was appointed as an Executive Director and Vice-Chairman of the Company.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Zheng Hongqing, Zheng Heshui and Dr. Fong Yun Wah will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 92 of the Company's Articles of Association, Messrs. Zhang Xuewu, Shen Zhuying, Ng Chi Man, Michael and Dr. Yeh Meou-tsen, Geoffrey who were appointed by the Board during the year, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



REPORT OF THE DIRECTORS

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the Directors' emoluments and of the five highest paid employees in the Group are set out in notes 6 and 7 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Under a 3-year service contract dated 2 November 2000, between the Company and Mr. Ng Chi Man, Michael, Mr. Ng was appointed as Executive Director and Deputy General Manager of the Company with effect from 7 November 2000.

Save as disclosed above, no other Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

Neither the substantial shareholder nor any of the Directors of the Company are interested in any business which competes or is likely to compete with the Group's existing businesses.

MANAGEMENT CONTRACTS

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") pursuant to which CTS (Holdings) had undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and continue thereafter unless it is terminated by either party giving to the other one month prior written notice. No payment has been made during the year by the Group under such agreement.
- (ii) In 1993, the Group entered into a service agreement with China Travel Service (Hong Kong) Limited ("CTS (HK)") pursuant to which CTS (HK) had undertaken to provide or to procure its associates to provide certain services and facilities to the Group for the operation of package tours originating from the PRC to Hong Kong, or Hong Kong and Macau as the only destinations for residents of the PRC only.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS (continued)

(iii) Hotel management contract

On 29 March 2000, three wholly owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Smart Concord Enterprises Limited (the “Companies”) which are the immediate holding companies of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (the “Hotels”), respectively entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited (“CT Hotel”). CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to the management agreement, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the Companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of the Hotels for the year.

Messrs. Che Shujian, Zhu Yuening, Qiu Yiyong, Zheng Hongqing, Xu Shiquan, Chen Shoujie, Zheng Heshui, Lo Sui On, Shen Zhuying and Zhang Fengchun and Mdm. Wu Yingqiu are Directors of the Company and CTS (Holdings), which is the ultimate holding company of the Company, as well as all the related companies as listed in note 36(a) to the financial statements. None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries referred to above.

CONNECTED TRANSACTIONS

During the year, the following transactions were recorded by Shaanxi Weihe Power Co., Ltd., Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd., which are all 51% owned PRC joint ventures of the Group, with their substantial shareholders or the associates of these substantial shareholders:

			Group	
			2000	1999
Name of company		Nature of transaction	HK\$'000	HK\$'000
Paid or payable to:				
(i)	Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity charges	19,062	15,929
(ii)	Shaanxi Provincial Power Company	Power despatch service charges	39,619	39,527
(iii)	State Power Corporation of China, Northwest Branch	Interest expense	30,723	42,268

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

(iv)	Shaanxi Zhengyuan Industry Development Company	Ash disposal service charges	9,256	1,399
(v)	Shaanxi Zhengyuan Industry Development Company	Purchases of materials	24,778	55,187
(vi)	Shaanxi Zhengyuan Industry Development Company	Transportation service charges	1,578	—
(vii)	Shaanxi Qinlong Electric Power Joint Stock Co., Ltd.	Interest expense	19,458	37,182
(viii)	China Power Finance Co., Ltd., Northwest Branch	Interest expense	7,273	—
(ix)	Shenzhen SEC Overseas Chinese Town Construction Headquarters	Land use rights fees	8,292	18,834
Received or receivable from:				
(x)	Shaanxi Provincial Power Company	Sales of electricity	1,580,265	1,576,744
(xi)	Shaanxi Provincial Power Company	Machinery management fees	2,930	3,061
(xii)	China Power Finance Co., Ltd., Northwest Branch	Interest income	403	131

Conditional waivers have been granted by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) by the Company in respect of (ii), (x), (xi) and (xii) of the above transactions and transactions as set out in note 36(a) (i), (iv), (xi), (xviii), (xx) and (xxvii) to the financial statements under the heading of “Related Party Transactions”. These connected transactions have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that these transactions were entered into by the Group:

- (a) in the ordinary course of business and on normal commercial terms;
- (b) are fair and reasonable so far as the shareholders of the Company are concerned;

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

- (c) in accordance with the terms of the agreements governing such transactions (or where there is no such agreement, on terms no less favourable than terms available to third parties);
- (d) the aggregate consideration in respect of the machinery management fees, power despatch service charges and interest income transacted during the year did not exceed 1.2% of the audited consolidated net tangible assets of the Group; and
- (e) electricity income received from Shaanxi Provincial Power Company during the year did not exceed 65% of the consolidated turnover of the Group.

Save as aforesaid, transactions as set out in note 36(b) and (c) to the financial statements under the heading of “Related Party Transactions” have been previously announced in the newspapers by the Company. The remaining transactions as set out under the heading of “Related Party Transactions” were also connected transactions.

DIRECTORS’ INTERESTS IN SHARES

At 31 December 2000, the interests of the Director in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) were as follows:

Name of Director	Ordinary shares of the Company			
	Number of shares held and nature of interest			
	Personal	Corporate	Other	Total
Dr. Fong Yun Wah	—	500,000 (a)	502,000 (b)	1,002,000

Notes:

- (a) These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested by virtue of the SDI Ordinance.
- (b) These shares are beneficially owned by certain charitable foundations in which Dr. Fong Yun Wah is the chairman and has non-beneficial interests.

Save as disclosed above, none of the Directors or their associates had any interest in the share capital of the Company or its associated corporations as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2000, the Directors of the Company who held share options granted under the Company's share option scheme as further detailed in note 30 to the financial statements, were as follows:

Name of Director	Number of share options at 1 January 2000	Number of share options granted/ (cancelled) during the year	Number of share options exercised during the year	Number of share options outstanding at 31 December 2000	Exercise period of share options	Exercise price per share HK\$
Zhu Yuening	69,000,000	—	—	69,000,000 (a)	14-1-98 to 13-1-01	3.568
Qiu Yiyong	45,000,000	(45,000,000)	—	—	14-1-98 to 13-1-01	3.568
Zheng Hongqing	45,000,000	—	—	45,000,000 (a)	14-1-98 to 13-1-01	3.568
Xu Shiquan	45,000,000	(45,000,000)	—	—	14-1-98 to 13-1-01	3.568
Zheng Heshui	3,000,000	—	—	3,000,000 (a)	14-1-98 to 13-1-01	3.568
Lo Sui On	1,500,000	—	—	1,500,000 (a)	14-1-98 to 13-1-01	3.568
Shen Zhuying	—	5,000,000	—	5,000,000	16-5-01 to 20-10-02	0.709
Ng Chi Man, Michael	—	5,000,000	—	5,000,000	16-5-01 to 20-10-02	0.709
Chen Wangtao	3,500,000	(3,500,000)	—	—	14-1-98 to 13-1-01	3.568
Wang Changle	3,500,000	—	—	3,500,000 (a)	14-1-98 to 13-1-01	3.568

Note: (a) subsequent to the balance sheet date, these options lapsed on 13 January 2001.

(b) according to the above option scheme, the cash consideration paid by each of the directors for the grant of the options was HK\$1.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest in 10% or more in the issued share capital of the Company:

Name	Number of shares held	%
China Travel Service (Holdings) Hong Kong Limited	1,956,561,741	60.18
China Travel Service Head Office of the PRC	1,956,561,741	60.18

Note: The entire issued share capital of China Travel Service (Holdings) Hong Kong Limited is beneficially owned by China Travel Service Head Office of the PRC. China Travel Service (Holdings) Hong Kong Limited is the direct holding company of the Company. Accordingly, the interests of China Travel Service Head Office of the PRC in the Company duplicate the interests of China Travel Service (Holdings) Hong Kong Limited.

Save as disclosed above, the register of shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company at 31 December 2000.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit schemes of the Group and the employers' retirement benefit scheme contributions charged to the profit and loss account for the year are set out in note 4 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting period covered by the annual report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation at Annual General Meeting in accordance with the Company's Articles of Association.



REPORT OF THE DIRECTORS

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2000, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amount outstanding as at 31 December 2000	Final maturity of the loan facilities
1. HK\$280 million	15 December 2003
2. US \$40 million *	14 November 2003

* Subject to the exercise of the lenders' option to demand the repayment of the remaining outstanding principal on Put Option date, i.e. 14 May 2002.

AUDIT COMMITTEE

The Company established an Audit Committee on 29 March 1999 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. The Audit Committee presently comprises two independent non-executive directors.

