

Corporate Information

DIRECTORS

Che Shujian (*Chairman*)
Zhang Xuewu (*Vice Chairman*)
Shen Zhuying (*Vice Chairman, General Manager*)
Zheng Heshui (*Vice Chairman*)
Lo Sui On (*Vice Chairman*)
Chen Shoujie
Zheng Hongqing
Zhang Fengchun
Ng Chi Man, Michael
Liu Li
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*

AUDIT COMMITTEE

Yeh Meou Tsen, Geoffrey
Yeh V Nee (*Alternate Director to Yeh Meou Tsen, Geoffrey*)
Wong Man Kong, Peter

COMPANY SECRETARY

Woo Wai See, Alice

REGISTERED OFFICE

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

AUDITORS

Ernst & Young

LEGAL ADVISORS

Johnson Stokes & Master

SHARE REGISTRAR

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas, Hong Kong Branch
Credit Lyonnais, Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Societe Generale, Hong Kong Branch

WEBSITE

irasia.com/listco/hk/ctii

STOCK CODE

0308

BOARD LOT

2,000 shares

Major Operations



Travel, Leisure & Entertainment

Tour Operation

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

Theme Parks

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

Golf Club Operation

- Shenzhen Tycoon Golf Club Co., Ltd. (100%)

Leisure Resort

- China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. (100%)

Hospitality

Hotels

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

Transportation

Freight Forwarding

- China Travel Service (Cargo) Hong Kong Limited (100%)
- Shenzhen China Travel Service (Cargo) Hong Kong Ltd. (49%)
- CTS International Transportation Co., Ltd. (76%)

Passenger Transportation

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

Investment Holdings

Infrastructure

- Shaanxi Weihe Power Co., Ltd. (51%)

Financial Review

FIVE YEAR FINANCIAL SUMMARY

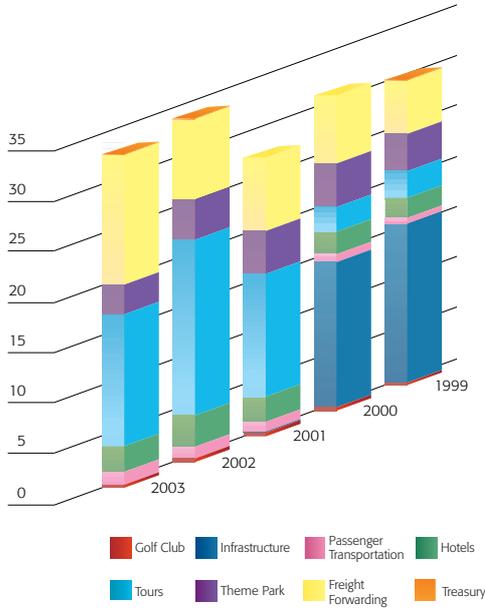
A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year summary have been adjusted for the effects of the prior year adjustments as detailed in notes 2, 5 and 33 to the financial statements.

	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
Results					
Turnover	3,300,916	3,401,695	2,758,579	3,134,170	3,025,880
Net profit/(loss) from ordinary activities attributable to shareholders	(39,810)	532,598	619,765	145,540	248,515
Dividends	169,298	380,118	374,679	130,044	65,022
Assets and liabilities					
Total assets	11,217,949	10,511,541	10,638,392	8,524,603	11,666,428
Total liabilities	3,965,886	2,691,654	2,950,747	2,311,826	5,474,992
Total liabilities (excluding minority interests)	3,631,131	2,358,827	2,597,744	1,994,575	4,169,604

Financial Review

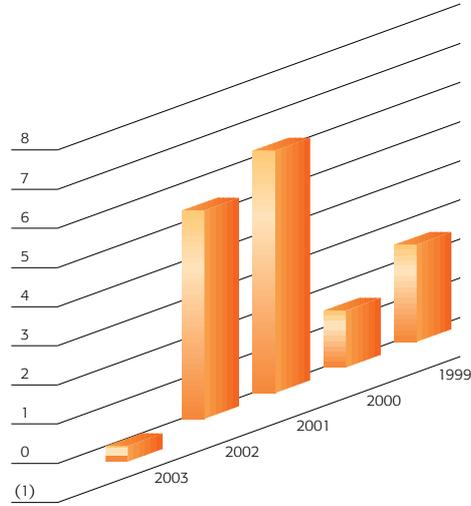
Turnover by Principal Activities

HKD (100 million)



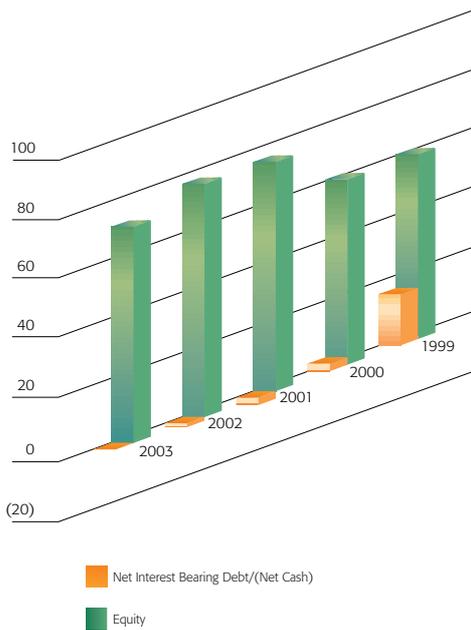
Profit/(Loss) Attributable to Shareholders

HKD (100 million)



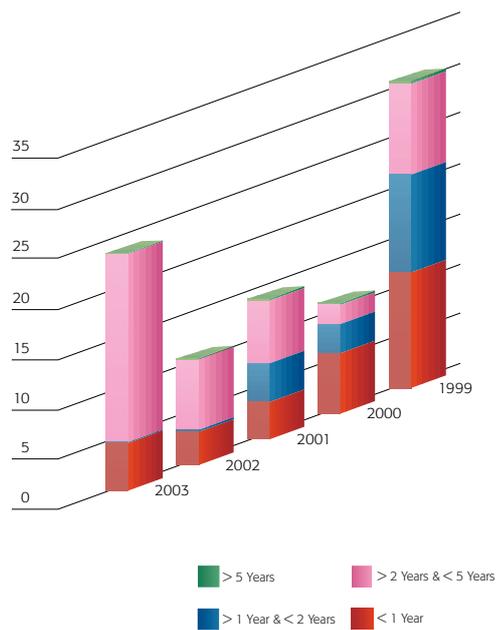
Net Debt to Equity

HKD (100 million)



Debt Maturity Profile

HKD (100 million)



Financial Ratios Highlights

	2003	2002 (restated)	2001 (restated)
Profit & loss account ratios			
Interest coverage ratio	2.16	16.56	9.65
Earnings per share (HK cents)	(0.94)	12.61	17.69
Dividend per share (HK cents)	4.00	9.00	9.00
Dividend payout ratio (%)	N/A	71.36	50.88
Balance sheet ratios			
Current ratio	2.09	1.36	1.76
Quick ratio	2.08	1.28	1.67
Net assets value per share (HK\$)	1.71	1.85	1.89
Net interest-bearing debt to equity	0.00	(0.02)	(0.03)
Rate of return ratios			
Return on average equity (%)	N/A	6.81	7.76
Return on total capital and borrowings (%)	0.54	6.92	7.91
Market price ratios			
Dividend yield			
Year low (%)	2.42	4.95	5.14
Year high (%)	4.65	8.91	9.68
Price to earning ratio			
Year low	N/A	8.01	5.26
Year high	N/A	14.43	9.89

Formula for financial ratios:

Interest coverage ratio	$(\text{Profit before tax} + \text{Finance costs}) / (\text{Finance costs} + \text{Capitalised interest})$
Current ratio	$\text{Current assets} / \text{Current liabilities}$
Quick ratio	$(\text{Current assets} - \text{Inventories}) / \text{Current liabilities}$
Net interest-bearing debt to equity	$(\text{Interest bearing debts} - \text{Cash and cash equivalents}) / \text{Equity}$
Return on average equity	$\text{Profit attributable to shareholders} / \text{Average shareholders' equity}$
Return on total capital and borrowings	$(\text{Profit before tax} + \text{Finance costs}) / (\text{Total liabilities} + \text{Shareholders' equity} + \text{Minority interests})$

Biographies of Directors and Senior Management

DIRECTORS

Mr. Che Shujian, aged 61, is a qualified senior engineer of economic management. He has been Chairman of the Company since June 2000. He graduated from the School of Economics of Jilin University in China and has extensive experience in economic development and corporate management. He was the dean of the Designing Laboratory, the deputy director and subsequently the director of the Northeast Academy of the China Civil Engineering Institute from 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 from 1991 to 1998. He subsequently acted as a specially appointed investigator of The State Council of China from 1998 to 2000. Mr. Che has also been chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company since April 2000.

Mr. Zhang Xuewu, aged 49, holds a Master degree in Business Administration and is a qualified senior economist. He has been an Vice Chairman of the Company since February 2001. He was the executive vice president and director of Minmetals UK, Limited in China, the senior vice president of China National Metals & Minerals Import and Export Corp. in China and the president of Minmetals Development Co., Ltd., a listed company. He has extensive experience in corporate management in Mainland and overseas. Mr. Zhang has also been the vice chairman and general manager of CTS (Holdings) since January 2001 and holds chairmanships and directorships in various subsidiaries and joint venture companies of CTS (Holdings) and the Group. He is a member of the Tourism Strategy Group in the HKSAR Government and a standing committee member of The Chinese General Chamber of Commerce.

Mr. Shen Zhuying, aged 56, has been an Managing Director of the Company since October 2000 and the Vice Chairman and General Manager of the Company since December 2003. He has over 20 years of experience in corporate and business management and has extensive experience in managing listed company. He was the Managing Director of the Company from 1992 to 1997. Mr. Shen is also a director of CTS (Holdings) and holds chairmanships and directorships in various subsidiaries of CTS (Holdings) and the Group.

Mr. Zheng Heshui, aged 53, has been an executive director of the Company since September 1998 and an Vice Chairman of the Company since December 2003. He graduated from Xiamen University in China and has been engaged in economic development work over 20 years. He joined the Group in 1993 and is also a director of CTS (Holdings). Mr. Zheng holds chairmanships and directorships in various subsidiaries of CTS (Holdings) and the Group.

Mr. Lo Sui On, aged 53, has been an executive director of the Company since June 2000 and an Vice Chairman of the Company since December 2003. He joined China Travel Service (Hong Kong) Limited ("CTSHK") in 1971 and has over 30 years of experience in tourism operation and management. He is also the director and general manager of CTSHK and a director of CTS Holdings. He holds directorships in various subsidiaries of the Group and CTS (Holdings). Mr. Lo serves as a president of Hong Kong Association of China Travel Organisers Limited and a committee member of the Tenth Chinese People's Political Consultative Committee of Inner Mongolia Autonomous Region in China. In addition, he served as a director of the Travel Industry Council of Hong Kong and a member of the Tourism Strategy Group in the HKSAR Government, the Election Committee for the Second Government of the HKSAR as well as the HKSAR Government's election committee on deputy of the Tenth National People's Congress of the PRC.

Biographies of Directors and Senior Management

Mr. Chen Shoujie, aged 59, graduated from Xian Jiaotong University in China. He has been an Executive Director of the Company since June 2000. He was the plant manager of Main Plant of Lanzhou Oil Refinement and Chemical Works in China and has extensive experience in corporate and business management. Mr. Chen joined CTS (Holdings) in 2000 and is also the director and deputy general manager of CTS (Holdings). He holds directorships in various subsidiaries of CTS (Holdings) and the Group.

Mr. Zheng Hongqing, aged 56, holds a Master degree in Economics and is a qualified senior economist. He has been an Executive Director of the Company since January 1997. He graduated from the Department of Statistics of Renmin University in China. Mr. Zheng was a committee member of The State Commission for Restructuring Economic System in China, a director of the Comprehensive Research Department and a general manager of the China Container Corporation. He has been engaged in economic work over 20 years. He joined CTS (Holdings) in 1996 and is also a director of CTS (Holdings). He holds directorships in various subsidiaries of CTS (Holdings) and the Group.

Mr. Zhang Fengchun, aged 39, is qualified as Certified Public Accountant in China. He has been an Executive Director of the Company since June 2000. He graduated from the Accounting Department of Renmin University of China and has extensive experience in investment planning, finance operation and management. He joined CTS (Holdings) in 1994 and is also the director and chief financial officer of CTS Holdings. Mr. Zhang holds directorships in various subsidiaries in CTS (Holdings) and the Group.

Mr. Ng Chi Man, Michael, aged 45, holds a Master degree in Business Administration from St John's University in New York. He is a member of the American Institute of Certified Public Accountants and a fellow member of the Hong Kong Society of Accountants. Since November 2000, he was appointed as the Executive Director and Deputy General Manager of the Company thus holding directorship in various subsidiaries of the Group. Mr. Ng was appointed as group financial controller of Consolidated Electric Power Asia Limited, chief financial officer of Hong Kong Construction (Holdings) Limited, a non-executive director of Citybus Group Limited and netalone.com Limited as well as an alternate director to Mr. Zheng Hongqing (non-executive director) of Vision Century Corporation Limited. He has significant experience in corporate and financial management of listed companies in Hong Kong.

Mr. Liu Li, aged 50, Mr. Li is a qualified senior auditor and a Certified Public Accountant in China. He has been the Executive Director and Deputy General Manager of the Company since February 2002. He graduated from the Finance and Trade College at Jilin of China with a Bachelor degree in Finance. Mr. Liu served as the executive director and vice secretary-general of the Auditing Association of Guangdong Province and has extensive experience in corporate and administration operation. He joined CTS (Holdings) in 1997 as a general manager of audit department. He holds directorship in various subsidiaries of the Group.

Dr. Yeh Meou Tsen, Geoffrey *#, *S.B.S., M.B.E., J.P., D.C.S.*, aged 73, has been an Independent Non-Executive Director of the Company since 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. Prior to his retirement, he was the chairman of Hsin Chong Construction Group Ltd. Dr. Yeh was also the chairman of The Hong Kong Futures Exchange Limited until its merger into The Hong Kong Exchanges and Clearing Limited. He is a director of Hysan Development Company Limited, a listed company in Hong Kong. He is the father of Mr. Yeh V Nee.

