



CHINA TRAVEL

China Travel International Investment Hong Kong Limited which is majority held by China Travel Service (Holdings) Hong Kong Limited, was established and listed on The Stock Exchange of Hong Kong Limited (stock code 308) in 1992. The group is an enterprise with core travel-related businesses. The principal businesses of the group include tour operation, hotels, theme parks, passenger and freight transportation, golf club and infrastructure investment. As at 31 December 2001, the consolidated net asset value of the group was approximately HK\$8.01 billion.

Corporate Information

DIRECTORS

Che Shujian (*Chairman*)
Zhang Xuewu (*Vice Chairman*)
Chen Shoujie
Zheng Hongqing
Zheng Heshui
Shen Zhuying (*Managing Director*)
Lo Sui On
Ng Chi Man, Michael
Liu Li
Zhang Fengchun
Yeh Meou Tsen, Geoffrey *#
Yeh V Nee *# (*alternate director to*
Yeh Meou Tsen, Geoffrey)
Fong Yun Wah *
Wong Man Kong, Peter *#

* Independent Non-Executive Director
Member of 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

SOLICITORS

Johnson Stokes & Master
16-19th Floors
Prince's Building
10 Chater Road
Central, Hong Kong

PRINCIPAL BANKERS

Bank of East Asia, Limited
BNP Paribas
Hang Seng Bank Limited
The Development Bank of Singapore Limited
The Hongkong and Shanghai Banking
Corporation Limited
United Overseas Bank Limited
Societe Generale – Hong Kong Branch

WEBSITE

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

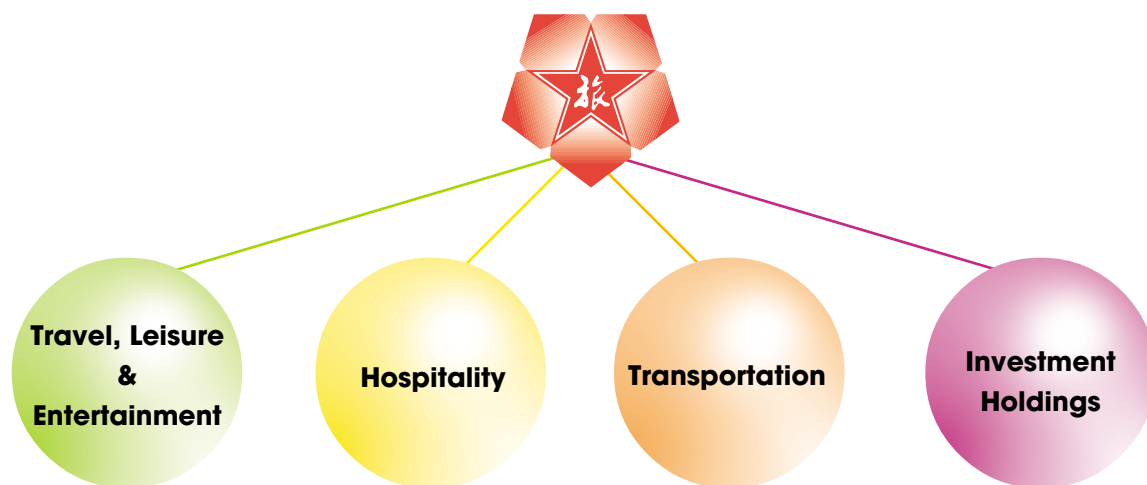
STOCK CODE

308

WARRANT CODE

763

Major Operations



Tour Operation

- China Travel Service (Hong Kong) Limited (100%)
- China Travel International Limited (100%)
- China Travel (HK & Macau Tour) Management Hong Kong Ltd. (100%)
- China Travel Net Ltd. (80%)

Theme Parks

- Splendid China (51%)
- China Folk Culture Villages (51%)
- Window of the World (51%)

Golf Club Operation

- Shenzhen Tycoon Golf Club (80%)

Hotels

- Hotel Concourse (100%)
- Hotel New Harbour (100%)
- The Metropole Hotel (100%)
- Metropark Hotel (100%)
- Hotel Grandeur Macau (100%)

Freight Forwarding

- China Travel Service (Cargo) Hong Kong Ltd. (100%)
- China Trading Service Co., Ltd. (76%)
- Shenzhen China Travel Service (Cargo) Hong Kong Ltd. (49%)
- CTII Worldwide Ltd. (70%)

Passenger Transportation

- China Travel Tours Transportation Services Hong Kong Ltd. (100%)
- China Travel Express Limited (70%)
- Shun Tak-China Travel Shipping Investments Ltd. (29%)

Infrastructure

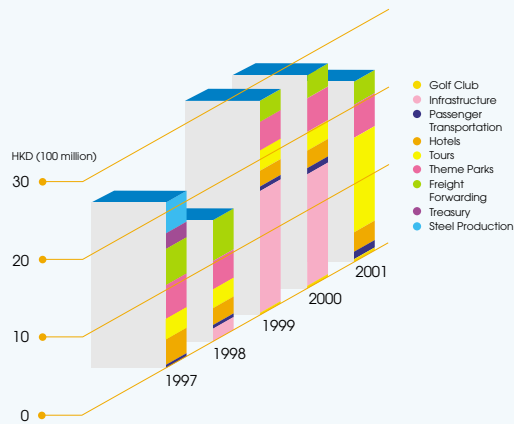
- Weihe Power Plant (51%)

Financial Review

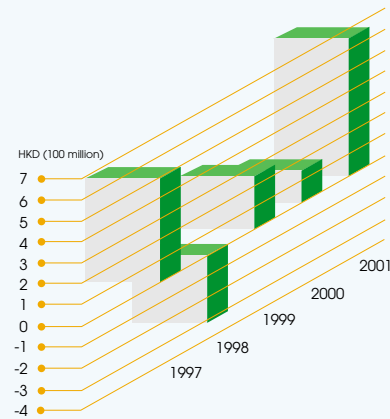
FIVE YEARS FINANCIAL SUMMARY

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 published audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five years summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

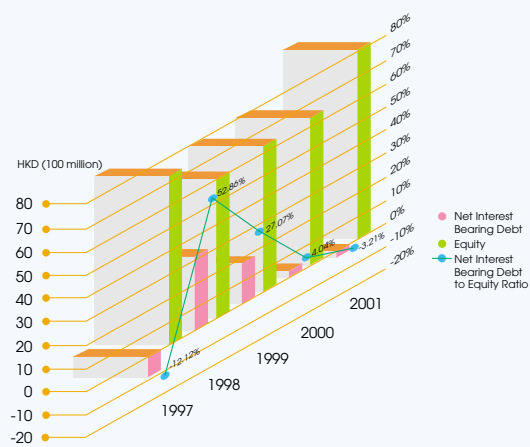
	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000	1997 HK\$'000 (Restated)
Results					
Turnover	<u>2,329,235</u>	<u>2,751,390</u>	<u>2,766,954</u>	<u>1,566,007</u>	<u>2,107,377</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>650,966</u>	<u>150,919</u>	<u>250,132</u>	<u>(317,358)</u>	<u>376,140</u>
Dividends	<u>374,679</u>	<u>130,044</u>	<u>65,022</u>	<u>–</u>	<u>105,332</u>
Assets and liabilities					
Total assets	<u>10,646,328</u>	<u>8,524,603</u>	<u>11,666,428</u>	<u>11,384,745</u>	<u>9,911,399</u>
Total liabilities	<u>2,638,028</u>	<u>2,106,376</u>	<u>5,272,494</u>	<u>5,408,282</u>	<u>2,656,585</u>
Total liabilities (excluding minority interests)	<u>2,285,025</u>	<u>1,789,125</u>	<u>3,967,106</u>	<u>4,299,080</u>	<u>2,471,774</u>



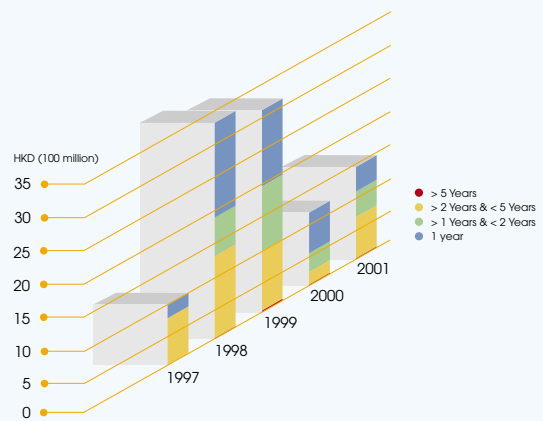
Turnover by Principal Activities



Profit Attributable to Shareholders



Net Debt to Equity



Debt Maturity Profile

Financial Ratios Highlights

	2001	2000
Profit & loss account ratios		
Interest coverage ratio	9.71	3.81
Earnings per share (cents)	17.85	4.64
Dividend per share (cents)	9.00	4.00
Dividend payout ratio (%)	50.42	86.21
Balance sheet ratios		
Current ratio	1.78	1.21
Quick ratio	1.69	1.19
Net assets value per share (HK\$)	1.90	1.97
Net interest-bearing debt to equity	(0.03)	0.04
Rate of return ratios		
Return on average equity (%)	9.02	2.36
Return on total capital and borrowings (%)	8.44	8.06
Market price ratios		
Dividend yield		
Year low (%)	5.14	1.68
Year high (%)	9.68	5.13
Price to earning ratio		
Year low	5.21	16.81
Year high	9.80	51.19

Directors and Management Profile

DIRECTORS

Mr. Che Shujian, aged 59, was appointed Chairman of the Company in June 2000. He graduated from the School of Economics of Jilin University in China and was entitled senior engineer of Economic Management. He has been engaging 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 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 in April 2000 as chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the ultimate holding company of the Company.

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 qualified as Senior Economist. He was the executive vice president and director of Minmetals UK, Ltd. in China, the senior vice president of China National Metals & Minerals Import and Export Corp. in China and the first president of Minmetals Development Co., Ltd., a listed company. He has extensive business management and overseas working experience. He joined CTS (Holdings) as vice chairman and general manager in January 2001. Mr. Zhang holds chairmanships and directorships in various subsidiaries and joint-venture companies of CTS (Holdings). He is currently serving a member of the Tourism Strategy Group in the HKSAR Government in October 2001.

Mr. Chen Shoujie, aged 57, was appointed Executive Director of the Company in June 2000. He graduated from Xian Jiaotong University in China and has extensive experience in business management. Prior to joining the Group, he was the plant manager of 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) and the Group.

Mr. Zheng Hongqing, aged 54, was appointed Executive Director of the Company in January 1997. He graduated from Department of Statistics of Renmin University in China, holds a Master degree in Economics and is qualified as Senior Economist. He has over 20 years of experience in economic work. Prior to joining the Group, he was a committee member of The State Commission for Restructuring Economic System and director of the Comprehensive Research 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) and the Group.

Mr. Zheng Heshui, aged 51, was appointed Executive Director of the Company in September 1998. He graduated from the Xiamen University in China and has been engaged in economic development work for over 20 years. Mr. Zheng is a executive director and deputy general manager of CTS (Holdings) and holds chairmanships and directorships in various subsidiaries of CTS (Holdings) and the Group.

DIRECTORS *(continued)*

Mr. Shen Zhuying, aged 54, was appointed Managing Director of the Company in October 2000. He has over 20 years' experience in trading and business management. He was the Managing Director of the Company from 1992 to 1997 and has extensive experience in managing listed company. He is also an executive director of CTS (Holdings) and holds directorships in various subsidiaries of the Group.

Mr. Lo Sui On, aged 51, was appointed Executive Director of the Company in June 2000. He has 30 years' experience in tourism management since he joined China Travel Service (Hong Kong) Limited ("CTSHK") in 1971. He is currently the director and general manager of CTSHK, executive director and deputy general manager of CTS Holdings and holds directorships in various subsidiaries of the Group and CTS (Holdings). He served as director of Travel Industry Council of Hong Kong from 1997 to 1999 and a member of the Tourism Strategy Group in the HKSAR Government from 1999 to 2001.

Mr. Ng Chi Man, Michael, aged 43, was appointed Executive Director and Deputy General Manager of the Company in November 2000. Mr. Ng 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 many years of corporate and financial management experience working as senior management in several other listed companies in Hong Kong including group financial controller for Consolidated Electric Power Asia Limited and chief financial officer for Hong Kong Construction (Holdings) Limited and was a non-executive director of Citybus Group Limited and netafone.com Limited. He is a director (an alternate director to Mr. Zheng Hongqing) of Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited) and an independent non-executive director of Value Partners China Greenchip Fund Limited. Mr. Ng holds directorship in various subsidiaries of the Group.

Mr. Liu Li, aged 49, was appointed the Executive Director and Deputy General Manager of the Company in February 2002. Mr. Liu graduated from the Finance and Trade College at Jilin of China, holds a Bachelor degree in Finance and is qualified as Senior Auditor and a Certified Public Accountant in China. He has many years of experience in corporate and administration operation. He served as vice secretary-general and executive director of Auditing Association of Guangdong Province. He joined CTS (Holdings) in 1997 as general manager of Audit Department. He is also a director, executive deputy general manager and chief accountant of Shaanxi Weihe Power Plant Co., Ltd.

Mr. Zhang Fengchun, aged 37, was appointed Executive Director of the Company in June 2000. Mr. Zhang graduated from Accounting Department of Renmin University of China and is qualified as a Certified Public Accountant in China. He has many years of experience in investment planning, finance operation and management. He joined CTS (Holdings) in 1994. He is also a director of CTS Holdings and holds directorships in various subsidiaries in CTS (Holdings).

