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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*

Sze, Robert Tsai To*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Wong Man Kong, Peter (*Chairman*)
Yeh Meou Tsen, Geoffrey
Yeh V Nee
(*Alternate Director to Yeh Meou Tsen, Geoffrey*)
Sze, Robert Tsai To

REMUNERATION COMMITTEE

Wong Man Kong, Peter (*Chairman*)
Yeh Meou Tsen, Geoffrey
Yeh V Nee
(*Alternate Director to Yeh Meou Tsen, Geoffrey*)
Sze, Robert Tsai To

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

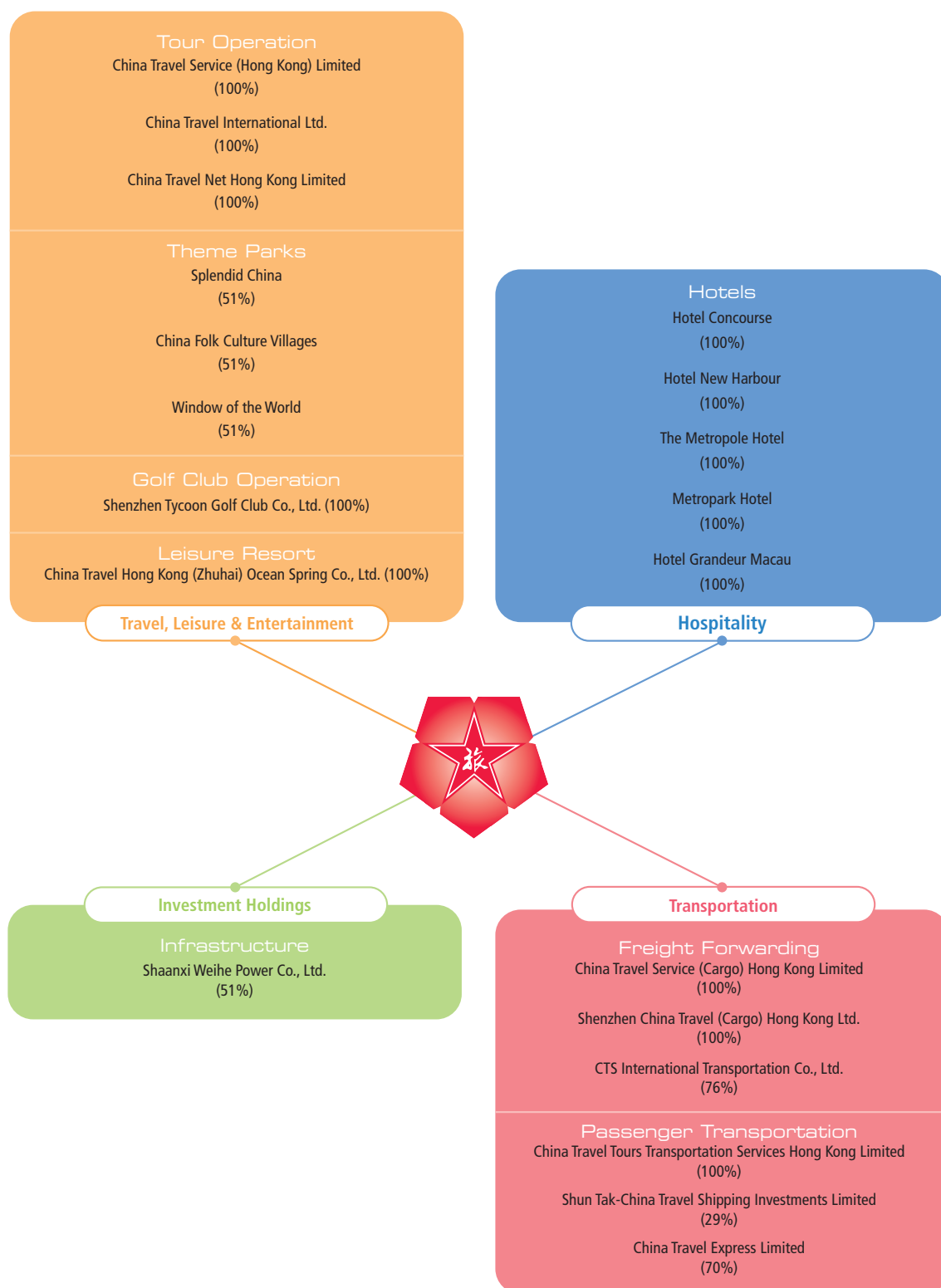
PRINCIPAL BANKERS

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

Financial Calendar and Investor Relation Information

Announcement of 2004 Interim Results	17 August 2004
Announcement of 2004 Final Results	11 April 2005
Dividends – 2003 Interim	Nil
2003 Final	HK 4 cents per share paid on 28 May 2004
2004 Interim	HK 5 cents per share paid on 22 September 2004
2004 Final	HK 5 cents per share payable on 24 June 2005
Closure of Register of Members	Period from 23 May 2005 to 25 May 2005
Annual General Meeting	25 May 2005
Listing Date	11 November 1992
Authorised Shares	7,000,000,000
Issued Shares	4,467,658,548 (as at 31 December 2004)
Website	irasia.com/listco/hk/ctii
Stock Code	0308
Board Lot	2,000 shares
Financial Year End	December 31
Par Value	HK\$0.10

Major Operations



Financial Ratios Highlights

	2004	2003	2002 (Restated)
Profit & loss account ratios			
Interest coverage ratio	39.31	2.16	16.56
Earnings per share (HK cents)	21.21	(0.94)	12.61
Dividend per share (HK cents)	10.00	4.00	9.00
Dividend payout ratio (%)	47.15	N/A	71.36
Balance sheet ratios			
Current ratio	2.46	2.09	1.36
Quick ratio	2.44	2.08	1.28
Net assets value per share (HK\$)	1.87	1.71	1.85
Net interest-bearing debt to equity	(0.03)	0.00	(0.02)
Rate of return ratios			
Return on average equity (%)	11.56	N/A	6.81
Return on total capital and borrowings (%)	10.02	0.54	6.92
Market price ratios			
Dividend yield			
Year low (%)	3.92	2.42	4.95
Year high (%)	8.55	4.65	8.91
Price to earning ratio			
Year low	5.52	N/A	8.01
Year high	12.02	N/A	14.43

Formula for financial ratios:

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

Financial Review

Five Year Financial Summary

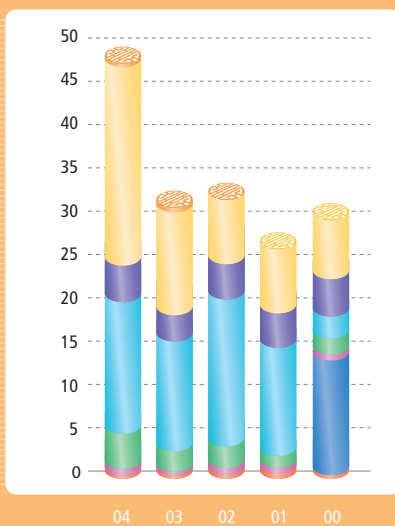
A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
Results					
Turnover	4,802,021	3,300,916	3,401,695	2,758,579	3,134,170
Net profit/(loss) from ordinary activities attributable to shareholders	901,654	(39,810)	532,598	619,765	145,540
Dividends	435,200	169,298	380,118	374,679	130,044
Assets, liabilities and minority interests					
Total assets	11,720,136	11,217,949	10,511,541	10,638,392	8,524,603
Total liabilities	(2,985,493)	(3,631,131)	(2,358,827)	(2,597,744)	(1,994,575)
Minority interests	(386,313)	(334,755)	(332,827)	(353,003)	(317,251)
	8,348,330	7,252,063	7,819,887	7,687,645	6,212,777

Financial Review

Turnover by Principal Activities

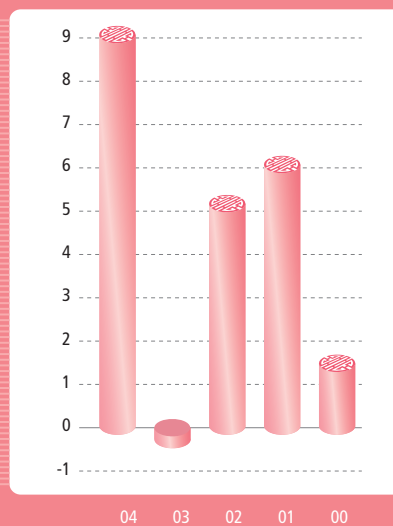
HK\$ (100 million)



■ Golf Club ■ Infrastructure ■ Passenger Transportation
■ Hotels ■ Tours ■ Theme Park
■ Freight Forwarding ■ Treasury

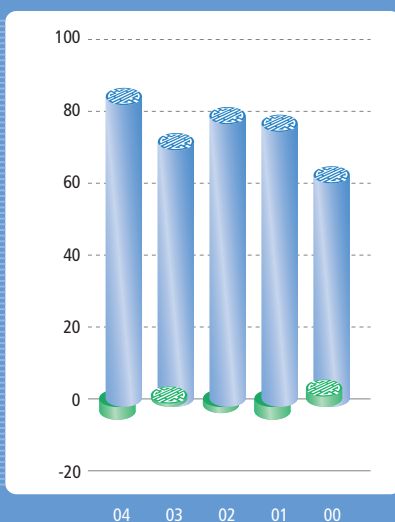
Profit/(Loss) Attributable to Shareholders

HK\$ (100 million)



Net Debt to Equity

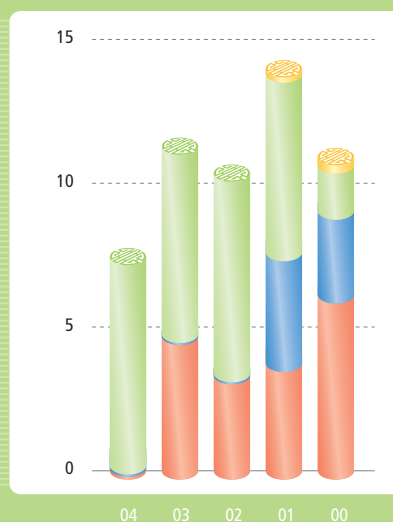
HK\$ (100 million)



■ Net Interest Bearing Debt/(Net Cash) ■ Equity

Debt Maturity Profile

HK\$ (100 million)



■ > 5 Years ■ > 2 Years & < 5 Years
■ > 1 Year & < 2 Years ■ < 1 Year

Biographies of Directors and Senior Management

Executive Directors

MR. CHE SHUJIAN *Chairman & Executive Director*

Aged 62. Mr. Che is the Chairman of China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”), the holding company of the Company. He graduated from the School of Economics of Jilin University in China and was entitled Senior Engineer of Economic Management. Prior to joining the Group, 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 during 1968 and 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. From 1998 to 2000, he served as a specially appointed investigator of The State Council of China. Mr. Che has extensive experience in economic development and corporate management.

MR. ZHANG XUEWU *Vice Chairman & Executive Director*

Aged 50. Mr. Zhang is the Vice Chairman and General Manager of CTS (Holdings). He holds chairmanships and directorships in several subsidiary companies and joint venture companies of CTS (Holdings). He holds a Master degree in Business Administration and is a qualified Senior Economist. Mr. Zhang was the Executive Vice President and Director of Minmetals UK Limited (China), the Senior Vice President of China National Metals & Minerals Import and Export Corp. and the President of Minmetals Development Co., Ltd., a listed company. He has extensive experience in corporate management in Mainland and Overseas. He is a committee member of the Chinese General Chamber of Commerce. He served as a member of the Tourism Strategy Group of the HKSAR Government.

MR. SHEN ZHUYING *Vice Chairman, General Manager & Executive Director*

Aged 57. Mr. Shen is a director of CTS (Holdings) and holds directorships in several subsidiary companies of CTS (Holdings) and the Group. He was the Managing Director of the Company during 1992 and 1997. Mr. Shen has over 20 years experience in corporate management and extensive experience in managing listed company.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 54. Mr. Zheng is a director of CTS (Holdings) and holds directorships in a number of subsidiary companies of CTS (Holdings) and the Group. He joined the Group in 1993. Mr. Zheng graduated from Xiamen University in China and has over 20 years experience in economic development.