Biographies of Directors and Senior Management

Mr. Yeh V Nee *#, *B.A., J.D. American Attorney-at-law*, aged 45, has been an Alternate Director to Dr. Yeh Meou Tsen, Geoffrey of the Company since January 2001. Mr. Yeh is the son of Dr. Yeh Meou Tsen, Geoffrey. He graduated from the School of Law at Columbia University and was admitted a member of the California Bar Association in 1984. He 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 the 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 through 2003. Mr. Yeh also sits on the Takeovers & Mergers Panel and the Takeovers Appeals Committee of Securities and Futures Commission. He is the chairman of Hsin Chong Construction Group Ltd. and a director of Arnhold Holdings Limited, Guangdong Brewery Holdings Limited, Next Media Limited and Ocean Grand Chemicals Holdings Limited, listed companies in Hong Kong.

Dr. Fong Yun Wah*, *S.B.S., M.B.E., J.P.*, aged 79, has been an Independent Non-Executive Director of the Company since December 1998. He is the Chairman of The Hip Shing Hong Group, Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is also the honorary adviser of the Real Estate Developers Association of Hong Kong and the council member of United College at the Chinese University of Hong Kong. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC and has also served as the chairman and council member of many charitable organisations in Hong Kong. He was a member of the Selection Committee for the First Government of the HKSAR and was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR.

Mr Wong Man Kong, Peter *#, *B.B.S., J.P., BSc, F.C.I.T., MRINA*, aged 55, serves as a deputy of the Tenth National People's Congress of the PRC. He has been an Independent Non-Executive Director of the Company since 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 experience in industrial, commercial and public service. Mr. Wong is the Chairman of M.K. Corporation Ltd. and North West Development Ltd., as well as the director of Hong Kong Ferry (Holdings) Co. Ltd., Glorious Sun Enterprises Limited, Sun Hung Kai & Co., Limited and Chinney Investments, Limited. He serves as a standing committee member of The Chinese General Chamber of Commerce.

* *Independent Non-Executive Director*

member of audit committee

Biographies of Directors and Senior Management

MANAGEMENT

Mr. Dong Xi Sheng, aged 48, was appointed a general manager of Shenzhen The World Miniature Co., Ltd. in June 2003. He graduated from Shanxi University. Mr. Dong joined Shenzhen The World Miniature Co., Limited in 1992 and assigned as deputy general manager of Shenzhen The Splendid China Development Co., Ltd. from September 1999 to June 2003.

Mr Li Yanzhong, aged 42, was appointed a director of Shenzhen The Splendid China Development Co., Ltd. in May 2001 and general manager in July 2002. He worked in the Overseas Chinese Office of The State Council. He joined the Group in January 2001.

Mdm Guo Yimei, aged 52, is the director and executive deputy general manager of China Travel International Ltd. Mdm Guo graduated from foreign language department of the Jilin University in China. She worked as a general manager of China International Travel Service, Harbin Branch and general manager of Overseas Tourism Corporation of Heilongjiang Province. In 1992, she was assigned by the National Tourism Administration as a senior visiting scholar in the tourism management department of George Washington University in U.S.A. for one year. Mdm Guo joined CTS Holdings in 1994.

Mr Sun Kin Kong, aged 49, 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 in 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 47, is the director and the general manager of China Travel Service (Cargo) Hong Kong Limited (“CTS Cargo”) and holds directorship in various subsidiaries of the CTS Cargo’s group. Mr. Guo graduated from Tourism Department of Huaqiao University in China. He worked in the China Travel Service Office of Fujian Province. He joined CTS Holdings in 1998.

Mr Feng Weixiang, aged 41, is the director of China Travel Tours Transportation Services Hong Kong Limited (“CT Tours”), a subsidiary of China Travel Tours Transportation Development (HK) Limited, and he joined CT Tours in 1996. He holds a Bachelor degree from the College of Arts of the Jinan University in China and Diploma in Economics and Management. He has extensive experience in corporate management and economic research both in Hong Kong and Mainland China as well as the passenger management experience in Hong Kong, Mainland and cross-border passenger transportation between Hong Kong and Guangdong Province. He worked with the Economic Department of Policy Researching Office of Guangdong Province. He joined CTS (Holdings) in 1994 and was the manager in the General Manager Office and the assistant general manager in the Corporate Management Department.

Mr Wang Fei, aged 39, is the director and general manager of Shenzhen Tycoon Golf Club Co., Ltd. He graduated from the School of Economics and Management of Beijing Jiaotong University in China. Mr. Wang served in The State Bureaus of the PRC Government and Shenzhen Overseas Chinese Town Economic Development Company and worked in Lao Aviation (International) Company Ltd. in 1994. He joined CTS (Holdings) in 1996.

Biographies of Directors and Senior Management

Mr. Liu Jingping, Jean Paul, aged 44, is a general manager of Hotel Concourse. He graduated from the Lausanne Hotel School of Switzerland. He worked as a 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 of China Travel Hotel Management Services Hong Kong Limited. He has about 20 years of experience in hotel administrative management.

Mr. Jiang Peiruo, Peter, aged 50, was appointed a general manager of The Metropole Hotel in June 2002. He graduated from the China Tourism Management Institute and then obtained the Master degree in Hotel and Tourism Management at Hong Kong Polytechnic University. Mr Jiang has over 20 years' experience in hotel operation and administration. He worked with a number of the four-star and five-star hotels in the Mainland China including Lanzhou Jincheng Hotel, Haikou Yuanbo Hotel, Zhuhai Yindo Hotel, Sanya Pearl Seaview Hotel and Huangshan International Hotel, and was responsible for the hotel administrative management. He joined CTS (Holdings) in 1997 and was the director and deputy general manager of China Travel Hotel Management Services Hong Kong Limited in 2000.

Mr. Chi Yanqing, aged 60, is a general manager of Hotel Grandeur in Macau. He graduated from the Foreign Language Department of Nanjing University in China. He was the deputy general manager of China Travel Hotel Management Services Hong Kong Limited, a general manager of Hotel Concourse, general manager of Huaqiao Hotel in Guangzhou and tourist guide in China Travel Service Office of Guangdong Province. He has well experience in hotel and tourist management.

Mr. Ng Kam Hung, aged 45, was appointed as general manager of Hotel New Harbour on June 2002. He has over 20 years of experience in hotel operation and administration and hold the professional qualification of Certified Hotel Administrator (CHA) designated by the American Hotel and Motel Association. Mr. Ng worked with a number of hotels in Hong Kong and Mainland China, including Furama Intercontinental Hotel, Holiday Inn, Ramada Hotel, Far East Hotel Group and the Hot Spring Hotel in Fuzhou. He joined CTS Holdings in 1990 and held executive positions in Hotel Concourse.

Mr. Kwok Wing Cheung William, aged 49, was appointed a general manager of Metropark Hotel on December 2003. He has about 30 years' experience in hotel industry and worked as general manager and front office manager with a number of hotels in Mainland China, Hong Kong and Macau. Before joining the Group, he was the project manager of Golden Mile Hotel Management Company and general manager of Nanhai Asia Aluminium Factory Co., Ltd., a subsidiary of Asia Aluminum Group of Companies. In addition, Mr. Kwok taught hotel management course at University of East Asia in Macau.

Mr. Yang Cunquan, aged 47, is the director and general manager of China Travel Hi-Tech Computer Hong Kong Limited. He graduated from Huaqiao University in China. He worked with the Information Network Centre of Huaqiao University and was responsible for the system design and implementation of computer network system and website. Mr. Yang has proficiency in computer technology and e-commerce and well experience in management for the relevant field. He joined the CTS (Holdings) in 1998.

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 would like to announce that the Group has recorded an audited net profit from ordinary activities of **HK\$347 million** for the year ended 31 December 2003. Due to impairment of properties and goodwill of **HK\$387 million**, net loss attributable to shareholders was **HK\$39.81 million**. The net asset value of the Group as at 31 December 2003 was approximately **HK\$7.25 billion**, which is a decrease of 7.26% as compared with last year.



Chairman's Statement

The Group has come through a tough and challenging year. In the first half of 2003, the outbreak of Severe Acute Respiratory Syndrome ("SARS") had a devastating impact on tour and tour-related operations, which has recovered in the latter half of the year. However, the inbound tour operation to Hong Kong was still being affected in the latter half of 2003. Providing that the Group has a solid business foundation and the management has implemented various measures to reduce operating costs and to reduce level of drop in profit, the consolidated operating profit for the year was decreased of 37% as compared with last year. The Group has come through a difficult period due to the SARS epidemic, with good financial position and the impairment of assets and goodwill will not affect the cash flow. Therefore, Board of Directors has resolved to recommend the payment of a final dividend of HK4 cents and issue "5 for 1" bonus warrants, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting. The proposed dividends are expected to be paid on Friday, 28 May, 2004.

During the year, the Group has continued to build up its travel network in the Mainland and overseas. The Group has established four joint venture travel agencies in the Mainland and established a wholly owned travel agency, Special Asia Travel AB, in Stockholm, Sweden in preparation for the opening up for PRC citizens to visit Western and Northern Europe by the European Union starting from 1 May, 2004. According to a recent World Travel and Tourism Council

(WTTC) report, the Mainland outbound travel market is expanding at an average annual rate of 20%. Moreover, the accession of China to the World Trade Organization and Closer Economic Partnership Arrangement (CEPA) have both contributed to the increase in the volume and frequency of business travel between Mainland and Hong Kong. Therefore, our subsidiaries, China Travel Net Hong Kong Limited and CTI Business Travel Management Company in Beijing have signed cooperative agreements with Synergi, Inc., a worldwide business travel organization, respectively, which will help the Group to expand business and conference travel businesses in Hong Kong and the Mainland.

The development of the Zhuhai Ocean Spring Resort has been making smooth and steady progress. The foundation treatment, the hot spring production well and the schematic design of the first phase of the resort have been completed and the construction work has commenced in March 2004. With the rapid economic growth of the Pearl River Delta, the planning of the Hong Kong-Zhuhai-Macao Bridge, the improvement in traffic facilities between Zhuhai and Guangzhou and other cities, and the increasing demand of leisure travel, the resort will bring tremendous contributions towards the earnings growth of the Group.



Chairman's Statement

In September 2003, the Group has successfully issued US\$150 million of five-year zero coupon guaranteed convertible bonds, thus increasing the funding for development of the Group.

In 2003, the Group has achieved solid results in consolidating and revamping the businesses of its Hong Kong, Mainland and overseas travel network. That has helped to reduce operating costs, develop new businesses and strengthen the competitiveness of the core travel business of the Group. Through extensive market research and strategic review conducted in 2003, the short term, medium term and long term development goals and resource allocation of the Group have been identified. That has helped to reinforce the direction of development of the Group and lay down a solid foundation for the continuous, healthy and rapid development of its core travel business.

With the SARS crisis subsided and the avian influenza contained, the further extension of "Individual Traveler Permit Scheme", the estimate number of tourist visit Hong Kong in 2004 will exceed 20 million, representing an increase of 30% as compared to 2003. The development of the Group's travel, hotel and passenger transportation businesses will be fostered under the strong growth of the Mainland tourism market. The Group is confident in its future prospects.

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, 31 March 2004



Management's Discussion and Analysis



*Telford Plaza
Branch of CTSHK*

Business Review

The audited net loss attributable to shareholders of the Group for the year ended 31 December 2003 was HK\$39.81 million. The loss was mainly due to the outbreak of Severe Acute Respiratory Syndrome ("SARS"), decrease of operating profit, impairment of properties and goodwill. Apart from the above impairment of properties and goodwill which amounted to HK\$387 million, the net profit from ordinary activities attributable to shareholders was HK\$347 million, which is a decrease of 37% as compared with last year.

During the outbreak of SARS, besides undertaking a number of cost control measures, the Group has leveraged on this opportunity to expand its travel network in the Mainland and overseas. So far, the Group has established joint ventures of travel agency in four major tourism cities including Shanghai, Shandong, Xiamen and Xian, a call center in

Guangzhou, a wholly owned travel agency in a major country in the Northern Europe – Sweden, and branches in the airport of both Osaka in Japan and Frankfurt in Germany. The Group's travel network in Hong Kong, Mainland and overseas has come into shape which has laid a solid foundation for the future development of the business. In addition, leveraging on the opportunity arose from the "24-hour Passenger Clearance Service", the Group has commenced the operation of overnight coach across the boundary and has achieved satisfactory result. The Group's major project, Zhuhai Ocean Spring Resort has also achieved some progress. The amount of the extractable hot spring reserve is found to be twice the amount of the expected usage. The successful issuance of the US\$150 million convertible bond by the Group has provided sufficient fund for the development of the Phase I of the project.

Tour Operation and Leisure Business

Due to impact of SARS, the turnover of travel and leisure business dropped by 25.1% as compared with last year.