DIRECTORS (continued)

Dr. Yeh Meou Tsen, Geoffrey*[#], *S.B.S., M.B.E., J.P., D.C.S.*, aged 71, was appointed an Independent Non-Executive Director of the Company in January 2001. Dr. Yeh obtained a Master degree of Science from the Graduate School of Arts & Sciences of Harvard University in 1954 and a Bachelor degree of Science in Civil Engineering from the University of Illinois in 1953. He is the chairman of Hsin Chong Construction Group Ltd. and director of Hysan Development Co., Ltd., listed companies in Hong Kong. He was the chairman of The Hong Kong Futures Exchange Ltd. until its merger into 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 43, was appointed an Alternate Director to Dr. Yeh Meou Tsen, Geoffrey of the Company in January 2001. Mr. Yeh graduated from the School of Law at Columbia University and was admitted a member of the California Bar Association in 1984. He is the deputy chairman of Hsin Chong Construction Group Ltd. and is a co-founder of Value Partners Limited and VP Private Equity Limited. Mr. Yeh was a council member of The Stock Exchange of Hong Kong Limited ("SEHK") until its merger into Hong Kong Exchanges and Clearing Limited. He remains a member of the SEHK's Listing Committee and is a member of the Listing Committee of the China Securities Regulatory Commission. He also sits on the Takeovers & Mergers Panel and the Takeovers Appeals Committee of Securities and Futures Commission. He is also a director of Arnhold Holdings 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 77, 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 HKSAR. Dr. Fong was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC 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 53, 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 experiences. He is the chairman of M.K. Corporation Limited, North West Development Limited and director of Hong Kong Ferry (Holdings) Co., Ltd., Glorious Sun Enterprises Limited and Sun Hung Kai & Co. Limited. He is currently serving as a deputy to the People's Republic of China 9th National People's Congress, a member of the HKSAR Preparatory Committee and a member of the Task Force on Unemployment in the HKSAR Government.

* Independent Non-Executive Director

member of audit committee.

MANAGEMENT

Mr. Jian Dian, aged 51, is a 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 Commerce Bureau in Taoyuan, Hunan Province, the general manager of Hunan Province International Exchange Services Co., Ltd. and the general manager of Shenzhen Huaqiao Cheng Trading Co., Ltd.

Mr. Zhang Yuanxing, aged 62, was appointed the director and general manager of Shenzhen The Splendid China Development Co., Ltd. in 1996. He has over 20 years' experience in corporate management and administration and has extensive experience in travel industry. He was the general manager of Yunnan Province of China Travel Service Office and the President of Florida Splendid China, Inc., U.S.A.

Mdm Guo Yimei, aged 50, was appointed the director and deputy general manager of China Travel International Ltd. in 2001. Mdm Guo graduated from the College of Foreign Language of Jilin University of China. She has joined CTSHK since 1994 and was the general manager of Foreign Passenger Department and deputy general manager of CTSHK. She worked for China International Travel Service as general manager and sale manager of Haerbin Branch during the period from 1985 to 1988. Afterwards, she also worked as general manager of Overseas Tourism Corporation of Heilongjiang Province and was a senior visiting scholar of the tourism department of George Washington University in U.S.A. for one year in 1992. Mdm Guo holds directorship in various subsidiaries of the Group.

Mr. Sun Jiangang, aged 47, was appointed the director and general manager of China Travel (HK & Macau Tour) Management Hong Kong Limited in 2001. He graduated from the School of Law of the Renmin University of China. He worked with the Personnel Division in the Overseas Chinese Office of The State Council. He joined the Group in 1997.

Mr. Guo Zhenming, aged 45, was appointed the director and the general manager of China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") in 2001. Mr. Guo graduated from Tourism Department of Huaqiao University in China. Prior to joining the Group, he worked as assistant manager of Tour Package Department, manager, assistant general manager and deputy general manager of Tour Department in the Fujian Province of China Travel Service Office since May 1978. Mr. Guo holds directorship in various subsidiaries of the CTS Cargo's group.

Mr. Feng Weixiang, aged 39, joined China Travel Tours Transportation Services Hong Kong Limited ("CT Tours") since 1996 and is the director of CT Tours. He holds a Bachelor's degree from the College of Arts of the Jinan University in China and Diploma in Economics and Management Programme. He served as manager of the General Manager Office of CTS (Holdings), and an assistant general manager of the Corporate Management Department of CTS (Holdings) in 1994. 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 Hong Kong and Mainland.

MANAGEMENT (continued)

Mr. Wang Fei, aged 37, is the director and general manager of Shenzhen Tycoon Golf Club Co., Limited and joined China Travel Air Service Co., Limited as deputy general manager in 1996. Mr. Wang graduated from the School of Economics and Management of Northern Jiaotong University in China. Before joining the Group, he has served in The State Bureaus of the PRC Government and Shenzhen Overseas Chinese Town Economic Development Company for several years, worked as deputy general manager of Lao Aviation (International) Company Ltd. from 1994 to 1996.

Mr. Liu Jingping, Jean Paul, aged 42, is a 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 31 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 18 years' professional experience in hotel administrative management.

Mr. Harold Yung, aged 50, is a general manager of Metropark Hotel. He was appointed as general manager by the Company in 2000 to take responsibility for hotel projects in charge. In 1988, he was also appointed by CTSK as general manager of the Metropole Hotel over 10 years and was the development director of China Travel Hotel Management Services (Hong Kong) Limited in the meantime. He has over 30 years' experience in hotel industry. Mr. Yung obtained a bachelor degree of the Travel Industry Management School from the University of Hawaii and 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 and responsible for many hotel projects in charge. He was formerly the first vice chairman of Hong Kong Hotels Association from 1990 to 1992. Afterwards, he 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 56, is a 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. He joined CTS (Holdings) in 1990.

Mr. Chi Yanqing, aged 58, is the director and general manager of Hotel Grandeur Macau. He graduated from the Foreign Language Department of Nanjing University in China. He served as general manager of Hotel Concourse, deputy general manager of China Travel Hotel Management Services Hong Kong Limited, general manager of Huaqiao Hotel in Guangzhou and worked for China Travel Service Office of Guangdong Province. He has extensive experience in hotel management.

Mr. Yang Cunquan, aged 45, joined China Travel Hi-Tech Computer Hong Kong Limited ("CTHT") in March 1998. Mr. Yang is currently the director and general manager of CTHT. He graduated from Huaqiao University in China and has gained many experience in design website, establishment of computer network as well as in the relevant field of management. Before joining the Group, he worked as engineer and assistant officer of the Information Network Centre of Huaqiao University responsible for the system design and implementation of computer network system and website.



Chairman's Statement

On behalf of the Board of Directors of China Travel International Investment Hong Kong Limited (“the Company”) and its subsidiaries (together “the Group”), I am pleased to announce that the Group has recorded an audited net profit attributable to shareholders of HK\$651 million for the year ended 31 December 2001, which is an increase of 331% as compared with last year. The net asset value of the Group as at 31 December 2001 was approximately HK\$8.01 billion, which is an increase of 25% as compared with last year.

The year 2001 was unique in the history of development of the Group. With full support from our controlling shareholder, China Travel Service (Holdings) Hong Kong Limited ("CTSH"), the Group acquired China Travel Service (Hong Kong) Limited, China Travel Net Limited and Hotel Grandeur Macau, and disposed of its non-core interests in Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited) and China Travel Roads and Bridges JV Investment Limited during the year. To enhance the transparency of the Group, the Management of the Group had also conducted several roadshows for local and international investors. The conversion of HK\$1.07 billion of convertible bonds and convertible notes into common shares of the Company by CTSH has improved the Group's working capital and broadened its capital base. On 30 August 2001, the Group registered and established China Travel International Ltd. in Beijing to engage in domestic, inbound and outbound travel businesses in the People's Republic of China ("PRC"). This marked the formal entry of the Group into the PRC tourism industry and paved the way for the Group's further expansion into the PRC market. During the year, these significant developments have

reinforced the Group's tour travel business concept and further consolidated its earnings base. This has also proved to be well received by the investors as evidenced by the significant increase in the Company's share price during the year.

At present, the world economy has not settled into any steady trend. The aftermath of the September 11th event added to further uncertainties. However, the economy of the PRC continues to prosper with the rising travel spending by urban and rural residents. The PRC tourism industry is developing rapidly with great potentials. The PRC government has implemented a series of measures such as the opening of outbound travel business, the easing of departure and arrival procedures, and the maintenance of an orderly tour travel market in order to stimulate the development of the tourism industry. The liberation of China has entered into a new stage amid the entry of China into the World Trade Organization, the successful bid to host the Olympic Games and the continuous and steady growth of its local economy. Not only will the traditional sightseeing travel business grow, but the business travel, leisure travel, professional and conference travel businesses will also develop rapidly. Traveling into the PRC, worldwide traveling and traveling to Hong Kong and Macau will all increase in the near future. Hong Kong is capitalizing on the opportunity of the construction of the Disney Theme Park and adopting the theme of "City of Life: Hong Kong is it" to attract overseas travelers to visit Hong Kong. All of these favorable factors will bring ample business opportunities to the Group.

In the coming year, the Group will endeavor to develop the travel network in the PRC by forming strategic alliances with strong local travel agencies and to further expand. Through acquisition or formation of joint ventures, the Group will selectively acquire or merge with a number of quality and profitable travel agencies throughout the PRC.

The Group will develop resort areas and participate in the development and management of natural attraction sites in the PRC, thus broadening our earnings base.

The Group will continue to carry out reforms, consolidate our internal businesses further, undertake effective measures to control operating costs and upgrade our quality of services. The Group will adopt a strategy by deploying Hong Kong as our base to integrate with the PRC and overseas markets. The Group will strengthen complementary services such as visa, ticketing, tour origination, transportation, theme parks and hotels, etc. By deploying internal resources effectively, realizing the competitive edge of integrating and creating synergies, the Group will enhance the competitiveness and profitability of its core travel business.

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 for their invaluable contributions to the Group during the year. I would also like to thank all our staff for their hard work and dedication.

By Order of the Board,

Che Shujian

Chairman

Hong Kong, 10 April 2002

Business Review and Prospects

The year 2001 witnessed the significant development made by the Group. The Board of Directors' reaffirmed the travel business as its core business as the future direction for the Group's operation and development. During the year, the Group had acquired China Travel Service (Hong Kong) Limited ("CTSHK") and its overseas branches, China Travel Net Limited ("CTNet") and Hotel Grandeur Macau for HK\$1.18 billion in cash and HK\$600 million in convertible bonds, thus strengthening the earnings base from the travel business. At the same time, the Group had disposed of its non-core interests in property, road and bridge investments. Furthermore, the Group has increased its efforts in the expansion of travel network in Hong Kong, the PRC and overseas. A wholly-owned travel agency was established in Beijing and two new branches were added in Hong Kong. Overseas branches were revamped and preparatory work was undertaken to prepare the Group for future mergers and acquisitions of travel agencies in the PRC. These measures have reinforced the travel business concept of the Group and laid down the conditions for continuous development in the future.

The audited net profit attributable to shareholders of the Group for the year ended 31 December 2001 was HK\$651 million, which is an increase of 331% as compared with last year. By excluding the non-operational gain of HK\$53 million and write-offs last year, the operating profit has increased by 55%. The weighted average earnings per share increased by 285% to HK\$0.1785. The net asset value of the Group increased by 25%, from HK\$6.41 billion last year to HK\$8.01 billion as at 31 December 2001. Overall, the financial conditions of the Group is very good with strong operating cash flows.

TOUR OPERATION AND LEISURE BUSINESS

During the year, CTSHK received approximately 3.5 million of tourists. In the nine months after the acquisition by the Group, CTSHK and its subsidiaries contributed HK\$1.035 billion in turnover and HK\$175 million in profit to the Group. After the refinement of its performance-based incentive remuneration policy, CTSHK's operation, management and quality of services have shown marked improvement. In recognition of its outstanding achievements, CTSHK was awarded the Quality Summit for Excellence and Business Prestige by Business Initiative Directions. With respect to the on-line travel business, more on-line products were added to the travel website and the turnover from on-line transactions accounted for



CTSHK participating in 2002 Chinese New Year Parade



Office of China Travel International Ltd.



Outlook of Hotel
Grandeur Macau



Brochure of
www.chinatravelOne.com

23.9% of the on-line travel business' turnover. The number of visitors to the travel website reached 110,000 per month in the latter half of the year.

China Travel (HK & Macau Tour) Management Hong Kong Limited ("HK & Macau Tour") received 213,522 Mainland visitors in 2001, which is a slight increase from last year. However, as a result of the sharp reduction in tour package fares, the profit of HK & Macau Tour has decreased by 34% and accounted for only 8% of the Group's operating profit for the year. Although from the beginning of last year HK & Macau Tour has started to implement initiatives to control the expenditure on tour guides and coach fleet, to develop conference travel business starting from the beginning of last year, these measures could not offset the adverse impact from the reduction of tour package fares.

The three national "quadruple A" rated theme parks of the Group in Shenzhen attracted approximately 4.48 million visitors in 2001. Affected by the rainy weather during the Chinese New Year and summer, and coupled with the September 11th event, the number of visitors dropped slightly by 2%. Despite the drop, the contribution of profit to the Group by the three theme parks reached HK\$69.40 million, which is an increase of 3% over the equally strong results of last year. The increase was attributable to the effective measures such as the introduction of new games and attractions like Amazon Bobkart Slide, Fuji Mountain 4D Cylinder Surround Digital Cinema and Global Stage, the provision of management services for other theme parks and the decrease in operating costs. During the extended Labor Day and National Day holidays in the PRC, the turnover of Window of the World achieved a number one ranking among all theme parks in the PRC.

In 2001, Shenzhen Tycoon Golf Club achieved an increase in turnover of 13% and recorded a profit for the first time due to the further tightening up of management control, strengthening of membership sales and cost reduction initiatives.