MR. LO SUI ON *Vice Chairman & Executive Director*

Aged 54. Mr. Lo is a director of CTS (Holdings) and holds directorships in several subsidiary companies of CTS (Holdings) and the Group. He is currently the director and general manager of China Travel Service (Hong Kong) Limited and responsible for the Group’s tourism services. He has over 30 years of operation and management experience in tourism. Mr. Lo is a member of Hong Kong Tourism Board, a member of The Election Committee for the Second Government of the HKSAR, a member of the HKSAR Government’s Election Committee on Deputy of the Tenth National People’s Congress of the PRC, a committee member of the Ninth Chinese People’s Political Consultative Committee of Inner Mongolia Autonomous Region of China, the Chairman of Committee on Tourism of the Hong Kong Chinese Enterprises Association and the President of Hong Kong Association of China Travel Organisers Limited. In addition, Mr. Lo served as a Director of the Travel Industry Council of Hong Kong and a member of the Tourism Strategy Group of HKSAR Government.

Biographies of Directors and Senior Management

MR. CHEN SHOUJIE *Executive Director*

Aged 60. Mr. Chen is a director and deputy general manager of CTS (Holdings) and holds directorships in a number of subsidiary companies of CTS (Holdings) which he joined in 2000. He graduated from Xian Jiaotong University in China. Prior to joining the Group, Mr. Chen was a plant manager of Main Plant of Lanzhou Oil Refinement and Chemical Works in China. He has extensive experience in corporate and business management.

MR. ZHENG HONGQING *Executive Director*

Aged 57. Mr. Zheng is a director of CTS (Holdings) and holds directorships in a number of subsidiary companies of CTS (Holdings) which he joined in 1996. He graduated from the Planning and Statistics Department of Renmin University of China. He holds a Master degree in Economics and is a qualified Senior Economist. 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 more than 20 years of experience in economic work.

MR. ZHANG FENGCHUN *Executive Director*

Aged 40. Mr. Zhang is a director and the chief financial officer of CTS (Holdings) and holds directorships in several subsidiary companies of CTS (Holdings) which he joined in 1994. Mr. Zhang graduated from the Accounting Department of Renmin University of China and is a Certified Public Accountants of China. He has extensive experience in investment planning, financial operation and business management.

MR. NG CHI MAN, MICHAEL *Executive Director & Deputy General Manager*

Aged 46. Mr. Ng is in charge of the Group's overall financial activities, strategic developments, investments as well as the hospitality operations. He holds a Master degree in Business Administration from St John's University in New York. He is also a member of the American Institute of Certified Public Accountants and a Fellow member of the Hong Kong Institute of Certified Public Accountants. In the past, Mr. Ng held senior management positions in listed companies including the Group Financial Controller of Consolidated Electric Power Asia Limited and Chief Financial Officer of Hong Kong Construction (Holdings) Limited. He was also a director of Citybus Group Limited, Netalone.com Limited and Vision Century Corporation Limited. Mr. Ng has significant experience in corporate and financial management of listed companies in Hong Kong.

MR. LIU LI *Executive Director & Deputy General Manger*

Aged 51. Mr. Liu joined CTS (Holdings) as a general manager of audit department in 1997. Mr. Liu is a qualified senior auditor and Certified Public Accountants of China. He holds a Bachelor Degree in Finance from the Finance and Trade College of Jilin in China. Prior to joining the Group, he was the executive director and vice secretary-general of the Auditing Association of Guangdong Province. He has extensive experience in corporate and administrative operation.

Biographies of Directors and Senior Management

Independent Non-Executive Directors

DR. YEH MEOU TSEN, GEOFFREY S.B.S., M.B.E., J.P., D.C.S.

Independent Non-Executive Director

Aged 74. Dr. Yeh is a member of Audit Committee and Remuneration Committee of the Company. He 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.

MR. YEH V NEE B.A., J.D. American Attorney-at-law

Alternate Director to Dr. Yeh Meou Tsen, Geoffrey

Aged 46. Mr. Yeh is a member of Audit Committee and Remuneration Committee of the Company. He is the son of Dr. Yeh Meou Tsen, Geoffrey. He graduated at 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 the chairman of Argyle Street Management Limited. Mr. Yeh was a council member of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") until its merger into the Hong Kong Exchanges and Clearing Limited and remains as a member of the Stock Exchange's Listing Committee. He was 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, Kingsway 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.

Independent Non-Executive Director

Aged 80. Dr. Fong 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.

Biographies of Directors and Senior Management

MR. WONG MAN KONG, PETER B.B.S., J.P., BSc, F.C.I.T., MRINA

Independent Non-Executive Director

Aged 56. Mr. Wong is a chairman of Audit Committee and Remuneration Committee of the Company. He serves as a deputy of the Tenth National People's Congress of the PRC. 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 and Sino Hotels (Holdings) Limited.

MR. SZE, ROBERT TSAI TO

Independent Non-Executive Director

Aged 64. Mr. Sze is a member of Audit Committee and Remuneration Committee of the Company. He is a Fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr. Sze was a partner in an international firm of accountants with which he practised for over 20 years. He holds directorships in a number of Hong Kong listed companies. He serves as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

Senior Management

MR. XU WENLI

Aged 38. Mr. Xu is the Deputy General Manager of the Company. He is also a Director and the General Manager of China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. Mr. Xu is a Doctor of Economics and a qualified Senior Engineer. He has extensive experience in corporate management and operation.

MR. DONG XI SHENG

Aged 49. Mr. Dong is a Director and the General Manager of Shenzhen The World Miniature Co., Ltd. He graduated from Shanxi University. He was the standing deputy general manager of Shenzhen The Splendid China Development Co., Ltd. during September 1999 and June 2003.

MR. LI YANZHONG

Aged 43. Mr. Li is a Director and the General Manager of Shenzhen The Splendid China Development Co., Ltd. He joined the Group in January 2001. He holds a Master degree in Business Administration. Prior to joining the Group, he worked in the Overseas Chinese Office of The State Council.

Biographies of Directors and Senior Management

MR. HAN LIXIN

Aged 49. Mr. Han is the Deputy General Manager of the Company. He is also a Director and the General Manager of China Travel International Ltd. He graduated from Hei Long Jiang University with a Bachelor degree of Arts in English Language and then obtained a Master degree in Business Administration from Maastricht School of Management of The Netherlands in 2002. Prior to joining the Group, he was the deputy general manager of China Youth Travel Service Head Office, general manager of China Travel Service Head Office, chief representative of Thomas Cook (Australia) Ltd in China and general director of Hainan Provincial Tourism Administration. He has gained extensive experience in serving the tourism industry.

MR. GUO ZHENMING

Aged 48. Mr. Guo is a Director and the General Manager of China Travel Service (Cargo) Hong Kong Limited. He graduated in Tourism Department of Huaqiao University in China. He worked in the China Travel Service Office of Fujian Province and joined CTS (Holdings) in 1998.

MR. FENG WEIXIANG

Aged 42. Mr. Feng is a Director of China Travel Tours Transportation Services Hong Kong Limited (“CTTT”) and holds directorships in several subsidiary companies and joint venture companies of CTTT. Mr. Feng holds a Bachelor degree from the College of Arts of the Jinan University in China and obtained the Diploma in Economics and Management. Prior to joining the group, he worked with Guangzhou Soft Science Company and the Economic Department of Policy Researching Office of Guangdong Province. He has extensive experience in corporate management and economic research both in Hong Kong and the PRC as well as the passenger management experience in Hong Kong, Mainland and cross-border passenger transportation between Hong Kong/Macau and Guangdong Province. He joined CTS (Holdings) in 1994 as manager of the General Manager Office and subsequently the assistant general manager of the Corporate Management Department. Mr. Feng is a chairman of China Hong Kong and Macau Boundary Crossing Bus Association Limited.

MR. WANG FEI

Aged 40. Mr. Wang is a Director and the 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. He worked for Lao Aviation (International) Company Ltd. in 1994 and subsequently joined CTS (Holdings) in 1996.

MR. LIU JINGPING, JEAN PAUL

Aged 45. Mr. Liu is the General Manager of Hotel Concourse. He graduated from the Lausanne Hotel School of Switzerland. He was the deputy general manager of Beijing City Hotel, general manager of 3I 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. Mr. Liu has over 20 years experience in hotel operation and administration management.

Biographies of Directors and Senior Management

MR. CHI YANQING

Aged 61. Mr. Chi is the 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, general manager of Hotel Concourse and general manager of Huaqiao Hotel in Guangzhou. He has many years experience in hotel management.

MR. NG KAM HUNG

Aged 46. Mr. Ng is the General Manager of Hotel New Harbour. Mr. Ng holds the professional qualification of Certified Hotel Administrator (CHA) designated by the American Hotel and Motel Association. He worked with a number of hotels in Hong Kong and the PRC including Furama Intercontinental Hotel, Holiday Inn, Ramada Hotel, Far East Hotel Group and the Hot Spring Hotel in Fuzhou. He has over 20 years of experience in hotel operation and administrative management. He joined CTS (Holdings) in 1990 and worked as executive positions at Hotel Concourse.

MR. KWOK WING CHEUNG, WILLIAM

Aged 50. Mr. Kwok is the General Manager of Metropark Hotel. He worked as general manager and front office manager with a number of hotels in the PRC, Hong Kong and Macau. He was the project manager of Golden Mile Hotel Management Company and the general manager of Nanhai Asia Aluminium Factory Co., Ltd., a subsidiary of Asia Aluminum Group of Companies. He was previously a lecturer of the hotel management course at University of East Asia in Macau. Mr. Kwok has about 30 years experience in hotel industry.

MR. YANG CUNQUAN

Aged 48. Mr. Yang is a Director and the 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 computer networking, web application design and system development. Mr. Yang is well-versed in computer technology and e-commerce and has extensive management experience in this field. He joined CTS (Holdings) in 1998.

MR. CAO XIAONING

Aged 48. Mr. Cao is a Director and the General Manager of China Heaven Creation International Performing Arts Co., Ltd. He graduated from the Culture Management Institute of Inner Mongolia. He was a director of Ilohot National Song and Dance Troupe, director and executive deputy general manager of Shenzhen The Splendid China Development Co., Ltd., director and president of Florida Splendid China, Inc. in the USA., executive director of Gateway Tours Co, Inc. (Day Inn, Orlando) and director & acting president of China Travel International Investment U.S. Ltd. He has gained extensive management experience in the field of art performing. He joined CTS (Holdings) in 1996.



Chairman's Statement

On behalf of the Board of Directors (the “Board”) of China Travel International Investment Hong Kong Limited (the “Company”) and its subsidiaries (together the “Group”), I am pleased to announce that the Group has achieved its highest profit since its listing and recorded an audited consolidated profit attributable to shareholders of HK\$901.7 million for the year ended 31 December 2004 (the impact of SARS and property revaluation deficits had led to a loss of approximately HK\$40 million in 2003). At the end of 2004, the Group’s market capitalization exceeded the HK\$10 billion threshold to reach HK\$11.2 billion and the Group’s net asset value reached HK\$8,348 million, representing an increase of 15% over the previous year. The Board has resolved to recommend the payment of a final dividend of HK5 cents, which is expected to be paid on Friday, 24 June 2005 following the approval at the Annual General Meeting.

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Amid the continuation of rapid growth of the economy of Mainland China, the further opening of cities in the Individual Visit Scheme (“IVS”) and the implementation of measures undertaken by the Hong Kong SAR Government to foster tourism, the tourism industry in Hong Kong and Mainland China recovered totally from the SARS epidemic. The Group has seized the opportunities to develop its markets and to enhance the earning power and competitiveness of its core travel businesses, thus reinforcing its leading position among its peers in Hong Kong and Mainland China.