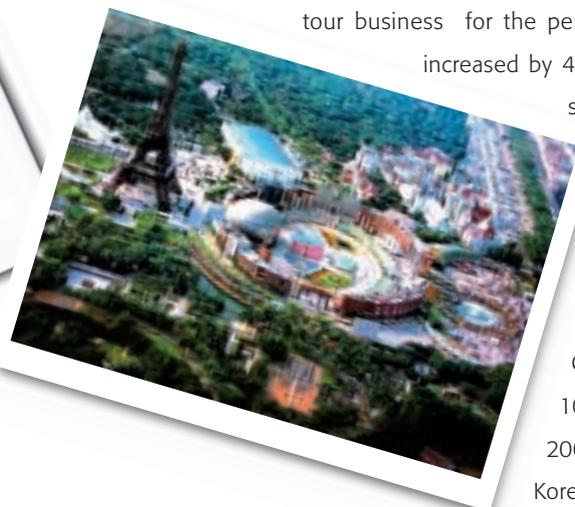
*Office of CTS
(U.K.) and CTS
(France)*



Management's Discussion and Analysis



Theme Parks



During the year, the number of tourists received by China Travel Service (Hong Kong) Limited ("CTSHK") decreased by 21.7% as compared with last year. The business of hotel room reservation and transportation ticket-booking fell by 24.3% and 9.3% respectively. During the SARS period, CTSHK focused on developing Macau and local Hong Kong tours, and after the SARS, it participated in the "We Love Hong Kong" campaign as solicited by the Tourism Coalition of Hong Kong. In the second half year, the number of outbound tours to China increased by 1.36 times when compared with the first half year, resulting in an overall decrease in the number of outbound tours to China by 14% only; and the outbound tours to overseas had increased by 94.2% when compared with the first half year. Meanwhile, driven by the demand on hotel rooms from individual visitors from Mainland, CTSHK had put more effort on booking and leasing of hotel rooms in Hong Kong, and consequently the business of hotel room reservation had improved by 64.8% as compared to first half year. The above measures had, to a certain extent, reduced the losses brought by SARS.

The Group's wholly-owned travel agency in Beijing, China Travel International Limited ("CTI") suffered from the SARS impact in the first half of the year. Since August 2003, business has been restored and the inbound and outbound tour business for the period from August to December increased by 49% and 147% as compared to same period last year. CTI received

183,000 tourists, which is an increase of 716.7% as compared with last year. After two years of business consolidation and restructuring, CTI ranked 38th among the "Top 100 Travel Agents in China" in 2002. After the World Cup in South Korea and Japan, CTI has also been appointed as the sole agent for

organizing tour and providing ticketing services for the Chinese citizens to the 2004 Athens Olympics, which has laid a solid foundation for 2004's business.

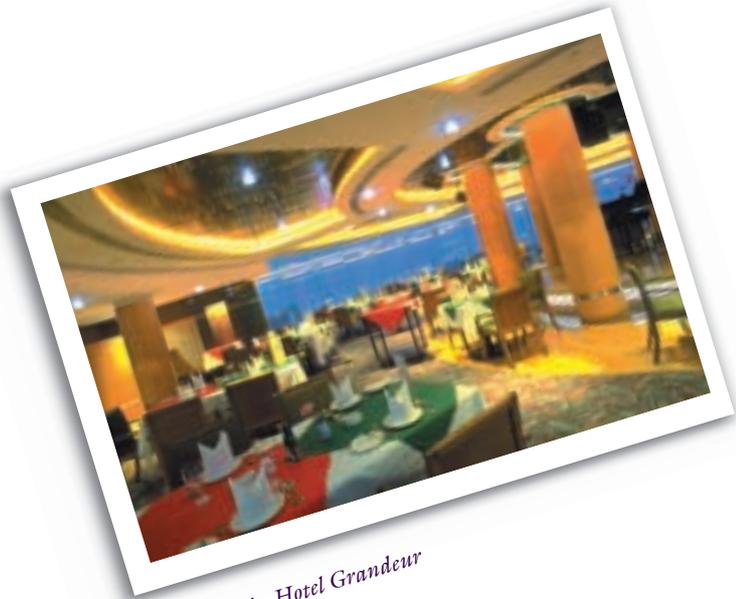
Impacted by SARS and the policy of "Individual Traveler Permit Scheme", the business of organizing Chinese citizens on Hong Kong & Macau tours shrank significantly. The total number of tourists received during the year was about 132,000, represented a decrease of 26.4% as compared with last year. In the second half year, China Travel (HK & Macau Tour) Management Hong Kong Limited refocused on business and exhibition travel by capitalizing on its competitive advantages on the quality of services and brand name, resulting in the turnaround from losses incurred in the first half year.

China Travel Net Hong Kong Limited has recorded a monthly average of 145,000 website visitors, which is an increase of 6.3% as compared with last year. It has also joined an international business travel organization, Synergi, Inc. and has won a tender for the business travel of the multinational companies.

Management's Discussion and Analysis

The three theme parks, Window of the World, Splendid China and China Folk Culture Villages attracted approximately 2.8 million visitors in total, which is a decrease of 32.1% as compared with last year; among them, the number of visitors of the Window of the World decreased by 24.9% and the number of visitors of the Splendid China and China Folk Culture Villages decreased by 42.9%. In order to reduce the impact of SARS in the first half year, Window of the World had launched a number of new programs such as "Deep Earth Adventure", "Lost City", and "Explore the Pyramids" etc., which are hot spots to the tourists. On the other hand, Splendid China and China Folk Culture Villages has organized some night shows such as "Minorities Music Night", renovated central theatre and re-packaged the famous show, "Horse Fighting". The shows in the three theme parks were very successful and earned the applause of both local and overseas tourists.

Shenzhen Tycoon Golf Club had successfully completed the rebuild of the C Course and has installed lighting facilities in November 2003. There is a substantial growth in the membership sales and the number of golfers. The construction of "Home for Member", which will provide accommodation and conference facilities, will be completed by the end of 2004. It is expected to further enhance the attractiveness of the Club.



Rotunda in Hotel Grandeur

Hotel Operation

The average occupancy rate of the Group's four hotels in Hong Kong was 70.1%, representing a decrease of 20.4% as compared with last year; and the average room rate has increased by 1.5%. Both the room rate and occupancy rate had significantly improved since August 2003. Because the impact of SARS on the business of Hotel Grandeur in Macau was relatively less significant, together with tight cost control measures, the average room rate increased by 13.8%. The operating result was satisfactory.



Rebuild of the C Course of Shenzhen Tycoon Golf Club

Management's Discussion and Analysis

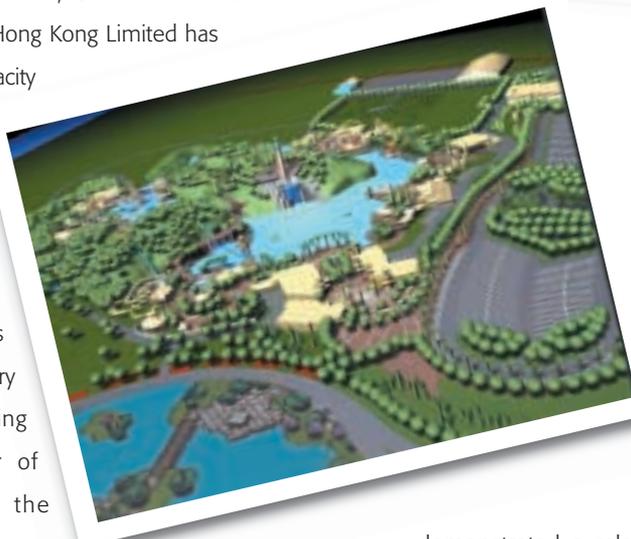
Transportation

The turnover of China Travel Tours Transportation Services Hong Kong Limited and China Travel Express Limited increased by 10% as compared with last year, while the number of passengers increased by 182.5% to 2.428 million. Leveraging on the opportunity arising from the introduction of the "Individual Traveler Permit Scheme" and "24-hour Passenger Clearance Service", China Travel Tours Transportation Services Hong Kong Limited has expanded its loading capacity and sources of customers. In addition to recovering losses in the first half year, the overall profit increased by 12.1%. It is the leader in the industry in terms of both loading capacity and number of passengers. Due to the outbreak of SARS and the cost incurred for the new routes, operating result of the joint venture, Shun Tak-China Travel Shipping Investments Limited decreased as compared with last year.

The import and re-export freight volume through railway handled by China Travel Service (Cargo) Hong Kong Limited continually deteriorated and decreased by 13.2% and 11.8% respectively. On the other hand, the business of CTS International Transportation Company Limited in Shanghai had



Elevation of the Conference Hotel of Zhubai Hot Spring Resort



3D Computer Model of the Theme Park of Zhubai Hot Spring Resort

demonstrated a relatively better growth as the turnover increased by 85%. When compared with last year, the sea freight volume ranked among the top three in Shanghai.

Infrastructure

The economic and technical benchmark measures of Weihe Power Plant have achieved the top in its history and broke the record of 500 days of safety production. The annual volume of on-grid electricity increased by 6.5% as compared with last year.

Management's Discussion and Analysis

Number and Remuneration of Employee

As at 31 December 2003, the Group has approximately 6,694 employees.

The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

Liquidity, Financial Resources and Capital Structure

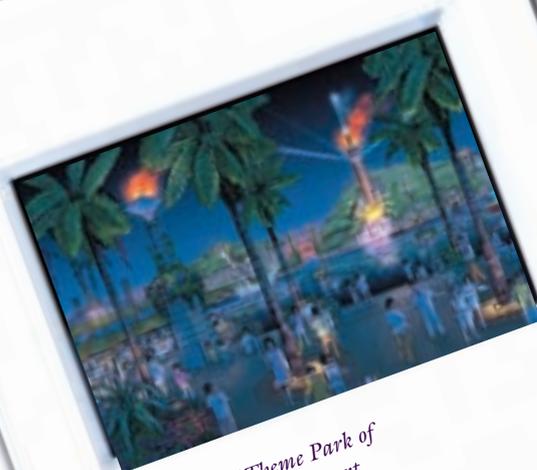
The financial position of the Group is strong. As at 31 December 2003, the cash and bank balances of the Group amounted to HK\$2,344 million whereas the interest bearing debts from the bank and the convertible bonds amounted to HK\$1,177 million and HK\$1,168 million respectively. The interest bearing debt to equity ratio was 32.4%.

During the year, 9,466,636 bonus warrants were exercised for 9,466,636 shares of HK\$0.10 each at the subscription price of HK\$1.22 per share. Accordingly, the number of issued share capital of the Company has been increased from 4,222,731,839 shares to 4,232,198,475 shares as at 31 December 2003.

Future Prospects

Amid the economic recovery in Hong Kong and the rest of the world, the consumption power of tourists will increase. With the further extension of the "Individual Traveler Permit Scheme" to cover more Mainland regions, it is forecasted that the number of travelers to Hong Kong will exceed 20 million in 2004. Together with the opening up of European countries participating in the Schengen Agreement to Mainland travelers, the Group will be able to capture unlimited business opportunities.

The established direction of the Group is to strengthen and develop core travel businesses. The important sources of customers of the Group include outbound travelers of Mainland citizens and inbound travelers to Hong Kong. The competitive advantage of the Group is the complement of its passenger transportation business, hotels, theme parks, golf club and domestic and overseas travel networks. Through consolidating travel resources, centralizing purchasing, and coordinating sales and marketing activities, the costs of the Group will be reduced and the market share and competitiveness of the Group will be enhanced.



Entry View of Theme Park of
Zhuhai Hot Spring Resort

Management's Discussion and Analysis

The financial position of the Group is strong with abundant funds, which provides supports to the continuous development of new travel and leisure projects. Besides closely monitoring the development of the Zhuhai Ocean Spring Resort, the Group will carry out feasibility studies of natural attractions, acquire quality travel-related assets, and strengthen the construction of online travel platform, so as to enhance the core travel business of the Group.

To cope with the demand of individual visitors from Mainland and local tourists, the Group will strengthen its cross-border passenger transportation services between Hong Kong and the Mainland by increasing loading capacity and exploring new routes.

The Group will further develop its freight forwarding business centralized in Shanghai, an air freight godown located at Pudong International Airport was completed and started operation by the end of 2003. It has strengthened and improved the air freight handling power, thereby it will further reduce the operation cost. Amid the development of freight network infrastructure, freight transportation business will have substantial growth.

Development of Online Travel Company

Because of the rapid development of the Internet and advanced applications, the usage of online travel products and services have been growing tremendously. Online travel companies provide convenience, 24 hours and value added services to customers through modern and high technological means including internet, call centers, WAP phones, mobile PDA etc. The trend towards more and more online travel transactions are imminent. Some of the more successful example of online travel companies include Expedia, Travelocity, and Orbitz. Their business models and success have been well accepted by the market.

Whereas the online travel industry in the Mainland is still in its infancy. There is still no one major player that has emerged yet. But yet many of the general demographic and many market elements for a successful Internet travel industry in the Mainland are very similar to the US. The Mainland has now the second largest Internet population next to the US. It is inevitably that the Mainland Internet travel industry will evolve towards the success as seen in the US in due time.

The Board of Directors, after long and careful study and independent research, has concluded that the Group has sufficient resources and networking to develop a world class independent online travel company. The Group will leverage on its abundant travel related resources, its ground networking, its experienced travel manpower and huge cash reserves to create a competitive advantage for its online travel business. The Board of Directors is fully committed in this online travel investment as a long term core development strategy.

After emerging from the difficult times of the SARS epidemic, the Group still has to expose to fierce competition in the industry, lower gross profit margin and other unpredictable adverse factors. The board of Directors and the management are confident to overcome the difficulties and challenges faced by the Group, and will implement action plans to achieve established goals and strive for better results for the shareholders.

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 2003.

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 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 110.

The Directors recommend the payment of a final dividend of HK 4 cents per ordinary share in respect of the year, to shareholders on the register of members on 13 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheets.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and 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 of the Annual Report. This summary does not form 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 34 and 35 to the financial statements.

Report of the Directors

GUARANTEED CONVERTIBLE BONDS

During the year, an aggregate principal amount of US\$150,000,000 zero coupon guaranteed convertible bonds (the "Bonds") due in September 2008 were issued by a wholly-owned subsidiary of the Company. The Bonds were listed on the Luxembourg Stock Exchange. Subject to the terms and conditions of the Bonds, the bondholders may convert the Bonds into shares of the Company. The Bonds are also redeemable at the option of the issuer or the bondholders according to the relevant terms and conditions of the Bonds. The purpose of the issue was to finance the expansion businesses of the Company, including the development of a resort in Zhuhai and establishment of travel agencies in Northern Europe and the PRC. Details of the Bonds are set out in note 32 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 36 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, 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\$331,283,000 of which HK\$169,288,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$5,932,834,000, may be distributed in the form of fully paid bonus shares.