HOTEL OPERATION

The average occupancy rate of the three hotels of the Group in Hong Kong, namely Hotel Concourse, The Metropole Hotel and Hotel New Harbour, was 83.6% in 2001, which is a slight decrease of 3% as compared with last year. Due to the depression of the Hong

Kong market and fierce price competition, the average room rate decreased by 5.6%. The Group's Metropark Hotel in Causeway Bay, a four-star business hotel with sea view, was completed and commenced soft opening towards the end of 2001. The opening of The Metropark Hotel has helped to expand the source of business travelers of the Group. Hotel Grandeur Macau, a four-star hotel in Macau, had also performed well in 2001. In the nine months after its acquisition of the Group, Hotel Grandeur Macau produced the best ever performance with average occupancy rate increased 7% to 80%, and the average room rate increased by 2.2%.

PASSENGER TRANSPORTATION AND FREIGHT FORWARDING

The bus transportation business continued to expand in a highly competitive market. During the year, China Travel Tours Transportation Services Hong Kong Limited and its subsidiary China Travel Express Limited ("CT Tours") bought 12 coaches and acquired the coach fleet from HK & Macau Tour. With a fleet of over 80 coaches, CT Tours ranked among the largest non-franchised coach operator in Hong Kong. In 2001, the number of passengers carried by CT Tours increased by 22%. The turnover and profit have increased by 24% and 15%, respectively. The load factors of the routes between Hong Kong International Airport and various Mainland cities, and between Shenzhen and Zhuhai have also increased substantially. The number of safety mileage recorded has also achieved new height.

During the year, Shun Tak-China Travel Shipping Investments Limited had implemented effective cost control measures which contributed to an increase in profit by 82%. The aggregate contribution to profit from the coach and ferry transportation businesses amounted to approximately HK\$40 million, which is an increase of 58% over last year.

With respect to the freight forwarding business, the turnover increased slightly by 1% to HK\$299 million in 2001. The Group's export freight volume through railway in Hong Kong decreased by 18% but the Group's sea freight and airfreight volume increased by 29% and 21%, respectively. In the PRC, the turnover of the freight forwarding business increased by 23%. Both the sea freight and airfreight volume increased sharply and the upward trend will continue. During the year, the total profit of the freight forwarding business in Hong Kong and the PRC increased by 37% to reach HK\$20.1 million.



Theme park in Shenzhen



Passenger ferry services



Executive Parlour of Metropark Hotel

INFRASTRUCTURE

The performance from Shaanxi Weihe Power Plant, which is 51%-owned by the Group, improved significantly in terms of the operating level of its power generating units. Operating from a safety conscious working environment, the management had achieved earnings growth of 14% through self-disciplines and effective cost control measures. During the year, Weihe Power Plant had repaid all shareholders' loans owed to the Group and continued to contribute substantial cash flows to the Group.

PROSPECTS

After the September 11th event, the world order was unsettled and the economic environment and conditions have further complicated. Following the opening up of the global market, competition is intensifying in all businesses. The Group will continue to strengthen its operation and corporate management, consolidate internal resources, and leverage on its background and set-up in order to achieve the competitive edge. The Group will strengthen its cooperation with PRC travel agencies and speed up the expansion of the travel network. In order to broaden its earnings base, the Group will selectively develop and construct large-scale resorts and natural attractions with emphasis on travel, entertainment and conference activities in the PRC. The Group will form strategic alliances and develop its overseas travel agencies with an emphasis on expanding the business traveler base. The Group aims to double the turnover of its overseas travel agencies over the next three years. At present, the PRC government is increasing its effort to regulate the tourism market and the tourism industry and, as a result, the operation of travel agencies in Hong Kong and the PRC should become more disciplined in due course. Favorable events such as the entry of China into the World Trade Organisation, the stimulation of internal consumption and the rapid development of the tourism industry in Hong Kong and Macau will bring about tremendous business opportunities and prospects of further development to the tourism industry.



Touring of Hong Kong & Macau

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 2001.

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 36 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 101.

An interim dividend of 5 cents per ordinary share was paid on 14 September 2001. The Directors recommend the payment of a final dividend of 4 cents per ordinary share in respect of the year to shareholders on the register of members on 3 June 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheets. Further details of this accounting treatment are set out in note 12 to the financial statements.

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 AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year are set out in note 33 to the financial statements.

CONVERTIBLE BONDS AND CONVERTIBLE NOTES

Details of movements of the convertible bonds and convertible notes are set out in notes 30 and 33, respectively, 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 34 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, 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\$377,247,000. In addition, the Company's share premium account, in the amount of HK\$5,919,433,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$30,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Che Shujian (<i>Chairman</i>)	
Mr. Zhang Xuewu (<i>Vice Chairman</i>)	(appointed on 6 February 2001)
Mr. Zhu Yuening	(resigned on 6 February 2001)
Mr. Chen Shoujie	
Mr. Zheng Hongqing	
Mr. Zheng Heshui	
Mr. Shen Zhuying (<i>Managing Director</i>)	
Mr. Lo Sui On	
Mr. Ng Chi Man, Michael	
Mr. Zhang Fengchun	

Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey	(appointed on 18 January 2001)
Mr. Yeh V Nee	(appointed as Alternate Director to Dr. Yeh Meou Tsen, Geoffrey on 18 January 2001)
Dr. Fong Yun Wah	
Mr. Wong Man Kong, Peter	

Subsequent to the balance sheet date, on 18 February 2002, Mr. Liu Li was appointed as an Executive Director of the Company.

In accordance with Article 101 of the Company's Articles of Association ("the Articles"), Messrs. Che Shujian, Chen Shoujie, Lo Sui On and Wong Man Kong, Peter will retire at the forthcoming Annual General Meeting ("the forthcoming AGM") and, being eligible, offer themselves for re-election. In accordance with Article 92 of the Articles, Mr. Liu Li who was appointed by the Board on 18 February 2002, retire at the forthcoming AGM and, being eligible, offer himself for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 11 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM 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 material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries or fellow 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) has 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 will continue thereafter unless it is terminated by either party giving to the other one month prior written notice. The Group has not made any payment during the year under such agreement.
- (ii) 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 agreements, 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, Zhang Xuewu, Zhu Yuening, Chen Shoujie, Zheng Hongqing, Zheng Heshui, Shen Zhuying, Lo Sui On and Zhang Fengchun 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 40(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 Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd. which are 51% owned PRC joint ventures of the Group, and CTII Worldwide Limited, which is 70% owned subsidiary of the Group, with their substantial shareholders or the associates of these substantial shareholders:

			Group	
			2001	2000
Name of Company		Nature of transaction	HK\$'000	HK\$'000
<i>Paid or payable to:</i>				
(i)	Overseas Chinese Town Water & Electricity Supply Co.	Water and electricity charges	20,753	19,062
(ii)	Shenzhen SEC Overseas Chinese Town Construction Headquarters	Land use rights fees	8,480	8,292
<i>Received or receivable from:</i>				
(iii)	JHJ International Limited	Freight charges	9,076	14,493

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 the transactions as set out in note 40(a)(i), (iv), (ix), (xi) to (xiv), (xviii), (xxiii), (xxvi), (xxx) and (xxxiii) to (xxxvii) 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:

- (i) in the ordinary and usual course of business and on normal commercial terms;
- (ii) are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) 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).

Save as aforesaid, transactions as set out in note 40(b) 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 AND WARRANTS

As at 31 December 2001, the interests of the Directors in the share capital and warrants 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:

Interest in Ordinary Shares of the Company

Name of Director	Number of shares held and nature of interest			
	Personal	Corporate	Other	Total
Mr. Chen Shoujie	20,000 ⁽ⁱ⁾	-	-	20,000
Mr. Shen Zhuying	5,000,000	-	-	5,000,000
Mr. Ng Chi Man, Michael	2,000,000	-	-	2,000,000
Dr. Yeh Meou Tsen, Geoffrey	4,000,000	-	-	4,000,000
Dr. Fong Yun Wah	-	50,000 ⁽ⁱⁱ⁾	502,000 ⁽ⁱⁱⁱ⁾	552,000

Interest in Warrants of the Company

Name of Director	Number of warrants held and nature of interest			
	Personal	Corporate	Other	Total
Mr. Shen Zhuying	1,000,000	-	-	1,000,000
Mr. Ng Chi Man, Michael	1,000,000	-	-	1,000,000
Dr. Yeh Meou Tsen, Geoffrey	200,000	-	-	200,000

Notes:

- (i) The shares beneficially owned by certain connected persons in which Mr. Chen Shoujie is taken to be interested by virtue of the SDI Ordinance.
- (ii) The shares beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested by virtue of the SDI Ordinance.
- (iii) The shares 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 interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As at 31 December 2001, the Directors of the Company who held share options granted under the Company's share option scheme, as further detailed under the heading "Information of share option scheme" below, were as follows:

Name of Director	Number of share options at 1 January 2001	Number of share options lapsed during the year	Number of share options exercised during the year	Number of share options outstanding at 31 December 2001	Exercisable period	Exercise price per share HK\$
Zhu Yuening	69,000,000	(69,000,000)	-	-	14-1-98 to 13-1-01	3.568
Zheng Hongqing	45,000,000	(45,000,000)	-	-	14-1-98 to 13-1-01	3.568
Zheng Heshui	3,000,000	(3,000,000)	-	-	14-1-98 to 13-1-01	3.568
Shen Zhuying	5,000,000	-	(5,000,000)(i)	-	16-5-01 to 20-10-02	0.709
Lo Sui On	1,500,000	(1,500,000)	-	-	14-1-98 to 13-1-01	3.568
Ng Chi Man, Michael	5,000,000	-	(5,000,000)(i)	-	16-5-01 to 20-10-02	0.709

Notes:

- (i) The closing price of the Company's shares immediately before the date on which these options were exercised is HK\$1.64 per share.
- (ii) According to the Company's share option scheme, the cash consideration paid by each of the directors for granting of the option was HK\$1.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow 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.

INFORMATION OF SHARE OPTION SCHEME

On 21 October 1992, a share option scheme ("the 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 will not be less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is higher.

INFORMATION OF SHARE OPTION SCHEME (continued)

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 2001, no share option was outstanding under the Scheme and none of the Company's Directors and none of the Group's employees were granted share options during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, 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 issued shares held	Percentage holding
China Travel Service (Holdings) Hong Kong Limited	2,494,693,940	59.11%
China Travel Service Head Office of the PRC	2,494,693,940	59.11%

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

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 2001.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2001, 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 2001	Final maturity of the loan facilities
HK\$500 million	15 December 2003
HK\$800 million	20 March 2006

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice ("the Code") as set out in Appendix 14 of the 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 required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles.

AUDIT COMMITTEE

The Company's Audit Committee was established in accordance with the requirements of the Code in 1999 and comprises two Independent Non-Executive Directors of the Company. The present Committee members are Mr. Wong Man Kong, Peter and Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey).

The Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

AUDITORS

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

ON BEHALF OF THE BOARD

Che Shujian
Chairman

Hong Kong, 10 April 2002

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 30 to 101 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 2001 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

10 April 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
TURNOVER	5	2,329,235	2,751,390
Including:			
Continuing power generating operations reclassified and accounted for as a jointly controlled entity in December 2000		-	1,439,641
Other continuing operations		2,329,235	1,311,749
Cost of sales		(1,297,282)	(1,516,032)
Gross profit		1,031,953	1,235,358
Other revenue and gains	5	181,186	130,729
Distribution costs		(41,003)	(32,440)
Administrative expenses		(530,951)	(375,669)
Other operating expenses		(73,141)	(54,026)
Provisions for doubtful debts and bad debts written off		(5,031)	(37,155)
PROFIT FROM OPERATING ACTIVITIES	6	563,013	866,797
Including:			
Continuing power generating operations reclassified and accounted for as a jointly controlled entity in December 2000		-	559,110
Other continuing operations		563,013	307,687
Finance costs	7	(66,579)	(151,831)
Provision for impairment in an associate		-	(56,152)
Loss on deemed disposal of an associate		-	(62,767)
Write-back of provisions/(provisions) for diminutions in values of interests in jointly controlled entities and associates		3,383	(13,131)
Gain on disposal of an associate		53,043	-
Share of profits and losses of:			
Jointly controlled entities		245,282	5,566
Associates		34,009	(52,855)
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX		832,151	535,627
Tax	10	(103,364)	(104,446)
PROFIT BEFORE MINORITY INTERESTS		728,787	431,181
Minority interests		(77,821)	(280,262)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	650,966	150,919

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
DIVIDENDS	12		
Interim		189,644	32,511
Underaccrual of proposed 2000 final dividend		16,226	-
Proposed final		168,809	32,511
Proposed special dividend		-	65,022
		<u>374,679</u>	<u>130,044</u>
EARNINGS PER SHARE (CENTS)	13		
Basic		<u>17.85</u>	<u>4.64</u>
Diluted		<u>16.57</u>	<u>N/A</u>

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Surplus/(deficit) on revaluation of hotel properties	34	22,838	(15,166)
Changes in fair values of long term investments	34	–	(122,000)
Reclassification of a long term investment to interests in a subsidiary	34	122,000	–
Exchange differences on translation of the financial statements of foreign entities	34	3,542	(3,300)
Share of movements in reserves of an associate	34	–	5,648
Net gains/(losses) not recognised in the profit and loss account		148,380	(134,818)
Net profit for the year attributable to shareholders		650,966	150,919
Total recognised gains and losses		799,346	16,101
Goodwill credited directly against reserves	34	–	5,294
Group's share of goodwill eliminated directly against reserves by an associate	34	–	(30,435)
		799,346	(9,040)