In 2004, the Group continued to develop and integrate its travel agency network in Hong Kong, Mainland China and overseas. Besides establishing more travel agencies in Mainland China and overseas, the Group created a new travel unit in Hong Kong to provide hotel and air-ticketing reservation service and short tour service to IVS travelers. The Mainland travel agency network established in recent years started to contribute earnings to the Group. The cross-border bus operation achieved its highest profit and number of passenger carried in its history. The hotel operation achieved its highest profit in five years. And the operations of three theme parks and golf club in Shenzhen rebounded.

To achieve sustainable and continuous development, the Group has been striving to undertake new projects with earnings growth potentials. The large-scale integrated Zhuhai Ocean Hotspring Resort has been making smooth and steady progress and is expected to commence operation in October 2005. The master planning of the Centralized Platform, an on-line and off-line hotel and air-ticketing reservation platform, was completed and the Group has started to restructure and integrate its relevant travel operations such as online platform, reservation call centres, hotel and air-ticketing reservation units into the Centralized Platform. The Group has also engaged in commercial negotiations to acquire external reservation platforms. The Centralized Platform is expected to commence operation by the end of 2005. The success of the leisure destination resort and the reservation platform will enhance the competitiveness of the Group's core travel businesses and will propel the Group to a new era of development.

Besides, the freight forwarding and power generation operations have performed well.

In 2005, the economy in Hong Kong and Mainland China will continue to prosper. The further opening of IVS cities and the opening of the Hong Kong Disneyland in September 2005 will bring more travelers to Hong Kong. The addition of more countries with the "Approved Destination Status" for Mainland tour groups will spur further growth in outbound tourism in Mainland China. All these positive developments will prove

CHE SHUJIAN

Chairman



Chairman's Statement

beneficial to the Group's core travel businesses. At the same time, the Board realizes that the substantial rise in fuel and coal prices will affect the cross-border passenger transportation and power generation operations of the Group. Overall the positive developments prevail and the Board is confident in the future prospects of the Group.

On behalf of the Board, I would like to extend a warm welcome to our newly appointed Independent Non-Executive Director, Mr. Sze, Robert Tsai To. Besides, I would like to thank our other 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, and to thank all our staff for their hard work and dedication during the year.

By Order of the Board,

Che Shujian

Chairman

Hong Kong, 11 April 2005





Management's Discussion & Analysis



Management's Discussion and Analysis

Business Review

In 2004, the audited consolidated turnover of the Group was HK\$4,802 million, which is an increase of 45% as compared with HK\$3,301 million of last year, and the net profit attributable to shareholders was HK\$902 million. The net profit from operation was HK\$663 million, which is an increase of 91% as compared with HK\$347 million of last year. The growth was mainly attributable to the full recovery and further development of the Group's core travel businesses.

Mainland China remains the most important source of tourists for the Group. During the year, the management strengthened the Mainland travel agency network further by establishing joint venture travel agencies in Taiyuan, Suzhou and Korla City in Xinjiang and studied the possibilities of establishing travel agencies in Zhejiang and Yunnan in 2005. In addition, the Group established a new overseas travel agency in Christchurch in New Zealand. At the same time, the Group integrated its three travel agencies in Beijing and implemented centralized management. Overall, the Group's Mainland travel agency network started to contribute positive earnings. To strengthen the integration and coordination of the travel agency network in Hong Kong, Mainland China and overseas, the Group established the Coordination Centre of Travel Agencies, which coordinated the Group's travel agencies to organise large scale outbound tours to the 2004 Athens Olympics and virgin tours to Europe. Besides, the Coordination Centre of Travel Agencies established a new incentive system, strengthened internal control and unified the brandname of the Group's travel agencies,

thus enhancing the competitiveness of the Group's travel agencies. Taking into account the integrated nature of travel resources of the Group, the management devised the 5-year Development Plan addressing issues such as direction of development, focuses, complement of resources, sources of funds and internal revamp, etc., which lays down a solid foundation for further enhancing the core competitiveness of the Group's travel businesses.



Management's Discussion and Analysis

Tour Operation and Leisure Business

The tour operation and leisure business of the Group, include CTSHK, CT Net, three theme parks, a golf club in Shenzhen and Zhuhai Ocean Hotspring Resort. During the year, the turnover of the Group's travel and travel related operation reached approximately HK\$1,935 million, representing an increase of 48% as compared with last year. The total number of tourists received increased by 20% and the number of tourists received by China Travel Service (Hong Kong) Limited increased by 19%. The reservation of transportation tickets, hotel rooms increased by 25% and 11% respectively. The special tour business including day tour for Individual Visit Scheme ("IVS") travelers, exhibition and conference tour and study tour achieved encouraging results. The aggregate turnover of the Group's three travel agencies in Beijing increased by 88.5% and they possessed the rare capability of organising outbound tour group of several thousand tourists at one time. After three years of development, the Group's three travel agencies in Beijing are already ranked among the top five in the region. At the same time, the Group's overseas travel agencies developed further. The turnover of air-ticketing reservation of China Travel Service (Australia) Pty. Ltd. exceeded HK\$400 million. The coach tour of five European countries developed by China Travel & Trading (Deutschland) GmbH is expected to commence operation in May 2005. China Travel Service (U.K.) Ltd. was voted the top 10 best tour operators in England in 2004. During the year, the gross profit of China Travel Net Hong Kong Limited increased by 68% and the number of website visitors and number of members increased by 30% and 40% respectively, making China Travel Net the most visited travel website in Hong Kong. With high technology and comprehensive functions, the Centralized Platform in development will provide online and offline hotel and air-ticketing reservation services to business and individual clients and will be instrumental in integrating the Group's reservation resources, enlarging the Group's market share and reducing the operating costs of the Group's ground travel agency network. The Group will leverage on its competitive advantages developed through the years to accelerate the development of the Centralized Platform and strive to launch it by the end of 2005.



In 2004, Window of the World, Splendid China and China Folk Culture Villages received a total of 3.73 million visitors, representing an increase of 34% over last year. During the year, Window of the World achieved a pre-tax profit of over RMB100 million. It launched the "International Dance Festival", "International Beer Festival" and "Pop Music Festival" as well as completed the renovation of the park. A new mega evening art performance "Long Heritage" has been in rehearsal and will be launched in the first half of 2005. By strengthening marketing efforts and launching the well-received "Pasture Festival" of Xinjiang, Xishuangbanna and Inner Mongolia, Splendid China succeeded in reversing the trend of declining profits and recorded a profit growth of 200%.

Management's Discussion and Analysis



After producing various successful art performance programs such as “Fantastic Lijiang”, China Heaven Creation International Performance Art Co., Ltd. (“China Heaven”), in which the Group holds a controlling interest, launched another successful program namely, “Legend of Martial Art” in Beijing. The program won high acclaims from domestic and international tourists and attracted the attention of a large international performance agency which decided to bring the program overseas in 2005. The development of China Heaven will definitely strengthen the entertainment operation of the Group.

After the rebuilding of the “C” course and the installation of night light facilities, the number of golfers and the turnover of Tycoon Golf Club increased by 50% and 44% respectively in 2004. Tycoon Golf Club was voted “Best Landscape Golf Club” by the magazine “China Golf”.



The construction of the Zhuhai Ocean Hotspring Resort has been making steady progress. The construction work of the Conference Hotel, the twelve blocks of Villa Hotel and the two wings of the Main Hotel was completed whereas the construction work of the Hotspring Centre, Fisherman’s Wharf, Theatre, Theme Park and the lagoons and canals have been carried out rapidly. At the same time, preparation work for the opening of the resort was undertaken. It is expected that phase one of the Zhuhai Ocean Hotspring Resort will be completed in October 2005 and the soft opening will follow. With its unique ocean hotspring resources, the Zhuhai Ocean Hotspring Resort is expected to capture the growing demand of healthy and leisure holiday experiences and to be different from and complementary to the Hong Kong Disneyland. On the backdrop of economic growth of Pearl River Delta, improvement in transportation infrastructures and growing number of travelers visiting Hong Kong and Macau, the Zhuhai Ocean Hotspring Resort will bring contributions to the Group from 2006 and beyond.



Hotel Operation

Benefiting from the increase in number of travelers visiting Hong Kong and Macau brought by IVS, the average occupancy rate of the Group’s four hotels in Hong Kong reached 90.5%, representing an increase of 29% over last year, and the average room rate increased by 27%. Whereas the average occupancy rate and average room rate of Hotel Grandeur in Macau increased by 8% and 30% respectively. During the year, the profit contributed by the Group’s five hotels reached HK\$308 million, which was the highest level since 1997.

Management's Discussion and Analysis

Transportation

Regarding the passenger transportation operation, the number of passengers carried by China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries ("CT Tours") (excluding those 24 hours passage passengers carried by a joint venture of CT tours) reached 1.4 million in 2004, representing an increase of 53% as compared with last year. Turnover increased by 68% to HK\$213 million and the after-tax profit increased by 226%. Benchmark measures such as the number of passengers carried, number of safety mileages, turnover and profit all achieved new records. Not only did the business in Hong Kong grow rapidly, new businesses were developed in the Pan Pearl River Delta region including Macau, Guangdong, Guangxi and Zhejiang, etc. Hence CT Tours became a well-known cross-border bus company. On the backdrop of recovery in Macau tourism, the turnover and net profit of the joint venture passenger ferry operation of Shun-Tak China Travel Shipping Investments Limited recorded a remarkable increase.

Regarding the freight forwarding operation, the turnover and net profit increased by 45% and 214% to reach HK\$1,857 million and HK\$38 million respectively in 2004. CTS International Transportation Company Limited ("CTS



Management's Discussion and Analysis

International”) in Shanghai, with its stronghold in Yangtse River Delta and the Eastern region, established branches in Nanjing, Wuxi and Nantong and these branches achieved profits in their first year of operation. In 2004, CTS International entered a stage of rapid development after strengthening its base over the past few years and the consolidated turnover and net profit increased by 48% and 70% respectively. Although the import and re-export freight volume through railway handled by China Travel Service (Cargo) Hong Kong Limited continued to decline, the logistics operation building on Hip Kee Godown (No. 3) began to take off, together with the contribution by Shenzhen operations, led the turnover to increase by 16%.

Infrastructure

Through taking measures to increase turnover and reduce costs, the Shaanxi Weihe Power Plant overcame the adversity brought by the substantial increase in coal cost. The technical benchmark measures of the Weihe Power Plant improved and the number of days of safety operation reached a new high of 650. The annual volume of electricity generated reached 7.597 billion Watt, its highest level in history and the annual volume of on-grid electricity increased by 19.5%.

Number and Remuneration of Employee

At the end of 2004, the Group had approximately 6,824 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 Board of Directors consider that financial position of the Group is strong. At the end of 2004, the cash and bank balance of the Group amounted to HK\$1,786 million whereas the interest bearing bank debts and the convertible bonds amounted to HK\$712 million and HK\$808 million respectively. The interest bearing debt to equity ratio was 18.2%.

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 2004 amounted to HK\$1,324,167 (2003: HK\$3,318,183).

Management's Discussion and Analysis

During the year, 33,194,718 bonus warrants were exercised for 33,194,718 shares of HK\$0.10 each at the subscription price of HK\$1.508 per share and US\$48.19 million of convertible bonds were converted into 204,265,355 shares of HK\$0.10 each at the conversion price of HK\$1.84 per share. Taking into account the repurchase of 2 million shares of HK\$0.10 each by the Company during the year, the number of issued share capital of the Company increased from 4,232,198,475 shares at the end of 2003 to 4,467,658,548 shares at the end of 2004.