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.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of the Directors

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Che Shujian (*Chairman*)
Mr. Zhang Xuewu (*Vice Chairman*)
Mr. Shen Zhuying (*Vice Chairman, General Manager*)
Mr. Zheng Heshui (*Vice Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Chen Shoujie
Mr. Zheng Hongqing
Mr. Zhang Fengchun
Mr. Ng Chi Man, Michael
Mr. Liu Li

Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey
Mr. Yeh V Nee (*Alternate Director to Dr. Yeh Meou Tsen, Geoffrey*)
Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter

In accordance with Article 101 of the Company's Articles of Association ("the Articles"), Mr. Zhang Xuewu, Mr. Zheng Heshui, Mr. Zheng Hongqing and Dr. Fong Yun Wah will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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 annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Report of the Directors

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.

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. No payment has been made during the year by the Group 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 (collectively, "the Companies") which are the owners of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (collectively, "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 hotel 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, Shen Zhuying, Zheng Heshui, Lo Sui On, Chen Shoujie, Zheng Hongqing and Zhang Fengchun are Directors of the Company and CTS Holdings, which is the holding company of the Company, as well as all the related companies as listed in note 42 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.

Report of the Directors

CONNECTED TRANSACTIONS

- (i) On 15 August 2003, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Overseas Chinese Service Centre for the purchase of all the interest in the capital of Shanghai Huajian Import-Export Company ("SHIEC") for a consideration of RMB12,000,000 (i.e. approximately HK\$11,320,755). The consideration was arrived at after arm's length negotiations between the parties with reference to the valuation of SHIEC as estimated by a PRC valuer of approximately RMB16,708,400 (i.e. approximately HK\$15,762,642) as at 30 September 2002.
- (ii) 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 subsidiaries of the Group, with their substantial shareholders or the associates of these substantial shareholders:

Name of Company	Nature of transaction	Group	
		2003 HK\$'000	2002 HK\$'000
<i>Paid or payable to:</i>			
(a) Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity charges	19,765	17,619
(b) Shenzhen SEC Overseas Chinese Town Construction Headquarters	Land use rights fees	10,981	11,933

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 42(1),(3) to (8),(12),(16) to (19) 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).

The remaining transactions as set out under the heading of "Related Party Transactions" were also connected transactions.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the directors and their associates have the following interest or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):-

Long position in shares of the Company:

Name of Director	Notes	Number of shares held and nature of interest			Total	% of the issued share capital
		Personal	Corporate	Other		
Mr. Shen Zhuying		2,500,000	–	–	2,500,000	0.059%
Dr. Yeh Meou Tsen, Geoffrey		8,300,000	–	–	8,300,000	0.196%
Dr. Fong Yun Wah	1, 2	–	50,000	502,000	552,000	0.013%

Notes:

1. These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested pursuant to Divisions 7 and 8 of Part XV of the SFO.
2. These shares are beneficially owned by certain charitable foundations in which Dr. Fong Yun Wah is the chairman and has non-beneficial interests.

Save as disclosed above, at 31 December 2003, none of the directors and their associates has any interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' Interests in Shares" above and in the share option scheme disclosures in note 35 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 35 to the financial statements.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following shareholders have interests, directly or indirectly, or short positions in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the shares of the Company:

Name of shareholder	Notes	Number of issued shares held	% of the issued share capital
Foden International Limited ("Foden")	1	17,250,000	0.41%
CTS Holdings	1, 2	2,494,693,940	58.95%
China Travel Service Head Office of the PRC ("CTS-PRC").	2	2,494,693,940	58.95%

Notes:

- 17,250,000 shares are held by Foden which is a wholly-owned subsidiary of CTS Holdings.
- The entire issued share capital of CTS Holdings is beneficially owned by 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, as at 31 December 2003, the directors was not aware of any other person (other than the directors or chief executive of the Company) who has an interest, directly or indirectly, or short position in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, at 31 December 2003, 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 2003	Final maturity of the loan facilities
HK\$700 million	30 October 2007
HK\$460 million	30 April 2005

Report of the Directors

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 this annual report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the AGM in accordance with the Company’s Articles.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code in 1999 for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

The audit committee comprises the two Independent Non-Executive Directors of the Company, namely, Mr. Wong Man Kong, Peter and Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey).

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, 31 March 2004

Report of the Auditors



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 110 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the loss 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

31 March 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	5	3,300,916	3,401,695
Cost of sales		(2,397,847)	(2,251,890)
Gross profit		903,069	1,149,805
Other revenue and gains	5	57,867	133,383
Distribution costs		(49,730)	(62,221)
Administrative expenses		(592,613)	(602,101)
Other operating expenses, net		(153,575)	(180,819)
Revaluation deficit of hotel properties and impairment of fixed assets and goodwill		(387,111)	(18,656)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(222,093)	419,391
Finance costs	7	(28,066)	(43,114)
Share of profits and losses of:			
Jointly-controlled entities		278,996	261,243
Associates		3,854	46,950
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX		32,691	684,470
Tax	10	(37,976)	(84,327)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(5,285)	600,143
Minority interests		(34,525)	(67,545)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	(39,810)	532,598
DIVIDENDS	12		
Interim		–	211,135
Underaccrual of 2002/2001 final dividends		10	74
Proposed final		169,288	168,909
		169,298	380,118
EARNINGS/(LOSS) PER SHARE (CENTS)	13		
Basic		(0.94)	12.62
Diluted		–	12.29

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	5,202,096	5,679,239
Properties under development	15	130,830	101,718
Goodwill:	16		
Goodwill		1,283,621	1,466,782
Negative goodwill		(169,048)	(181,409)
Interests in jointly-controlled entities	18	1,351,795	1,261,873
Interests in associates	19	407,393	417,358
Long term investments	20	21,585	21,986
Deferred tax assets	33	11,347	–
		8,239,619	8,767,547
CURRENT ASSETS			
Short term investments	20	12,760	865
Property held for sale		–	92,000
Inventories	21	13,530	16,724
Trade receivables	22	350,940	267,583
Tax recoverable		3,847	3,271
Other receivables	23	219,355	155,823
Pledged time deposits	24	4,323	2,688
Cash and cash equivalents	25	2,339,310	1,171,891
Amount due from ultimate holding company	26	30,843	30,562
Amounts due from fellow subsidiaries	26	3,422	2,587
		2,978,330	1,743,994
CURRENT LIABILITIES			
Trade payables	27	463,618	410,476
Tax payable		32,612	42,533
Other payables and accruals	28	452,214	496,691
Interest-bearing bank and other borrowings	29	471,377	328,589
Amounts due to fellow subsidiaries	26	4,478	1,632
		1,424,299	1,279,921
NET CURRENT ASSETS		1,554,031	464,073
TOTAL ASSETS LESS CURRENT LIABILITIES		9,793,650	9,231,620

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,793,650	9,231,620
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		91,796	69,632
Interest-bearing bank and other borrowings	30	705,770	709,341
Lease and hire purchase contract payables	31	525	141
Convertible bond	32	1,168,152	–
Deferred tax liabilities	33	240,589	299,792
		2,206,832	1,078,906
MINORITY INTERESTS		(334,755)	(332,827)
		7,252,063	7,819,887
CAPITAL AND RESERVES			
Share capital	34	423,220	422,273
Reserves	36	6,659,555	7,228,705
Proposed final dividend	12	169,288	168,909
		7,252,063	7,819,887

Shen Zhuying*Director***Ng Chi Man, Michael***Director*

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		8,047,694	7,989,804
Prior year adjustments	36	(227,807)	(238,059)
As restated		7,819,887	7,751,745
Exchange differences on translation of the financial statements of foreign entities	36	3,610	6,496
Surplus/(deficit) on revaluation of hotel properties	36	(80,191)	3,965
Net gains/(losses) not recognised in the profit and loss account		(76,581)	10,461
Net profit/(loss) for the year attributable to shareholders	36	(39,810)	532,598
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	36	(307,219)	(97,947)
Impairment of goodwill previously carried in capital reserve	36	13,061	–
Dividends paid		(168,919)	(380,018)
Issue of new shares	34	947	250
Premium on issue of new shares	36	10,603	2,798
Forfeiture of unclaimed 1992 – 1996 final dividends	36	94	–
Total equity at 31 December		7,252,063	7,819,887

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		32,691	684,470
Adjustments for:			
Finance costs	7	28,066	43,114
Interest income	5	(20,825)	(22,723)
Dividend income from unlisted investments	5	(47)	(351)
Depreciation	6	134,488	135,095
Goodwill amortisation	6	37,951	39,595
Impairment of goodwill	6	150,475	–
Negative goodwill recognised as income	6	(4,314)	(4,414)
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	6	(307,219)	(97,947)
Recognition of negative goodwill upon impairment of underlying assets	6	(8,047)	–
Impairment of goodwill previously carried in capital reserve	6	13,061	–
Loss/(gain) on changes in fair values of short term investments	6	(645)	1,035
Impairment of short term investment	6	803	–
Provisions for doubtful debts and bad debts written off	6	5,771	10,464
Write-back of provisions for doubtful debts	6	(3,456)	(10,338)
Gain on disposal of associates	5	(236)	–
Loss on disposal of a subsidiary	6	–	372
Impairment of interests in jointly-controlled entities	6	1,515	–
Write-back of long outstanding payables	5	–	(27,174)
Reversal of hotel property revaluation deficits	5	–	(50,470)
Impairment of fixed assets	6	77,466	–
Impairment of depreciable investment properties	6	4,389	3,030
Revaluation deficit of other investment properties	6	27,763	53,869
Hotel property revaluation deficit	6	492,950	116,603
Provisions for slow-moving inventories	6	–	544
Write-off of properties under development	6	2,805	1,101
Gain on disposal of fixed assets, net	5	(533)	(1,365)
Loss on changes in fair values of long term investments	6	–	28
Loss on disposal of long term investments	6	771	–
Share of profits and losses of jointly-controlled entities		(278,996)	(261,243)
Share of profits and losses of associates		(3,854)	(46,950)
Operating profit before working capital changes		382,793	566,345
Decrease/(increase) in inventories		3,267	(532)
Increase in trade receivables and other receivables		(91,341)	(121,709)
Decrease/(increase) in an amount due from ultimate holding company		(281)	21,961
Increase in amounts due from fellow subsidiaries		(835)	(782)
Increase in trade payables, other payables and accruals		13,202	113,023
Increase/(decrease) in amounts due to fellow subsidiaries		2,846	(1,524)
Increase in deferred income		22,164	14,055
Increase in amounts due from jointly-controlled entities		(22,411)	(4,130)
Increase in amounts due from associates		(24,262)	(4,008)
Refund of sales deposit		(52,000)	–
Effect of foreign exchange rate changes, net		1,873	2,694
Cash generated from operations		235,015	585,393
Hong Kong profits tax paid		(68,191)	(54,528)
Overseas taxes paid		(1,422)	(40,645)
Net cash inflow from operating activities		165,402	490,220

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES		165,402	490,220
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		20,825	22,723
Dividends income from unlisted investments		47	351
Dividends received from an associate		12,006	11,806
Dividends received from a jointly-controlled entity		214,657	203,067
Disposal of an associate		194	1,978
Disposal of a jointly controlled entity		–	273
Proceeds from disposal of long term investments		2,295	65
Purchases of fixed assets		(119,391)	(100,496)
Proceeds from disposal of fixed assets		16,195	34,317
Additions to properties under development	15	(169,360)	(132,808)
Purchases of short term investment		(12,053)	–
Acquisition from minority shareholders		–	(98,852)
Acquisition of subsidiaries	37(b)	9,346	1,540
Acquisition of jointly-controlled entities		(46,847)	–
Disposal of a subsidiary	37(c)	–	372
Advance to jointly-controlled entities		(681)	(204,463)
Repayment from associates		23,513	43,465
Decrease/(increase) in pledged time deposits		(1,635)	614
Increase in time deposits with original maturity of more than three months when acquired		(200,533)	–
Redemption of convertible bonds		–	66,000
Net cash outflow from investing activities		(251,422)	(150,048)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(20,216)	(31,729)
Interest element of finance lease and hire purchase contract payments		(41)	(149)
Dividends paid		(168,919)	(380,018)
Dividends paid to minority shareholders		(42,047)	(53,291)
Advance from minority shareholders		–	387
Repayment to minority shareholders		–	(9,423)
Contributions from minority shareholders		–	1,951
Proceeds from issue of new shares	34	11,550	3,048
New bank loans		6,193,894	1,000,000
Repayment of bank loans		(6,060,455)	(1,336,034)
Proceeds from issue of convertible bond	32	1,163,250	–
Convertible bond issue expenses		(28,291)	–
Capital element of finance lease and hire purchase contract payments		(716)	(2,568)
Net cash inflow/(outflow) from financing activities		1,048,009	(807,826)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		961,989	(467,654)
Cash and cash equivalents at beginning of year		1,171,533	1,639,187
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,133,522	1,171,533
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	1,325,625	855,255
Non-pledged time deposits with original maturity of less than three months when acquired	25	813,152	316,636
Bank overdrafts, unsecured	29	(5,255)	(358)
		2,133,522	1,171,533

Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	3,484	2,716
Interests in subsidiaries	17	6,238,664	6,519,956
Interests in associates	19	–	311
Long term investments	20	13,949	13,949
		6,256,097	6,536,932
CURRENT ASSETS			
Other receivables	23	4,524	3,711
Cash and cash equivalents	25	461,292	160,130
Amount due from ultimate holding company	26	215	225
		466,031	164,066
CURRENT LIABILITIES			
Tax payable		24,429	31,000
Other payables and accruals	28	9,672	11,934
Interest-bearing bank and other borrowings	29	690	–
		34,791	42,934
NET CURRENT ASSETS			
		431,240	121,132
TOTAL ASSETS LESS CURRENT LIABILITIES			
		6,687,337	6,658,064
CAPITAL AND RESERVES			
Share capital	34	423,220	422,273
Reserves	36	6,094,829	6,066,882
Proposed final dividend	12	169,288	168,909
		6,687,337	6,658,064

Shen Zhuoying

Director

Ng Chi Man, Michael

Director

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

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

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

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

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

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

The following revised SSAP and new Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

This SSAP and Interpretation 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 SSAP and Interpretation are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Notes to Financial Statements

31 December 2003

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

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s investment properties and hotel properties;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 33 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for income tax in note 3 and note 33 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability which arises from the revaluation of certain non-depreciable assets and investment properties to be measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12 (Revised).