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	5,183,045	3,344,757
Properties under development	15	586,273	1,033,872
Goodwill:	16		
Goodwill		1,385,944	–
Negative goodwill		(199,548)	–
Interests in jointly controlled entities	18	1,028,713	1,611,192
Interests in associates	19	442,839	906,631
Long term investments	20	88,070	127,809
		<u>8,515,336</u>	<u>7,024,261</u>
CURRENT ASSETS			
Short term investments	20	1,900	1,349
Property held for sale		92,000	–
Inventories	21	16,736	16,023
Trade receivables	22	217,319	176,852
Tax recoverable		479	579
Other receivables	23	101,075	62,553
Pledged time deposits	24	3,302	43,463
Cash and cash equivalents	25	1,643,853	801,646
Amount due from ultimate holding company	26	52,523	51,507
Amounts due from fellow subsidiaries	26	1,805	143,524
Amount due from a jointly controlled entity		–	202,846
		<u>2,130,992</u>	<u>1,500,342</u>
CURRENT LIABILITIES			
Trade payables	27	316,889	260,394
Tax payable		75,000	45,364
Other payables and accruals	28	434,441	325,792
Interest-bearing bank and other borrowings	29	369,723	608,400
Amounts due to fellow subsidiaries	26	3,156	4,421
		<u>1,199,209</u>	<u>1,244,371</u>
NET CURRENT ASSETS		<u>931,783</u>	<u>255,971</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,447,119</u>	<u>7,280,232</u>

Consolidated Balance Sheet (continued)

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,447,119	7,280,232
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		55,577	45,207
Interest-bearing bank and other borrowings	30	1,019,959	490,251
Lease and hire purchase contract payables	31	722	2,123
Deferred tax	32	9,558	7,173
		<u>1,085,816</u>	<u>544,754</u>
MINORITY INTERESTS		<u>(353,003)</u>	<u>(317,251)</u>
		<u>8,008,300</u>	<u>6,418,227</u>
CAPITAL AND RESERVES			
Share capital	33	422,023	325,112
Reserves	34	7,417,468	5,995,582
Proposed dividends	12	168,809	97,533
		<u>8,008,300</u>	<u>6,418,227</u>

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	35(a)	403,712	1,242,842
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		93,861	56,121
Interest paid		(85,775)	(165,839)
Interest element of finance lease and hire purchase contract payments		(348)	(388)
Dividends from an associate		760	380
Dividends from a jointly controlled entity		15	-
Dividends paid		(303,403)	(65,022)
Dividends paid to minority shareholders	35(b)	(54,962)	(148,301)
Net cash outflow from returns on investments and servicing of finance		(349,852)	(323,049)
TAX			
Hong Kong profits tax paid		(34,912)	(12,124)
Overseas taxes paid		(37,045)	(48,294)
Taxes paid		(71,957)	(60,418)
INVESTING ACTIVITIES			
Proceeds from disposal of interests in an associate		389,283	-
Purchases of long term investments		(18,608)	(162,190)
Purchases of fixed assets		(62,788)	(79,752)
Proceeds from disposal of fixed assets		7,558	67,869
Additions to properties under development		(254,312)	(171,032)
Acquisition of subsidiaries	35(c)	(1,069,783)	-
Prepayment/repayment from/(advance to) jointly controlled entities		1,015,647	(4,843)
Repayment from associates		46,110	2,433
Decrease/(increase) in pledged time deposits		40,161	(2,452)
Proceeds from disposal of short term investments		-	5,525
Proceeds from disposal of long term investments		-	79,261
Acquisitions of jointly controlled entities		-	(3,173)
Acquisitions of associates		-	(313)
Reclassification of interests in a subsidiary to interests in a jointly controlled entity	35(d)	-	(157,221)
Net cash inflow/(outflow) from investing activities		93,268	(425,888)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		75,171	433,487

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		75,171	433,487
FINANCING ACTIVITIES			
Proceeds from issue of new shares	35(b)	8,294	–
New bank loans	35(b)	1,157,418	197,431
Repayment of bank loans	35(b)	(400,844)	(716,989)
Capital element of finance lease and hire purchase contract payments	35(b)	(2,498)	(2,131)
Repayment of loans from minority shareholders	35(b)	–	(392,716)
Redemption of golf club debentures		–	(1,155)
Net cash inflow/(outflow) from financing activities		762,370	(915,560)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		837,541	(482,073)
Cash and cash equivalents at beginning of year		801,646	1,283,719
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,639,187	801,646
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		516,700	291,268
Non-pledged time deposits with original maturity of less than three months when acquired		1,127,153	510,378
Bank overdrafts, unsecured		(4,666)	–
		1,639,187	801,646

Balance Sheet

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	684	669
Interests in subsidiaries	17	7,387,354	5,432,483
Interests in associates	19	311	77,825
Long term investments	20	79,949	66,000
		<u>7,468,298</u>	<u>5,576,977</u>
CURRENT ASSETS			
Other receivables	23	15,835	13,952
Pledged time deposits	24	2,147	42,869
Cash and cash equivalents	25	565,577	215,936
Amount due from ultimate holding company	26	2,414	–
Amounts due from subsidiaries	17	4,711	646,143
Amounts due from fellow subsidiaries	26	–	3,781
		<u>590,684</u>	<u>922,681</u>
CURRENT LIABILITIES			
Tax payable		34,000	24,000
Other payables and accruals	28	6,279	7,396
Interest-bearing bank and other borrowings	29	300,000	586,880
Amount due to ultimate holding company	26	–	2,164
		<u>340,279</u>	<u>620,440</u>
NET CURRENT ASSETS		<u>250,405</u>	<u>302,241</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,718,703	5,879,218
NON-CURRENT LIABILITY			
Interest-bearing bank and other borrowings	30	1,000,000	476,748
		<u>6,718,703</u>	<u>5,402,470</u>
CAPITAL AND RESERVES			
Share capital	33	422,023	325,112
Reserves	34	6,127,871	4,979,825
Proposed dividends	12	168,809	97,533
		<u>6,718,703</u>	<u>5,402,470</u>

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

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

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

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

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

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

- SSAP 9 (revised) : "Events after the balance sheet date"
- SSAP 14 (revised) : "Leases"
- SSAP 18 (revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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

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

SSAP 9 (revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but not adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheets. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 31 and 38 to the financial statements.

SSAP 18 (revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11, 17 and 34 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

SSAP 29 prescribes the recognition and measurement criteria of intangible assets, together with the disclosure requirements. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

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

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements. The required new additional disclosures are included in notes 16, 18, 19 and 34 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for the impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

Subsidiaries are companies, other than jointly controlled entities or associates, in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their boards of directors. The Company's interests in subsidiaries are stated at cost, less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

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

Jointly controlled entities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

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

Associates

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

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

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

Goodwill

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

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

Negative goodwill

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

Impairment of assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Hotel properties

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

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

Property held for sale

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

Leased assets

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

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

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

Long term investments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments (continued)

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

Inventories

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

The cost of inventories are capitalised into plant and machinery when they are used for replacements or for the improvement of plant and machinery, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. The Prior Scheme is still operating after 1 December 2000.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme.

Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of freight forwarding, passenger transportation services, travel-related services and hotel services, when the services are rendered;
- (c) from the rendering of tour services, based on the date of tour departure;
- (d) income related to scenic spots, when the admission tickets are sold;
- (e) income from the sale of golf club memberships, on a time proportion basis over the membership period;
- (f) from the sale of listed investments, on a trade date basis;
- (g) rental income, on a time proportion basis over the lease terms;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividends, when the shareholders' right to receive payment has been established.

Deferred income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets similar in nature to cash which are not restricted as to use.

Dividends

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

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

In previous years, the Company recognised its proposed final and other dividends to shareholders, which were declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (revised) and SSAP 18 (revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 34 to the financial statements.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

4. SEGMENT INFORMATION (continued)

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

- (a) the passenger transportation segment engages in the provision of land transportation services to individuals between Hong Kong and the PRC;
- (b) the tourist attraction operations segment is the operation of theme parks in Shenzhen;
- (c) the freight forwarding segment engages in the provision of export, re-export freight and logistic services between Hong Kong and the PRC; and sea and freight forwarding to overseas;
- (d) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong and Macau;
- (e) the travel and travel-related operations segment engages in the provision of tour and travel-related services in Hong Kong, the PRC, South East Asia, the United States of America and other countries in the European Union;
- (f) the golf club operations segment is to provide comprehensive facilities to individual or corporate members of the golf club in Shenzhen; and
- (g) the corporate and other segment comprises the Group's management services business, which provides management services to Group companies together with corporate income and expense items.

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group	Passenger trans- portation services 2001 HK\$'000	Tourist attraction operations 2001 HK\$'000	Freight forwarding and trans- portation services 2001 HK\$'000	Hotel operations 2001 HK\$'000	Travel and travel- related operations 2001 HK\$'000	Golf club operations 2001 HK\$'000	Power generation 2001 HK\$'000	Corporate and others 2001 HK\$'000	Elimin- ations 2001 HK\$'000	Con- solidated 2001 HK\$'000
Segment revenue:										
Sales to external customers	96,422	425,570	299,721	250,693	1,218,269	38,378	-	182	-	2,329,235
Intersegment revenue	1,706	-	182	17,574	8,579	-	-	2,868	(30,909)	-
Other revenue and gains	-	11,138	2,198	2,475	5,625	-	-	-	-	21,436
Total	<u>98,128</u>	<u>436,708</u>	<u>302,101</u>	<u>270,742</u>	<u>1,232,473</u>	<u>38,378</u>	<u>-</u>	<u>3,050</u>	<u>(30,909)</u>	<u>2,350,671</u>
Segment results	<u>11,173</u>	<u>157,503</u>	<u>15,505</u>	<u>13,585</u>	<u>239,683</u>	<u>(680)</u>	<u>-</u>	<u>(33,273)</u>	<u>-</u>	<u>403,496</u>
Interest income and unallocated gains										159,750
Unallocated expenses										(233)
Profit from operating activities										563,013
Finance costs										(66,579)
Write-back of provisions for diminutions in values of interests in jointly controlled entities and associates										3,383
Gain on disposal of an associate										53,043
Share of profits less losses of:										
Jointly controlled entities	-	-	(1,833)	-	-	-	-	247,115	-	245,282
Associates	33,700	-	309	-	-	-	-	-	-	34,009
Profit from ordinary activities before tax										832,151
Tax										(103,364)
Profit before minority interests										728,787
Minority interests										(77,821)
Net profit from ordinary activities attributable to shareholders										<u>650,966</u>

Group	Passenger trans- portation services 2000 HK\$'000	Tourist attraction operations 2000 HK\$'000	Freight forwarding and trans- portation services 2000 HK\$'000	Hotel operations 2000 HK\$'000	Travel and travel- related operations 2000 HK\$'000	Golf club operations 2000 HK\$'000	Power generation 2000 HK\$'000	Corporate and others 2000 HK\$'000	Elimin- ations 2000 HK\$'000	Con- solidated 2000 HK\$'000
Segment revenue:										
Sales to external customers	77,982	432,733	297,911	225,927	243,270	33,926	1,439,641	-	-	2,751,390
Intersegment revenue	512	-	-	13,456	-	-	-	2,956	(16,924)	-
Other revenue and gains	-	11,977	1,428	2,436	-	-	-	-	-	15,841
Total	<u>78,494</u>	<u>444,710</u>	<u>299,339</u>	<u>241,819</u>	<u>243,270</u>	<u>33,926</u>	<u>1,439,641</u>	<u>2,956</u>	<u>(16,924)</u>	<u>2,767,231</u>
Segment results	<u>6,237</u>	<u>153,242</u>	<u>11,832</u>	<u>16,201</u>	<u>81,540</u>	<u>(9,258)</u>	<u>549,446</u>	<u>(12,236)</u>	<u>-</u>	<u>797,004</u>
Interest income and unallocated gains										114,888
Unallocated expenses										(45,095)
Profit from operating activities										866,797
Finance costs										(151,831)
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)
Share of profits less losses of:										
Jointly controlled entities	-	-	(3,104)	-	-	-	-	8,670	-	5,566
Associates	16,981	-	(134)	-	-	-	-	(69,702)	-	(52,855)
Profit from ordinary activities before tax										535,627
Tax										(104,446)
Profit before minority interests										431,181
Minority interests										(280,262)
Net profit from ordinary activities attributable to shareholders										<u>150,919</u>

Notes to Financial Statements (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Passenger trans- portation services 2001 HK\$'000	Tourist attraction operations 2001 HK\$'000	Freight forwarding and trans- portation services 2001 HK\$'000	Hotel operations 2001 HK\$'000	Travel and travel- related operations 2001 HK\$'000	Golf club operations 2001 HK\$'000	Power generation 2001 HK\$'000	Corporate and others 2001 HK\$'000	Elimin- ations 2001 HK\$'000	Con- solidated 2001 HK\$'000
Segment assets	70,050	807,305	327,106	3,923,435	2,561,465	349,273	-	1,127,739	-	9,166,373
Interests in jointly controlled entities	-	-	22,210	-	-	-	1,006,503	-	-	1,028,713
Interests in associates	440,951	2,827	681	-	(1,932)	-	-	312	-	442,839
Unallocated assets										3,737
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	-	4,666
Total assets										10,646,328
Segment liabilities	7,383	123,815	185,154	44,318	372,943	64,011	-	11,098	-	808,722
Unallocated liabilities										1,471,637
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	-	4,666
Total liabilities										2,285,025
Other segment information:										
Capital expenditure	14,760	112,369	11,233	673,033	671,884	5,642	-	674	-	1,489,595
Depreciation and amortisation	10,053	59,950	6,314	1,801	48,899	12,194	-	2,036	-	141,247
Impairment losses recognised in the profit and loss account	-	-	1,492	-	-	-	-	-	-	1,492
Impairment losses reversed in the profit and loss account	-	2,827	2,048	-	-	-	-	-	-	4,875
Other non-cash expenses	71	3,705	682	544	2,083	-	-	1,018	-	8,103
Surplus on revaluation recognised directly in equity	-	-	-	22,838	-	-	-	-	-	22,838