AUDITORS

Messrs. Deloitte Touche Tohmatsu audited the financial statements for the year ended 31 December 1998. Messrs. Ernst & Young audited the financial statements for the years ended 31 December 1999 and 2000.

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Che Shujian

Chairman

Hong Kong

25 April 2001



REPORT OF THE AUDITORS



安永會計師事務所

TO THE MEMBERS

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 36 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong, 25 April 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
TURNOVER	3	2,751,390	2,766,954
Cost of sales		<u>(1,516,032)</u>	<u>(1,702,886)</u>
Gross profit		1,235,358	1,064,068
Other revenue		130,729	124,993
Distribution costs		(32,440)	(44,838)
Administrative expenses		(375,669)	(331,174)
Other operating expenses		(54,026)	(97,940)
Provisions for doubtful debts and bad debts written off		<u>(37,155)</u>	<u>(63,055)</u>
PROFIT FROM OPERATING ACTIVITIES	4	866,797	652,054
Finance costs	5	(151,831)	(184,993)
Provision for impairment in an associate		(56,152)	—
Loss on deemed disposal of an associate		(62,767)	—
Provisions for diminutions in values of interests in jointly controlled entities and associates		(13,131)	(2,553)
Gain on disposal of an associate		—	60,549
Share of profits and losses of:			
Jointly controlled entities		5,566	(597)
Associates		<u>(52,855)</u>	<u>13,489</u>
PROFIT BEFORE TAX		535,627	537,949
Tax	8	<u>(104,446)</u>	<u>(71,734)</u>
PROFIT BEFORE MINORITY INTERESTS		431,181	466,215
Minority interests		<u>(280,262)</u>	<u>(216,083)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9	150,919	250,132
Dividends	10	<u>(130,044)</u>	<u>(65,022)</u>
RETAINED PROFIT FOR THE YEAR	31	<u>20,875</u>	<u>185,110</u>
EARNINGS PER SHARE (CENTS)	11		
Basic		<u>4.64</u>	<u>7.69</u>
Diluted		<u>N/A</u>	<u>7.44</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2000

	<i>Note</i>	2000 HK\$'000	1999 <i>HK\$'000</i>
Deficit on revaluation of hotel properties	31	(15,166)	(10,000)
Changes in fair value of long term investments	31	(122,000)	—
Exchange differences on translation of the financial statements of foreign entities	31	(3,300)	5,438
Share of movements in reserves of an associate	31	<u>5,648</u>	<u>380</u>
Net losses not recognised in the profit and loss account		(134,818)	(4,182)
Net profit attributable to shareholders (<i>Note</i>)		<u>150,919</u>	<u>250,132</u>
Total recognised gains and losses		16,101	245,950
Write-back of goodwill previously eliminated directly against reserves at the time of the acquisition thereof	31	—	39,781
Goodwill credited/(eliminated) directly against reserves	31	5,294	(52,843)
Group's share of goodwill eliminated directly against reserves by an associate	31	<u>(30,435)</u>	<u>—</u>
		<u>(9,040)</u>	<u>232,888</u>

Note: Included in the balance is an amount of HK\$30,435,000 relating to goodwill eliminated directly against reserves by an associate of the Group upon the associate's acquisition of subsidiaries and an associate during the year, now realised in the net profit attributable to shareholders upon impairment of the associate of the Group.

CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	3,344,757	7,371,613
Properties under development	13	1,033,872	854,602
Interests in jointly controlled entities	15	1,611,192	35,482
Interests in associates	16	906,631	1,026,217
Long term investments	17	127,809	69,030
		7,024,261	9,356,944
CURRENT ASSETS			
Short term investments	17	1,349	18,761
Inventories	18	16,023	102,032
Trade receivables	19	176,852	600,311
Tax recoverable		579	468
Other receivables	20	62,553	99,095
Pledged time deposits	21	43,463	41,011
Cash and cash equivalents	22	801,646	1,284,303
Amount due from ultimate holding company	23	51,507	48,469
Amounts due from fellow subsidiaries	23	143,524	115,034
Amount due from a jointly controlled entity	15	202,846	—
		1,500,342	2,309,484
CURRENT LIABILITIES			
Trade payables	24	260,394	307,327
Tax payable		45,364	34,928
Other payables and accruals	25	423,325	558,280
Interest-bearing bank and other borrowings	26	608,400	1,146,842
Amounts due to fellow subsidiaries	23	4,421	—
		1,341,904	2,047,377
NET CURRENT ASSETS		158,438	262,107
TOTAL ASSETS LESS CURRENT LIABILITIES		7,182,699	9,619,051

CONSOLIDATED BALANCE SHEET

31 December 2000

	<i>Notes</i>	2000 HK\$'000	1999 <i>HK\$'000</i>
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		45,207	34,956
Interest-bearing bank and other borrowings	27	490,251	1,900,039
Lease payables	28	2,123	—
Deferred tax	29	7,173	17,245
		544,754	1,952,240
MINORITY INTERESTS			
		(317,251)	(1,305,388)
		6,320,694	6,361,423
CAPITAL AND RESERVES			
Share capital	30	325,112	325,112
Reserves	31	5,995,582	6,036,311
		6,320,694	6,361,423

Shen Zhuying
Director

Ng Chi Man, Michael
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	32(a)	1,242,842	1,249,856
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		56,121	115,703
Interest paid		(165,839)	(205,844)
Interest element of finance lease and hire purchase contract payments		(388)	—
Dividends from listed investments		—	3,893
Dividends from an associate		380	380
Dividends paid		(65,022)	(32,511)
Dividends paid to minority shareholders	32(b)	(148,301)	(97,536)
Net cash outflow from returns on investments and servicing of finance		(323,049)	(215,915)
TAX			
Hong Kong profits tax paid		(12,124)	(5,775)
Overseas taxes paid		(48,294)	(13,379)
Taxes paid		(60,418)	(19,154)
INVESTING ACTIVITIES			
Purchases of short term investments		—	(467)
Proceeds from disposal of short term investments		5,525	24,093
Proceeds from disposal of long term investments		79,261	—
Purchase of long term investment		(162,190)	—
Purchases of fixed assets		(79,752)	(95,570)
Proceeds from disposal of fixed assets		67,869	44,400
Additions to properties under development		(171,032)	(59,805)
Acquisitions of jointly controlled entities		(3,173)	(47)
Acquisitions of associates		(313)	(407,290)
Advances to jointly controlled entities		(4,843)	(1,672)
Repayment from/(advance to) associates		2,433	(101,322)
Proceeds from disposal of an associate		—	526,933
Increase in pledged time deposits		(2,452)	(37,011)
Reclassification of interests in a subsidiary to interests in a jointly controlled entity	32(c)	(157,221)	—
Net cash outflow from investing activities		(425,888)	(107,758)
NET CASH INFLOW BEFORE FINANCING		433,487	907,029

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

	Note	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW BEFORE FINANCING		<u>433,487</u>	<u>907,029</u>
FINANCING			
Capital contributed by a minority shareholder of a subsidiary	32(b)	—	65,506
New bank loans	32(b)	197,431	1,165,034
Repayment of bank loans	32(b)	(716,989)	(874,402)
Capital element of finance lease and hire purchase contract payments	32(b)	(2,131)	—
Repayment of loans from minority shareholders	32(b)	(392,716)	(589,928)
Increase in/(redemption of) golf club debentures		<u>(1,155)</u>	<u>3,188</u>
Net cash outflow from financing		<u>(915,560)</u>	<u>(230,602)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(482,073)	676,427
Cash and cash equivalents at beginning of year		<u>1,283,719</u>	<u>607,292</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>801,646</u></u>	<u><u>1,283,719</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		291,268	585,392
Time deposits		510,378	698,911
Bank overdrafts		<u>—</u>	<u>(584)</u>
		<u><u>801,646</u></u>	<u><u>1,283,719</u></u>

BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	669	998
Interests in subsidiaries	14	5,702,483	6,616,571
Interests in associates	16	77,825	65,200
Long term investments	17	66,000	—
		<u>5,846,977</u>	<u>6,682,769</u>
CURRENT ASSETS			
Other receivables	20	13,952	21,783
Pledged time deposits	21	42,869	41,011
Cash and cash equivalents	22	215,936	509,075
Amounts due from subsidiaries	14	646,143	—
Amounts due from fellow subsidiaries	23	3,781	3,930
		<u>922,681</u>	<u>575,799</u>
CURRENT LIABILITIES			
Tax payable		24,000	—
Other payables and accruals	25	104,929	46,745
Interest-bearing bank and other borrowings	26	586,880	329,134
Amount due to ultimate holding company	23	2,164	2,164
		<u>717,973</u>	<u>378,043</u>
NET CURRENT ASSETS		<u>204,708</u>	<u>197,756</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,051,685	6,880,525
NON-CURRENT LIABILITY			
Interest-bearing bank and other borrowings	27	476,748	1,122,647
		<u>5,574,937</u>	<u>5,757,878</u>
CAPITAL AND RESERVES			
Share capital	30	325,112	325,112
Reserves	31	5,249,825	5,432,766
		<u>5,574,937</u>	<u>5,757,878</u>

Shen Zhuying
Director

Ng Chi Man, Michael
Director



NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. CORPORATE INFORMATION

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

- hotel operations
- tour operations
- passenger transportation services
- treasury operations
- tourist attraction operations
- power generation
- golf club operations
- freight forwarding and transportation services
- 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 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 2000. 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.



NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

Goodwill

Goodwill arising on consolidation represents the excess of purchase consideration paid for subsidiaries, jointly controlled entities, associates or business segments over the fair values ascribed to the underlying net assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired underlying net assets of subsidiaries, jointly controlled entities, associates or business segments at the date of acquisition over the purchase consideration, and is credited to reserves.

Impairment in value of goodwill previously taken to reserves is charged to the profit and loss account when such impairment arises. Upon the disposal of subsidiaries, jointly controlled entities, associates or business segments, the relevant portion of attributable goodwill previously eliminated against reserves or capital reserve credited to reserves is written back and included in the calculation of the gain or loss on disposal of the investment.

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. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Jointly controlled entities

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. 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 investments 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 provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

31 December 2000

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

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 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 investments 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 provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The interests in associates are stated in the Company's balance sheet at cost, less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

Joint venture companies

Joint venture companies comprise companies operating, directly or indirectly, in the mainland of the People's Republic of China (the "PRC") as independent business entities. 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 assets are to be realised upon its dissolution. The profits and losses from operations and any distribution 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 agreements.

A joint venture company is treated as:

- (i) a subsidiary, if the Group has control over the joint venture company; or
- (ii) a jointly controlled entity, if neither the Group nor its venture partners is in a position to exercise unilateral control over the economic activity of the joint venture company; or
- (iii) an associate, if the Group holds between 20% and 50% of the joint venture company's registered capital for the long term and does not have joint control but is in a position to exercise significant influence over its management; or
- (iv) a long term investment, if the Group holds less than 20% of the joint venture company's registered capital for long term.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

2. 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. 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 term of the lease
Buildings	4.5%
Scenic spots establishment	3.6% to 19%
Power plants	6%
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 a straight-line basis over the period of the lease or the tenure of the relevant joint ventures to which the land use rights were granted, whichever is shorter.

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.

The carrying amounts of fixed assets are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their estimated recoverable amounts. Reductions of recoverable amounts are charged to the profit and loss account.

2. 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 with unexpired lease terms of less than 20 years are stated at cost less accumulated depreciation. They are depreciated on the straight-line basis over the remaining term of the lease.

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 due to the Group's ability to maintain or increase the hotel properties' residual values.

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 provision considered necessary by the directors. Cost includes all development expenditure, interest charges and other direct costs attributable to such properties.



NOTES TO FINANCIAL STATEMENTS

31 December 2000

2. 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 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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such 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 and debt securities intended to be held on a long term basis. Unlisted securities are stated at their estimated fair values on an individual investment basis.

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. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in listed 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 less provision for any impairment in value other than those considered to be temporary in nature deemed necessary by the directors, on an individual investment basis. The gains or losses arising from changes in the fair values of a security are credited or charged to the profit and loss account for the period in which they arise.

2. 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 and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

The cost of inventories are capitalised into plant and machinery when they are used for replacements or for the improvement of power plants, or are 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 rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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 at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised until the construction is completed, and are included in the carrying value of the asset. 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 borrowing of long term bank loans are deferred and amortised over the term of the relevant bank loans on a straight-line basis.

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

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

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Contributions made by certain PRC joint ventures of the Group, based on a percentage of the employees' basic salaries to the central pension scheme operated by the PRC Government are charged to the profit and loss account as and when incurred.

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) on 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) on the rendering of freight forwarding, passenger transportation services and hotel services, when the services are rendered;
- (c) on the rendering of tour services, when the inbound tours arrive at their destinations;
- (d) income related to scenic spots, when the admission tickets are sold;
- (e) on the sale of electricity, based on the consumption by meters read during the year;
- (f) income from the sale of golf club memberships, on a time proportion basis over the membership period;

31 December 2000

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

Revenue recognition *(continued)*

- (g) on the sale of listed investments, on a trade date basis;
- (h) rental income, on a time proportion basis over the lease terms;
- (i) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (j) dividends, when the shareholders' right to receive payment is 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 equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent cash, short term deposits and bank balances which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. TURNOVER AND REVENUE

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

Revenue from the following activities has been included in turnover. Revenue arising from other sources is disclosed in note 4 to the financial statements.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Continuing operations:		
Freight income	297,911	268,073
Tour income	243,270	264,011
Hotel income	225,927	204,660
Golf club income	33,926	23,911
Sales of admission tickets	432,733	369,134
Passenger transportation	77,982	56,531
Treasury operations		
— Dividend income	—	3,893
	1,311,749	1,190,213
Operations reclassified to a jointly controlled entity during the year:		
Sales of electricity	1,439,641	1,576,741
Turnover	<u>2,751,390</u>	<u>2,766,954</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

4. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 HK\$'000
Depreciation:		
Owned fixed assets	450,985	493,561
Leased fixed assets	556	—
	<u>451,541</u>	<u>493,561</u>
Auditors' remuneration:		
Current year	4,522	4,636
Underprovision in the prior year	513	—
	<u>5,035</u>	<u>4,636</u>
Staff costs (including directors' remuneration — note 6):		
Wages and salaries	332,946	347,006
Pension costs	29,945	33,452
Less: Forfeited contributions	(1,433)	(4,688)
	<u>28,512</u>	<u>28,764</u>
Net pension contributions*	<u>361,458</u>	<u>375,770</u>
Operating lease rentals:		
Land and buildings	15,979	10,548
Plant and machinery	—	16
Loss/(gain) on disposal of short term investments	(502)	8,879
Provisions for slow-moving inventories	1,131	2,253
Loss/(gain) on changes in fair value of short term investments	6,215	(9,627)
Provisions for impairments in values of short term investments	6,174	—
Gain on disposal of long term investment	(10,261)	—
Gain on disposal of fixed assets	(4,098)	(3,159)
Exchange gains, net	(6,667)	(620)
Net rental income	(11,493)	(9,290)
Interest income	<u>(56,121)</u>	<u>(115,703)</u>

* At 31 December 2000, there was no forfeited contributions (1999: Nil) available to the Group to reduce its contributions to the pension scheme in future years.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

5. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	165,839	206,038
Finance lease and hire purchase contracts	388	—
Amortisation of deferred borrowing costs	14,075	4,623
Total finance costs	180,302	210,661
Less: Interest capitalised	(28,471)	(25,668)
	<u>151,831</u>	<u>184,993</u>

6. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	1,050	930
Independent non-executive directors	450	450
	<u>1,500</u>	<u>1,380</u>
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	4,834	1,810
Pension scheme contributions	253	115
	<u>5,087</u>	<u>1,925</u>
Total remuneration	<u>6,587</u>	<u>3,305</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

6. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	15	12
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	—
	<u>17</u>	<u>13</u>

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

No value is included in the directors' remuneration in respect of share options granted because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (1999: two) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining three (1999: three) non-director, highest paid employees are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,520	3,629
Pension scheme contributions	79	119
	<u>2,599</u>	<u>3,748</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

7. FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	2
	<u>3</u>	<u>3</u>

8. TAX

	2000 HK\$'000	1999 HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(14,135)	(15,911)
Elsewhere	(58,843)	(44,006)
Over/(under)provisions in prior years	(19,625)	2,583
Deferred tax — note 29	(9,231)	(13,665)
	<u>(101,834)</u>	<u>(70,999)</u>
Jointly controlled entities	(937)	(5)
Associates	(1,675)	(730)
	<u>(2,612)</u>	<u>(735)</u>
Tax charge for the year	<u>(104,446)</u>	<u>(71,734)</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$52,897,000 (1999: profit of HK\$30,268,000).