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the 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 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

Joint venture companies

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

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

A joint venture company is treated as:

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies (Continued)

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

Jointly-controlled entities

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

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

Associates

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

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

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

Goodwill

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

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

Negative goodwill

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

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

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

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

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

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

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

Impairment of assets

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

A reversal of an impairment loss is credited to the profit and loss account 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.

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

Hotel properties

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

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

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

Properties under development

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property held for sale

Property held for sale is stated at the lower of cost and net realisable value. Cost comprises acquisition costs. 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 intended to be held on a long term basis.

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

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

Short term investments

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or, in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use, 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.

Expenses in respect of the issue of zero coupon guaranteed convertible bonds due 2008 in the aggregate principal amount of US\$150,000,000 (the "Bonds") are deferred and amortised over the term of the Bonds on a straight-line basis.

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

Convertible bonds

Convertible bonds are stated at par value, adjusted for the accretion of premium on redemption on a straight-line basis over the terms of the bonds.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Paid leave carried forward

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

Retirement benefits scheme

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

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

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

Provisions

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

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) rental income, on a time proportion basis over the lease terms;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividends, when the shareholders' right to receive payment has been established.

Deferred income

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

Related parties

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

Cash and cash equivalents

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

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

Notes to Financial Statements

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Passenger transportation services	Tourist attraction operations	Freight forwarding and trans- portation services	Hotel operations	Travel and travel- related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	127,416	294,686	1,284,969	255,464	1,307,896	29,802	-	683	-	3,300,916
Intersegment revenue	4,241	1,451	280	11,776	7,327	-	-	22,335	(47,410)	-
Other revenue and gains	2,582	6,461	2,928	3,835	20,451	207	377	154	-	36,995
Total	134,239	302,598	1,288,177	271,075	1,335,674	30,009	377	23,172	(47,410)	3,337,911
Segment results	11,726	66,149	27,062	(150,763)	(61,107)	(98,523)	(1,172)	(34,051)	-	(240,679)
Interest income and unallocated gains										20,872
Unallocated expenses										(2,286)
Loss from operating activities										(222,093)
Finance costs										(28,066)
Share of profits and losses of:										
Jointly-controlled entities	-	-	(2,068)	-	405	-	280,659	-	-	278,996
Associates	3,669	185	-	-	-	-	-	-	-	3,854
Profit from ordinary activities before tax										32,691
Tax										(37,976)
Loss before minority interests										(5,285)
Minority interests										(34,525)
Net loss from ordinary activities attributable to shareholders										(39,810)

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2002 HK\$'000	Tourist attraction operations 2002 HK\$'000	Freight forwarding and trans- portation services 2002 HK\$'000 (Restated)	Hotel operations 2002 HK\$'000 (Restated)	Travel and travel- related operations 2002 HK\$'000 (Restated)	Golf club operations 2002 HK\$'000	Power generation 2002 HK\$'000	Corporate and others 2002 HK\$'000	Eliminations 2002 HK\$'000	Consolidated 2002 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	116,028	401,064	796,461	310,017	1,743,250	34,645	-	230	-	3,401,695
Intersegment revenue	6,008	746	80	11,668	65,123	-	-	1,384	(85,009)	-
Other revenue and gains	3,135	8,919	2,268	55,170	13,615	-	-	28	-	83,135
Total	125,171	410,729	798,809	376,855	1,821,988	34,645	-	1,642	(85,009)	3,484,830
Segment results	10,684	125,699	29,975	66,442	219,199	(28,319)	(1,011)	(53,153)	-	369,516
Interest income and unallocated gains										50,248
Unallocated expenses										(373)
Profit from operating activities										419,391
Finance costs										(43,114)
Share of profits and losses of:										
Jointly-controlled entities	-	-	(6,859)	-	-	-	268,102	-	-	261,243
Associates	46,850	221	(121)	-	-	-	-	-	-	46,950
Profit from ordinary activities before tax										684,470
Tax										(84,327)
Profit before minority interests										600,143
Minority interests										(67,545)
Net profit from ordinary activities attributable to shareholders										532,598

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Passenger	Tourist	Freight		Travel and					
	transportation	attraction	forwarding	Hotel	related	Golf club	Power	Corporate	Eliminations	Consolidated
	services	operations	and trans- portation services	operations	operations	operations	generation	and others	2003	2003
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	127,731	775,785	451,391	3,868,015	2,676,917	321,622	308	1,222,197	-	9,443,966
Interests in jointly-controlled entities	-	-	15,923	-	47,583	-	1,288,284	5	-	1,351,795
Interests in associates	401,375	2,819	504	-	2,695	-	-	-	-	407,393
Unallocated assets										14,795
Total assets										11,217,949
Segment liabilities	23,843	94,374	277,980	64,802	370,527	186,378	1,329	1,179,569	-	2,198,802
Unallocated liabilities										1,432,329
Total liabilities										3,631,131
Other segment information:										
Capital expenditure	25,762	71,142	53,075	23,063	91,246	27,140	-	86,137	-	377,565
Depreciation and amortisation	10,157	72,758	8,247	75	60,517	15,342	-	1,029	-	168,125
Impairment losses recognised in the profit and loss account	-	-	5,620	177,684	196,457	67,380	-	4,500	-	451,641
Other non-cash expenses	10	2,549	5,859	-	1,674	-	-	-	-	10,092
Deficit on revaluation recognised directly in equity	-	-	-	80,191	-	-	-	-	-	80,191

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Passenger	Tourist	Freight		Travel and					
	transportation	attraction	forwarding	Hotel	related	Golf club	Power	Corporate	Eliminations	Consolidated
	services	operations	and trans- portation services	operations	operations	operations	generation	and others	2002	2002
	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)			(Restated)	(Restated)					(Restated)
Segment assets	81,353	810,221	401,201	3,904,973	2,747,958	423,342	308	456,958	–	8,826,314
Interests in jointly-controlled entities	–	–	19,243	–	–	–	1,242,630	–	–	1,261,873
Interests in associates	411,768	3,051	151	–	2,076	–	–	312	–	417,358
Unallocated assets										5,638
Bank overdrafts included in segment assets	–	–	–	–	358	–	–	–	–	358
Total assets										<u>10,511,541</u>
Segment liabilities	9,403	112,023	235,840	43,753	424,188	142,951	539	11,644	–	980,341
Unallocated liabilities										1,378,128
Bank overdrafts included in segment assets	–	–	–	–	358	–	–	–	–	358
Total liabilities										<u>2,358,827</u>
Other segment information:										
Capital expenditure	11,830	108,905	17,703	17,090	22,173	70,943	–	47,447	–	296,091
Depreciation and amortisation	10,175	65,385	7,984	977	67,307	17,129	–	1,319	–	170,276
Impairment losses recognised in the profit and loss account	–	–	4,089	19,296	13,608	–	–	38,562	–	75,555
Impairment losses reversed in the profit and loss account	–	–	–	50,470	–	–	–	–	–	50,470
Other non-cash expenses	–	2,337	2,859	–	5,617	1,323	–	1,036	–	13,172
Surplus on revaluation recognised directly in equity	–	–	–	3,965	–	–	–	–	–	3,965

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

Group	Hong Kong		PRC		Overseas		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)						(Restated)
Segment revenue:										
Sales to external customers	1,240,973	1,610,045	1,766,861	1,328,737	293,082	462,913	-	-	3,300,916	3,401,695
Other revenue and gains	25,281	65,980	6,971	11,362	4,743	5,793	-	-	36,995	83,135
	1,266,254	1,676,025	1,773,832	1,340,099	297,825	468,706	-	-	3,337,911	3,484,830
Other segment information:										
Segment assets	7,394,399	7,009,005	3,597,705	3,287,946	225,845	214,232	-	-	11,217,949	10,511,183
Bank overdrafts included in segment assets	-	-	-	-	-	358	-	-	-	358
									11,217,949	10,511,541
Capital expenditure	52,612	45,699	320,430	246,737	4,523	3,655	-	-	377,565	296,091

Notes to Financial Statements

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5. TURNOVER, REVENUE AND GAINS

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

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Turnover		
Freight forwarding and transportation services	1,284,969	796,461
Travel and travel-related operations	1,307,896	1,743,250
Hotel operations	255,464	310,017
Golf club operations	29,802	34,645
Tourist attraction operations	294,686	401,064
Passenger transportation services	127,416	116,028
Others	683	230
	3,300,916	3,401,695
Other revenue		
Gross rental income	13,512	16,069
Interest income	20,825	22,723
Others	17,107	10,097
	51,444	48,889
Gains		
Dividend income from unlisted investments	47	351
Gain on disposal of fixed assets, net	533	1,365
Gain on disposal of associates	236	–
Exchange gains, net	5,607	5,134
Write-back of long outstanding payables	–	27,174
Reversal of hotel property revaluation deficits	–	50,470
	6,423	84,494
Other revenue and gains	57,867	133,383

Notes to Financial Statements

31 December 2003

5. TURNOVER, REVENUE AND GAINS (Continued)

In prior years, a PRC subsidiary of the Group engaged in the freight forwarding business had recorded its net commission income as turnover.

Starting from 2003, the Group has aligned the accounting policy of this PRC subsidiary with those subsidiaries in Hong Kong so that the turnover from its freight forwarding business is recorded at the invoiced sales amount and direct costs are recorded as cost of sales. In the opinion of the directors, this change in accounting policy for the classification of revenue and direct costs for the freight forwarding business results in a more appropriate presentation of these transactions in the financial statements and provides more relevant information about the performance of the Group.

This change in accounting policy has resulted in an increase in the Group's turnover and cost of sales for the years ended 31 December 2003 and 2002 by HK\$1,049,470,000 and HK\$531,731,000, respectively. This has no impact on the Group's gross or net profit for the years ended 31 December 2003 and 2002 and the Group's net assets as at 31 December 2003 and 2002.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Depreciation	134,488	135,095
Goodwill amortisation for the year*	37,951	39,595
Negative goodwill recognised as income during the year**	(4,314)	(4,414)
Auditors' remuneration:		
Current year	6,731	6,485
Underprovision in the prior year	-	149
	6,731	6,634

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31 December 2003

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

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

	2003 HK\$'000	2002 HK\$'000 (Restated)
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	516,869	550,017
Pension contributions	33,587	29,424
Less: Forfeited contributions	(4,117)	(3,483)
Net pension contributions****	29,470	25,941
Total staff costs	546,339	575,958
Minimum lease payments under operating leases:		
Land and buildings	52,927	44,194
Motor vehicles	23,405	21,214
Provisions for doubtful debts and bad debts written off	5,771	10,464
Write-back of provisions for doubtful debts	(3,456)	(10,338)
Provisions for slow-moving inventories	–	544
Loss on disposal of a subsidiary	–	372
Loss on changes in fair values of long term investments	–	28
Loss/(gain) on changes in fair values of short term investments	(645)	1,035
Write-off of properties under development	2,805	1,101
Impairment of fixed assets	77,466	–
Impairment of depreciable investment properties	4,389	3,030
Revaluation deficit of other investment properties	27,763	53,869
Hotel property revaluation deficit	492,950	116,603
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	(307,219)	(97,947)
Impairment of goodwill	150,475	–
Impairment of goodwill previously carried in capital reserve***	13,061	–
Recognition of negative goodwill upon impairment of underlying assets	(8,047)	–
Net rental income	(12,908)	(11,893)
Loss on disposal of long term investments	771	–
Impairment of short term investment	803	–
Impairment of interests in jointly-controlled entities***	1,515	–

Notes to Financial Statements

31 December 2003

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

- * The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.
- ** The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- *** The impairment of goodwill previously carried in capital reserve and the impairment of interests in jointly-controlled entities are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- **** At 31 December 2003, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans		
wholly repayable within five years	(20,216)	(31,729)
Finance lease and hire purchase contracts	(41)	(149)
Amortisation of deferred borrowing costs	(2,907)	(12,069)
Accretion of premium on convertible bond	(4,902)	–
Total finance costs	(28,066)	(43,947)
Less: Interest capitalised	–	833
	(28,066)	(43,114)

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8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	1,714	1,520
Independent non-executive directors	510	480
	2,224	2,000
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	7,820	7,481
Pension scheme contributions	208	200
	8,028	7,681
Total remuneration	10,252	9,681

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
	14	14

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

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the two (2002: one) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,991	944
Pension scheme contributions	24	47
	2,015	991

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

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	–
	2	1

Notes to Financial Statements

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10. TAX

	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	(45,840)	(46,514)
Overprovision in prior years	298	13,626
Current – Elsewhere	(12,876)	(24,450)
Current – Overseas	(329)	(2,474)
Deferred tax – note 33	65,923	12,606
	7,176	(47,206)
Share of tax attributable to:		
Jointly-controlled entities	(42,559)	(33,371)
Associates	(2,593)	(3,750)
	(45,152)	(37,121)
Total tax charge for the year	(37,976)	(84,327)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

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10. TAX (Continued)

Group – 2003

	Hong Kong		Overseas		PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(216,861)		(15,010)		264,562		32,691	
Tax at the applicable tax rate	(37,951)	17.5	(6,004)	40	87,305	33	43,350	133
Lower tax rate for specific provinces or local authority	(874)	–	2,073	(14)	(49,179)	(19)	(47,980)	(147)
Effect on opening deferred tax of increase in rates	13,377	(6)	–	–	–	–	13,377	41
Adjustments in respect of current tax of previous periods	(298)	–	–	–	–	–	(298)	(1)
Income not subject to tax	(43,676)	20	(1,129)	8	(1,867)	(1)	(46,672)	(143)
Expenses not deductible for tax	37,876	(17)	5,389	(36)	19,176	8	62,441	191
Tax losses utilised from previous periods	(1,691)	1	–	–	–	–	(1,691)	(5)
Tax losses not recognised	15,449	(7)	–	–	–	–	15,449	47
Tax charge at the Group's effective rate	(17,788)	8.5	329	(2)	55,435	21	37,976	116

Group – 2002

	Hong Kong		Overseas		PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	272,669		5,841		405,960		684,470	
Tax at the applicable tax rate	43,627	16	2,336	40	133,967	33	179,930	26
Lower tax rate for specific provinces or local authority	(3,962)	(1)	(249)	(4)	(70,792)	(17)	(75,003)	(11)
Adjustments in respect of current tax of previous periods	(13,626)	(5)	–	–	–	–	(13,626)	(2)
Income not subject to tax	(31,307)	(11)	(1,567)	(27)	(9,930)	(2)	(42,804)	(6)
Expenses not deductible for tax	24,684	9	1,954	33	4,576	1	31,214	5
Tax loss utilised from previous periods	(2,946)	(1)	–	–	–	–	(2,946)	(1)
Tax losses not recognised	7,562	3	–	–	–	–	7,562	1
Tax charge at the Group's effective rate	24,032	10	2,474	42	57,821	15	84,327	12

Notes to Financial Statements

31 December 2003

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

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$186,548,000 (2002: HK\$316,331,000) (note 36).