As at 31 December 2004, 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:

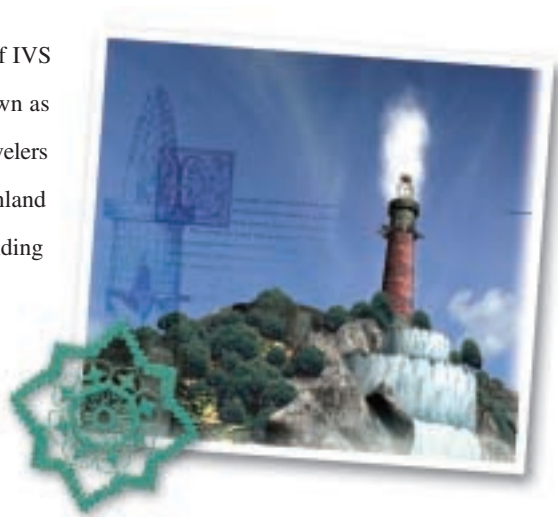
Amount outstanding as at 31 December 2004	Final maturity of the loan facilities
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HK\$700 million	30 October 2007
Nil	30 April 2005

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.

Future Prospects

Amid the opening of the Hong Kong Disneyland, further extension of IVS and regional cooperation within the Pan Pearl River Delta (also known as “9+2”), Hong Kong tourism will continue to grow and the number of travelers visiting Hong Kong is expected to reach 22.9 million in 2005. In Mainland China, the economy is growing steadily and it will spur the travel spending of PRC tourists. Together with the favorable policies adopted by the PRC government to develop tourism and the opening of more countries with the Approved Destination Status for PRC tour groups, all these favorable developments will provide ample business opportunities for the travel businesses of the Group.

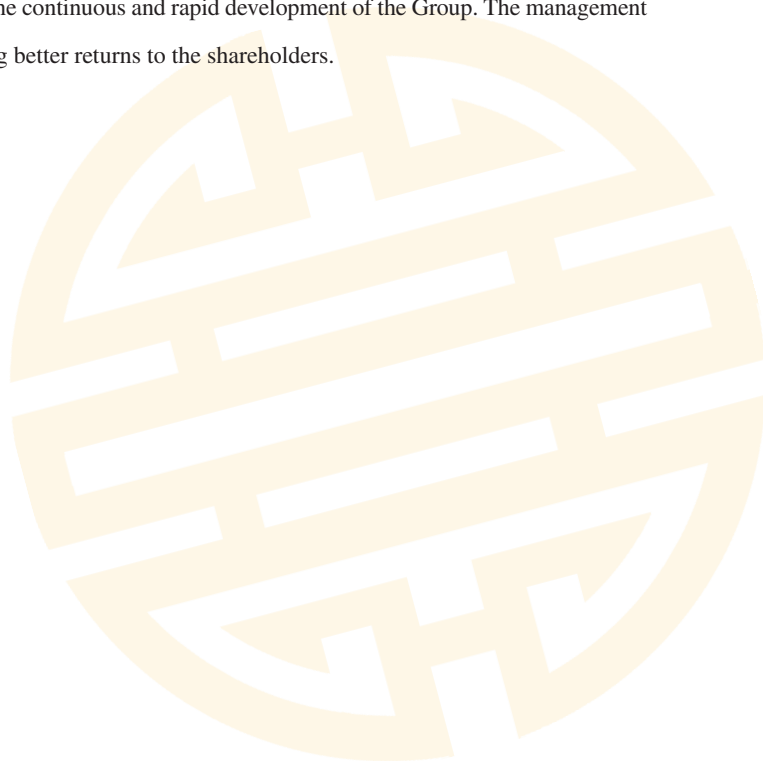


Management's Discussion and Analysis

The Group will expand its travel agency network in Hong Kong, Mainland China and overseas by establishing new agencies. Through integration of operation of its travel agencies and centralized procurement, the Group aims to reduce operating costs and increase competitiveness. Leveraging on its extensive ground travel agency network and the technical edges of its Centralized Platform, the Group will develop core competitiveness in providing quality and comprehensive travel information, products and services to business, conference and leisure customers.

Seizing the opportunities brought by the opening of the Hong Kong Disneyland and the further extension of IVS, the Group will strengthen its internal integration and leverage on its brandname and resources to launch products and services targeting IVS travelers. In addition, the Group will augment its leisure and sightseeing tour operation in Hong Kong and Pearl River Delta to stimulate further developments of its theme parks, the Zhuhai Ocean Hotspring Resort, transportation and hotel operation.

The management is confident that positive developments in the Group's core travel businesses will prevail. However, the Group is facing a few challenges. The rise in coal and fuel prices will inevitably increase the costs of certain operations of the Group. The Zhuhai Ocean Hotspring Resort and the Centralized Platform are still in their development stage and their contributions will only be reflected in the following years. And the competition remains fierce in different travel businesses. Nevertheless, the competitiveness of the Group's core travel businesses has been enhanced through the past few years, which lays down a solid foundation for the continuous and rapid development of the Group. The management will continue to develop and innovate so as to bring better returns to the shareholders.



Report of the Directors

The Directors of the Company (the “Director”) present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

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 significant changes in the nature of the Group’s principal activities during the year.

Results and Dividends

The Group’s profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 38 to 112.

An interim dividend of HK5 cents per ordinary share was paid on 22 September 2004. The Directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year ended 31 December 2004, to shareholders on the register of members on 25 May 2005. 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, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 6. 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, together with the reasons therefore, are set out in notes 34 and 35 to the financial statements.

Report of the Directors

Guaranteed Convertible Bonds

In 2003, zero coupon guaranteed convertible bonds of an aggregate principal amount of US\$150,000,000 (the “Bonds”) due in September 2008 were issued by China Chance Developments Limited, 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. Details of the Bonds are set out in note 32 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, the Company repurchased a total of 2,000,000 shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the details of which are set out below:

Month	Number of shares repurchased	Price per share		Total consideration paid
		Highest	Lowest	
		HK\$	HK\$	HK\$
September 2004	1,000,000	1.64	1.63	1,635,000
October 2004	1,000,000	1.91	1.91	1,910,000
	2,000,000			3,545,000

All of the repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares, of HK\$3,345,000, has been charged to the retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the mandate from shareholders granted to the Directors at the extraordinary general meeting dated 13 May 2004, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed herein, 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.

Report of the Directors

Distributable Reserves

At 31 December 2004, 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\$300,675,000 of which HK\$223,383,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$6,328,136,000, 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 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 and suppliers.

Directors

During the year, the Directors of the Company 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

Report of the Directors

Subsequent to the balance sheet date, on 3 January 2005, Mr. Sze, Robert Tsai To was appointed as an Independent Non-Executive Director of the Company.

The Company has received annual confirmations of independence from Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter and still considers them to be independent.

In accordance with Article 101 of the Company's Articles of Association ("the Articles"), Messrs. Che Shujian, Lo Sui On, Chen Shoujie, Liu Li and Wong Man Kong, Peter will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

In accordance with Article 92 of the Articles, Mr. Sze, Robert Tsai To who was appointed by the board of Directors ("the Board") on 3 January 2005, will retire at the forthcoming AGM and, being eligible, offer himself for re-election.

Biographies of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 13 of the annual report.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The Directors' fees are subject to shareholders' approval at general meeting every year. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

No Director had a material interest, either directly or indirectly, 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.

Report of the Directors

Management Contracts

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”), the controlling shareholder of the Company, 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’s 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 Metrocitiy Hotel Limited (formerly known as 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 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.

Connected Transactions and Continuing Connected Transactions

During the year, the Group entered into the following transactions, details of which are as follows:

Connected Transactions

- (i) On 10 August 2004, Mr. Du Xinjian, (the “Nominee”), entered into the sale and purchase agreement with Shenzhen Orlando Performing Arts Co., Ltd. (“Orlando”) and China Travel Industrial Co., Ltd. (“CTICL”) in relation to the acquisition of a 50% interest in the issued share capital in China Heaven Creation International Performing Art Co., Ltd. (“CHCIP”), under which Orlando and CTICL agreed to sell 48% and a 2% interest in the issued share capital in CHCIP which were held on trust for CTS (Holdings) to the Nominee respectively at an aggregate consideration of RMB9,167,000 (equivalent to approximately HK\$8,648,000) in cash. The consideration was arrived at after arm’s length negotiations with reference to the audited net asset value of CHCIP of approximately RMB10,185,000 (equivalent to approximately HK\$9,609,000) as at 31 December 2003.

Report of the Directors

Through certain contractual arrangements, the Company enjoys the benefit in CHCIP through the Nominee. Details of this transaction were set out in the announcement dated 10 August 2004.

- (ii) On 10 August 2004, China Travel International Ltd. (“CTI”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Beijing China Travel Building Co., Ltd. (“BCTB”), a wholly-owned subsidiary of CTS (Holdings), for the purchase of a property located in Beijing, the PRC (“the Property”). In addition, CTI also entered into a management service agreement with China Travel New Times Hotel (the “Manager”), a branch of BCTB, whereby CTI agreed to pay various miscellaneous fees including a management fee for the property management services rendered by the Manager and an air-conditioning fee in relation to the Property.

The consideration of RMB23,408,000 (equivalent to approximately HK\$22,083,000) was payable in cash within 10 days after the signing of the said sale and purchase agreement. The purchase price of the Property has been arrived at with reference to a valuation based on open market value made by RHL Appraisal Ltd., an independent property valuer, which valued the Property at RMB38,000,000 (equivalent to approximately HK\$35,849,000) as at 24 November 2003, and was negotiated on an arm’s length basis. The consideration for the purchase of the Property represents a discount of approximately 38.4% to the valuation of the Property.

In the opinion of the Company’s Independent Non-Executive Directors, all the above connected transactions were entered into in the ordinary and usual course of business and based on normal commercial terms agreed after arms’ length negotiations between the parties and pursuant to the terms of the relevant agreement.

Continuing Connected Transactions

- (i) On 15 May 2001, China Travel Service (Hong Kong) Limited (“CTSHK”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Agency Agreement”) with CTS (Holdings), a controlling shareholder of the Company, to document the transactions relating to the general administration services provided in Hong Kong for applications for tourist visas and travel permits for entry into the PRC for a fixed term up to 30 June 2047 (the “Travel Permit Administration”).

CTSHK continue to provide the Travel Permit Administration during its ordinary and usual course of business and in accordance with the terms of the Agency Agreement. It is expected that the annual turnover to be generated from Travel Permit Administration for each year hereafter will exceed 2.5% of the Group’s total turnover. The maximum aggregate annual value (the “Cap”) for the Travel Permit Administration shall not exceed HK\$410 million for the three financial years ending 31 December 2006.

Report of the Directors

The Company obtained independent shareholders' approval for the Travel Permit Administration (including the Cap) at the extraordinary general meeting on 13 May 2004.

- (ii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its subsidiaries ("CTS (Holdings) Group") in the following categories:

- (a) Provision of insurance brokerage services by CTS (Holdings) Group;
- (b) Provision of decoration and maintenance services by CTS (Holdings) Group;
- (c) Provision of sightseeing cruise services by CTS (Holdings) Group;
- (d) Sale of tourism services/products to CTS (Holdings) Group;
- (e) Provision of stevedoring services by CTS (Holdings) Group;
- (f) Lease arrangements; and
- (g) Provision of application service provider related services to CTS (Holdings) Group.

On 13 July 2004, the Company entered into a master agreement ("the Master Agreement") with CTS (Holdings) in relation to the above ongoing connected transactions for a term commencing on 1 January 2004 and ending on 31 December 2006, in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") which took effect on 31 March 2004. Details of the respective maximum aggregate annual value for each of these transactions were set out in the announcement dated 13 July 2004.

- (iii) 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:

			Group	
			2004	2003
Name of Company	Nature of transaction		HK\$'000	HK\$'000
Paid or payable to:				
(i)	Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity charges	19,457	19,765
(ii)	Overseas Chinese Town Holdings Company	Land use rights fees	12,215	10,981

Report of the Directors

Conditional waivers have been granted by the Stock Exchange for strict compliance with the Listing Rules by the Company in respect of the transactions as set out in note 42(1),(3) to (6),(10),(14) to (17) 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 of the Group 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 to the Group than terms available to or from independent third parties).