Group	Passenger trans- portation services 2000 HK\$'000	Tourist attraction operations 2000 HK\$'000	Freight forwarding and trans- portation services 2000 HK\$'000	Hotel operations 2000 HK\$'000	Travel and travel- related operations 2000 HK\$'000	Golf club operations 2000 HK\$'000	Power generation 2000 HK\$'000	Corporate and others 2000 HK\$'000	Elimin- ations 2000 HK\$'000	Con- solidated 2000 HK\$'000
Segment assets	59,550	755,550	413,894	3,501,383	216,276	324,510	-	731,917	-	6,003,080
Interests in jointly controlled entities	-	-	34,257	-	-	-	1,576,935	-	-	1,611,192
Interests in associates	452,886	-	2,178	-	-	-	-	451,567	-	906,631
Unallocated assets										3,700
Total assets										8,524,603
Segment liabilities	3,857	126,674	267,991	40,930	75,750	53,104	-	62,609	-	630,915
Unallocated liabilities										1,158,210
Total liabilities										1,789,125
Other segment information:										
Capital expenditure	11,291	116,140	8,273	128,791	10,813	7,354	2,635	323	-	285,620
Depreciation and amortisation	10,370	60,580	8,219	5,012	1,531	15,566	348,222	2,041	-	451,541
Impairment losses recognised in the profit and loss account	-	2,827	10,304	-	-	-	-	56,152	-	69,283
Unallocated amounts										6,174
										75,457
Other non-cash expenses	174	2,458	33,692	2,797	4,475	-	-	70,122	-	113,718
Deficit on revaluation recognised directly in equity	-	-	-	15,166	-	-	-	-	-	15,166

4. SEGMENT INFORMATION (continued)**(b) Geographical segments**

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

Group	Hong Kong		PRC		Overseas		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Revenue from external customers	1,498,497	773,737	604,957	1,993,494	247,217	-	-	-	2,350,671	2,767,231
Segment results	227,173	91,682	180,442	705,322	(4,119)	-	-	-	403,496	797,004
Other segment information:										
Segment assets	7,740,895	5,564,820	2,746,616	2,959,783	154,151	-	-	-	10,641,662	8,524,603
Bank overdrafts included in segment assets	-	-	-	-	4,666	-	-	-	4,666	-
									10,646,328	8,524,603
Capital expenditure	842,492	155,041	605,088	130,579	42,015	-	-	-	1,489,595	285,620

5. TURNOVER, REVENUE AND GAINS

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

5. TURNOVER, REVENUE AND GAINS (continued)

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Continuing operations reclassified to a jointly controlled entity in December 2000:		
Power generation income	–	1,439,641
Other continuing operations:		
Freight forwarding and transportation services income	299,721	297,911
Travel and travel-related operations income	1,218,269	243,270
Hotel operations income	250,693	225,927
Golf club operations income	38,378	33,926
Tourist attraction operations income	425,570	432,733
Passenger transportation services income	96,422	77,982
Others	182	–
	<u>2,329,235</u>	<u>1,311,749</u>
	<u>2,329,235</u>	<u>2,751,390</u>
Other revenue		
Rental income	21,436	15,841
Interest income	93,861	56,121
Compensation income	7,070	–
Indemnity income on withholding tax	1,806	3,083
Others	10,068	14,232
	<u>134,241</u>	<u>89,277</u>
Gains		
Gain on disposal of long term investments	–	10,261
Gain on disposal of short term investments	–	502
Gain on disposal of fixed assets, net	621	4,098
Exchange gains, net	5,378	6,667
Gain on changes in fair values of short term investments, net	551	–
Write-back of long outstanding payables	39,743	3,286
Hotel property revaluation surplus	652	16,638
	<u>46,945</u>	<u>41,452</u>
Other revenue and gains	<u>181,186</u>	<u>130,729</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Depreciation	117,463	451,541
Goodwill amortisation for the year*	27,015	–
Negative goodwill recognised as income during the year**	(3,231)	–
Auditors' remuneration:		
Current year	6,353	4,522
Underprovision in the prior year	794	513
	<u>7,147</u>	<u>5,035</u>
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	409,268	332,946
Pension contributions	29,335	29,945
Less: Forfeited contributions	(6,194)	(1,433)
Net pension contributions***	<u>23,141</u>	<u>28,512</u>
Total staff costs	<u>432,409</u>	<u>361,458</u>
Minimum lease payments under operating leases:		
Land and buildings	32,305	15,979
Motor vehicles	1,991	–
Provisions for doubtful debts and bad debts written off	5,031	37,155
Provisions for slow-moving inventories	1,102	1,131
Provisions for impairments in values of short term investments	–	6,174
Loss on changes in fair values of long term investments	233	–
Loss/(gain) on changes in fair values of short term investments	<u>(551)</u>	<u>6,215</u>

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

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

*** At 31 December 2001, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2000: Nil).

7. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(86,070)	(165,839)
Finance lease and hire purchase contracts	(348)	(388)
Amortisation of deferred borrowing costs	(6,116)	(14,075)
Total finance costs	(92,534)	(180,302)
Less: Interest capitalised	25,955	28,471
	<u>(66,579)</u>	<u>(151,831)</u>

8. 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	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	1,320	1,050
Independent non-executive directors	480	450
	<u>1,800</u>	<u>1,500</u>
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	5,324	4,834
Pension scheme contributions	105	253
	<u>5,429</u>	<u>5,087</u>
Total remuneration	<u>7,229</u>	<u>6,587</u>

8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	12	15
HK\$1,000,001 to HK\$1,500,000	-	1
HK\$2,000,001 to HK\$2,500,000	1	-
HK\$2,500,001 to HK\$3,000,000	-	1
HK\$3,000,001 to HK\$3,500,000	1	-
	<u>14</u>	<u>17</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2000: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2000: three) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,742	2,520
Pension scheme contributions	90	79
	<u>2,832</u>	<u>2,599</u>

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

	Number of employees	
	2001	2000
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>3</u>

10. TAX

	2001 HK\$'000	2000 HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(56,143)	(14,135)
Elsewhere	(30,534)	(58,843)
Overseas	(1,645)	-
Over/(under)provisions in prior years	2,650	(19,625)
Deferred tax – note 32	(316)	(9,231)
	<u>(85,988)</u>	<u>(101,834)</u>
Share of tax attributable to:		
Jointly controlled entities	(12,339)	(937)
Associates	(5,037)	(1,675)
	<u>(17,376)</u>	<u>(2,612)</u>
Tax charge for the year	<u>(103,364)</u>	<u>(104,446)</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$541,047,000 (2000: loss (as restated) of HK\$322,897,000).

The Group's share of aggregate profits less losses retained by its jointly controlled entities and associates for the year amounted to a profit of HK\$232,928,000 (2000: loss of HK\$3,111,000) and a profit of HK\$28,212,000 (2000: loss of HK\$54,910,000), respectively.

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net debit of HK\$270,000,000 to the Company's net loss for that year, and a net credit of the same amount to the amounts due to subsidiaries in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in a decrease in the amount of retained profits as at 1 January 2001 by HK\$270,000,000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 34 to the financial statements.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS*(continued)*

The effect of this change in accounting policy on the Company's net profit for the current year was to increase the net profit by HK\$270,000,000 to HK\$541,047,000, as disclosed above.

12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim – 5 cents (2000: 1 cent) per ordinary share	189,644	32,511
Underaccrual of proposed 2000 final dividend	16,226	–
	<u>205,870</u>	<u>32,511</u>
Proposed final – 4 cents (2000: 1 cent) per ordinary share	168,809	32,511
Proposed special dividend – Nil (2000: 2 cents) per ordinary share	–	65,022
	<u>168,809</u>	<u>97,533</u>
	<u>374,679</u>	<u>130,044</u>

The proposed final dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the aggregate proposed final and special dividends for the year ended 31 December 2000 of HK\$97,533,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheets. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK\$97,533,000.

The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividends of HK\$168,809,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheets at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$650,966,000 (2000: HK\$150,919,000), and the weighted average of 3,647,613,303 (2000: 3,251,115,027) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$671,138,000, after adjustment for the interest saved upon deemed conversion of all convertible notes at beginning of the year and all convertible bonds on the date of issue. The weighted average number of ordinary shares used in the calculation is 3,647,613,303 (2000: 3,251,115,027) shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 403,904,523 (2000: 427,272,727) shares assumed to have been issued at no consideration on the deemed exercise of the share options granted on 15 November 2000 and the bonus warrants allotted on 16 May 2001, and the deemed conversion of all of the convertible bonds and convertible notes at the beginning of the year, or the date of issue, whichever is later.

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 on that year.

14. FIXED ASSETS

Group

	Invest- ment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establis- ment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	19,473	2,381,472	573,516	658,090	460,922	4,093,473
Additions	-	-	2,534	5,509	54,745	62,788
Acquisition of subsidiaries	68,000	453,724	585,534	-	184,895	1,292,153
Transfer from properties under development	-	661,838	3,836	43,735	18,457	727,866
Disposals and written off	-	-	(914)	(4,613)	(34,654)	(40,181)
Reclassification	-	-	-	3,092	(3,092)	-
Exchange realignments	-	-	2,063	-	158	2,221
Surplus on revaluation	-	23,490	-	-	-	23,490
At 31 December 2001	87,473	3,520,524	1,166,569	705,813	681,431	6,161,810
At cost	19,473	-	1,166,569	705,813	681,431	2,573,286
At 2001 valuation	68,000	3,520,524	-	-	-	3,588,524
	87,473	3,520,524	1,166,569	705,813	681,431	6,161,810
Accumulated depreciation:						
At beginning of year	2,869	-	100,568	334,884	310,395	748,716
Provided during the year	1,107	-	25,820	36,832	53,704	117,463
Acquisition of subsidiaries	-	-	1,273	-	144,340	145,613
Disposals and written off	-	-	(330)	(3,842)	(29,072)	(33,244)
Reclassification	-	-	-	5,731	(5,731)	-
Exchange realignments	-	-	203	-	14	217
At 31 December 2001	3,976	-	127,534	373,605	473,650	978,765
Net book value:						
At 31 December 2001	83,497	3,520,524	1,039,035	332,208	207,781	5,183,045
At 31 December 2000	16,604	2,381,472	472,948	323,206	150,527	3,344,757

Notes to Financial Statements (continued)

31 December 2001

14. FIXED ASSETS (continued)

Company	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	1,630	1,996	1,202	4,828
Additions	354	319	-	673
Write-off	(34)	(42)	-	(76)
At 31 December 2001	1,950	2,273	1,202	5,425
Accumulated depreciation:				
At beginning of year	1,545	1,652	962	4,159
Provided during the year	105	309	240	654
Write-off	(34)	(38)	-	(72)
At 31 December 2001	1,616	1,923	1,202	4,741
Net book value:				
At 31 December 2001	334	350	-	684
At 31 December 2000	85	344	240	669

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Investment properties, at cost or valuation:			
Medium term leases	68,000	-	68,000
Short term leases	-	19,473	19,473
	<u>68,000</u>	<u>19,473</u>	<u>87,473</u>
Land and buildings, at cost:			
Long term leases	252,418	48,728	301,146
Medium term leases	375,135	476,258	851,393
Short term leases	-	14,030	14,030
	<u>627,553</u>	<u>539,016</u>	<u>1,166,569</u>

14. FIXED ASSETS (continued)

The land use right for a piece of the Group's land with a carrying value of HK\$119,361,000 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. Accordingly, amortisation of the cost of the relevant land use right has been calculated by reference to the extended land use right tenure up to 17 August 2037.

Particulars of the hotel properties held by the Group as at 31 December 2001 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
Metropark Hotel 148 Tung Lo Wan Road Causeway Bay Hong Kong	Hotel	100%	Long term
Hotel Grandeur Macau Rua de Pequim 199 Macau	Hotel	100%	Medium

The hotel properties were revalued at 31 December 2001 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

14. FIXED ASSETS (continued)

The investment properties located at Portland Street, Hong Kong were revalued at 31 December 2001 by RHL Appraisal Ltd., at HK\$68,000,000, on an open market value based on their existing use.

The Group's investment properties, with gross carrying amount and accumulated depreciation of HK\$87,473,000 and HK\$3,976,000, respectively, are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements.

Certain hotel properties and land and buildings held by the Group with aggregate carrying values of HK\$2,383,876,000 and HK\$12,008,000, respectively, were pledged to secure certain of the Group's bank facilities of HK\$1,305,010,000. Such facilities were fully utilised at 31 December 2001.

The net book value of the Group's fixed assets held under finance leases and hire purchase contracts included in the total amount of motor vehicles and furniture, fixtures and equipment at 31 December 2001 amounted to HK\$6,597,000 (2000: HK\$6,537,000).

15. PROPERTIES UNDER DEVELOPMENT

	2000	Additions	Group Transfer to fixed assets	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Building and plant	1,010	–	(1,010)	–
Scenic spots establishment	63,612	99,007	(61,012)	101,607
Golf course	2,282	2,328	(4,006)	604
Hotel properties	966,968	178,932	(661,838)	484,062
	<u>1,033,872</u>	<u>280,267</u>	<u>(727,866)</u>	<u>586,273</u>

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

	2001 HK\$'000	2000 HK\$'000
Land and buildings in Hong Kong held under long term leases	484,062	966,968
Land and buildings outside Hong Kong held under medium term leases	<u>102,211</u>	<u>66,904</u>
	<u>586,273</u>	<u>1,033,872</u>

15. PROPERTIES UNDER DEVELOPMENT (continued)

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

The accumulated net interest and borrowing costs capitalised in properties under development were HK\$57,509,000 (2000: HK\$101,735,000) and HK\$3,577,000 (2000: Nil), respectively.

16. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	-	-
Acquisition of subsidiaries	1,412,959	(202,779)
At 31 December 2001	1,412,959	(202,779)
Accumulated amortisation/(recognition as income):		
At beginning of year	-	-
Recognised as income/(amortisation provided) during the year	(27,015)	3,231
At 31 December 2001	(27,015)	3,231
Net book value:		
At 31 December 2001	1,385,944	(199,548)
At 31 December 2000	-	-

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. Such amounts are subject to an annual impairment test.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, are HK\$1,041 million and HK\$1,254 million, respectively, as at 1 January and 31 December 2001. The amounts of goodwill are stated at its cost.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
		(Restated)
Unlisted share, at cost	3,270,587	1,312,290
Due from subsidiaries	3,511,399	3,012,337
Loans to subsidiaries	2,442,295	2,453,932
Due to subsidiaries	(1,560,538)	(1,076,076)
	<u>7,663,743</u>	<u>5,702,483</u>
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(276,389)	(270,000)
	<u>7,387,354</u>	<u>5,432,483</u>

Except for certain balances due from subsidiaries with an aggregate amount of HK\$383,119,000 (2000: HK\$378,121,000) which bear interest at 4.25% to 6% per annum, the remaining balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

The amounts due to subsidiaries in the prior year have been adjusted for the effect of the prior year adjustment of HK\$270,000,000 in respect of dividends proposed after the prior year's balance sheet date, as further explained in note 11 to the financial statements.

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

A balance due from a subsidiary of HK\$4,711,000 is repayable in 2002 and, accordingly, such balance is included in current assets.

During the year, the Group acquired Alton Services Limited and its subsidiaries from its ultimate holding company. Further details of this acquisition are included in notes 35(c) and 40(b) to the financial statements.

Particulars of the Company's principal subsidiaries are set out in note 36 to the financial statements.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	1,158,792	925,864
Due from jointly controlled entities	16,285	132,152
Loan to a jointly controlled entity	-	561,788
Due to jointly controlled entities	(137,692)	(1,362)
	<u>1,037,385</u>	<u>1,618,442</u>
Less: Provisions for impairment	(8,672)	(7,250)
	<u><u>1,028,713</u></u>	<u><u>1,611,192</u></u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. The amount of goodwill remaining in consolidated reserves, arising from the acquisition of jointly controlled entities, is HK\$3,693,000 as at 1 January and 31 December 2001. The amount of goodwill is stated at its cost.

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

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

Name	Business structure	Place of registration and operations	Percentage of equity and profit attributable		Principal activities
			to the Group	2000	
			2001		
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	25	25	Provision of cargo transportation services
Gansu Lida International Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd. #	Corporate	PRC	30	30	Manufacturing of brass products

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Name	Business structure	Place of registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2001	2000	
Sichuan Jeida Freight Transportation Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd. #	Corporate	PRC	51	51	Production and sale of electricity
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. #	Corporate	PRC	49	49	Provision of freight forwarding and transportation services

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

Extracts of the audited financial statements for the year ended 31 December 2001 of the Group's material jointly controlled entity are as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2001 HK\$'000	2000 HK\$'000
Profit and loss account		
Turnover	1,576,787	1,580,265
Profit attributable to shareholders	469,894	408,030
Net profit attributable to the Group	234,787	205,169
Balance sheet		
Non-current assets	3,258,842	3,616,778
Current assets	747,650	561,364
Current liabilities	(972,780)	(1,187,672)
Non-current liabilities	(689,906)	(1,116,558)
Net assets	2,343,806	1,873,912
Net assets attributable to the Group	1,142,828	908,041

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	-	-	311	311
Share of net assets	404,893	750,423	-	-
Due from associates	46,531	164,642	-	77,514
Due to associates	(4,956)	-	-	-
	<u>446,468</u>	<u>915,065</u>	<u>311</u>	<u>77,825</u>
Less: Provisions for impairment	(3,629)	(8,434)	-	-
	<u>442,839</u>	<u>906,631</u>	<u>311</u>	<u>77,825</u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. The amount of goodwill remaining in consolidated reserves, arising from the acquisition of associates, is HK\$64,629,000 and HK\$49,089,000 as at 1 January and 31 December 2001, respectively. The amount of goodwill is stated at its cost.

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
			2001	2000	
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	Investment holding
Vision Century Corporation Limited (formerly Hing Kong Holdings Limited) **	Corporate	Bermuda/ Hong Kong	-	23.34	Investment holding

Notes to Financial Statements (continued)

31 December 2001

19. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2001	2000	
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
Tianchuang International Art Production & Exchange Co. Ltd. *#	Corporate	PRC	30	30	Provision of art performance
China Resort International Limited #	Corporate	Cayman Islands/ Hong Kong	40	40	Dormant

* Held indirectly through subsidiaries.

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

19. INTERESTS IN ASSOCIATES (continued)

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

	Shun Tak-China Travel Shipping Investments Limited		Vision Century Corporation Limited	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note)	
Profit and loss accounts				
Turnover	1,359,042	1,410,716	N/A	565,025
Profit/(loss) attributable to shareholders	98,857	54,321	N/A	(355,811)
Balance sheets				
Non-current assets	1,715,900	1,908,062	N/A	1,016,830
Current assets	365,562	341,837	N/A	1,787,263
Current liabilities	(206,467)	(331,669)	N/A	(820,058)
Non-current liabilities	(514,905)	(656,997)	N/A	(386,141)
Net assets	1,360,090	1,261,233	N/A	1,597,894

Note: This associate was disposed of during the year on 5 February 2001.

20. INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments				
Unlisted equity investments outside Hong Kong:				
Unlisted shares, at fair value	21,947	3,665	13,949	–
Unlisted equity and debt investments in Hong Kong:				
Unlisted shares, at fair value	123	58,144	–	–
Unlisted convertible bonds, at fair value	66,000	66,000	66,000	66,000
	66,123	124,144	66,000	66,000
	88,070	127,809	79,949	66,000

Notes to Financial Statements (continued)

31 December 2001

20. INVESTMENTS (continued)

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Short term investments				
Listed equity investments in Hong Kong, at market value	<u>1,900</u>	<u>1,349</u>	<u>-</u>	<u>-</u>

21. INVENTORIES, AT COST

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	9,170	12,828
Spare parts and consumables	1,150	68
General stores	6,278	2,995
General merchandise	<u>138</u>	<u>132</u>
	<u>16,736</u>	<u>16,023</u>

22. TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 to 90 days to its trade debtors. The aged analysis of the trade receivables as at the balance sheet date, based on invoice date, net of provisions for doubtful debts, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Outstanding balances with ages:		
Less than 1 month	119,876	86,950
Within:		
1-3 months	49,005	59,267
4-6 months	20,764	10,270
7-12 months	9,811	2,276
1-2 years	2,025	1,583
Over 2 years	<u>15,838</u>	<u>16,506</u>
	<u>217,319</u>	<u>176,852</u>

23. OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred borrowing costs	11,809	9,294	11,809	9,294
Deposits and other debtors	81,934	49,505	4,026	4,658
Amounts due from minority shareholders	7,332	3,754	-	-
	<u>101,075</u>	<u>62,553</u>	<u>15,835</u>	<u>13,952</u>

24. PLEDGED TIME DEPOSITS

The Company and the Group have pledged bank deposits of approximately HK\$2,147,000 (2000: HK\$42,869,000) and HK\$3,302,000 (2000: HK\$43,463,000) respectively, to banks to secure certain bank guarantees given in lieu of utility and rental deposits. Last year's pledged bank deposits were made to banks mainly to secure against the provision of bank facilities granted to one of the Group's associates.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	516,700	291,268	78,005	63,841
Time deposits	1,127,153	510,378	487,572	152,095
	<u>1,643,853</u>	<u>801,646</u>	<u>565,577</u>	<u>215,936</u>

26. 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\$19,804,000, 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 that has arisen under the indemnity, the remaining balances due from/to ultimate holding company/fellow subsidiaries are unsecured, interest-free and repayable on the third business day following the month of transactions.

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

(continued)

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from/(to) ultimate holding company				
Within 1 year	34,525	1,067	2,414	(2,164)
1-2 years	3,980	50,440	-	-
Over 2 years	14,018	-	-	-
	<u>52,523</u>	<u>51,507</u>	<u>2,414</u>	<u>(2,164)</u>
Amounts due from fellow subsidiaries				
Within 1 year	1,805	132,189	-	-
1-2 years	-	7,554	-	-
Over 2 years	-	3,781	-	3,781
	<u>1,805</u>	<u>143,524</u>	<u>-</u>	<u>3,781</u>
Amounts due to fellow subsidiaries				
Within 1 year	2,886	4,421	-	-
Over 2 years	270	-	-	-
	<u>3,156</u>	<u>4,421</u>	<u>-</u>	<u>-</u>

27. TRADE PAYABLES

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Less than 1 month	211,690	175,142
Within:		
1-3 months	46,473	51,931
4-6 months	39,962	4,205
7-12 months	7,077	17,281
1-2 years	2,255	2,922
Over 2 years	9,432	8,913
	<u>316,889</u>	<u>260,394</u>

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accruals and other liabilities	346,612	241,157	6,279	7,291
Staff bonus and welfare fund	37,533	40,548	-	105
Receipts in advance from customers	49,152	43,427	-	-
Due to minority shareholders	1,144	660	-	-
	<u>434,441</u>	<u>325,792</u>	<u>6,279</u>	<u>7,396</u>

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts – unsecured		4,666	-	-	-
Current portion of bank and other loans		<u>362,554</u>	<u>606,290</u>	<u>300,000</u>	<u>586,880</u>
	30	367,220	606,290	300,000	586,880
Current portion of lease payables	31	<u>2,503</u>	<u>2,110</u>	<u>-</u>	<u>-</u>
		<u>369,723</u>	<u>608,400</u>	<u>300,000</u>	<u>586,880</u>

Notes to Financial Statements (continued)

31 December 2001

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts:				
Unsecured	4,666	–	–	–
Syndicated bank loans:				
Secured	–	313,628	–	313,628
Other bank loans:				
Unsecured	63,923	19,410	–	–
Secured – Notes (i) – (iii)	1,305,010	280,000	1,300,000	280,000
	1,368,933	613,038	1,300,000	593,628
Loans from minority shareholders	9,423	9,346	–	–
Convertible notes	–	470,000	–	470,000
Golf club debentures	4,157	4,157	–	–
	13,580	483,503	–	470,000
	1,387,179	1,096,541	1,300,000	1,063,628
Bank overdrafts repayable within one year or on demand	4,666	–	–	–
Bank loans repayable:				
Within one year or on demand	362,554	136,290	300,000	116,880
In the second year	384,143	287,320	380,000	287,320
In the third to fifth years, inclusive	622,236	189,428	620,000	189,428
	1,368,933	613,038	1,300,000	593,628
Other loans repayable:				
Within one year or on demand	–	470,000	–	470,000
Over five years	13,580	13,503	–	–
	13,580	483,503	–	470,000
Total interest-bearing bank and other borrowings	1,387,179	1,096,541	1,300,000	1,063,628
Portion classified as current liabilities – note 29	367,220	606,290	300,000	586,880
Long term portion	1,019,959	490,251	1,000,000	476,748

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

Notes:

- (i) Included HK\$500 million secured other bank loan which is repayable in 4 semi-annual instalments commencing on 15 June 2002. Interest is charged on the outstanding balance at 0.9% over 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\$838,045,000.
- (ii) Included HK\$800 million secured other bank loan which is repayable in 8 semi-annual instalments commencing on 21 January 2002. Interest is charged on the outstanding balances at HIBOR plus 1% for the applicable loan period. The loan is secured by two of the Group's hotel properties and certain fixed assets with an aggregate carrying value of HK\$1,545,831,000.
- (iii) Included HK\$5 million secured other bank loan which is repayable in 180 monthly instalments commencing on 28 February 1991. Interest is charged on the outstanding balances at 7.75% per annum. The loan is secured by three of the Group's land and buildings with an aggregate carrying value of HK\$12,008,000.

31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its freight, tour and passenger transportation businesses. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 3 years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments Group		Present value of minimum lease payments Group	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts repayable:				
Within one year	2,667	2,325	2,503	2,110
In the second year	628	2,137	571	2,059
In the third to fifth years, inclusive	156	82	151	64
Total minimum lease payments	3,451	4,544	3,225	4,233
Future finance charges	(226)	(311)		
Total net lease payables	3,225	4,233		
Portion classified as current liabilities – note 29	(2,503)	(2,110)		
Long term portion	722	2,123		

31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES (continued)

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

32. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	7,173	17,245
Acquisition of subsidiaries	2,069	-
Charge for the year – note 10	316	9,231
Reclassification to interests in a jointly controlled entity	-	(19,303)
At 31 December	<u>9,558</u>	<u>7,173</u>

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

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

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

33. SHARE CAPITAL**Shares**

	2001 HK\$'000	2000 HK\$'000
Authorised:		
7,000,000,000 (2000: 4,900,000,000) ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>490,000</u>
Issued and fully paid:		
4,220,233,742 (2000: 3,251,115,027) ordinary shares of HK\$0.10 each	<u>422,023</u>	<u>325,112</u>

33. SHARE CAPITAL (continued)**Shares** (continued)

During the year, the following movements in share capital were recorded.