The Group's share of aggregate profits less losses retained by its jointly controlled entities and associates for the year amounted to a loss of HK\$3,111,000 (1999: loss of HK\$602,000) and a loss of HK\$54,910,000 (1999: profit of HK\$12,759,000), respectively.

10. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim — 1 cent (1999: 1 cent) per ordinary share	32,511	32,511
Proposed final — 1 cent (1999: 1 cent) per ordinary share	32,511	32,511
Proposed special dividend — 2 cents (1999: Nil) per ordinary share	65,022	—
	<u>130,044</u>	<u>65,022</u>

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$150,919,000 (1999: HK\$250,132,000), and 3,251,115,027 (1999: 3,251,115,027) ordinary shares in issue during the year.

No diluted earnings per share for the year ended 31 December 2000 has been presented because the conversion of the convertible notes would have an anti-dilutive effect and the Company's share options did not have a dilutive effect.

For the year ended 31 December 1999, the calculation of diluted earnings per share was based on the net profit attributable to shareholders for the year of HK\$273,820,000, after adjustment for the interest saved upon deemed conversion of all convertible notes at beginning of the year. The weighted average number of shares used in the calculation are 3,251,115,027 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 427,272,727 ordinary shares assumed to have been issued on the deemed conversion of all of the convertible notes at beginning of the year. The Company's share options did not have a dilutive effect and, accordingly, were not included in the calculation of the diluted earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

12. FIXED ASSETS

Group

	Investment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establishment HK\$'000	Power plants HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:							
At beginning of year	—	2,380,000	1,954,926	680,594	3,636,915	513,629	9,166,064
Additions	—	—	40,211	3,271	1,599	41,036	86,117
Transfer from properties under development	—	—	2	15,090	—	5,141	20,233
Disposals	—	—	(20,782)	(42,705)	(3,336)	(45,069)	(111,892)
Reclassification to interests in a jointly controlled entity	—	—	(1,387,048)	—	(3,648,192)	(54,099)	(5,089,339)
Other reclassifications	19,473	—	(19,473)	(597)	—	597	—
Exchange realignments	—	—	5,680	2,437	13,014	(313)	20,818
Surplus on revaluation	—	1,472	—	—	—	—	1,472
At 31 December 2000	19,473	2,381,472	573,516	658,090	—	460,922	4,093,473
At cost	19,473	—	573,516	658,090	—	460,922	1,712,001
At 2000 valuation	—	2,381,472	—	—	—	—	2,381,472
	19,473	2,381,472	573,516	658,090	—	460,922	4,093,473
Accumulated depreciation:							
At beginning of year	—	—	246,029	325,390	900,590	322,442	1,794,451
Provided during the year	1,107	—	102,646	16,954	275,321	55,513	451,541
Disposals	—	—	(6,886)	(9,439)	(1,430)	(30,366)	(48,121)
Reclassification to interests in a jointly controlled entity	—	—	(240,655)	—	(1,177,943)	(35,174)	(1,453,772)
Other reclassifications	1,762	—	(1,762)	814	—	(814)	—
Exchange realignments	—	—	1,196	1,165	3,462	(1,206)	4,617
At 31 December 2000	2,869	—	100,568	334,884	—	310,395	748,716
Net book value:							
At 31 December 2000	16,604	2,381,472	472,948	323,206	—	150,527	3,344,757
At 31 December 1999	—	2,380,000	1,708,897	355,204	2,736,325	191,187	7,371,613

NOTES TO FINANCIAL STATEMENTS

31 December 2000

12. FIXED ASSETS (continued)

Company

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	1,588	2,081	1,202	4,871
Additions	42	279	—	321
Write-off	—	(364)	—	(364)
At 31 December 2000	1,630	1,996	1,202	4,828
Accumulated depreciation:				
At beginning of year	1,469	1,682	722	3,873
Provided during the year	76	282	240	598
Write-off	—	(312)	—	(312)
At 31 December 2000	1,545	1,652	962	4,159
Net book value:				
At 31 December 2000	85	344	240	669
At 31 December 1999	119	399	480	998

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
At cost:			
Long term leases	95,270	8,720	103,990
Medium term leases	778	468,748	469,526
	96,048	477,468	573,516

The Group's investment properties are situated outside Hong Kong and held under short term leases.

The land use right for a piece of the Group's land with a carrying value of HK\$120,155,000 will expire on 17 August 2007. It is the intention of the Group to apply for an extension of the relevant land use right for 30 years up to 17 August 2037.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

12. FIXED ASSETS (continued)

Particulars of the hotel properties held by the Group as at 31 December 2000 are as follows:

Location	Use	Group's interest	Lease term
Hotel Concourse 20-46 Lai Chi Kok Road Mongkok Kowloon Hong Kong	Hotel	100%	Medium
Hotel New Harbour 41-49 Hennessy Road 4 and 6 Fenwick Road Wanchai Hong Kong	Hotel	100%	Long term
The Metropole Hotel 75 Waterloo Road Kowloon Hong Kong	Hotel	100%	Long term

The hotel properties were revalued at 31 December 2000 by Vigers Hong Kong Limited, independent professionally qualified valuers, on an open market value based on their existing use.

All hotel properties held by the Group were pledged to secure certain of the Group's bank borrowings. As at 31 December 2000, such facilities were utilised to the extent of HK\$593,628,000.

The net book value of the fixed assets of the Group held under finance leases included in the above fixed assets at 31 December 2000 amounted to HK\$6,537,000 (1999: Nil). The depreciation charge for the year in respect of such assets amounted to HK\$556,000 (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. PROPERTIES UNDER DEVELOPMENT

	1999	Additions	Group Transfer to fixed assets	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Building and plant	—	1,010	—	1,010
Scenic spots establishment	9,993	72,209	(18,590)	63,612
Golf course	3,925	—	(1,643)	2,282
Hotel properties	840,684	126,284	—	966,968
	<u>854,602</u>	<u>199,503</u>	<u>(20,233)</u>	<u>1,033,872</u>

The costs of building and plant, scenic spots establishment, golf course and hotel properties comprises:

	2000 HK\$'000	1999 HK\$'000
Land and buildings in Hong Kong held under long term lease	966,968	840,684
Land and buildings outside Hong Kong held under medium term lease	66,904	13,918
	<u>1,033,872</u>	<u>854,602</u>

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

The accumulated net interest capitalised included in properties under development was HK\$101,735,000 (1999: HK\$73,264,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,312,290	1,312,284
Due from subsidiaries	3,012,337	3,405,216
Loans to subsidiaries	2,453,932	3,330,986
Due to subsidiaries	(806,076)	(1,431,915)
	<u>5,972,483</u>	<u>6,616,571</u>
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	<u>(270,000)</u>	<u>—</u>
	<u>5,702,483</u>	<u>6,616,571</u>

Except for certain balances due from subsidiaries with an aggregate amount of HK\$378,121,000 (1999: HK\$630,547,000) which bear interest at 4.25% to 6% (1999: 4.25% to 13.5%) per annum, the remaining balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Except for certain loans to subsidiaries with an aggregate amount of HK\$72,000,000 (1999: HK\$72,000,000) which bear interest at 6% (1999: 6%) per annum, the remaining loans to subsidiaries are interest-free, unsecured and are not repayable within one year.

A balance due from a subsidiary of HK\$256,860,000 and a loan to a subsidiary of HK\$389,283,000 are repayable in 2001 and, accordingly, such balances are included in current assets.