The remaining transactions as set out in note 42 to the financial statements under the heading of “Related Party Transactions” were also connected transactions.

Directors’ Interests in the Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests and short positions of the Directors or chief executive in the 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 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 Issuers (“Model Code”), were as follows:–

(i) Long position in the shares of the Company

ordinary shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	% of the issued share capital
Mr. Shen Zhuying	Beneficial owner	2,500,000	0.056%
Dr. Yeh Meou Tsen, Geoffrey	Beneficial owner	2,190,000	0.049%
Dr. Fong Yun Wah	Interest of controlled corporations (<i>Note</i>)	50,000	0.001%

Note: These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested.

Report of the Directors

(ii) Long position in the underlying shares of the Company

bonus warrants of the Company (to be expired in May 2006)

Name of Directors	Capacity	Number of underlying shares held	% of the issued share capital
Mr. Shen Zhuying	Beneficial owner	500,000	0.011%
Dr. Yeh Meou Tsen, Geoffrey	Beneficial owner	1,660,000	0.037%

Save as disclosed above, as at 31 December 2004, none of the Directors and chief executive and/or any of their respective associates had any interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO).

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' Interests in the Shares, Underlying Shares and Debentures" 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 of the Directors 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.

Substantial Shareholders

As at 31 December 2004, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Report of the Directors

(i) Long position in the shares of the Company

ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Number of shares held	% of the issued share capital
China Travel Service Head Office of the PRC ("CTS-PRC")	Interest of controlled corporation	2,494,693,940	55.83%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (Notes 1,3)	2,494,693,940	55.83%
Foden International Limited ("FIL")	Beneficial owner (Note 2)	17,250,000	0.38%

(ii) Long position in the underlying shares of the Company

bonus warrants of the Company (to be expired in May 2006)

Name of shareholders	Capacity	Number of underlying shares held	% of the issued share capital
CTS-PRC	Interest of controlled corporation	498,938,788	11.16%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (Notes 1,4)	498,938,788	11.16%
FIL	Beneficial owner (Note 2)	3,450,000	0.07%

Notes:

- 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).
- These shares and underlying shares are held by FIL which is a wholly-owned subsidiary of CTS (Holdings).
- 2,477,443,940 shares were held by CTS (Holdings) directly.
- Bonus warrants with 495,488,788 underlying shares were held by CTS (Holdings) directly.

Report of the Directors

Save as aforesaid and disclosed under the heading “Directors’ Interests in the Shares, Underlying Shares and Debentures” above, as at 31 December 2004, the Directors are not aware of any other person who had interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company are recorded in the register required to be kept by the Company under section 336 of the SFO.

Disclosures pursuant to Rule 13.21 of the Listing Rules

As at 31 December 2004, 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 such obligation will constitute an event of default, in which case, 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:

<u>Amount outstanding as at 31 December 2004</u>	<u>Final maturity of the loan facilities</u>
HK\$700 million	30 October 2007
Nil	30 April 2005

Sufficiency of Public Float

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report.

Corporate Governance

In the opinion of the Directors, the Company complied with the Code of Best Practice as set out in the then effective Appendix 14 of the Listing Rules throughout the year covered by the annual report, except that the Independent Non-Executive Directors are not appointed for specific terms but subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles. The Directors consider that a specific term of appointment for Independent Non-Executive Directors is less flexible than a term of appointment which is subject to rotation under the Articles.

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code as defined in the Listing Rules. The Company, having made specific enquiry, confirms that all Directors complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions.

Report of the Directors

Audit Committee

Written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants and in compliance with the code provisions stipulated in Appendix 14 of the Listing Rules.

The Company’s Audit Committee established 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 three Independent Non-Executive Directors of the Company, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

Remuneration Committee

Written terms of reference which describe the authority and duties of the Remuneration Committee were prepared and adopted, which were similar to those set out in Appendix 14 of the Listing Rules. The Company’s Remuneration Committee was established on 11 April 2005 to formulate and implement the remuneration policy relating to directors and employees of the Group.

The Remuneration Committee comprises the three Independent Non-Executive Directors of the Company, namely Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

Post Balance Sheet Event

Details of significant events subsequent to the balance sheet date are set out in note 43 to the financial statements.

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, 11 April 2005

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 38 to 112 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 Institute of Certified Public 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 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

11 April 2005

Consolidated Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	5	4,802,021	3,300,916
Cost of sales		(3,513,713)	(2,397,847)
Gross profit		1,288,308	903,069
Other revenue and gains	5	105,682	57,867
Selling and distribution costs		(68,015)	(49,730)
Administrative expenses		(667,367)	(592,613)
Other operating expenses, net		(75,443)	(153,575)
Revaluation surplus/(deficit) of hotel properties and impairment of fixed assets and goodwill, net		238,321	(387,111)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	821,486	(222,093)
Finance costs	7	(29,873)	(28,066)
Share of profits and losses of:			
Jointly-controlled entities		294,654	278,996
Associates		58,114	3,854
PROFIT BEFORE TAX		1,144,381	32,691
Tax	10	(174,865)	(37,976)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		969,516	(5,285)
Minority interests		(67,862)	(34,525)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	11	901,654	(39,810)
DIVIDENDS	12		
Interim		211,817	–
Underaccrual of 2002 final dividend		–	10
Proposed final		223,383	169,288
		435,200	169,298
EARNINGS/(LOSS) PER SHARE (CENTS)	13		
Basic		21.21	(0.94)
Diluted		20.52	–

Consolidated Balance Sheet

31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	5,660,438	5,202,096
Properties under development	15	466,112	130,830
Goodwill:	16		
Goodwill		1,259,479	1,283,621
Negative goodwill		(165,390)	(169,048)
Interests in jointly-controlled entities	18	1,490,831	1,351,795
Interests in associates	19	416,548	407,393
Long term investments	20	23,096	21,585
Deferred tax assets	33	4,719	11,347
		9,155,833	8,239,619
CURRENT ASSETS			
Short term investments	20	13,008	12,760
Inventories	21	14,031	13,530
Trade receivables	22	459,635	350,940
Tax recoverable		665	3,847
Other receivables	23	256,621	219,355
Pledged time deposits	24	4,053	4,323
Cash and cash equivalents	25	1,781,739	2,339,310
Amount due from ultimate holding company	26	31,315	30,843
Amounts due from fellow subsidiaries	26	3,236	3,422
		2,564,303	2,978,330
CURRENT LIABILITIES			
Trade payables	27	555,380	463,618
Tax payable		41,818	32,612
Other payables and accruals	28	435,269	452,214
Interest-bearing bank and other borrowings	29	7,430	471,377
Amounts due to fellow subsidiaries	26	4,492	4,478
		1,044,389	1,424,299
NET CURRENT ASSETS		1,519,914	1,554,031
TOTAL ASSETS LESS CURRENT LIABILITIES		10,675,747	9,793,650

Consolidated Balance Sheet

31 December 2004

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		10,675,747	9,793,650
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		127,553	91,796
Interest-bearing bank and other borrowings	30	709,177	705,770
Finance lease and hire purchase contract payables	31	278	525
Convertible bonds	32	807,576	1,168,152
Deferred tax liabilities	33	296,520	240,589
		1,941,104	2,206,832
MINORITY INTERESTS		(386,313)	(334,755)
		8,348,330	7,252,063
CAPITAL AND RESERVES			
Share capital	34	446,766	423,220
Reserves	36	7,678,181	6,659,555
Proposed final dividend	12	223,383	169,288
		8,348,330	7,252,063

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2004

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
Total equity at 1 January		7,252,063	7,819,887
Exchange differences on translation of the financial statements of foreign entities	36	6,023	3,610
Surplus/(deficit) on revaluation of hotel and investment properties	36	154,192	(80,191)
Net gains and losses not recognised in the profit and loss account		160,215	(76,581)
Net profit/(loss) for the year attributable to shareholders	36	901,654	(39,810)
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	36	–	(307,219)
Impairment of goodwill previously carried in capital reserve	36	–	13,061
Dividends paid		(381,105)	(168,919)
Issue of new shares	34	23,746	947
Premium on issue of new shares	36	402,159	10,603
Share issue expenses	36	(6,857)	–
Repurchase of own shares	34, 36	(3,545)	–
Forfeiture of unclaimed dividends	36	–	94
Total equity at 31 December		8,348,330	7,252,063

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,144,381	32,691
Adjustments for:			
Finance costs	7	29,873	28,066
Interest income	5	(21,189)	(20,825)
Dividend income from listed investments	5	(47)	(47)
Gain on disposal of fixed assets, net	5	(3,941)	(533)
Write-back of long outstanding payables	5	(8,908)	–
Gain on disposal of short term investments	5	(66)	–
Gain on disposal of a jointly-controlled entity	5	(1,936)	–
Gain on disposal of associates	5	–	(236)
Depreciation	6	141,821	134,488
Goodwill amortisation	6	34,377	37,951
Negative goodwill recognised as income	6	(3,658)	(4,314)
Provisions for doubtful debts, net	6	2,870	2,315
Loss on disposal of long term investments	6	–	771
Gain on changes in fair values of short term investments	6	(248)	(645)
Impairment of short term investment	6	–	803
Impairment/(write-back of impairment) of interests in jointly-controlled entities	6	(7,479)	1,515
Impairment of interest in an associate	6	210	–
Write-off of properties under development	6	1,301	2,805
Impairment of fixed assets	6	1,440	77,466
Impairment of depreciable investment properties	6	–	4,389
Revaluation deficit/(surplus) of other investment properties	6	(30,632)	27,763
Hotel property revaluation deficit/(surplus)	6	(239,761)	492,950
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	6	–	(307,219)
Impairment of goodwill	6	–	150,475
Impairment of goodwill previously carried in capital reserve	6	–	13,061
Recognition of negative goodwill upon impairment of underlying assets	6	–	(8,047)
Provisions for slow-moving inventories	6	44	–
Share of profits and losses of jointly-controlled entities		(294,654)	(278,996)
Share of profits and losses of associates		(58,114)	(3,854)
Operating profit before working capital changes		685,684	382,793

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Operating profit before working capital changes		685,684	382,793
Decrease/(increase) in inventories		(486)	3,267
Increase in trade receivables and other receivables		(160,443)	(91,341)
Increase in an amount due from ultimate holding company		(472)	(281)
Decrease/(increase) in amounts due from fellow subsidiaries		2,619	(835)
Increase in trade payables, other payables and accruals		73,084	13,202
Increase/(decrease) in amounts due to fellow subsidiaries		(18,552)	2,846
Increase in deferred income		35,757	22,164
Increase in amounts due from jointly-controlled entities		(84,846)	(22,411)
Increase in amounts due from associates		(6,802)	(24,262)
Refund of sales deposit		–	(52,000)
Effect of foreign exchange rate changes, net		7,851	1,873
Cash generated from operations		533,394	235,015
Hong Kong, PRC and Macau profits tax paid		(75,051)	(68,191)
Overseas taxes paid		(1,503)	(1,422)
Net cash inflow from operating activities		456,840	165,402
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		21,189	20,825
Dividend income from listed investments		47	47
Dividends received from an associate		49,125	12,006
Dividends received from a jointly-controlled entity		200,515	214,657
Proceeds from disposal of an associate		–	194
Proceeds from disposal of a jointly-controlled entity		4,968	–
Proceeds from disposal of short term investments		951	–
Proceeds from disposal of long term investments		–	2,295
Purchases of fixed assets		(145,884)	(119,391)
Proceeds from disposal of fixed assets		16,768	16,195
Additions to properties under development	15	(344,821)	(169,360)
Purchases of short term investments		(885)	(12,053)
Acquisition of subsidiaries	37(b)	(904)	9,346
Acquisition of jointly-controlled entities		–	(46,847)
Advance to jointly-controlled entities		–	(681)
Repayment from associates		–	23,513
Decrease/(increase) in pledged time deposits		270	(1,635)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		129,447	(200,533)
Proceeds from liquidation of subsidiaries	37(c)	5,782	–
Net cash outflow from investing activities		(63,432)	(251,422)