The Group's share of aggregate profits less losses retained by its jointly-controlled entities and associates for the year amounted to a profit of HK\$21,781,000 (2002: HK\$24,805,000) and a loss of HK\$10,744,000 (2002: HK\$32,240,000), respectively.

12. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim – nil (2002: 5 cents) per ordinary share	–	211,135
Underaccrual of 2002/2001 final dividends	10	74
	10	211,209
Proposed final – 4 cents (2002: 4 cents) per ordinary share	169,288	168,909
	169,298	380,118

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

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$39,810,000 (2002: profit (as restated) of HK\$532,598,000), and the weighted average of 4,227,324,010 (2002: 4,221,683,129) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2003 has not been disclosed, as the Company's convertible bonds and bonus warrants outstanding during the year had anti-dilutive effect on the basic loss per share for the year.

For the year ended 31 December 2002, the calculation of diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders (as restated) of HK\$532,598,000. The weighted average number of ordinary shares used in the calculation of 4,221,683,129 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 113,575,507 shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options and bonus warrants.

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14. FIXED ASSETS

Group	Investment	Hotel	Land and	Scenic spots	Other	Total
	properties	properties	buildings	establishment	fixed assets	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation:						
At beginning of year	151,963	3,956,949	1,091,202	768,995	772,981	6,742,090
Additions	–	19,500	15,338	4,274	82,210	121,322
Acquisition of a subsidiary	–	–	–	81	18,546	18,627
Transfer from properties under development (note 15)	–	–	86,198	26,865	24,380	137,443
Transfer from property held for sale	–	–	92,000	–	–	92,000
Disposals and write-off	–	–	(2,196)	(17,874)	(37,090)	(57,160)
Deficit on revaluation	(27,763)	(577,768)	–	–	–	(605,531)
Reclassification	11,541	–	(11,793)	–	–	(252)
Exchange realignments	959	–	956	(2,964)	755	(294)
At 31 December 2003	136,700	3,398,681	1,271,705	779,377	861,782	6,448,245
At cost	23,594	–	1,271,705	779,377	861,782	2,936,458
At 2003 valuation	113,106	3,398,681	–	–	–	3,511,787
	136,700	3,398,681	1,271,705	779,377	861,782	6,448,245
Accumulated depreciation and impairment:						
At beginning of year	8,113	–	143,096	413,674	497,968	1,062,851
Provided during the year	1,081	–	27,113	40,500	65,794	134,488
Impairment during the year	4,389	–	87,466	–	–	91,855
Disposals and write-off	–	–	(570)	(9,730)	(31,198)	(41,498)
Reclassification	(323)	–	71	–	–	(252)
Exchange realignments	–	–	(127)	(1,592)	424	(1,295)
At 31 December 2003	13,260	–	257,049	442,852	532,988	1,246,149
Net book value:						
At 31 December 2003	123,440	3,398,681	1,014,656	336,525	328,794	5,202,096
At 31 December 2002	143,850	3,956,949	948,106	355,321	275,013	5,679,239

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14. FIXED ASSETS (Continued)

Company

	Land and building	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At beginning of year	1,165	1,978	2,323	2,401	7,867
Additions	265	354	487	429	1,535
Write-off	–	(1,529)	(738)	(399)	(2,666)
At 31 December 2003	1,430	803	2,072	2,431	6,736
Accumulated depreciation:					
At beginning of year	–	1,726	1,983	1,442	5,151
Provided during the year	–	85	180	233	498
Write-off	–	(1,529)	(715)	(153)	(2,397)
At 31 December 2003	–	282	1,448	1,522	3,252
Net book value:					
At 31 December 2003	1,430	521	624	909	3,484
At 31 December 2002	1,165	252	340	959	2,716

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

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Investment properties, at cost or valuation:			
Long term leases	43,963	14,342	58,305
Medium term leases	49,508	5,294	54,802
Short term leases	–	23,593	23,593
	93,471	43,229	136,700
Land and buildings, at cost:			
Long term leases	456,294	68,421	524,715
Medium term leases	150,700	586,381	737,081
Short term leases	–	9,909	9,909
	606,994	664,711	1,271,705

Notes to Financial Statements

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14. FIXED ASSETS (Continued)

The land use right for a piece of the Group's land with a carrying value of HK\$171,401,000 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 an additional 30 years up to 17 August 2037. Accordingly, amortisation of the cost (including the extension premium payable) 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 2003 were as follows:

Location	Use	Group's interest	Lease term
Hotel Concourse 20-46 Lai Chi Kok Road Mongkok Kowloon Hong Kong	Hotel	100%	Medium
Hotel New Harbour 41-49 Hennessy Road 4 and 6 Fenwick Road Wanchai Hong Kong	Hotel	100%	Long
The Metropole Hotel 75 Waterloo Road Kowloon Hong Kong	Hotel	100%	Long
Metropark Hotel 148 Tung Lo Wan Road Causeway Bay Hong Kong	Hotel	100%	Long
Hotel Grandeur Macau Rua de Pequim 199 Macau	Hotel	100%	Medium

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS (Continued)

The investment properties and hotel properties were revalued at 31 December 2003 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

The Group's investment properties, with gross carrying amount, accumulated depreciation and accumulated impairment loss of HK\$136,700,000 (2002: HK\$112,210,000), HK\$5,841,000 (2002: HK\$5,083,319) and HK\$7,419,000 (2002: HK\$640,000), respectively, are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

The net book value of the Group's fixed assets held under finance leases and hire purchase contracts included in the total amount of motor vehicles and furniture, fixtures and equipment at 31 December 2003 amounted to HK\$3,318,183 (2002: HK\$1,019,000).

15. PROPERTIES UNDER DEVELOPMENT

Group

	31 December			Transfer	
	2002	Additions	Write-off	to fixed	31 December
	assets	2003			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Building and plant	44	23,681	(257)	(23,468)	–
Scenic spots establishment	96,566	126,616	(2,548)	(92,100)	128,534
Golf course	5,108	19,063	–	(21,875)	2,296
	101,718	169,360	(2,805)	(137,443)	130,830

The costs of building and plant, scenic spots establishment and golf course comprise land and buildings outside Hong Kong held under medium term leases.

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

No interest and borrowing costs were capitalised in properties under development at the balance sheet date (2002: Nil).

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16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year		
As previously reported	1,475,512	(202,779)
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	58,839	14,484
As restated	1,534,351	(188,295)
Acquisition of subsidiaries	5,071	–
At 31 December 2003	1,539,422	(188,295)
Recognition as income/(accumulated amortisation and impairment):		
At beginning of year		
As previously reported	(65,331)	7,369
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	(2,238)	(483)
As restated	(67,569)	6,886
Recognised as income/(amortisation provided) during the year	(37,757)	4,314
Impairment provided during the year	(150,475)	8,047
At 31 December 2003	(255,801)	19,247
Net book value:		
At 31 December 2003	1,283,621	(169,048)
At 31 December 2002		
As previously reported	1,410,181	(195,410)
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	56,601	14,001
As restated	1,466,782	(181,409)

Notes to Financial Statements

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16. GOODWILL AND NEGATIVE GOODWILL (Continued)

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

The amounts of goodwill and negative goodwill remaining in consolidated reserves at the balance sheet date were approximately HK\$959 million (2002 as restated: HK\$972 million) and HK\$170 million (2002 as restated: HK\$477 million), respectively. The amounts of goodwill are stated at its cost.

SSAP 12 was adopted during the year, as explained in note 2 and under the heading "Income Tax" in note 3 to the financial statements. As a result, deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries and the corresponding goodwill/negative goodwill carrying amounts have been adjusted.

This change in accounting policy has resulted in an increase in goodwill amount of HK\$58,839,000 and a decrease in negative goodwill of HK\$14,484,000 as at 31 December 2002, and an increase in amortisation of goodwill of HK\$1,279,000 for each of the years ended 31 December 2002 and 2003 and a decrease in recognition of negative goodwill as income of HK\$276,000 for each of the years ended 31 December 2002 and 2003.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	3,601,695	3,305,681
Due from subsidiaries	2,977,705	3,337,565
Loans to subsidiaries	1,472,663	1,632,663
Due to subsidiaries	(1,505,445)	(1,482,156)
	6,546,618	6,793,753
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(307,954)	(273,797)
	6,238,664	6,519,956

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES (Continued)

The balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment. In prior year, certain balances due from subsidiaries with an aggregate amount of HK\$35,771,000 bore interest at 6% per annum.

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

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,240,245	1,183,359
Goodwill on acquisition (Note)	11,459	–
Due from jointly-controlled entities	111,631	88,546
Due to jointly-controlled entities	(1,353)	(1,360)
	1,361,982	1,270,545
Less: Provisions for impairment	(10,187)	(8,672)
	1,351,795	1,261,873

Note:

	Group	
	2003 HK\$'000	2002 HK\$'000
Goodwill on acquisition		
Cost addition	11,653	–
Less: Amortisation provided during the year	(194)	–
Net book value	11,459	–

Notes to Financial Statements

31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2002, to remain eliminated against consolidated reserves or credited to the consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$3,693,000 as at 1 January and 31 December 2003. The amount of goodwill is stated at cost.

Except for the balances of HK\$902,000, HK\$1,439,000 and HK\$4,566,000 which are interest-bearing at 6% per annum, 8% per annum and at one-year interest rate of PRC working capital loans, respectively, the remaining balances with the jointly-controlled entities are 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 to the Group		Principal activities
			2003	2002	
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	17	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	Manufacture of brass products
Shaanxi Weihe Power Co., Ltd.	Corporate	PRC	51	51	Production and sale of electricity
Shanghai China Travel International Limited	Corporate	PRC	50	—	Tour operations
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. #	Corporate	PRC	49	49	Provision of freight forwarding and cargo transportation services

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

Notes to Financial Statements

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Extracts of the audited financial statements of the Group's material jointly-controlled entity are as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2003	2002
	HK\$'000	HK\$'000
Profit and loss account		
Turnover	1,612,109	1,578,752
Profit attributable to joint venture partners	466,845	461,543
Balance sheet		
Non-current assets	2,559,697	2,894,144
Current assets	869,919	600,275
Current liabilities	(835,008)	(974,964)
Non-current liabilities	(128,115)	(108,656)
Net assets	2,466,493	2,410,799

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Unlisted shares, at cost	–	–	–	311
Share of net assets	404,526	415,240	–	–
Due from associates	2,867	2,207	–	–
Due to associates	–	(89)	–	–
	407,393	417,358	–	311

Notes to Financial Statements

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19. INTERESTS IN ASSOCIATES (Continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2002, to remain eliminated against consolidated reserves or credited to the consolidated capital reserve, respectively. The amount of goodwill remaining in consolidated reserves is HK\$49,089,000 as at 1 January and 31 December 2003. The amount of goodwill is stated at cost.

As explained in note 2 and under the heading "Income tax" in note 3 to the financial statements, SSAP 12 (Revised) was adopted during the year. This change in accounting policy has resulted in a decrease in the Group's share of net assets in an associate of HK\$8,352,000 as at 31 December 2003 and 2002. Further details of this prior year adjustment are included in note 33 to the financial statements.

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
			2003	2002	
China Railway-China Travel Express Co. (HK) Ltd. *	Corporate	Hong Kong	50	50	Dormant
Shun Tak-China Travel Shipping Investments Limited * #	Corporate	British Virgin Islands/ Hong Kong	29	29	Shipping operations
Storman Ltd. **	Corporate	Hong Kong	—	38	Dormant
Tianchuang International Art Production & Exchange Co. Ltd. *	Corporate	PRC	30	30	Production of art performances
China Resort International Limited ***	Corporate	Cayman Islands/ Hong Kong	—	40	Dormant

* Held indirectly through subsidiaries.