- (a) Pursuant to a conditional sale and purchase agreement signed between CTS (Holdings), the Company's ultimate holding company, and the Company on 21 March 2001, the Company agreed to acquire the entire issued share capital of Alton Services Limited at a consideration of HK\$1,911 million. Part of the consideration was settled by the issuance of 2% convertible bonds by the Company for an amount of HK\$600 million which was convertible at an exercise price of HK\$1.1308 per share. Such convertible bonds were converted on 23 May 2001, together with accrued interest up to the date of conversion, for the issue of 530,859,472 ordinary shares of HK\$0.10 each in the Company issued at a premium of HK\$547,210,000.
- (b) On 6 November, 2001, CTS (Holdings) elected to convert its holding of the Company's outstanding convertible notes of HK\$470 million, at an exercise price of HK\$1.10 per share. The conversion resulted in the issuance of 427,272,727 ordinary shares of HK\$0.10 each in the Company.
- (c) The subscription rights attaching to 10,000,000 share options were exercised at the subscription price of HK\$0.709 per share, resulting in the issue of 10,000,000 shares of HK\$0.10 each for a total cash consideration, before expenses of HK\$7,090,000.
- (d) Pursuant to a circular dated 16 May 2001, the Company allotted 758,394,899 bonus warrants to the Company's shareholders on the basis of one warrant for every five shares then held. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$1.22 per share, payable in cash and subject to adjustment, from the date of issue to 30 June 2003. As at 31 December 2001, a total of 986,516 bonus warrants were subscribed in exchange for a total of 986,516 ordinary shares of the Company at HK\$0.10 each, for a gross consideration of approximately HK\$1,204,000.

A summary of the movements of the Company's share capital during the year is as follows:

		Number of shares in issue	Share capital HK\$'000
	Notes		
At 1 January 2001		3,251,115,027	325,112
Shares issued on conversion of convertible bonds	(a)	530,859,472	53,086
Shares issued on conversion of convertible notes	(b)	427,272,727	42,727
Shares issued on exercise of share options	(c)	10,000,000	1,000
Shares issued on exercise of bonus warrants	(d)	986,516	98
		<u>4,220,233,742</u>	<u>422,023</u>

33. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Information of share option scheme" in the Report of the Directors on page 26 of this Annual Report.

At the beginning of the year, there were 113,000,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 14 January 1998 to 20 October 2002. The subscription price payable upon the exercise of these options ranged from HK\$0.709 to HK\$3.580, subject to adjustment.

During the year, a total of 10,000,000 share options were exercised at an exercise price of HK\$0.709, and 101,900,000 and 1,100,000 share options with an exercise price of HK\$3.568 and HK\$3.580 were lapsed and cancelled, respectively.

At the balance sheet date, the Company had no share options outstanding under the Scheme.

Warrants

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 1 June 2001, resulting in 758,394,899 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$1.22 per share, payable in cash and subject to adjustment, from the date of issue to 30 June 2003.

During the year, 986,516 warrants were exercised for 986,516 shares of HK\$0.10 each at HK\$1.22 per share. At the balance sheet date, the Company had 757,408,383 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 757,408,383 additional shares of HK\$0.10 each in the Company, for a gross proceeds of approximately HK\$924,038,000.

34. 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/ (accumulated losses) HK\$'000	Total HK\$'000
Group								
At 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 values 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)
Net profit for the year (as restated)	-	-	-	-	-	-	150,919	150,919
2000 interim dividend	-	-	-	-	-	-	(32,511)	(32,511)
Proposed 2000 final dividend	-	-	-	-	-	-	(32,511)	(32,511)
Proposed special dividend	-	-	-	-	-	-	(65,022)	(65,022)
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 and 1 January 2001 (as restated)	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Premium on issue of new shares on exercise of convertible bonds, convertible notes, share options and bonus warrants	981,678	-	-	-	-	-	-	981,678
Exchange realignments	-	-	-	-	-	3,542	-	3,542
Surplus on revaluation	-	-	-	22,838	-	-	-	22,838
Net profit for the year	-	-	-	-	-	-	650,966	650,966
Underaccrual of proposed 2000 final dividend	-	-	-	-	-	-	(16,226)	(16,226)
2001 interim dividend	-	-	-	-	-	-	(189,644)	(189,644)
Reclassification of a long term investment to interests in a subsidiary	-	-	122,000	-	-	-	-	122,000
Proposed 2001 final dividend	-	-	-	-	-	-	(168,809)	(168,809)
Transfer from retained profits	-	-	-	-	10,332	-	(10,332)	-
Transfer to retained profits**	-	(72,198)	-	-	-	-	72,198	-
Realisation of reserves on disposal of an associate	-	15,541	-	-	-	-	-	15,541
At 31 December 2001	5,919,433	160,658	-	259,568	55,012	(2,397)	1,025,194	7,417,468
Reserves retained by:								
Company and subsidiaries	5,919,433	213,440	-	259,568	55,012	(2,397)	970,699	7,415,755
Jointly controlled entities	-	(3,693)	-	-	-	-	227,469	223,776
Associates	-	(49,089)	-	-	-	-	(172,974)	(222,063)
At 31 December 2001	5,919,433	160,658	-	259,568	55,012	(2,397)	1,025,194	7,417,468
Company and subsidiaries	4,937,755	213,440	(122,000)	236,730	44,680	(5,939)	965,884	6,270,550
Jointly controlled entities	-	(3,693)	-	-	-	-	(5,459)	(9,152)
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

Notes to Financial Statements (continued)

31 December 2001

34. RESERVES (continued)

* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to the enterprise expansion reserve funds which are restricted as to use.

** Amount represented the release from capital reserve (which was transferred to capital reserve in 2000 upon deemed disposal of interests in an associate) into retained profits upon disposal of this associate during the year.

Company

	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2000	4,937,755	495,011	5,432,766
Net loss for the year (as restated)	–	(322,897)	(322,897)
2000 Interim dividend	–	(32,511)	(32,511)
Proposed 2000 final dividend	–	(32,511)	(32,511)
Proposed special dividend	–	(65,022)	(65,022)
Balance at 31 December 2000 (as restated)	4,937,755	42,070	4,979,825
At 31 December 2000 and beginning of year:			
As previously reported	4,937,755	312,070	5,249,825
Prior year adjustment:			
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (notes 2 and 11)	–	(270,000)	(270,000)
As restated	4,937,755	42,070	4,979,825
Premium on issue of shares on exercise of convertible bonds, convertible notes, share options and bonus warrants	981,678	–	981,678
Net profit for the year	–	541,047	541,047
Underaccrual of proposed 2000 final dividend	–	(16,226)	(16,226)
2001 interim dividend	–	(189,644)	(189,644)
Proposed 2001 final dividends	–	(168,809)	(168,809)
At 31 December 2001	5,919,433	208,438	6,127,871

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	563,013	866,797
Interest income	(93,861)	(56,121)
Depreciation	117,463	451,541
Goodwill amortisation	27,015	–
Negative goodwill recognised as income	(3,231)	–
Loss/(gain) on changes in fair values of short term investments	(551)	6,215
Provisions for doubtful debts and bad debts written off	5,031	37,155
Write-back of long outstanding payables	(39,743)	(3,286)
Revaluation surplus on hotel properties, net	(652)	(16,638)
Provisions for slow-moving inventories	1,102	1,131
Gain on disposal of fixed assets	(621)	(4,098)
Loss on changes in fair values of long term investments	233	–
Decrease in inventories	4,511	6,634
Decrease/(increase) in trade receivables and other receivables	99,459	(91,811)
Decrease/(increase) in an amount due from ultimate holding company	87,378	(3,038)
Decrease/(increase) in amounts due from fellow subsidiaries	213,688	(50,079)
Increase/(decrease) in trade payables, other payables and accruals	(381,878)	101,114
Increase/(decrease) in amounts due to fellow subsidiaries	(207,748)	4,421
Increase in deferred income	10,370	10,251
Effect of foreign exchange rate changes	1,550	(10,365)
Decrease/(increase) in amounts due from jointly controlled entities, net	1,184	(2,392)
Gain on disposal of long term investments	–	(10,261)
Gain on disposal of short term investments	–	(502)
Provisions for impairments in values of short term investments	–	6,174
Net cash inflow from operating activities	<u>403,712</u>	<u>1,242,842</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium) HK\$'000	Convertible notes HK\$'000	Minority interests HK\$'000	Bank loans, amounts due to minority share- holders and lease and hire purchase contract payables HK\$'000
At 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 and 1 January 2001	5,262,867	470,000	317,251	626,617
Cash inflow from financing, net	8,294	-	-	754,076
Redemption of convertible notes	470,000	(470,000)	-	-
Conversion of convertible bonds and accrued interest	600,295	-	-	-
Acquisition of subsidiaries	-	-	12,881	888
Share of profits for the year	-	-	77,821	-
Dividends paid to minority shareholders	-	-	(54,962)	-
Exchange realignments	-	-	12	-
At 31 December 2001	6,341,456	-	353,003	1,381,581

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries**

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

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries (continued)**

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

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

On 21 March 2001, the Group acquired a 100% interest in Alton Services Limited ("Alton") and its subsidiaries ("Alton Group") from its ultimate holding company. Alton Group is engaged in the travel-related business. Further details of the transaction are included in note 40 to the financial statements. Part of the purchase consideration for the acquisition was in the form of cash, with HK\$1,180,749,000 being paid on 15 May 2001.

Since its acquisition, Alton Group contributed HK\$1,086,886,000 to the Group's turnover and HK\$192,920,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

For the year ended 31 December 2001, Alton Group contributed HK\$81,543,000 to the Group's net operating cash flows, paid HK\$33,922,000 and HK\$13,759,000, respectively, in respect of the cash flows for the payment of tax and investing activities, gave rise to financing cash inflows of HK\$15,341,000, but had no significant impact in respect of the Group's cash flows for net returns on investments and servicing of finance.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(d) Major non-cash transactions**

Reclassification from interests in a subsidiary to interests in a jointly controlled entity

	2000
	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 a minority shareholder	755,186
Due to the Group	687,801
Minority interests	1,130,359
	<u>(1,080,413)</u>

36. 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@	100	-	Investment holding
		10,000 non-voting deferred shares of HK\$1@	39.8	-	
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@	-	100	Provision of printing and advertising agency services
		5,000 non-voting deferred shares of HK\$100@	-	100	

36. 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	
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	-	100	Air ticketing agent
China Trading Service Co., Ltd.*	PRC	RMB14,000,000	-	76	Freight forwarding
China Travel International Ltd.	PRC	RMB50,000,000	80	20	Tour operations
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 and Trading (Deutschland) GmbH	Germany	DEM245,000	-	100	Travel and air ticketing agent
China Travel Hi-Tech Computer Hong Kong Limited #	Hong Kong	HK\$10,000,000	-	80	Trading of computer equipment, provision of computer services and investment holding
China Travel Net Hong Kong Limited #	Hong Kong	HK\$150,000	-	80	Operation of a website
China Travel Service (Australia) Pty. Ltd. #	Australia	AUD3,319,932	-	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.	Canada	CAD2,685,000	-	100	Travel and air ticketing agent

36. 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	
China Travel Service (France) SARL #	France	FRF500,000	-	100	Travel and air ticketing agent
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@	-	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
		1,000,000 non-voting deferred shares of HK\$100@	-	100	
China Travel Service (Japan) Co., Ltd.	Japan	JP¥95,000,000	-	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.	Korea	WON500,000,000	-	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd. #	United Kingdom	£486,000	-	100	Travel and air ticketing agent
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	-	96.2	Provision of cargo transportation services
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@	-	100	Property investment holding
		100 non-voting deferred shares of HK\$1@	-	100	
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@	-	100	Property investment holding and hotel operations
		2 non-voting deferred shares of HK\$1@	-	100	
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	-	100	Property investment holding and hotel operations
		100 non-voting deferred shares of US\$1@	-	-	
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	-	100	Investment holding

Notes to Financial Statements (continued)

31 December 2001

36. 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	
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
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 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 non-voting deferred shares of US\$1@	–	100	Property investment holding and hotel operations
Agencia De Viagens E Turismo Grand, Limitada #	Macau	MOP1,000,000	–	100	Travel and air ticketing agent
Singa China Travel Service Pte. Limited #	Singapore	SGD3,840,000	–	71.46	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada #	Macau	MOP200,000	–	100	Hotel operations
Starsoft Computer Services Limited #	Hong Kong	HK\$400,000	–	80	Investment holding

36. 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	
Starsoft Computer Services (Shenzhen) Co. Ltd. #	PRC	RMB1,200,000	-	80	Computer software development and design
Tonkin Ltd.	Hong Kong	HK\$10,000	-	100	Property Investment
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1@	-	100	Property investment holding
		100 non-voting deferred shares of HK\$1@	-	100	
U.S. China Travel Service Inc. #	United States of America	US\$4,890,000	-	100	Travel and air ticketing agent
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 for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* These subsidiaries are Sino-foreign equity joint ventures.

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

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees given in lieu of utility and rental deposits	-	-	499	2,024
Guarantees given to banks in connection with facilities granted to and utilised by an associate	107,762	136,383	107,762	136,383
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,885	1,888	-	-
	<u>109,647</u>	<u>138,271</u>	<u>108,261</u>	<u>138,407</u>

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

According to a regulation issued by the Shaanxi Provincial Environmental Protection Bureau (the "PEPB"), Weihe Power is required to accrue a sulphur dioxide 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 sulphur dioxide treatment, which may include capital expenditure.

In 1998, pursuant to a verbal confirmation from the State Environmental Protection Bureau (the "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 sulphur dioxide treatment fee.