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(10,888)	(20,216)
Interest element of finance lease and hire purchase			
contract payments		(4)	(41)
Dividends paid		(381,105)	(168,919)
Dividends paid to minority shareholders		(16,007)	(42,047)
Contributions from minority shareholders		1,365	–
Proceeds from issue of new shares	34	50,057	11,550
Repurchase of own shares	36	(3,545)	–
New bank loans		6,257	6,193,894
Repayment of bank loans		(460,905)	(6,060,455)
Proceeds from issue of convertible bonds	32	–	1,163,250
Convertible bonds issue expenses		–	(28,291)
Capital element of finance lease and hire purchase			
contract payments		(1,502)	(716)
Net cash inflow/(outflow) from financing activities		(816,277)	1,048,009
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(422,869)	961,989
Cash and cash equivalents at beginning of year		2,133,522	1,171,533
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,710,653	2,133,522
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	1,148,116	1,325,625
Non-pledged time deposits with original maturity of			
less than three months when acquired		562,537	813,152
Bank overdrafts, unsecured	29	–	(5,255)
		1,710,653	2,133,522

Balance Sheet

31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	3,176	3,484
Interests in subsidiaries	17	6,766,665	6,238,664
Long term investments	20	13,949	13,949
		6,783,790	6,256,097
CURRENT ASSETS			
Other receivables	23	19,020	4,524
Cash and cash equivalents	25	293,379	461,292
Amount due from ultimate holding company	26	180	215
		312,579	466,031
CURRENT LIABILITIES			
Tax payable		–	24,429
Other payables and accruals	28	20,592	9,672
Interest-bearing bank and other borrowings	29	–	690
		20,592	34,791
NET CURRENT ASSETS			
		291,987	431,240
		7,075,777	6,687,337
CAPITAL AND RESERVES			
Share capital	34	446,766	423,220
Reserves	36	6,405,628	6,094,829
Proposed final dividend	12	223,383	169,288
		7,075,777	6,687,337

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Notes to Financial Statements

31 December 2004

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

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKAS”), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far preliminarily concluded that the adoption of Statement of Standard Accounting Practice (“SSAP”) Interpretation 23 “The Appropriate Policies for Hotel Properties”, HKAS 40 “Investment Property” and HKFRS 3 “Business Combinations” may have a significant impact on its consolidated accounts as set out below:

- (a) At present, the Group records its hotel properties at valuation in accordance with SSAP 17 “Property, Plant and Equipment”. No depreciation is provided on the hotel properties as they are maintained in a continuous state of sound repair so that their residual values are not currently diminished by the passage of time. For the financial year beginning 1 January 2005, the Group will adopt the requirements of SSAP Interpretation 23 and apply them retrospectively. The Group’s hotel properties will be stated at valuation less accumulated depreciation and impairment, if any. Additional depreciation will be provided for the hotel properties and the leasehold land on which they are situated. Annual valuation will be performed by the Group on the hotel properties at each year end date.

Notes to Financial Statements

31 December 2004

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

- (b) At present, surpluses or deficits arising on the annual revaluation of the Group's investment properties are recognised in the investment property revaluation reserve. On adoption of the new HKAS 40, the Group's investment properties will continue to be stated at fair values. However, any revaluation movements will be taken directly to the profit and loss account for that period, instead of the revaluation reserve.
- (c) At present, the Group has adopted SSAP 30 "Business Combinations" for negative goodwill arising on acquisition since 2001, which requires the negative goodwill amount be carried in the consolidated balance sheet and amortised into the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. On adoption of the HKFRS 3, for the financial year beginning 1 January 2005, the Group will discontinue amortising such negative goodwill and the remaining unamortised negative goodwill amount should be derecognised on 1 January 2005, with a corresponding adjustment to the opening balance of retained profits. The Group's net assets would be increased by HK\$165,390,000.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include SSAPs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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/registered 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.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

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

The joint venture agreement 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:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital/registered capital or controls the composition of their boards of directors;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) 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
- (d) 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.

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. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

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.

Notes to Financial Statements

31 December 2004

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

Goodwill

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

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

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 2004

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 and 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.

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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 in 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.

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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.

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the 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 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 listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities 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.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities 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 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 2004

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 completion and disposal.

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.

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.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or sale, 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 or sale. 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 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.

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 and prior years by the employees and carried forward.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits scheme

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

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

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

Provisions

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

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

Revenue recognition

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

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

Notes to Financial Statements

31 December 2004

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

Revenue recognition *(Continued)*

- (d) income related to scenic spots, when the admission tickets are sold;
- (e) income from the sale of golf club memberships, on a straight-line 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 a straight-line basis.

Related parties

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

Cash and cash equivalents

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within 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.

Notes to Financial Statements

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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 the other business segments. Summary details of the business segments are as follows:

- (a) the passenger transportation segment engages in the provision of ground and sea 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 and transportation 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 Group's 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

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Passenger transportation services 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight forwarding and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment revenue:										
Sales to external customers	213,166	379,514	1,857,028	372,488	1,935,272	42,933	-	1,620	-	4,802,021
Intersegment revenue	3,164	2,531	109	8,877	88,925	-	-	28,841	(132,447)	-
Other revenue and gains	2,732	10,200	16,127	4,076	8,728	385	22,670	19,528	-	84,446
Total	219,062	392,245	1,873,264	385,441	2,032,925	43,318	22,670	49,989	(132,447)	4,886,467
Segment results	40,238	136,080	55,258	350,389	226,621	(12,149)	21,399	(17,586)	-	800,250
Interest income and unallocated gains										21,236
Profit from operating activities										821,486
Finance costs										(29,873)
Share of profits and losses of:										
Jointly-controlled entities	-	-	(670)	-	5,585	-	289,739	-	-	294,654
Associates	58,054	115	(2)	-	(2)	-	-	(51)	-	58,114
Profit before tax										1,144,381
Tax										(174,865)
Profit before minority interests										969,516
Minority interests										(67,862)
Net profit from ordinary activities attributable to shareholders										901,654

Notes to Financial Statements

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2003 HK\$'000	Tourist attraction operations 2003 HK\$'000	Freight forwarding and trans- portation services 2003 HK\$'000	Hotel operations 2003 HK\$'000	Travel and travel- related operations 2003 HK\$'000	Golf club operations 2003 HK\$'000	Power generation 2003 HK\$'000	Corporate and others 2003 HK\$'000	Eliminations 2003 HK\$'000	Consolidated 2003 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 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 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight forwarding and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment assets	137,200	776,647	594,040	3,773,891	2,581,136	286,852	8,499	990,937	-	9,149,202
Interests in jointly- controlled entities	-	-	(494)	-	51,138	-	1,440,187	-	-	1,490,831
Interests in associates	415,038	-	(200)	-	187	-	-	1,523	-	416,548
Unallocated assets										663,555
Total assets										11,720,136
Segment liabilities	22,916	75,404	340,091	62,028	384,985	164,966	2,019	75,042	-	1,127,451
Unallocated liabilities										1,858,042
Total liabilities										2,985,493
Other segment information:										
Capital expenditure	27,836	12,495	71,734	3,152	77,836	16,774	-	288,397	-	498,224
Depreciation and amortisation	16,707	68,113	11,214	897	58,207	15,667	-	1,735	-	172,540
Impairment losses recognised/(reversed) in the profit and loss account	-	-	(6,039)	-	-	-	-	210	-	(5,829)
Other non-cash expenses	30	1,282	1,393	410	2,798	44	-	-	-	5,957
Surplus/(deficit) on revaluation recognised in the profit and loss account	-	-	(847)	239,761	24,779	-	-	6,700	-	270,393
Surplus on revaluation recognised directly in equity	-	-	6,869	120,323	27,000	-	-	-	-	154,192

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2003 HK\$'000	Tourist attraction operations 2003 HK\$'000	Freight forwarding and trans- portation services 2003 HK\$'000	Hotel operations 2003 HK\$'000	Travel and travel- related operations 2003 HK\$'000	Golf club operations 2003 HK\$'000	Power generation 2003 HK\$'000	Corporate and others 2003 HK\$'000	Eliminations 2003 HK\$'000	Consolidated 2003 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/ revaluation deficit 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 2004

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	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	1,600,456	1,240,973	2,781,445	1,766,861	420,120	293,082	-	-	4,802,021	3,300,916
Other revenue and gains	18,705	25,281	59,143	6,971	6,598	4,743	-	-	84,446	36,995
	1,619,161	1,266,254	2,840,588	1,773,832	426,718	297,825	-	-	4,886,467	3,337,911
Other segment information:										
Segment assets	6,770,432	7,394,399	4,313,179	3,597,705	636,525	225,845	-	-	11,720,136	11,217,949
Capital expenditure	51,961	52,612	441,344	320,430	4,919	4,523	-	-	498,224	377,565

Notes to Financial Statements

31 December 2004

5. TURNOVER, REVENUE AND GAINS

Turnover primarily represents the net invoiced value of goods sold, after allowances 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	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Freight forwarding and transportation services	1,857,028	1,284,969
Travel and travel-related operations	1,935,272	1,307,896
Hotel operations	372,488	255,464
Golf club operations	42,933	29,802
Tourist attraction operations	379,514	294,686
Passenger transportation services	213,166	127,416
Others	1,620	683
	4,802,021	3,300,916
Other revenue		
Gross rental income	13,412	13,512
Interest income	21,189	20,825
Reinvestment tax credit	37,563	—
Others	9,858	17,107
	82,022	51,444
Gains		
Dividend income from listed investments	47	47
Gain on disposal of fixed assets, net	3,941	533
Exchange gains, net	8,514	5,607
Write-back of long outstanding payables	8,908	—
Gain on changes in fair values of short term investments	248	—
Gain on disposal of short term investments	66	—
Gain on disposal of a jointly-controlled entity	1,936	—
Gain on disposal of associates	—	236
	23,660	6,423
Other revenue and gains	105,682	57,867

Notes to Financial Statements

31 December 2004

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Depreciation	141,821	134,488
Goodwill amortisation for the year (i)	34,377	37,951
Negative goodwill recognised as income during the year (ii)	(3,658)	(4,314)
Auditors' remuneration:		
Current year	8,226	6,731
Underprovision in the prior year	506	–
	8,732	6,731
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	585,523	516,869
Pension scheme contributions	37,830	33,587
Less: Forfeited contributions	(2,284)	(4,117)
Net pension contributions (v)	35,546	29,470
Total staff costs	621,069	546,339
Minimum lease payments under operating leases:		
Land and buildings	47,349	52,927
Plant and machinery and motor vehicles	21,547	23,405
Provisions for doubtful debts, net	2,870	2,315
Loss on disposal of long term investments	–	771
Gain on changes in fair values of short term investments	(248)	(645)
Impairment of short term investment	–	803
Impairment/(write-back of impairment) of interests in jointly-controlled entities (iii)	(7,479)	1,515
Impairment of interest in an associate (iii)	210	–
Write-off of properties under development	1,301	2,805
Impairment of fixed assets	1,440	77,466
Impairment of depreciable investment properties	–	4,389
Revaluation deficit/(surplus) of other investment properties	(30,632)	27,763
Hotel property revaluation deficit/(surplus)	(239,761)	492,950
Recognition of negative goodwill from capital reserve upon impairment of underlying assets (iv)	–	(307,219)
Impairment of goodwill (iv)	–	150,475
Impairment of goodwill previously carried in capital reserve (iii)	–	13,061
Recognition of negative goodwill upon impairment of underlying assets (iv)	–	(8,047)
Net rental income	(10,984)	(12,908)
Provisions for slow-moving inventories	44	–

Notes to Financial Statements

31 December 2004

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

Notes:

- (i) The amortisation of goodwill for the year is included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (ii) The movements in negative goodwill recognised in the profit and loss account for the year are included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (iii) The impairment of goodwill previously carried in capital reserve and the impairment of interests in jointly-controlled entities and an associate are included in “Other operating expenses, net” on the face of the consolidated profit and loss account.
- (iv) The recognition of negative goodwill from capital reserve upon impairment of underlying assets, impairment of goodwill and recognition of negative goodwill upon impairment of underlying assets are included in “Revaluation surplus/(deficit) of hotel properties and impairment of fixed assets and goodwill, net” on the face of the consolidated profit and loss account.
- (v) At 31 December 2004, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans, overdrafts and other loans		
wholly repayable within five years	(10,888)	(20,216)
Finance lease and hire purchase contracts	(4)	(41)
Amortisation of deferred borrowing costs	(7,207)	(2,907)
Accretion of premium on convertible bonds, net	(11,774)	(4,902)
Total finance costs	(29,873)	(28,066)

Notes to Financial Statements

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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	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	2,000	1,714
Independent non-executive directors	600	510
	2,600	2,224
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	8,153	7,820
Pension scheme contributions	209	208
	8,362	8,028
Total remuneration	10,962	10,252

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

	Number of directors	
	2004	2003
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
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	1	–
	14	14

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: two) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,154	1,991
Pension scheme contributions	12	24
	1,166	2,015

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	1	1
	1	2

10. TAX

	2004	2003
	HK\$'000	HK\$'000
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	(56,407)	(45,840)
Overprovision in prior years	3,929	298
Current – Elsewhere	(35,665)	(12,876)
Overseas – Current tax charge for the year	(680)	(329)
Deferred tax – note 33	(37,688)	65,923
	(126,511)	7,176
Share of tax attributable to:		
Jointly-controlled entities	(43,461)	(42,559)
Associates	(4,893)	(2,593)
	(48,354)	(45,152)
Total tax charge for the year	(174,865)	(37,976)

Notes to Financial Statements

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10. TAX (Continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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:

Group – 2004

	Hong Kong		Overseas		PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	678,537		(6,209)		472,053		1,144,381	
Tax at the applicable tax rate	118,744	17.5	(2,484)	40.0	155,778	33.0	272,038	23.8
Lower tax rate for specific provinces or local authority	(4,285)	(0.6)	202	(3.3)	(82,715)	(17.5)	(86,798)	(7.6)
Adjustments in respect of current tax of previous periods	(3,929)	(0.6)	–	–	–	–	(3,929)	(0.3)
Income not subject to tax	(53,587)	(7.9)	(937)	15.1	(2,944)	(0.6)	(57,468)	(5.0)
Expenses not deductible for tax	35,613	5.2	3,899	(62.8)	9,007	1.9	48,519	4.2
Tax losses utilised from previous periods	(2,165)	(0.3)	–	–	–	–	(2,165)	(0.2)
Tax losses not recognised	4,668	0.7	–	–	–	–	4,668	0.4
Tax charge at the Group's effective rate	95,059	14.0	680	(11.0)	79,126	16.8	174,865	15.3

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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)	40.0	87,305	33.0	43,350	132.6
Lower tax rate for specific provinces or local authority	(874)	0.5	2,073	(13.8)	(49,179)	(18.5)	(47,980)	(146.7)
Effect on opening deferred tax of increase in rates	13,377	(6.2)	–	–	–	–	13,377	40.9
Adjustments in respect of current tax of previous periods	(298)	0.1	–	–	–	–	(298)	(0.9)
Income not subject to tax	(43,676)	20.1	(1,129)	7.5	(1,867)	(0.7)	(46,672)	(142.8)
Expenses not deductible for tax	37,876	(17.5)	5,389	(35.9)	19,176	7.2	62,441	191.0
Tax losses utilised from previous periods	(1,691)	0.8	–	–	–	–	(1,691)	(5.2)
Tax losses not recognised	15,449	(7.1)	–	–	–	–	15,449	47.3
Tax charge/(credit) at the Group's effective rate	(17,788)	8.2	329	(2.2)	55,435	21.0	37,976	116.2

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 2004 dealt with in the financial statements of the Company was HK\$354,042,000 (2003: HK\$186,548,000) (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\$50,678,000 (2003: HK\$21,781,000) and a profit of HK\$4,096,000 (2003: loss of HK\$10,744,000), respectively.

Notes to Financial Statements

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12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – 5 cents (2003: Nil) per ordinary share	211,817	–
Underaccrual of 2002 final dividend	–	10
Proposed final – 5 cents (2003: 4 cents) per ordinary share	223,383	169,288
	435,200	169,298

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 profit from ordinary activities attributable to shareholders for the year of HK\$901,654,000 (2003: loss of HK\$39,810,000), and the weighted average of 4,251,613,372 (2003: 4,227,324,010) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$901,654,000. The weighted average number of ordinary shares used in the calculation is the weighted average of 4,251,613,372 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 142,962,367 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all bonus warrants outstanding during the year. The Company's convertible bonds outstanding during the year had an anti-dilutive effect on the basic earnings per share for 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 that year had an anti-dilutive effect on the basic loss per share for that year.

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14. FIXED ASSETS

Group

	Investment properties HK\$'000	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establishment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	136,700	3,398,681	1,271,705	779,377	861,782	6,448,245
Additions	–	–	51,242	172	94,650	146,064
Acquisition of subsidiaries (note 37(b))	–	–	–	–	7,339	7,339
Transfer from properties under development	–	–	4,742	798	2,698	8,238
Disposals and write-off	(3,400)	–	(2,934)	(734)	(52,934)	(60,002)
Surplus on revaluation	51,872	384,324	–	–	–	436,196
Reclassification	2,561	133	25,140	(39,279)	11,373	(72)
Exchange realignments	1,343	–	2,627	1,129	678	5,777
At 31 December 2004	189,076	3,783,138	1,352,522	741,463	925,586	6,991,785
At cost	–	–	1,352,522	741,463	925,586	3,019,571
At 2004 valuation	189,076	3,783,138	–	–	–	3,972,214
	189,076	3,783,138	1,352,522	741,463	925,586	6,991,785
Accumulated depreciation and impairment:						
At beginning of year	13,260	–	257,049	442,852	532,988	1,246,149
Provided during the year	–	–	35,209	29,626	76,986	141,821
Written back on revaluation	(13,260)	–	–	–	–	(13,260)
Impairment during the year	–	–	–	–	1,440	1,440
Disposals and write-off	–	–	(1,954)	(658)	(44,563)	(47,175)
Reclassification	–	–	3,838	(4,483)	573	(72)
Exchange realignments	–	–	1,342	645	457	2,444
At 31 December 2004	–	–	295,484	467,982	567,881	1,331,347
Net book value:						
At 31 December 2004	189,076	3,783,138	1,057,038	273,481	357,705	5,660,438
At 31 December 2003	123,440	3,398,681	1,014,656	336,525	328,794	5,202,096

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (Continued)

Company

	Land and building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At beginning of year	1,430	803	2,072	2,431	6,736
Additions	–	–	354	20	374
Write-off	–	–	(109)	–	(109)
At 31 December 2004	1,430	803	2,317	2,451	7,001
Accumulated depreciation:					
At beginning of year	–	282	1,448	1,522	3,252
Provided during the year	–	156	277	249	682
Write-off	–	–	(109)	–	(109)
At 31 December 2004	–	438	1,616	1,771	3,825
Net book value:					
At 31 December 2004	1,430	365	701	680	3,176
At 31 December 2003	1,430	521	624	909	3,484

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Investment properties, at valuation:			
Long term leases	43,750	15,240	58,990
Medium term leases	109,330	20,756	130,086
	153,080	35,996	189,076
Land and buildings, at cost:			
Long term leases	474,792	37,850	512,642
Medium term leases	150,700	689,180	839,880
	625,492	727,030	1,352,522

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (Continued)

The land use right for a piece of the Group's land with a carrying value of HK\$109,590,000 (2003: HK\$113,211,000) will expire on 17 August 2007. The Group has applied for an extension of the relevant land use right for an additional 30 years up to 17 August 2037 and is in the process of applying to obtain a new land use right certificate for the extended tenure. Accordingly, amortisation of the cost (including the extension premium paid) 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 2004 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

The investment properties and hotel properties were revalued at 31 December 2004 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

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31 December 2004

14. FIXED ASSETS (Continued)

The Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) 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 2004 amounted to HK\$1,324,167 (2003: HK\$3,318,183).

15. PROPERTIES UNDER DEVELOPMENT

Group

	31 December 2003 HK\$'000	Additions HK\$'000	Write-off HK\$'000	Transfer to fixed assets HK\$'000	31 December 2004 HK\$'000
Buildings and plant	–	55,778	(19)	(2,495)	53,264
Scenic spots establishment	128,534	279,149	(1,282)	(3,371)	403,030
Golf course	2,296	9,894	–	(2,372)	9,818
	130,830	344,821	(1,301)	(8,238)	466,112

The costs of buildings and plant, scenic spots establishment and golf course comprise land and buildings outside Hong Kong held under medium term leases of HK\$396,971,000 and under long term leases of HK\$69,141,000.

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.

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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	1,539,422	(188,295)
Acquisition of subsidiaries	9,653	–
At 31 December 2004	1,549,075	(188,295)
Recognition as income/(accumulated amortisation and impairment):		
At beginning of year	(255,801)	19,247
Recognised as income/(amortisation provided) during the year	(33,795)	3,658
At 31 December 2004	(289,596)	22,905
Net book value:		
At 31 December 2004	1,259,479	(165,390)
At 31 December 2003	1,283,621	(169,048)

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 and HK\$170 million, respectively. The amounts of goodwill are stated at their costs, less cumulative impairment of approximately HK\$13 million which arose in prior years.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	3,726,361	3,601,695
Due from subsidiaries	3,375,220	2,977,705
Loans to subsidiaries	1,472,663	1,472,663
Due to subsidiaries	(1,499,625)	(1,505,445)
	7,074,619	6,546,618
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(307,954)	(307,954)
	6,766,665	6,238,664

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

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	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	1,287,538	1,240,245
Goodwill on acquisition (<i>Note</i>)	10,877	11,459
Due from jointly-controlled entities	196,607	111,631
Due to jointly-controlled entities	(1,483)	(1,353)
	1,493,539	1,361,982
Less: Provision for impairment	(2,708)	(10,187)
	1,490,831	1,351,795

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Note:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Goodwill on acquisition:		
Cost at beginning and at end of year	11,653	11,653
Less: Accumulated amortisation at beginning of year	(194)	–
Amortisation provided during the year	(582)	(194)
Net book value	10,877	11,459

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 2001, 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 the balance sheet date. The amount of goodwill is stated at cost.

Except for the balances of HK\$903,000 (2003: HK\$902,000), nil (2003: HK\$1,439,000) and nil (2003: 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 interest-free, unsecured 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 sharing attributable to the Group		Principal activities
			2004	2003	
Chongqing Long Sight International Container Co., Ltd. #	Corporate	PRC	25	25	Provision of cargo transportation services
Gansu Lida International Co., Ltd. #	Corporate	PRC	40	40	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd. # *	Corporate	PRC	–	30	Manufacture of brass products
Shaanxi Weihe Power Co., Ltd.	Corporate	PRC	51	51	Production and sale of electricity

Notes to Financial Statements

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Name	Business structure	Place of registration and operations	Percentage of equity and profit sharing attributable to the Group		Principal activities
			2004	2003	
Shanghai China Travel International Limited	Corporate	PRC	50	50	Tour operations
Shenzhen China Travel Service (Cargo) Hong Kong Ltd. @	Corporate	PRC	–	49	Provision of freight forwarding and cargo transportation services

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

* Disposed of during the year.

@ This company has become a wholly-owned subsidiary of the Group during the year.