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

** Liquidated during the year.

*** Disposed of during the year.

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19. INTERESTS IN ASSOCIATES (Continued)

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

	Shun Tak-China Travel Shipping Investments Limited	
	2003 HK\$'000	2002 HK\$'000 (Restated)
Profit and loss account		
Turnover	1,283,431	1,415,955
Net profit attributable to shareholders	3,713	148,616
Balance sheet		
Non-current assets	1,436,422	1,572,698
Current assets	488,707	401,387
Current liabilities	(194,204)	(222,280)
Non-current liabilities	(347,753)	(332,345)
Net assets	1,383,172	1,419,460

20. INVESTMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long term investments				
Unlisted equity investments outside Hong Kong:				
Unlisted shares, at fair value	21,555	21,956	13,949	13,949
Unlisted equity and debt investments in Hong Kong:				
Unlisted shares, at fair value	30	30	–	–
	21,585	21,986	13,949	13,949

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20. INVESTMENTS (Continued)

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Short term investments				
Listed equity investments				
in Hong Kong, at market value	1,510	865	–	–
Listed equity investment outside				
Hong Kong, at market value	2	–	–	–
Unlisted equity investments outside				
Hong Kong, at fair value	12,051	–	–	–
Provision for impairment	(803)	–	–	–
	12,760	865	–	–

21. INVENTORIES, AT COST

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	8,224	9,458
Spare parts and consumables	1,736	1,082
General merchandise	3,570	6,184
	13,530	16,724

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	
	2003 HK\$'000	2002 HK\$'000
Outstanding balances with age:		
Less than 1 month	198,011	204,949
Within:		
1-3 months	121,218	25,912
4-6 months	13,921	14,981
7-12 months	15,149	11,068
1-2 years	2,376	3,538
Over 2 years	265	7,135
	350,940	267,583

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23. OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deferred borrowing costs	5,750	7,242	–	–
Deferred expenditure	26,876	–	–	–
Deposits and other debtors	185,936	142,630	4,524	3,711
Amounts due from minority shareholders	793	5,951	–	–
	219,355	155,823	4,524	3,711

24. PLEDGED TIME DEPOSITS

The Group have pledged bank deposits of approximately HK\$4,323,000 (2002: HK\$2,688,000) to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and certain bank guarantees given in lieu of utility and rental deposits.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	1,325,625	855,255	11,042	23,910
Time deposits	1,018,008	319,324	450,250	136,220
	2,343,633	1,174,579	461,292	160,130
Less: Pledged time deposits – note 24	(4,323)	(2,688)	–	–
Cash and cash equivalents	2,339,310	1,171,891	461,292	160,130

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$497,591,000 (2002: HK\$450,936,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

The balances with ultimate holding company and fellow subsidiaries mainly represent trade receivables and payables.

Except the balance with ultimate holding company regarding provision of travel permit administration repayable on third business day following the month of transactions, other balances with ultimate holding company and fellow subsidiaries are unsecured, interest-free and repayable on demand.

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount due from ultimate holding company				
Within 1 year	30,843	30,562	215	225
Amounts due from fellow subsidiaries				
Within 1 year	3,416	2,587		
Over 1 year	6	–		
	3,422	2,587		
Amounts due to fellow subsidiaries				
Within 1 year	4,307	1,558		
Over 2 years	171	74		
	4,478	1,632		

27. TRADE PAYABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Outstanding balances with age:		
Less than 1 month	252,139	145,058
Within:		
1-3 months	123,976	214,540
4-6 months	45,503	16,085
7-12 months	27,306	19,471
1-2 years	6,561	5,901
Over 2 years	8,133	9,421
	463,618	410,476

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28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals and other liabilities	425,733	448,570	7,376	11,934
Staff bonus and welfare fund	10,633	28,122	2,296	–
Receipts in advance from customers	11,721	18,708	–	–
Due to minority shareholders	4,127	1,291	–	–
	452,214	496,691	9,672	11,934

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

Notes	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts – unsecured	5,255	358	690	–
Current portion of bank and other loans	464,725	327,715	–	–
30	469,980	328,073	690	–
Current portion of lease payables	1,397	516	–	–
31	471,377	328,589	690	–

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30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts:				
Unsecured	5,255	358	690	–
Syndicated bank loans:				
Secured – Note	1,160,000	1,000,000	–	–
Other bank loans:				
Unsecured	6,338	32,899	–	–
	1,166,338	1,032,899	–	–
Golf club debentures	4,157	4,157	–	–
	1,175,750	1,037,414	690	–
Bank overdrafts repayable within one year or on demand	5,255	358	690	–
Bank loans repayable:				
Within one year or on demand	464,725	327,715	–	–
In the second year	1,613	5,184	–	–
In the third to fifth years, inclusive	700,000	700,000	–	–
	1,166,338	1,032,899	–	–
Other loans repayable:				
Over five years	4,157	4,157	–	–
Total interest-bearing bank and other borrowings	1,175,750	1,037,414	690	–
Portion classified as current liabilities – note 29	(469,980)	(328,073)	(690)	–
Long term portion	705,770	709,341	–	–

Note: Included in the HK\$1,160 million secured syndicated bank loans are revolving loans of HK\$460 million which are repayable in the following year. Interest is charged on the outstanding balance at 0.5% per annum over the Hong Kong Interbank Offered Rate for the applicable loan period. The loans are secured by the corporate guarantee given by the Company.

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31. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its business operations. These leases are classified as finance leases and have remaining lease terms ranging from one to two 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 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts repayable:				
Within one year	1,401	558	1,397	516
In the second year	525	144	525	141
Total minimum lease payments	1,926	702	1,922	657
Future finance charges	(4)	(45)		
Total net lease payables	1,922	657		
Portion classified as current liabilities – note 29	(1,397)	(516)		
Long term portion	525	141		

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32. CONVERTIBLE BONDS

On 30 September 2003, a wholly-owned subsidiary of the Company, China Chance Developments Limited ("China Chance"), issued an aggregate principal amount of approximately HK\$1,163,250,000 (US\$150,000,000) zero coupon guaranteed convertible bonds (the "Bonds") due September 2008 to outsiders. China Chance raised approximately HK\$1,134,959,000 (US\$146,352,000), net of expenses.

Each Bond is, at the option of the holder, convertible on or after 10 November 2003 up to and including 19 September 2008, into fully paid ordinary shares of the Company with a par value of HK\$0.10, at an initial conversion price of HK\$1.90, subject to adjustment in certain events. The number of shares to be issued on conversion of Bonds will be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.7993 = US\$1.00) by the conversion price in effect at the conversion date.

On 30 September 2006, the holder of each Bond will have the right, to require China Chance to redeem all or part of the Bonds of holder at 104.975 per cent of their principal amount.

On or at any time after 30 March 2005 and prior to 19 September 2008, China Chance may redeem all or, from time to time, part (being US\$1,000,000 in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the early redemption amount, as defined in offering circular dated 30 September 2003, on the redemption date if (a) the closing price of the shares of the Company, converted into United States dollars at the prevailing rate, for each of 20 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which such notice of redemption is published, was at least 130 per cent. of the conversion price in effect on each such trading day, converted into United States dollars at the rate of HK\$7.7993 = US\$1.00 or (b) at least 90 per cent in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

During the year, no Bonds were converted into ordinary shares. At the balance sheet date, the carrying value of the Bonds represented the par value of approximately HK\$1,163,250,000 (US\$150,000,000) and an accumulated accretion of premium of approximately HK\$4,902,000. The exercise in full of the conversion rights of the remaining Bonds at the initial conversion price would result in the issue of approximately 615,734,210 additional ordinary shares of the Company.

Unless previously redeemed, converted or purchased and cancelled, each Bond will be redeemed at 108.428% of its principal amount on 30 September 2008. Accordingly, the Bonds have been classified as non-current liabilities as at the balance sheet date.

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33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group	2003			Total HK\$'000
	Accelerated tax depreciation HK\$'000	Surplus/ (deficit) on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	
At 1 January 2003				
As previously reported	9,735	–	–	9,735
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	48,759	233,680	(5,895)	276,544
As restated	58,494	233,680	(5,895)	286,279
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	6,452	(44,925)	(2,590)	(41,063)
Deferred tax credited to equity during the year	–	(4,627)	–	(4,627)
At 31 December 2003	64,946	184,128	(8,485)	240,589

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33. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Group	2002			Total HK\$'000
	Accelerated tax depreciation HK\$'000	Surplus on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	
At 1 January 2002				
As previously reported	9,558	–	–	9,558
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	45,357	226,396	(5,933)	265,820
As restated	54,915	226,396	(5,933)	275,378
Deferred tax charged to the profit and loss account during the year (note 10)	3,579	3,161	38	6,778
Deferred tax charged to equity during the year	–	4,123	–	4,123
At 31 December 2002	58,494	233,680	(5,895)	286,279

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33. DEFERRED TAX (Continued)

Deferred tax liabilities/(assets)

Group	2003				Total HK\$'000
	Accelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Deficit on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	
At 1 January 2003					
As previously reported	–	–	–	–	–
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	4,270	34,520	(18,656)	(6,621)	13,513
As restated	4,270	34,520	(18,656)	(6,621)	13,513
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	2,497	–	(20,960)	(6,397)	(24,860)
At 31 December 2003	6,767	34,520	(39,616)	(13,018)	(11,347)

Notes to Financial Statements

31 December 2003

33. DEFERRED TAX (Continued)

Deferred tax liabilities/(assets) (Continued)

Group	2002				
	Accelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Surplus/ (deficit) on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2002					
As previously reported	–	–	–	–	–
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	2,249	34,520	3,441	(3,872)	36,338
As restated	2,249	34,520	3,441	(3,872)	36,338
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	2,021	–	(18,656)	(2,749)	(19,384)
Deferred tax credited to equity during the year	–	–	(3,441)	–	(3,441)
At 31 December 2002	4,270	34,520	(18,656)	(6,621)	13,513

The Group has tax losses arising from operations in Hong Kong of HK\$29,624,000 (2002: HK\$26,509,000) which can be used to offset against future taxable profits of the companies in which the losses occurred. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2003

33. DEFERRED TAX (Continued)

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets and liabilities as at 31 December 2003 by HK\$9,173,000 and HK\$229,570,000 respectively, and an increase in deferred tax liabilities by HK\$290,057,000 as at 31 December 2002. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31 December 2003 has been decreased by HK\$1,771,000 and the consolidated net profit attributable to shareholders for the year ended 31 December 2002 has been decreased by HK\$7,722,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK\$50,740,000 and HK\$43,018,000, respectively, as detailed in note 36.

34. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
4,232,198,475 (2002: 4,222,731,839) ordinary shares of HK\$0.10 each	423,220	422,273

During the year, 9,466,636 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.22 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of approximately HK\$11,550,000.

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34. SHARE CAPITAL (Continued)

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	Share premium HK\$'000	Total HK\$'000
At 1 January 2002	4,220,233,742	422,023	5,919,433	6,341,456
Shares issued upon exercise of bonus warrants	2,498,097	250	2,798	3,048
At 31 December 2002 and 1 January 2003	4,222,731,839	422,273	5,922,231	6,344,504
Shares issued upon exercise of bonus warrants	9,466,636	947	10,603	11,550
At 31 December 2003	4,232,198,475	423,220	5,932,834	6,356,054

Share options

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

Warrants

On 28 June 2001, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members, 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. At the beginning of the year, there were 754,910,286 warrants outstanding.

During the year, 9,466,636 warrants were exercised for 9,466,636 shares of HK\$0.10 each at HK\$1.22 per share, resulting in the issue of 9,466,636 additional shares of HK\$0.10 each in the Company. The 745,443,650 warrants outstanding were expired and lapsed on 30 June 2003.

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31 December 2003

35. SHARE OPTION SCHEME

On 3 June 2002, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme which was approved by the shareholders of the Company on 21 October 1992 (the "Old Scheme"). The Old Scheme was terminated on 20 October 2002. There were no options outstanding under the Old Scheme as at 1 January 2003 and 31 December 2003.

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

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

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

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

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

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

At 31 December 2003, no share option was outstanding under the New Scheme and none of the Company's directors and none of the Group's employees were granted share options during the year.

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36. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds (Note) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002							
As previously reported	5,919,433	(290,390)	259,568	55,012	(2,397)	1,457,746	7,398,972
Prior year adjustment:							
SSAP 12 – restatement of deferred tax (note 33)	–	(159,701)	(35,340)	–	–	(43,018)	(238,059)
As restated	5,919,433	(450,091)	224,228	55,012	(2,397)	1,414,728	7,160,913
Premium on issue of new shares on exercise of bonus warrants	2,798	–	–	–	–	–	2,798
Exchange realignments	–	–	–	–	6,496	–	6,496
Recognition of negative goodwill upon impairment of underlying assets (as restated)	–	(97,947)	–	–	–	–	(97,947)
Surplus on revaluation (as restated)	–	–	3,965	–	–	–	3,965
Transfer from retained profits	–	–	–	9,234	–	(9,234)	–
Net profit for the year (as restated)	–	–	–	–	–	532,598	532,598
Underaccrual of 2001 final dividend – note 12	–	–	–	–	–	(74)	(74)
2002 interim dividend – note 12	–	–	–	–	–	(211,135)	(211,135)
Proposed 2002 final dividend – note 12	–	–	–	–	–	(168,909)	(168,909)
At 31 December 2002	5,922,231	(548,038)	228,193	64,246	4,099	1,557,974	7,228,705
Reserves retained by:							
Company and subsidiaries	5,922,231	(495,256)	228,193	64,246	4,099	1,462,722	7,186,235
Jointly-controlled entities	–	(3,693)	–	–	–	252,274	248,581
Associates	–	(49,089)	–	–	–	(157,022)	(206,111)
At 31 December 2002	5,922,231	(548,038)	228,193	64,246	4,099	1,557,974	7,228,705

Notes to Financial Statements

31 December 2003

36. RESERVES (Continued)

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds (Note) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003							
As previously reported	5,922,231	(406,993)	264,215	64,246	4,099	1,608,714	7,456,512
Prior year adjustment:							
SSAP 12 – restatement of deferred tax (note 33)	–	(141,045)	(36,022)	–	–	(50,740)	(227,807)
As restated	5,922,231	(548,038)	228,193	64,246	4,099	1,557,974	7,228,705
Premium on issue of new shares on exercise of bonus warrants	10,603	–	–	–	–	–	10,603
Exchange realignments	–	–	–	–	3,610	–	3,610
Recognition of negative goodwill upon impairment of underlying assets	–	(307,219)	–	–	–	–	(307,219)
Impairment of goodwill previously carried in capital reserve	–	13,061	–	–	–	–	13,061
Deficit on revaluation	–	–	(80,191)	–	–	–	(80,191)
Transfer from retained profits	–	–	–	7,344	–	(7,344)	–
Net loss for the year	–	–	–	–	–	(39,810)	(39,810)
Underaccrual of 2002 final dividend – note 12	–	–	–	–	–	(10)	(10)
Forfeiture of unclaimed 1992-1996 final dividends	–	–	–	–	–	94	94
Proposed 2003 final dividend – note 12	–	–	–	–	–	(169,288)	(169,288)
At 31 December 2003	5,932,834	(842,196)	148,002	71,590	7,709	1,341,616	6,659,555
Reserves retained by:							
Company and subsidiaries	5,932,834	(789,414)	148,002	71,590	7,709	1,235,329	6,606,050
Jointly-controlled entities	–	(3,693)	–	–	–	274,054	270,361
Associates	–	(49,089)	–	–	–	(167,767)	(216,856)
At 31 December 2003	5,932,834	(842,196)	148,002	71,590	7,709	1,341,616	6,659,555