Particulars of the Company's principal subsidiaries are set out in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	925,864	17,762
Due from jointly controlled entities	132,152	20,273
Loan to a jointly controlled entity	561,788	—
Due to jointly controlled entities	(1,362)	—
	<hr/>	<hr/>
	1,618,442	38,035
Less: Provisions for diminutions in values	(7,250)	(2,553)
	<hr/>	<hr/>
	1,611,192	35,482
	<hr/>	<hr/>

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

The loan to a jointly controlled entity is unsecured, interest bearing at the 3-5 years term bank loan annual interest rate quoted by the People's Bank of China, and is repayable at an annual amount equal to the portion of depreciation expense of the relevant jointly controlled entity established in the PRC attributable to the Group based on its percentage of equity interest for the current year, less any amounts expensed on technical improvements. The loan balance of approximately HK\$202,846,000 is repayable in 2001 and, accordingly, this amount is included in current assets. The remaining balance is repayable after one year.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Particulars of the jointly controlled entities, all of which are held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2000	1999	
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	25	25	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd. #	Corporate	PRC	30	30	Manufacturing of brass products
Sichuan Jeida Freight Transportation Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. #	Corporate	PRC	49	49	Provision of freight forwarding and transportation services
Gansu Lida International Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd. # (Note)	Corporate	PRC	51	—	Production and sale of electricity

Not audited by Ernst & Young

Note: Shaanxi Weihe Power Co., Ltd. ("Weihe Power") was accounted for as a subsidiary of the Group up to 30 November 2000, and was reclassified to interests in a jointly controlled entity on 1 December 2000. In the opinion of the directors, the Company can no longer exercise unilateral control over the financing and operating activities of Weihe Power following the changes made to the appointment of directors on the respective boards of the Company and Weihe Power during the latter half of 2000.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Extracts of the financial statements for the year ended 31 December 2000 of the Group's material jointly controlled entity are as follow:

Shaanxi Weihe Power Co., Ltd.
2000
HK\$'000

Profit and loss account

Turnover	1,580,265
Profit attributable to shareholders	408,030
Net profit attributable to the Group	205,169
Of which included in the share of profits and losses of jointly controlled entities	7,740

Balance sheet

Non-current assets	3,616,778
Current assets	561,364
Current liabilities	(1,187,672)
Non-current liabilities	(1,116,558)
Net assets	1,873,912
Net assets attributable to the Group	908,041

NOTES TO FINANCIAL STATEMENTS

31 December 2000

16. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—	311	—
Share of net assets	750,423	859,142	—	—
Due from associates	164,642	167,075	77,514	65,200
	915,065	1,026,217	77,825	65,200
Less: Provisions for diminutions in values	(8,434)	—	—	—
	906,631	1,026,217	77,825	65,200

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

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2000	1999	
China Railway-China Travel Express Co. (HK) Ltd. *	Corporate	Hong Kong	50	50	Dormant
China Travel Roads & Bridges JV Investment Ltd. *	Corporate	British Virgin Islands/ Hong Kong	40	40	Investment holding
Vision Century Corporation Limited (formerly Hing Kong Holdings Limited) * #	Corporate	Bermuda/ Hong Kong	23.34	36.33	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2000

16. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2000	1999	
Shun Tak-China Travel Shipping Investments Limited * #	Corporate	British Virgin Islands/ Hong Kong	29	29	Shipping operations
Storman Ltd. *	Corporate	Hong Kong	38	38	Provision of cargo transportation services
China Resort International Limited #	Corporate	Cayman Islands/ Hong Kong	40	—	Dormant

* Held indirectly through subsidiaries

Not audited by Ernst & Young

NOTES TO FINANCIAL STATEMENTS

31 December 2000

16. INTERESTS IN ASSOCIATES (continued)

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

	Vision Century Corporation Limited (formerly Hing Kong Holdings Limited)		Shun Tak-China Travel Shipping Investments Limited	
	2000	1999	Year ended 31 December 2000	For the period from 22 October 1998 (date of incorporation) to 31 December 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Profit and loss accounts</i>				
Turnover	565,025	99,829	1,410,716	769,050
Profit/(loss) attributable to shareholders	(355,811)	19,650	54,321	8,827
<i>Balance sheets</i>				
Non-current assets	1,016,830	1,556,881	1,908,062	2,072,069
Current assets	1,787,263	584,111	341,837	335,258
Current liabilities	(820,058)	(261,772)	(331,669)	(339,917)
Non-current liabilities	(386,141)	(474,722)	(656,997)	(860,498)
Net assets	1,597,894	1,404,498	1,261,233	1,206,912

NOTES TO FINANCIAL STATEMENTS

31 December 2000

17. INVESTMENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments				
Unlisted equity investments outside Hong Kong:				
Unlisted shares, at fair value	<u>3,665</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unlisted equity and debt investments in Hong Kong:				
Unlisted shares, at fair value	<u>58,144</u>	<u>30</u>	<u>—</u>	<u>—</u>
Unlisted convertible bonds, at fair value	<u>66,000</u>	<u>—</u>	<u>66,000</u>	<u>—</u>
Amount due from an investee company	<u>—</u>	<u>69,000</u>	<u>—</u>	<u>—</u>
	<u>124,144</u>	<u>69,030</u>	<u>66,000</u>	<u>—</u>
	<u>127,809</u>	<u>69,030</u>	<u>66,000</u>	<u>—</u>

Short term investments

Listed equity investments in Hong Kong, at market value	<u>1,349</u>	<u>18,761</u>	<u>—</u>	<u>—</u>
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The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$1,888,000.

18. INVENTORIES, AT COST

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	12,828	44,115
Spare parts and consumables	68	40,068
General stores	2,995	5,603
General merchandise	<u>132</u>	<u>12,246</u>
	<u>16,023</u>	<u>102,032</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

19. TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 to 180 days to its trade debtors. The aged analysis of trade receivables, net of provisions for doubtful debts, is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Outstanding balances with ages:		
Less than 1 month	86,950	234,037
Within:		
1-3 months	59,267	62,725
4-6 months	10,270	45,391
7-12 months	2,276	71,911
1-2 years	1,583	60,263
Over 2 years	16,506	125,984
	<u>176,852</u>	<u>600,311</u>

20. OTHER RECEIVABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Deferred borrowing costs	9,294	15,261	9,294	15,261
Deposits and other debtors	49,505	80,997	4,658	6,420
Amounts due from minority shareholders	3,754	2,837	—	102
	<u>62,553</u>	<u>99,095</u>	<u>13,952</u>	<u>21,783</u>

21. PLEDGED TIME DEPOSITS

The Company and the Group have pledged bank deposits of approximately HK\$42,869,000 (1999: HK\$41,011,000) and HK\$43,463,000 (1999: HK\$41,011,000), respectively, mainly to banks to secure against the provision of bank facilities granted to one of the Group's associates.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	291,268	585,392	63,841	5,853
Time deposits	510,378	698,911	152,095	503,222
	<u>801,646</u>	<u>1,284,303</u>	<u>215,936</u>	<u>509,075</u>

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

The amounts due from/to ultimate holding company and fellow subsidiaries mainly represent trade receivables/payables and reimbursement of PRC withholding tax on interest income receivable by the Group from a jointly controlled entity established in the PRC pursuant to an indemnity granted to the Group by the Company's ultimate holding company, as further set out in the Company's circular dated 14 November 1998.

Except for an amount of HK\$53,514,000, representing reimbursement of PRC withholding tax receivable from the ultimate holding company, which is repayable on the third business day after the Company has provided an auditor's certificate on the liability arisen under the indemnity, the remaining balances due from/to ultimate holding company/fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from/(to)				
ultimate holding company				
Within 1 year	1,067	48,469	(2,164)	(2,164)
1-2 years	50,440	—	—	—
	<u>51,507</u>	<u>48,469</u>	<u>(2,164)</u>	<u>(2,164)</u>
Amounts due from fellow subsidiaries				
Within 1 year	132,189	24,576	—	—
1-2 years	7,554	—	—	—
Over 2 years	3,781	90,458	3,781	3,930
	<u>143,524</u>	<u>115,034</u>	<u>3,781</u>	<u>3,930</u>
Amounts due to fellow subsidiaries				
Within 1 year	4,421	—	—	—

NOTES TO FINANCIAL STATEMENTS

31 December 2000

24. TRADE PAYABLES

	Group	
	2000	1999
	HK\$'000	HK\$'000
The aged analysis of trade payables is as follows:		
Less than 1 month	175,142	227,085
Within:		
1-3 months	51,931	36,544
4-6 months	4,205	9,353
7-12 months	17,281	4,711
1-2 years	2,922	12,096
Over 2 years	8,913	17,538
	<u>260,394</u>	<u>307,327</u>

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and other liabilities	241,157	381,606	7,291	14,175
Staff bonus and welfare fund	40,548	55,425	105	59
Receipts in advance from customers	43,427	38,164	—	—
Due to minority shareholders	660	50,574	—	—
Proposed final dividend	32,511	32,511	32,511	32,511
Proposed special dividend	65,022	—	65,022	—
	<u>423,325</u>	<u>558,280</u>	<u>104,929</u>	<u>46,745</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	Group		Company	
		2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank overdrafts — secured	27	—	584	—	—
Current portion of bank and other loans	27	606,290	1,146,258	586,880	329,134
Current portion of lease payables	28	2,110	—	—	—
		608,400	1,146,842	586,880	329,134

27. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank overdrafts:				
Secured	—	584	—	—
Syndicated bank loans:				
Unsecured	—	400,000	—	400,000
Secured — note (i)	313,628	481,781	313,628	481,781
Other bank loans:				
Unsecured	19,410	431,956	—	—
Secured — note (ii)	280,000	100,000	280,000	100,000
	613,038	1,413,737	593,628	981,781
Loans from minority shareholders	9,346	1,157,248	—	—
Convertible notes — note (iii)	470,000	470,000	470,000	470,000
Golf club debentures	4,157	5,312	—	—
	483,503	1,632,560	470,000	470,000
	1,096,541	3,046,881	1,063,628	1,451,781

NOTES TO FINANCIAL STATEMENTS

31 December 2000

27. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS (continued)

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts repayable within one year or on demand	—	584	—	—
Bank loans repayable:				
Within one year or on demand	136,290	760,239	116,880	329,134
In the second year	287,320	317,417	287,320	316,566
In the third to fifth years, inclusive	189,428	336,081	189,428	336,081
	<u>613,038</u>	<u>1,413,737</u>	<u>593,628</u>	<u>981,781</u>
Other loans repayable:				
Within one year or on demand	470,000	386,019	470,000	—
In the second year	—	658,413	—	470,000
In the third to fifth years, inclusive	—	565,239	—	—
Over five years	13,503	22,889	—	—
	<u>483,503</u>	<u>1,632,560</u>	<u>470,000</u>	<u>470,000</u>
Total interest-bearing bank and other borrowings	1,096,541	3,046,881	1,063,628	1,451,781
Portion classified as current liabilities	<u>606,290</u>	<u>1,146,842</u>	<u>586,880</u>	<u>329,134</u>
Long term portion	<u>490,251</u>	<u>1,900,039</u>	<u>476,748</u>	<u>1,122,647</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

27. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS (continued)

Notes:

- (i) The secured syndicated bank loan was repayable in 16 consecutive quarterly instalments. Interest was charged on the outstanding balance at LIBOR plus 2.25% for the applicable loan period. The loan was secured by certain of the Group's hotel properties and fixed assets with an aggregate carrying value of HK\$1,560,000,000.
- (ii) The secured other bank loan is repayable in 4 semi-annual instalments commencing on 15 June 2002. Interest is charged on the outstanding balance at 0.9% above the Hong Kong Interbank Offered Rate for the applicable loan period. The loan is secured by one of the Group's hotel properties and certain fixed assets with an aggregate carrying value of HK\$850,000,000.
- (iii) The principal terms of the convertible notes ("Notes") are summarised below:

Issuer:	The Company
Principal amount:	10 Notes at a subscription price of HK\$47,000,000 per Note, amounting to an aggregate amount of HK\$470,000,000.
Voting:	Noteholders are not entitled to attend or vote at any general meeting of the Company.
Conversion price:	HK\$1.10 per share, subject to adjustment.
Interest:	6% per annum, payable semi-annually in arrears.
Maturity:	The Company is required to repay the principal monies outstanding under the relevant Notes to the noteholders together with all interest accrued thereon from the date of the last interest payment up to and including the date of repayment falling on the third anniversary of the date of issue of the Notes.
Right of conversion:	CTS (Holdings) have the right to convert the whole or part of the principal amount of the Notes into new ordinary shares of the Company at any time prior to maturity. Upon the full conversion of the Notes at the conversion price, based on the existing capital structure, 427,272,727 new ordinary shares of the Company will be issued to CTS (Holdings).

An ordinary resolution approving the issue of the Notes was passed by the independent shareholders at the Company's Extraordinary General Meeting held on 30 November 1998.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were obligations under finance lease and hire purchase contracts at the balance sheet date as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts repayable:		
Within one year	2,325	—
In the second year	2,137	—
In the third to fifth years, inclusive	82	—
	<hr/>	<hr/>
Total minimum lease payments	4,544	—
Future finance charges	(311)	—
	<hr/>	<hr/>
Total net lease payables	4,233	—
Portion classified as current liabilities — note 26	(2,110)	—
	<hr/>	<hr/>
Long term portion	<u>2,123</u>	<u>—</u>

29. DEFERRED TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balance at beginning of year	17,245	3,580
Charge for the year — note 8	9,231	13,665
Reclassification to interests in a jointly controlled entity	(19,303)	—
	<hr/>	<hr/>
At 31 December	<u>7,173</u>	<u>17,245</u>

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

There are no significant potential deferred tax liabilities for which provision has not been made.

The revaluations of the Group's hotel properties do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

30. SHARE CAPITAL

Share

	2000 HK\$'000	1999 HK\$'000
Authorised:		
4,900,000,000 (1999: 4,900,000,000) ordinary shares of HK\$0.10 each	<u>490,000</u>	<u>490,000</u>
Issued and fully paid:		
3,251,115,027 (1999: 3,251,115,027) ordinary shares of HK\$0.10 each	<u>325,112</u>	<u>325,112</u>

Share options

On 21 October 1992, a share option scheme was approved by the shareholders under which the Company's directors may grant options to employees of the Group, including directors of any members of the Group, to subscribe for shares of the Company. The subscription price will be determined by the Company's board of directors and may not be less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company. An option may be exercised in accordance with the terms of the share option 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 three years commencing on the expiry of six months after the date on which the option is accepted and shall expire at the end of the three year period or on 20 October 2002, whichever is earlier. An option may lapse earlier in the event of termination of employment, retirement or death of the employees, or other specified circumstances.

At 31 December 2000, the following share options remained outstanding:

Number of share options outstanding	Exercisable price per share HK\$	Exercisable period
101,900,000 (note 1)	3.568	14 January 1998 to 13 January 2001
1,100,000 (note 2)	3.580	9 February 1998 to 8 February 2001
10,000,000	0.709	16 May 2001 to 20 October 2002

Notes: (1) Lapsed on 13 January 2001.

(2) Lapsed on 8 February 2001.

During the year, 10,000,000 share options were granted to two executive directors of the Company at the consideration of HK\$1 each, and 97,850,000 share options were lapsed upon the resignation of employees of the Group. None of the remaining share options granted were exercised since the date of grant to the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group								
At 1 January 1999	4,937,755	(126,823)	(11,334)	261,896	29,815	(8,077)	568,119	5,651,351
Goodwill on acquisition	—	(52,843)	—	—	—	—	—	(52,843)
Goodwill written back	—	39,781	—	—	—	—	—	39,781
Share of movements in reserves of an associate	—	—	380	—	—	—	—	380
Exchange realignments	—	—	—	—	—	5,438	—	5,438
Deficit on revaluation	—	—	—	(10,000)	—	—	—	(10,000)
Retained profit for the year	—	—	—	—	—	—	185,110	185,110
Transfer from retained profits	—	—	—	—	4,951	—	(4,951)	—
Goodwill written back on disposal of interests in an associate	—	217,094	—	—	—	—	—	217,094
At 31 December 1999 and 1 January 2000	4,937,755	77,209	(10,954)	251,896	34,766	(2,639)	748,278	6,036,311
Deemed disposal of an associate	—	27,947	5,540	—	—	(65)	—	33,422
Changes in fair value of long term investments	—	—	(122,000)	—	—	—	—	(122,000)
Deficit on revaluation	—	—	—	(15,166)	—	—	—	(15,166)
Goodwill adjustment	—	5,294	—	—	—	—	—	5,294
Share of movements in reserves of an associate	—	(30,435)	5,414	—	—	234	—	(24,787)
Exchange realignments	—	—	—	—	—	(3,300)	—	(3,300)
Retained profit for the year	—	—	—	—	—	—	20,875	20,875
Transfer from retained profits	—	72,198	—	—	9,914	—	(82,112)	—
Impairment of goodwill previously eliminated directly against reserves at the time of acquisition, charged to profit and loss account	—	34,667	—	—	—	—	—	34,667
Realisation of reserves on impairment of an associate	—	30,435	—	—	—	(169)	—	30,266
At 31 December 2000	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Reserves retained by:								
Company and subsidiaries	4,937,755	209,747	(122,000)	236,730	44,680	(5,939)	965,884	6,266,857
Jointly controlled entities	—	—	—	—	—	—	(5,459)	(5,459)
Associates	—	7,568	—	—	—	—	(273,384)	(265,816)
At 31 December 2000	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Company and subsidiaries	4,937,755	204,453	—	251,896	34,766	(2,639)	896,902	6,323,133
Jointly controlled entities	—	—	—	—	—	—	(2,348)	(2,348)
Associates	—	(127,244)	(10,954)	—	—	—	(146,276)	(284,474)
At 31 December 1999	4,937,755	77,209	(10,954)	251,896	34,766	(2,639)	748,278	6,036,311