Had Weihe Power continued to accrue such fees from 1998 to 2001, the accrued amount in respect thereof would have been increased by approximately HK\$5,842,000 (of which the Group's share therein would have been approximately HK\$2,979,000) as of 31 December 2001 and the net income for the year ended 31 December 2001 would have been reduced by approximately HK\$2,073,000 (of which the Group's share therein would have been approximately HK\$1,057,000). The final outcome of the need to make further accruals for and the use of the existing accruals in accordance with the sulphur dioxide regulations will depend on the final negotiations with and agreement by the PEPB and SEPB.

38. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	7,330	4,689
In the second to fifth years, inclusive	3,131	2,423
	<u>10,461</u>	<u>7,112</u>

(b) As lessee

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

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group
	2001
	HK\$'000
Land and buildings:	
Within one year	32,807
In the second to fifth years, inclusive	79,102
After five years	159,880
	<u>271,789</u>

38. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee** (continued)

	Group 2001 HK\$'000
Plant and machinery:	
Within one year	1,111
In the second to fifth years, inclusive	2,580
	<hr/>
	3,691
	<hr/>

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

	Group 2000 HK\$'000
Land and buildings:	
Within one year	1,664
In the second to fifth years, inclusive	953
After five years	8,480
	<hr/>
	11,097
	<hr/>

SSAP 14 (revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

39. COMMITMENTS

In addition to the operating lease commitments as detailed in note 38(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Properties under development:		
Contracted, but not provided for	29,944	177,866
Authorised, but not contracted for	91,743	64,435
	<u>121,687</u>	<u>242,301</u>
Leasehold improvements:		
Contracted, but not provided for	<u>2,632</u>	<u>-</u>
Unpaid capital contribution to jointly controlled entities:		
Contracted, but not provided for	<u>4,987</u>	<u>6,350</u>
Others:		
Contracted, but not provided for	<u>385</u>	<u>168</u>

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

	2001	2000
	HK\$'000	HK\$'000
Authorised, but not contracted for	<u>18,027</u>	<u>5,478</u>

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

40. 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) CTS (Holdings) or its subsidiaries and a jointly controlled entity

		Group	
		2001	2000
		HK\$'000	HK\$'000
Paid or payable to:			
(i)	China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,829 2,256
(ii)	China Travel Hip Kee Godown Hong Kong Limited	Storage charges	767 776
(iii)	China Travel Service (Hong Kong) Limited	Train and boat tickets	4,142 20,451
(iv)	China Travel Service (Hong Kong) Limited	Bus ticket service fees	755 3,637
(v)	China Travel Service (Hong Kong) Limited	Office rental	1,035 4,304
(vi)	China Travel Service (Hong Kong) Limited	Management service fees	2,825 11,392
(vii)	CTS (Holdings)	Convertible notes interest	24,015 28,277
(viii)	CTS (Holdings)	Management fees	300 150
(ix)	CTS (Holdings)	Office rental (Note 3)	8,479 –
(x)	CTS (Holdings)	Refund on reimbursement of PRC withholding tax on interest income	15,676 –
(xi)	China Travel Advertising Hong Kong Limited	Advertising fees	837 1,716
(xii)	China Travel Building Contractors Hong Kong Limited	Decoration expenses (Note 4)	4,072 1,783
(xiii)	China Travel Insurance Advisers Hong Kong Limited	Insurance charges (Note 5)	6,195 6,744
(xiv)	Tai Sun Services Company Limited	Stevedoring services (Note 6)	1,301 –
(xv)	Tai Sun Services Company Limited	Coolie charges	1,125 1,158
(xvi)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charges	1,527 1,994
(xvii)	Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charges	897 6,033
(xviii)	China Travel Hotel Management Services Hong Kong Limited	Hotel management fees (Note 1)	3,810 3,918
(xix)	China Travel Hotel Management Services Hong Kong Limited	Management service fee	1,387 1,291

40. RELATED PARTY TRANSACTIONS (continued)

(a) CTS (Holdings) or its subsidiaries and a jointly controlled entity (continued)

			Group	
			2001	2000
	Name of company	Nature of transaction	HK\$'000	HK\$'000
	Paid or payable to: <i>(continued)</i>			
(xx)	China Travel Hi-Tech Computer Hong Kong Limited	Equipment hiring fees	161	810
(xxi)	Sun Wah Printing Factory	Printing charges	88	635
(xxii)	China Travel Computer Service H.K. Limited	Computer maintenance fees	8,490	–
(xxiii)	Hubei Yangtze River Splendid China Cruise Co., Ltd	Sightseeing cruiser services <i>(Note 7)</i>	789	–
	Received or receivable from:			
(xxiv)	CTS (Holdings)	Reimbursement of PRC withholding tax on interest income	1,806	3,083
(xxv)	CTS (Holdings)	Hotel room rental	517	400
(xxvi)	CTS (Holdings)	Travel permit administration income <i>(Note 11)</i>	234,731	–
(xxvii)	CTS (Holdings)	Rental income	1,399	–
(xxviii)	CTS (Holdings)	Compensation	15,647	–
(xxix)	CTS (Holdings)	Sale of computer equipment and visa materials	2,623	–
(xxx)	China Travel Computer Service H.K. Limited	Application Service Provider services <i>(Note 8)</i>	18,225	–
(xxxi)	China Travel Service (Hong Kong) Limited	Admission tickets	11,623	37,899
(xxxii)	China Travel Service (Hong Kong) Limited	Hotel room rental	2,201	11,580
(xxxiii)	China Travel Service (Hong Kong) Limited	Coach income <i>(Note 2)</i>	156	733
(xxxiv)	China Travel Service (Thailand) Co., Limited	Sale of tourism services /products <i>(Note 9)</i>	1,138	–
(xxxv)	China Travel Service Inc.	Sale of tourism services /products <i>(Note 9)</i>	1,139	–
(xxxvi)	China Travel System (M) Sdn. Bhd.	Sale of tourism services /products <i>(Note 9)</i>	363	–
(xxxvii)	China Travel Hotel Management Services Hong Kong Limited	Rental income <i>(Note 10)</i>	33	–

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

40. RELATED PARTY TRANSACTIONS (continued)

(a) CTS (Holdings) or its subsidiaries and a jointly controlled entity (continued)

Notes:

- (1) The hotel management fees payable to China Travel Hotel Management Services Hong Kong Limited during the year was less than 3% of the audited consolidated net tangible assets of the Group.
- (2) The coach income payable to China Travel Tours Transportation Services Hong Kong Limited by China Travel Service (Hong Kong) Limited during the year amounted to HK\$156,000, which was less than 0.3% of the audited consolidated net tangible assets of the Group.
- (3) The rental charge for the renting of office premises was determined with reference to the prevailing market rate.
- (4) The office decoration and maintenance expenses were determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (5) The insurance brokerage charges were determined according to the prices for these services which are substantially in line with those offered to independent third parties.
- (6) The stevedoring services fee paid or payable was determined according to the prices which are substantially in line with those offered by the fellow subsidiary to its major customers.
- (7) The sightseeing cruiser services fee payable to a jointly controlled entity of CTS (Holdings) was determined according to the prices which are substantially in line with those offered to independent third parties.
- (8) The application service provider service charges receivable were determined according to the prices which are substantially in line with those offered to independent third parties.
- (9) The sales to fellow subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.
- (10) The rental income for the leasing of an office unit was determined with reference to the prevailing market rate.
- (11) The travel permit administration fee payable was determined in accordance with the terms of an agency agreement entered into between parties and charged at 45% of the gross fee revenue from travel permit applications. The fee did not exceed 20% of the audited consolidated turnover of the Group.

For notes (3) to (10), each of the amounts incurred during the year did not exceed 3% of the audited consolidated net tangible assets of the Group.

40. RELATED PARTY TRANSACTIONS *(continued)***(b) Acquisition of the entire issued share capital of Alton**

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 Alton, a wholly-owned subsidiary of CTS (Holdings). Alton 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 acquisition of Alton is HK\$1,911 million, of which HK\$1,181 million was satisfied by payment in cash, HK\$600 million was satisfied by the issue of the Company's 2% convertible bonds, and the remaining HK\$130 million was 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 acquisition was completed on 15 May 2001.

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 10 April 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Travel International Investment Hong Kong Limited ("the Company") will be held at the Ballroom, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Monday, 3 June 2002 at 2:30 p.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the Directors and of the Auditors for the year ended 31 December 2001.
2. To declare a final dividend.
3. To re-elect Directors and to fix the remuneration.
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration.

As special business to consider and, if thought fit, pass, with or without amendments, the following resolution as ordinary resolutions:

5. "THAT:
 - (a) subject to paragraph (b) of this ordinary resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase (i) shares of HK\$0.10 each ("Shares") in the share capital of the Company and (ii) warrants conferring rights to subscribe for Shares pursuant to the bonus issue of warrants by the Company the particulars of which was set out in the Company's circular dated 16 May 2001 ("Warrants"), on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of securities which may be repurchased pursuant to the approval in paragraph (a) of this ordinary resolution shall (i) in the case of Shares, not exceed 10% of the aggregate nominal amount of Shares in issue as at the date of the passing of this ordinary resolution and (ii) in the case of Warrants, not exceed 10% of the aggregate nominal amount of Warrants in issue and remain exercisable as at the date of the passing of this ordinary resolution, and the approval pursuant to paragraph (a) of this ordinary resolution shall be limited accordingly; and

- (c) for the purposes of this ordinary resolution:

“Relevant Period” means the period from the passing of this ordinary resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and
- (iii) the date on which the authority given under this ordinary resolution is revoked or varied by ordinary resolution of the shareholders in general meeting.”

6. “THAT:

- (a) subject to paragraph (c) below and pursuant to Section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this ordinary resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) of this ordinary resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) the Warrants or the exercise of rights of subscription or conversion under any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Memorandum and Articles of Association of the Company, shall not exceed the aggregate of (aa) 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this ordinary resolution and (bb) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this ordinary resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this ordinary resolution), and the said approval shall be limited accordingly; and

(d) for the purposes of this ordinary resolution:

“Relevant Period” means the period from the passing of this ordinary resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and
- (iii) the date on which the authority given under this ordinary resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares in the Company open for a period fixed by the Directors of the Company to the holders of shares in the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

- 7. “**THAT** the Directors of the Company be and are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the ordinary resolution numbered 6 in the notice convening this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.”
- 8. To transact any other ordinary business of the Company.

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

Hong Kong, 10 April 2002

Registered Office:
12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

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 2001 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 Wednesday, 29 May 2002 to Monday, 3 June 2002 (both days inclusive). In order to establish entitlements to the proposed final dividend, 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 Tuesday, 28 May 2002. Warrantholders who wish to convert their warrants into shares in order to qualify for the final dividend must lodge the duly completed subscription form together with the relevant warrant certificates accompanied by the subscription monies with the Company's Registrar not later than 4:00 p.m. on Tuesday, 28 May 2002.
- (5) An Explanatory Statement regarding resolutions numbered 5, 6 and 7 above containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolutions will be set out in a separate document and despatched to shareholders together with the 2001 Annual Report.
- (6) With respect to resolutions numbered 5, 6 and 7 above, the Directors of the Company wish to state that they have no immediate intention of exercising the repurchase mandate to repurchase shares and/or warrants and the general mandate to allot and issue shares in the capital of the Company.

Corporate Milestones For The Last Decade

Year	Month	Events
1992	July	Incorporated in Hong Kong
	August	Acquired 51% Shenzhen The Splendid China Development Co., Ltd.
	October	Acquired Freight Forwarding Business
	November	Listed on Hong Kong Stock Exchange
1993	March	Acquired Steel Production Operation
	November	Acquired Hong Kong & Macau Tour Business, Hotel Concourse and Hotel New Harbour Issued US\$143,750,000 4.25% guaranteed convertible bonds
1995	December	Acquired 51% Window of the World
1996	March	Raised HK\$800 million syndicated loan
	July	Issued bonus warrants
	September	Placement of 379,312,000 shares at HK\$2.088
	October	Acquired The Metropole Hotel
1997	February	Placement of 700,000,000 shares at HK\$3.60 Invested in road and bridge projects in the PRC
	April	Acquired Passenger Transportation Business
	May	Acquired 15.3% of Shaanxi Weihe Power Plant Acquired 20% of listed bus operator Citybus Group Limited
	June	Acquired Freight Forwarding Business in the PRC
	July	Acquired 43.7% of listed property developer Vision Century Corporation Limited (formerly known as Hing Kong Holdings Limited)
	November	Acquired a hotel site in Causeway Bay and issued shares

Corporate Milestones for the Last Decade (continued)

Year	Month	Events
1998	June	Increased stake in Citybus Group Limited to 23.1%
	September	Increased stake in Weihe Power Plant to 20.3% and divested of Steel Production Operation
	October	Established a Sino-foreign joint venture Shenzhen Tycoon Golf Club
	December	Increased stake in Weihe Power Plant to 51% and issued HK\$470 million convertible notes as partial consideration
1999	February	Divested of Citybus Group Limited
	May	Raised US\$75 million syndicated loan
	June	Formed a joint venture in Passenger Ferry Transportation Business with a listed property developer Shun Tak Holdings Limited
	December	HK\$200 million term loan facility
2000	March	Acquired 18% of an On-line Travel Business
	September	Raised HK\$500 million term loan facility

Corporate Milestones for the Last Decade *(continued)*

Year	Month	Events
2001	February	Divested of Vision Century Corporation Limited
	March	Raised HK\$800 million term loan facility
		Announced restructuring plan to acquire Tourism Group and Hotel Grandeur Macau and to divest of road and bridge projects in the PRC
		Participate in the establishment of Guangdong China Travel Service Stock Ltd.
	May	Conversion of HK\$600 million convertible bonds into ordinary shares
	July	Issued bonus warrants
	August	Incorporation of China Travel International Ltd. in Beijing
	October	Trial operation of Metropark Hotel
	November	Conversion of HK\$470 million convertible notes into ordinary shares