Notes to Financial Statements

31 December 2003

36. RESERVES (Continued)

Company	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2002	5,919,433	208,438	6,127,871
Premium on issue of new shares on exercise of bonus warrants	2,798	–	2,798
Net profit for the year	–	316,331	316,331
Underaccrual of 2001 final dividend – note 12	–	(74)	(74)
2002 interim dividend – note 12	–	(211,135)	(211,135)
Proposed 2002 final dividend – note 12	–	(168,909)	(168,909)
Balance at 31 December 2002 and 1 January 2003	5,922,231	144,651	6,066,882
Premium on issue of new shares on exercise of bonus warrants	10,603	–	10,603
Net profit for the year	–	186,548	186,548
Underaccrual of 2002 final dividend – note 12	–	(10)	(10)
Forfeiture of unclaimed 1992-1996 final dividends	–	94	94
Proposed 2003 final dividend – note 12	–	(169,288)	(169,288)
At 31 December 2003	5,932,834	161,995	6,094,829

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

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Restricted cash and cash equivalent balances

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

Notes to Financial Statements

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

(b) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	18,627	206
Long term investments	2,665	–
Inventories	73	–
Cash and bank balances	37,328	6,100
Trade receivables and other receivables	32,479	10,444
Trade payables, other payables and accruals	(57,302)	(12,088)
Bank and other borrowings	(50)	–
Tax payable	(369)	(102)
Minority interests	(10,540)	–
	22,911	4,560
Goodwill on acquisition	5,071	–
	27,982	4,560
Accounted for and satisfied by:		
Cash	27,982	4,560

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(27,982)	(4,560)
Cash and bank balances acquired	37,328	6,100
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	9,346	1,540

Notes to Financial Statements

31 December 2003

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

(b) Acquisition of subsidiaries (Continued)

During the year, the Group acquired the following subsidiaries from independent third parties.

Date of acquisition	Name	Percentage of equity interest acquired	Principal activities	Consideration HK\$
1 January 2003	CTI Cosco Travel Ltd. (Formerly known as Cosco International Travel Ltd.)	70%	Tour operations	18,401,000
1 January 2003	CTI Business Travel Management Company Ltd. (Formerly known as Sunshine Express International Ltd.)	100%	Air ticketing agent	1,910,000 **
1 January 2003	Beijing Shangtai Jiye Information Company Limited*	100%	Dormant	— **
24 February 2003	China Travel International (Xinjiang) Ltd.	51%	Tour operations	2,040,000
20 November 2003	China Travel International (Shandong) Ltd.	51%	Tour operations	1,530,000
8 December 2003	China Travel International (Xiamen) ITG Travel Service Co., Ltd.	51%	Tour operations	3,060,000
31 December 2003	New Bus Holdings Limited	80%	Passenger transportation	2,569,000

Since its acquisition, the newly-acquired subsidiaries contributed HK\$87,717,000 to the Group's turnover and HK\$2,816,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2003.

The subsidiaries acquired in the prior year contributed HK\$76,171,000 to the Group's turnover and HK\$171,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

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

** These two subsidiaries were acquired for an aggregate consideration of HK\$1,910,000.

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

(c) Disposal of a subsidiary

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

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

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

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

(d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,931,000 (2002: Nil).

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	100	100	Travel and air ticketing agent
Chadwick Developments Limited (Note)	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Chance Developments Limited (Note)	British Virgin Islands	1 share of US\$1@	100	–	Provision of financial services
China Travel and Trading (Deutschland) GmbH	Germany	EURO125,267	100	100	Travel and air ticketing agent
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	100	100	Tour operations
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Provision of printing and advertising agency services

Notes to Financial Statements

31 December 2003

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Air ticketing agent
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	70	70	Passenger transportation
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** (Note)	PRC	US\$29,980,000	100	100	Construction of a hot spring resort
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 @	100	100	Trading of computer equipment, provision of computer services and investment holding
China Travel International Ltd.** (Note)	PRC	RMB177,300,000	100	100	Tour operations
China Travel International (Chengdu) Ltd.*	PRC	RMB4,220,000	51	51	Tour operations

Notes to Financial Statements

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
China Travel International (Shandong) Ltd.*	PRC	RMB3,000,000	51	–	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.*	PRC	RMB6,000,000	51	–	Tour operations
China Travel International (Xinjiang) Ltd.*	PRC	RMB4,000,000	51	–	Tour operations
China Travel Net Hong Kong Limited	Hong Kong	150,000 ordinary shares of HK\$1@	100	100	Operation of a website
China Travel Service (Australia) Pty. Ltd.	Australia	AUD3,319,932	100	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.	Canada	CAD2,922,750	100	100	Travel and air ticketing agent
China Travel Service (Cargo) Hong Kong Limited (Note)	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Provision of freight forwarding and transportation services
China Travel Service (France) SARL#	France	EURO220,000	100	100	Travel and air ticketing agent

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@ 1,000,000 non-voting deferred shares of HK\$100@	100	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.	Japan	¥95,000,000	100	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.	Korea	WON500,000,000	100	100	Travel and air ticketing agent
China Travel Service (N.Z.) Limited	New Zealand	NZD30,000	100	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd.	United Kingdom	486,000 ordinary shares of £1@ 1,072,000 preference shares of £1@	100	100	Travel and air ticketing agent
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Passenger transportation

Notes to Financial Statements

31 December 2003

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	96.2	96.2	Dormant
Coastline Development Limited	Hong Kong	2 ordinary shares of HK\$1.00@	100	100	Property investment holding
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
CTI Business Travel Management Company Ltd. (Formerly known as Sunshine Express International Ltd.)**	PRC	RMB10,000,000	100	—	Air ticketing agent
CTI Cosco Travel Ltd. (Formerly known as Cosco International Travel Ltd.)*	PRC	RMB26,287,300	70	—	Tour operations
CTS International Transportation Co., Ltd.*	PRC	RMB26,000,000	76	76	Freight forwarding

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Glading Development Limited	Hong Kong	2 ordinary shares of HK\$1@ 2 non-voting deferred shares of HK\$1@	100	100	Property investment holding and hotel operations
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	100	100	Investment holding
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	80	—	Passenger transportation
Princess Capital Limited (Note)	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Dormant
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen The Splendid China Development Co., Ltd.* (Note)	PRC	RMB184,000,000	51	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* (Note)	PRC	US\$29,500,000	51	51	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1@	100	100	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.**	PRC	RMB100,000,000	100	100	Golf club operations
Singa China Travel Service Pte. Limited	Singapore	SGD6,740,000	100	100	Travel and air ticketing agent
Smart Concord Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations

Notes to Financial Statements

31 December 2003

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	100	100	Property investment holding and hotel operations
Special Asia Travel AB	Sweden	SEK40,000	100	–	Travel and air ticketing agent
Starsoft Computer Services Limited	Hong Kong	4,000 ordinary shares of HK\$100@	100	100	Investment holding
Starsoft Computer Services (Shenzhen) Co. Ltd.**	PRC	RMB1,200,000	100	100	Computer software development and design
Tonkin Limited	Hong Kong	10,000 ordinary shares of HK\$1@	100	100	Property investment holding
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding

Notes to Financial Statements

31 December 2003

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
U.S. China Travel Service Inc.	United States of America	US\$4,890,000	100	100	Travel and air ticketing agent
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Property investment holding and hotel operations

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

Note: These subsidiaries were directly owned by the Company.

* These subsidiaries are Sino-foreign equity joint ventures.

** These subsidiaries are registered as wholly-foreign owned enterprises under the PRC law.

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

Notes to Financial Statements

31 December 2003

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,911	2,911	2,024	2,024
Corporate guarantee given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	–	–	85,783	47,662
Corporate guarantee given to banks in connection with credit facilities granted to and utilised by subsidiaries	–	–	1,160,000	1,002,985
Guarantees given to banks in connection with facilities granted to and utilised by an associate	94,388	98,688	94,388	98,688
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly-controlled entity	–	1,885	–	–
Guarantees given to vendor in connection with banking facilities granted to and utilised by an investee company	18,329	–	–	–
Guarantee given to a supplier in connection with credit facilities granted	2,251	–	–	–
	117,879	103,484	1,342,195	1,151,359

Notes to Financial Statements

31 December 2003

40. 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 two to five years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	6,010	6,774
In the second to fifth years, inclusive	2,315	3,864
	8,325	10,638

(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 one to eighteen years, and those for plant and machinery for terms ranging from one to five years.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	28,238	33,281
In the second to fifth years, inclusive	51,200	49,360
After five years	73,864	90,358
	153,302	172,999
Plant and machinery:		
Within one year	642	166
In the second to fifth years, inclusive	639	199
	1,281	365

Notes to Financial Statements

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41. COMMITMENTS

In addition to the operating lease commitments as detailed in note 40(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Properties under development:				
Contracted, but not provided for	110,833	31,714	1,806	1,885
Authorised, but not contracted for	1,392,159	1,709,600	1,370,485	1,703,774
	1,502,992	1,741,314	1,372,291	1,705,659
Plant and equipment and motor vehicles:				
Contracted, but not provided for	17,549	3,908	-	-
Authorised, but not contracted for	11,510	9,611	-	-
	29,059	13,519	-	-
Land and buildings:				
Contracted, but not provided for	-	11,068	-	265
Leasehold improvements:				
Contracted, but not provided for	23,982	-	-	-
Authorised, but not contracted for	1,017	-	-	-
	24,999	-	-	-
Unpaid capital contribution to jointly-controlled entities:				
Contracted, but not provided for	3,326	3,540	-	-
Unpaid capital contribution to investee companies:				
Contracted, but not provided for	1,710	768	-	299,293
Others:				
Contracted, but not provided for	7,956	7,619	-	-

Notes to Financial Statements

31 December 2003

41. COMMITMENTS (Continued)

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

	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for	6,082	–

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

42. RELATED PARTY TRANSACTIONS

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

Name of company	Nature of transaction	Group	
		2003 HK\$'000	2002 HK\$'000
Paid or payable to:			
(1) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,823	2,077
(2) China Travel Hip Kee Godown Hong Kong Limited	Storage charges	1,087	975
(3) CTS (Holdings)	Office rental	13,811	13,982
(4) China Travel Building Contractors Hong Kong Limited	Decoration expenses	–	544
(5) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	9,487	8,003
(6) Tai Sun Services Company Limited	Stevedoring services and coolie charges	2,002	2,167
(7) China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	2,451	3,450
(8) Hubei Yangtze River Splendid China Cruise Co., Ltd	Sightseeing cruiser services	–	924
(9) Shenzhen Windsor Square Industrial Co., Ltd.	Hotel room rental	1,373	–

Notes to Financial Statements

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42. RELATED PARTY TRANSACTIONS (Continued)

Name of company	Nature of transaction	Group	
		2003 HK\$'000	2002 HK\$'000
Received or receivable from:			
(10) China Travel Hip Kee Godown Hong Kong Limited	Application service provider services	313	–
(11) CTS (Holdings)	Hotel room rental	545	1,006
(12) CTS (Holdings)	Travel permit administration income (Note)	241,490	326,029
(13) CTS (Holdings)	Sale of computer equipment and commission on sale of visa materials	458	1,671
(14) CTS (Holdings)	Application service provider services	374	–
(15) CTS (Holdings)	Advertising and printing	293	–
(16) China Travel Computer Service H.K. Limited	Application service provider services	10,002	14,800
(17) China Travel Service (Thailand) Co. Ltd.	Sale of tourism services /products	897	1,412
(18) China Travel Service, Inc.	Sale of tourism services /products	–	489
(19) China Travel System (M) Sdn. Bhd.	Sales of tourism services /products	439	875
(20) China Travel Hotel Management Services Hong Kong Limited	Rental income	–	43
(21) Tai Sun Services Company Limited	Management service income	652	602
(22) Hong Kong China Travel Services Investment (China) Ltd.	Sales of computer equipment and application service provider services	253	–

Notes to Financial Statements

31 December 2003

42. RELATED PARTY TRANSACTIONS (Continued)

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

Note: The travel permit administration income was determined in accordance with the terms of an agency agreement entered into between parties and charged at 45% of the gross fee revenue from travel permit applications.

43. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

In addition, as further explained in note 5 to the financial statements, turnover and cost of sales have been increased by HK\$531,731,000 respectively for the year ended 31 December 2002 to conform with the Group's accounting policy. In the opinion of the directors, this classification would better reflect the results of the Group.

44. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 31 March 2004.

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 Cafe du Parc, 2/F, Metropark Hotel, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Thursday, 13 May 2004 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 2003.
2. To declare a final dividend.
3. To re-elect Directors and to fix the remuneration.
4. To re-appoint the Auditors and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business of the Company.

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

Hong Kong, 31 March 2004

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 more than one proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting will be enclosed with the 2003 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 order to be valid, the instrument appointing a proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, 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).

Notice of Annual General Meeting

- (4) 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.
- (5) The Register of Members of the Company will be closed from Monday, 10 May 2004 to Thursday, 13 May 2004 (both days inclusive), for the purposes of determining entitlements to the final dividend. In order to qualify for the final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 7 May 2004.
- (6) In relation to agenda item 3 in the Notice regarding election of Directors, Mr. Zhang Xuewu, Mr. Zheng Heshui, Mr. Zheng Hongqing and Dr. Fong Yun Wah will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election in accordance with the Articles of Association of the Company. The biographical details and interests in the shares of the Company of the said directors to be re-elected at the Annual General Meeting are set out in the "Biographies of Directors and Senior Management" and "Directors' Interests in Shares" in the 2003 Annual Report.