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. 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 1999	4,937,755	529,765	5,467,520
Profit for the year	—	30,268	30,268
Dividends	—	(65,022)	(65,022)
	<hr/>	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	4,937,755	495,011	5,432,766
Loss for the year	—	(52,897)	(52,897)
Dividends	—	(130,044)	(130,044)
	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>4,937,755</u>	<u>312,070</u>	<u>5,249,825</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	866,797	652,054
Interest income	(56,121)	(115,703)
Dividend income from listed investments	—	(3,893)
Depreciation	451,541	493,561
Loss/(gain) on changes in fair value of short term investments	6,215	(9,627)
Provisions for doubtful debts and bad debts written off	37,155	63,055
Revaluation surplus on hotel properties, net	(16,638)	—
Provisions for slow-moving inventories	1,131	2,253
Gain on disposal of fixed assets	(4,098)	(3,159)
Gain on disposal of long term investment	(10,261)	—
Loss/(gain) on disposal of short term investments	(502)	8,879
Provisions for impairments in values of short term investments	6,174	—
Decrease/(increase) in inventories	6,634	(8,986)
Decrease/(increase) in trade receivables and other receivables	(91,811)	256,591
Increase in amount due from ultimate holding company	(3,038)	(8,688)
Increase in amounts due from fellow subsidiaries	(50,079)	(200)
Increase/(decrease) in trade payables, other payables and accruals	97,828	(115,727)
Decrease in amount due to ultimate holding company	—	(1,651)
Increase/(decrease) in amounts due to fellow subsidiaries	4,421	(3,415)
Increase in amounts due from jointly controlled entities, net	(2,392)	—
Increase in deferred income	10,251	34,956
Effect of foreign exchange rate changes	(10,365)	9,556
Net cash inflow from operating activities	<u>1,242,842</u>	<u>1,249,856</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Convertible notes HK\$'000	Minority interests HK\$'000	Bank loans, amounts due to minority shareholders and lease payables HK\$'000
At 1 January 1999	5,262,867	470,000	1,109,202	2,862,108
Cash outflow from financing, net	—	—	—	(299,296)
Capital contributed by a minority shareholder	—	—	65,506	—
Share of profits for the year	—	—	216,083	—
Share of reserves	—	—	12,133	—
Dividends paid to minority shareholders	—	—	(97,536)	—
Exchange realignments	—	—	—	8,173
At 31 December 1999 and 1 January 2000	5,262,867	470,000	1,305,388	2,570,985
Cash outflow from financing, net	—	—	—	(914,405)
Inception of finance lease and hire purchase contract arrangements	—	—	—	6,365
Reclassification from other payables	—	—	2,733	—
Share of profits for the year	—	—	280,262	—
Share of reserves	—	—	7,528	—
Dividends paid to minority shareholders	—	—	(148,301)	—
Reclassification to interests in a jointly controlled entity	—	—	(1,130,359)	(1,037,859)
Exchange realignments	—	—	—	1,531
At 31 December 2000	<u>5,262,867</u>	<u>470,000</u>	<u>317,251</u>	<u>626,617</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. NOTES TO THE CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

- (i) Reclassification from interests in a subsidiary to interests in a jointly controlled entity

	2000 HK\$'000	1999 HK\$'000
Net assets transferred:		
Fixed assets	(3,635,567)	—
Inventories	(78,244)	—
Trade receivables	(335,657)	—
Other receivables, deposits and prepayments	(107,702)	—
Cash and cash equivalents	(157,221)	—
Other payables and accruals	269,416	—
Trade payables	67,298	—
Tax payable	21,942	—
Short term loans	282,673	—
Deferred tax	19,303	—
Loan due to minority shareholder	755,186	—
Due to the Group	687,801	—
Minority interests	1,130,359	—
	<u>(1,080,413)</u>	<u>—</u>

- (ii) During the year, the Group entered into finance lease and hire purchase contract arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$6,365,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. 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
			Direct	Indirect	
Chadwick Developments Limited	Hong Kong	1,000 ordinary shares of HK\$1 @ 10,000 non-voting deferred shares of HK\$1 @	100 —	— —	Investment holding
China Trading Service Co., Ltd.*	PRC	RMB14,000,000	—	76	Freight forwarding
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1 @	—	70	Passenger transportation
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1 @	—	100	Tour operations
China Travel Service (Cargo) Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$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 —	Passenger transportation
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	—	96.2	Provision of cargo transportation services
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1 @ 100 non-voting deferred shares of HK\$1 @	— —	100 —	Property investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. 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
			Direct	Indirect	
CTII Worldwide Limited	British Virgin Islands/ Hong Kong	641,000 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 —	Property investment holding and hotel operations
Good Way Technology Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	—	Investment holding
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 100 non-voting deferred shares of US\$1 @	— —	100 —	Property investment holding and hotel operations
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1 @	—	100	Investment holding
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1 @ 100 non-voting deferred shares of HK\$1 @	— —	100 —	Property investment holding
Princess Capital Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	—	Securities trading
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 @	—	100	Dormant
Rida Investment Company Limited	Macau	PTC99,000	—	100	Property investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. 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
			Direct	Indirect	
Shenzhen The Splendid China Development Co., Ltd.*	PRC	RMB184,000,000	51	—	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.*	PRC	US\$29,500,000	51	—	Tourist attraction operations
Shenzhen Miniature World Food Co., Ltd.*	PRC	US\$2,400,000	—	60	Restaurant operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1 @	—	80	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Limited*	PRC	RMB100,000,000	—	80	Golf club operations
Smart Concord Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	—	100	Property investment holding and hotel operations
		100 non-voting deferred shares of US\$1 @	—	—	
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1 @	—	100	Property investment holding
		100 non-voting deferred shares of HK\$1 @	—	—	
Vigilant Resources Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	—	Provision of financial services
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US\$1	—	100	Property investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

* These subsidiaries are Sino-foreign equity joint ventures.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

34. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Group had the following material contingent liabilities:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	—	—	2,024	1,437
Guarantees given to banks in connection with facilities granted to and utilised by an associate	136,383	186,381	136,383	186,381
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,888	—	—	—
	<u>138,271</u>	<u>186,381</u>	<u>138,407</u>	<u>187,818</u>

- (b) At the balance sheet date, Weihe Power, a jointly controlled entity of the Group, had contingent liabilities in respect of SO2 treatment fee.

According to a regulation issued by Shaanxi Provincial Environmental Protection Bureau (“PEPB”), Weihe Power has required to accrue a SO2 treatment fee since 1997. Of such treatment fee, 10% should be paid to PEPB and 90% should be kept by the company for future expenditure on SO2 treatment, which may include capital expenditures.

In 1998, pursuant to a verbal confirmation from the State Environmental Protection Bureau (“SEPB”), Weihe Power ceased making further accruals on the grounds that it is not located in one of the designated areas specified in the State regulations prescribing such SO2 treatment fee.

Had Weihe Power continued to accrue such fees in 2000, 1999 and 1998, the accrued amount in respect thereof would have been increased by approximately HK\$3,769,000 (of which the Group’s share therein would have been approximately HK\$1,922,000) as of 31 December 2000 and the net income for the year ended 31 December 2000 would have been reduced by approximately HK\$1,884,000 (of which the Group’s share therein would have been approximately HK\$961,000). The outcome of this matter will depend on the final negotiations with and agreement by the PEPB and SEPB.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

35. COMMITMENTS

(a) Capital commitments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Plant and equipment:		
Contracted, but not provided for	—	1,972
Authorised, but not contracted for	—	14,403
	<u>—</u>	<u>16,375</u>
Land and buildings:		
Contracted, but not provided for	1,697	—
Authorised, but not contracted for	61,235	61,235
	<u>62,932</u>	<u>61,235</u>
Unpaid capital contribution to jointly controlled entities:		
Contracted, but not provided for	6,350	—
	<u>6,350</u>	<u>—</u>
Others:		
Contracted, but not provided for	176,337	245,517
Authorised, but not contracted for	179,786	9,300
	<u>356,123</u>	<u>254,817</u>

(b) Commitments under operating leases

At 31 December 2000, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	2000	1999
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	1,664	1,623
In the second to fifth years, inclusive	953	2,010
After five years	8,480	8,450
	<u>11,097</u>	<u>12,083</u>

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

	2000	1999
	HK\$'000	HK\$'000
Authorised, but not contracted for	5,478	—
	<u>5,478</u>	<u>—</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2000

36. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year which also constitute connected transactions as defined in the Listing Rules:

(a) China Travel Service (Holdings) Hong Kong Limited or its subsidiaries

			Group	
Name of company		Nature of transaction	2000 HK\$'000	1999 HK\$'000
Paid or payable to:				
(i)	China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	2,256	2,245
(ii)	China Travel Hip Kee Godown Hong Kong Limited	Storage charges	776	799
(iii)	China Travel Service (Hong Kong) Limited	Train and boat tickets	20,451	17,255
(iv)	China Travel Service (Hong Kong) Limited	Bus ticket service fees	3,637	2,608
(v)	China Travel Service (Hong Kong) Limited	Office rental	4,304	5,746
(vi)	China Travel Service (Hong Kong) Limited	Management service fees	11,392	16,411
(vii)	China Travel Service (Hong Kong) Limited	Advertising fees	732	1,670
(viii)	China Travel Service (Hong Kong) Limited	Others	48	711
(ix)	China Travel Service (Holdings) Hong Kong Limited	Convertible notes interest	28,277	28,200
(x)	China Travel Service (Holdings) Hong Kong Limited	Management fees	150	2,892
(xi)	China Travel Advertising Hong Kong Limited	Advertising fees	1,716	657
(xii)	China Travel Building Contractors Hong Kong Limited	Decoration expenses	1,783	4,158
(xiii)	China Travel Insurance Advisers Hong Kong Limited	Insurance payments	6,744	5,759
(xiv)	Tai Sun Services Company Limited	Coolie charges	1,158	1,768

NOTES TO FINANCIAL STATEMENTS

31 December 2000

36. RELATED PARTY TRANSACTIONS (continued)

(a) China Travel Service (Holdings) Hong Kong Limited or its subsidiaries (continued)

		Group		
Name of company		2000 HK\$'000	1999 HK\$'000	
Paid or payable to: <i>(continued)</i>				
(xv)	Grand Tour & Travel Limited	Macau tour charges	505	1,461
(xvi)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charges	1,994	1,136
(xvii)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charges	6,033	4,216
(xviii)	China Travel Hotel Management Services Hong Kong Limited	Hotel management fees <i>(note 1)</i>	3,918	—
(xix)	China Travel Hotel Management Services Hong Kong Limited	Management service fees	1,291	—
(xx)	China Travel Hi-Tech Computer Hong Kong Limited	Equipment hiring fees	810	—
(xxi)	Sun Wah Printing Factory	Printing charges	635	—
Received or receivable from:				
(xxii)	China Travel Service (Holdings) Hong Kong Limited	Reimbursement of PRC with- holding tax on interest income	3,083	50,269
(xxiii)	China Travel Service (Holdings) Hong Kong Limited	Hotel room rental	400	—
(xxiv)	China Travel Service (Hong Kong) Limited	Freight charges	14	2,987
(xxv)	China Travel Service (Hong Kong) Limited	Admission tickets	37,899	10,173
(xxvi)	China Travel Service (Hong Kong) Limited	Hotel room rental	11,580	8,087
(xxvii)	China Travel Service (Hong Kong) Limited	Coach income <i>(note 2)</i>	733	675
(xxviii)	China Travel Trading Company (Hong Kong) Limited	Rental income	—	1,735
(xxix)	Tai Sun Services Company Limited	Freight charges	—	1,047



NOTES TO FINANCIAL STATEMENTS

31 December 2000

36. RELATED PARTY TRANSACTIONS (continued)

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

Notes: (1) The hotel management fees paid 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.

(2) The coach income paid to China Travel Tours Transportation Services Hong Kong Limited by China Travel Service (Hong Kong) Limited during the year amounted to HK\$733,000, which was less than 0.3% of the audited consolidated net tangible assets of the Group.

- (b) Pursuant to an agreement dated 20 March 2000, Good Way Technology Limited (“Good Way”), a wholly-owned subsidiary of the Company, acquired 18% interest in China Travel Net Limited from CTS (Holdings) for a cash consideration of HK\$180 million, with an option to acquire a further 2% interest in China Travel Net Limited for a consideration of HK\$20 million.

The consideration of HK\$180 million paid by the Group under the agreement was arrived at after negotiations between the parties.

- (c) Pursuant to a conditional sale and purchase agreement dated 16 November 1999, Goster Resources Limited (“Goster”), a wholly-owned subsidiary of the Group, disposed of a property to CPL Investments Limited, a wholly-owned subsidiary of Vision Century Corporation Limited (formerly Hing Kong Holdings Limited, “Hing Kong”), at a consideration of HK\$106 million of which HK\$40 million was satisfied by payment in cash and HK\$66 million was satisfied by the issue by Hing Kong of 10 convertible bonds.

The consideration was agreed after negotiations with reference to an independent valuation by Chesterton Petty Limited of the property of HK\$106 million as at 1 November 1999 as instructed by Hing Kong and an independent valuation by C.Y. Leung & Company Limited of the Property of HK\$106 million as at 16 November 1999 as instructed by the Company.

The transaction was completed on 10 January 2000.



NOTES TO FINANCIAL STATEMENTS

31 December 2000

37. POST BALANCE SHEET EVENTS

The following significant events were recorded subsequent to the balance sheet date:

(i) Disposal of interest in Hing Kong

Subsequent to the balance sheet date, on 8 January 2001, Winyear Profits Limited (“Winyear”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Vision Century Limited, an independent third party, to dispose of 389,283,062 shares of Hing Kong, being all Hing Kong shares held by Winyear representing 23.34% of the issued share capital of Hing Kong as at that date, at a cash consideration of HK\$1 per share.

The transaction was completed on 5 February 2001 and in anticipation of the loss on disposal of approximately HK\$56,152,000, an impairment provision of equivalent amount has been provided for in these financial statements.

(ii) Bank loan facility of HK\$800 million

Subsequent to the balance sheet date, the Company has obtained a bank loan of HK\$800 million to finance the general working capital of the Group.

The loan is secured by certain of the Group’s hotel properties. The secured bank loan is repayable in 7 semi-annual installments commencing 21 March 2003. Interest is charged on the outstanding balance at Hong Kong Interbank Offered Rate plus 1% for the applicable loan period.

(iii) Proposed acquisition of entire issued share capital of Alton Services Limited (“ASL”)

On 21 March 2001, the Company entered into a conditional agreement (“Agreement”) with CTS (Holdings) whereby the Company agreed to acquire the entire issued share capital of ASL, a wholly-owned subsidiary of CTS (Holdings). ASL is the holding company of China Travel Service (Hong Kong) Limited, China Travel Air Service Hong Kong Limited, China Travel Advertising Hong Kong Limited, China Travel Net Limited and China Travel e-Business Limited.

The consideration for the proposed acquisition of ASL is HK\$1,911 million, of which HK\$1,181 million will be satisfied by payment in cash, HK\$600 million will be satisfied by the issue of the Company’s convertible bonds, and the remaining HK\$130 million will be satisfied by the disposal of the Group’s 40% interest in and a shareholder’s loan to China Travel Roads & Bridges JV Investment Limited.

The proposed acquisition will give rise to a goodwill amount of approximately HK\$1,093 million on consolidation.

Further details of the transactions are set out in the Company’s circular dated 11 April 2001.



NOTES TO FINANCIAL STATEMENTS

31 December 2000

38. COMPARATIVE AMOUNTS

Salary expenses of approximately HK\$36,917,000 have been reclassified from other operating expenses to administrative expenses for the 1999 comparative amounts. In the opinion of the directors, the reclassification provides a better presentation of these expenses after considering the nature of the work undertaken by the relevant employees and is consistent with the presentation adopted for the current year.

39. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the board of directors on 25 April 2001.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of the Company will be held at Coral Room, 3rd Floor, Hotel Furama Hong Kong, 1 Connaught Road Central, Hong Kong on 1 June, 2001 (Friday) at 3:00 p.m. for the following purposes:—

1. To receive and consider the audited financial statements and the reports of the Directors and Auditors for the year ended 31 December, 2000.
2. To declare final and special dividends.
3. (i) To re-elect Directors; and

(ii) To fix the remuneration of Directors.
4. To re-appoint Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business.

By Order of the Board
Woo Wai See, Alice
Company Secretary

Hong Kong, 25 April, 2001

Registered Office:

12th Floor, CTS House

78-83 Connaught Road Central

Hong Kong



NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. All proxies must be deposited at the Company's registered office at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting (or adjourned meeting or the taking of the poll, as the case may be).
- (2) A form of proxy for use at the meeting will be enclosed with the 2000 Annual Report to be despatched to the shareholders. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.
- (3) In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- (4) The Register of Members will be closed from Monday, 28 May 2001 to Friday, 1 June, 2001 (both days inclusive). In order to establish entitlements to the proposed final and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 25 May 2001.