Extracts of the financial information of the Group's material jointly-controlled entity is as follows:

	Shaanxi Weihe Power Co., Ltd.	
	2004 HK\$'000	2003 HK\$'000
Profit and loss account		
Turnover	1,767,275	1,612,109
Net profit attributable to joint venture partners	438,849	466,845
Balance sheet		
Non-current assets	2,224,596	2,559,697
Current assets	1,007,515	869,919
Current liabilities	(653,053)	(835,008)
Non-current liabilities	(61,888)	(128,115)
Net assets	2,517,170	2,466,493

Notes to Financial Statements

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19. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	407,089	404,526
Due from associates	10,371	2,867
Due to associates	(702)	–
	416,758	407,393
Less: Provision for impairment	(210)	–
	416,548	407,393

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 2001, 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 the balance sheet date. The amount of goodwill is stated at cost.

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

Particulars of the associates, all of which are held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group		Principal activities
			2004	2003	
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
Dreamlike Lijiang Showbiz Co., Ltd. # @	Corporate	PRC	32	–	Production of art performances
China Heaven Creation International Performing Arts Co., Ltd. (“China Heaven”) @	Corporate	PRC	–	15.3	Production of art performances

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

@ Dreamlike Lijiang Showbiz Co., Ltd. is an associate of China Heaven, which has become a subsidiary of the Group 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	
	2004	2003
	HK\$'000	HK\$'000
Profit and loss account		
Turnover	1,585,758	1,283,431
Net profit attributable to shareholders	183,315	3,713
Balance sheet		
Non-current assets	1,265,314	1,436,422
Current assets	698,309	488,707
Current liabilities	(251,468)	(194,204)
Non-current liabilities	(314,667)	(347,753)
Net assets	1,397,488	1,383,172

20. INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments				
Equity investments outside Hong Kong:				
Listed shares, at market value	2,646	2,643	–	–
Unlisted shares, at fair value	20,420	18,912	13,949	13,949
Equity investments in Hong Kong:				
Unlisted shares, at fair value	30	30	–	–
	23,096	21,585	13,949	13,949

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20. INVESTMENTS (Continued)

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short term investments				
Listed equity investments				
in Hong Kong, at market value	1,759	1,510	—	—
Listed equity investment outside				
Hong Kong, at market value	1	2	—	—
Unlisted equity investments outside				
Hong Kong, at fair value	11,248	12,051	—	—
Less: Provision for impairment	—	(803)	—	—
	13,008	12,760	—	—

21. INVENTORIES, AT COST

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	7,041	8,224
Spare parts and consumables	2,715	1,736
General merchandise	4,275	3,570
	14,031	13,530

22. TRADE RECEIVABLES

The Group allows an average credit period 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	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with age:		
Less than 1 month	239,102	198,011
Within:		
1 – 3 months	183,981	121,218
4 – 6 months	26,848	13,921
7 – 12 months	6,612	15,149
1 – 2 years	2,263	2,376
Over 2 years	829	265
	459,635	350,940

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23. OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred borrowing costs	4,251	5,750	–	–
Deferred expenditure	14,485	26,876	–	–
Deposits and other debtors	235,412	185,936	19,020	4,524
Amounts due from minority shareholders	2,473	793	–	–
	256,621	219,355	19,020	4,524

24. PLEDGED TIME DEPOSITS

The Group has pledged bank deposits of approximately HK\$4,053,000 (2003: HK\$4,323,000) (*note 25*) 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	1,148,116	1,325,625	268,490	11,042
Time deposits	637,676	1,018,008	24,889	450,250
	1,785,792	2,343,633	293,379	461,292
Less: Pledged time deposits – <i>note 24</i>	(4,053)	(4,323)	–	–
Cash and cash equivalents	1,781,739	2,339,310	293,379	461,292

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$474,397,000 (2003: HK\$497,591,000). 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.

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 for the balance with ultimate holding company regarding the provision of travel permit administration services which is repayable on the 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.

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

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount due from ultimate holding company				
Within 1 year	30,800	30,843	180	215
1 – 2 years	515	–	–	–
	31,315	30,843	180	215
Amounts due from fellow subsidiaries				
Within 1 year	3,215	3,416		
1 – 2 years	18	6		
Over 2 years	3	–		
	3,236	3,422		
Amounts due to fellow subsidiaries				
Within 1 year	3,874	4,307		
1 – 2 years	450	–		
Over 2 years	168	171		
	4,492	4,478		

27. TRADE PAYABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Outstanding balances with age:		
Less than 1 month	341,759	252,139
Within:		
1 – 3 months	168,559	123,976
4 – 6 months	19,302	45,503
7 – 12 months	10,251	27,306
1 – 2 years	11,508	6,561
Over 2 years	4,001	8,133
	555,380	463,618

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28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accruals and other liabilities	324,884	359,112	18,311	7,376
Staff bonus and welfare fund	65,708	44,015	2,281	2,296
Receipts in advance from customers	44,497	44,960	–	–
Amounts due to minority shareholders	180	4,127	–	–
	435,269	452,214	20,592	9,672

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts – unsecured		–	5,255	–	690
Current portion of bank and other loans		7,108	464,725	–	–
	30	7,108	469,980	–	690
Current portion of finance lease and hire purchase contract payables	31	322	1,397	–	–
		7,430	471,377	–	690

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30. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts:				
Unsecured	–	5,255	–	690
Syndicated bank loans:				
Secured - <i>Note</i>	700,000	1,160,000	–	–
Other bank loans:				
Unsecured	12,128	6,338	–	–
	712,128	1,166,338	–	–
Golf club debentures	4,157	4,157	–	–
	716,285	1,175,750	–	690
Bank overdrafts repayable within one year or on demand	–	5,255	–	690
Bank loans repayable:				
Within one year or on demand	7,108	464,725	–	–
In the second year	5,020	1,613	–	–
In the third to fifth years, inclusive	700,000	700,000	–	–
	712,128	1,166,338	–	–
Other loans repayable:				
Over five years	4,157	4,157	–	–
Total interest-bearing bank and other borrowings	716,285	1,175,750	–	690
Portion classified as current liabilities – <i>note 29</i>	(7,108)	(469,980)	–	(690)
Long term portion	709,177	705,770	–	–

Note: 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 three to five 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 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts repayable:				
Within one year	322	1,401	322	1,397
In the second	180	327	180	327
In the third to fifth years, inclusive	98	198	98	198
Total minimum lease payments	600	1,926	600	1,922
Future finance charges	–	(4)		
Total net lease payables	600	1,922		
Portion classified as current liabilities – note 29	(322)	(1,397)		
Long term portion	278	525		

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 independent third parties. 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 each, at an adjusted conversion price of HK\$1.84, 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 the holder at 104.975% of their principal amount.

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32. CONVERTIBLE BONDS *(Continued)*

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 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% 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% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

During the year, Bonds of HK\$375,848,000 (US\$48,190,000) were converted into ordinary shares. At the balance sheet date, the carrying value of the Bonds represented the par value of approximately HK\$790,911,000 (US\$101,810,000) (2003: HK\$1,163,250,000 (US\$150,000,000)) and an accumulated accretion of premium of approximately HK\$16,665,000 (2003: HK\$4,902,000). The exercise in full of the conversion rights of the remaining Bonds at the adjusted conversion price would result in the issue of approximately 431,547,138 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

	Accelerated tax depreciation 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 2003	58,494	233,680	(5,895)	286,279
Deferred tax charged/(credited) to the profit and loss account during the year (<i>note 10</i>)	6,452	(44,925)	(2,590)	(41,063)
Deferred tax credited to equity during the year	–	(4,627)	–	(4,627)
At 31 December 2003 and 1 January 2004	64,946	184,128	(8,485)	240,589
Deferred tax charged to the profit and loss account during the year (<i>note 10</i>)	4,889	23,085	3,086	31,060
Deferred tax charged to equity during the year	–	24,871	–	24,871
At 31 December 2004	69,835	232,084	(5,399)	296,520

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33. DEFERRED TAX (Continued)

Deferred tax assets

Group

	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 2003	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 and 1 January 2004	6,767	34,520	(39,616)	(13,018)	(11,347)
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	4,902	–	6,612	(4,886)	6,628
At 31 December 2004	11,669	34,520	(33,004)	(17,904)	(4,719)

The Group has cumulative tax losses arising from operations in Hong Kong of HK\$229,052,000 (2003: HK\$29,624,000) which can be used to offset against future taxable profits of the companies in which the losses arose. 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 2004, there was no significant unrecognised deferred tax liability (2003: 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.

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34. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
4,467,658,548 (2003: 4,232,198,475) ordinary shares of HK\$0.10 each	446,766	423,220

During the year, the movements in share capital were as follows:

- The conversion rights attaching to the Bonds of HK\$375,848,000 (US\$48,190,000) were exercised at the conversion price of HK\$1.84, resulting in the issuance of 204,265,355 ordinary shares of HK\$0.10 each.
- 33,194,718 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration before expenses, of HK\$50,057,000.
- The cancellation of 2,000,000 ordinary shares of HK\$0.10 each upon the repurchase of shares by the Company on The Stock Exchange of Hong Kong Limited at market prices ranging from HK\$1.63 to HK\$1.91 per share resulting in an aggregate consideration of HK\$3,545,000.

Notes to Financial Statements

31 December 2004

34. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 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 and 1 January 2004	4,232,198,475	423,220	5,932,834	6,356,054
Shares issued upon exercise of bonus warrants	33,194,718	3,319	46,738	50,057
Shares issued upon conversion of the Bonds	204,265,355	20,427	355,421	375,848
Shares cancelled upon repurchase of own shares	(2,000,000)	(200)	—	(200)
Share issue expenses	—	—	(6,857)	(6,857)
At 31 December 2004	4,467,658,548	446,766	6,328,136	6,774,902

Share options

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

Warrants

On 28 May 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members, resulting in 846,439,695 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\$1.508 per share, payable in cash and subject to adjustment, from the date of issue to 31 May 2006.

During the year, 33,194,718 bonus warrants were exercised for 33,194,718 ordinary shares of HK\$0.10 each at the subscription price of HK\$1.508 per share, resulting in the issue of 33,194,718 additional ordinary shares of HK\$0.10 each in the Company. At the end of the year, there were 813,244,977 bonus warrants outstanding.

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 2004 and 31 December 2004.

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 highest 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 2004, 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 2003	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 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 2004

36. RESERVES (Continued)

Group	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Investment 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 2004	5,932,834	–	(842,196)	148,002	–	71,590	7,709	1,341,616	6,659,555
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	402,159	–	–	–	–	–	–	–	402,159
Share issue expenses	(6,857)	–	–	–	–	–	–	–	(6,857)
Repurchase of own shares	–	200	–	–	–	–	–	(3,545)	(3,345)
Exchange realignments	–	–	–	–	–	–	6,023	–	6,023
Surplus on revaluation	–	–	–	119,692	34,500	–	–	–	154,192
Transfer from retained profits	–	–	–	–	–	10,567	–	(10,567)	–
Net profit for the year	–	–	–	–	–	–	–	901,654	901,654
2004 interim dividend – note 12	–	–	–	–	–	–	–	(211,817)	(211,817)
Proposed 2004 final dividend – note 12	–	–	–	–	–	–	–	(223,383)	(223,383)
At 31 December 2004	6,328,136	200	(842,196)	267,694	34,500	82,157	13,732	1,793,958	7,678,181
Reserves retained by:									
Company and subsidiaries	6,328,136	200	(789,414)	267,694	34,500	82,157	13,732	1,632,897	7,569,902
Jointly-controlled entities	–	–	(3,693)	–	–	–	–	324,732	321,039
Associates	–	–	(49,089)	–	–	–	–	(163,671)	(212,760)
At 31 December 2004	6,328,136	200	(842,196)	267,694	34,500	82,157	13,732	1,793,958	7,678,181

Notes to Financial Statements

31 December 2004

36. RESERVES (Continued)

Company	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 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 – <i>note 12</i>	–	–	(10)	(10)
Forfeiture of unclaimed dividends	–	–	94	94
Proposed 2003 final dividend – <i>note 12</i>	–	–	(169,288)	(169,288)
Balance at 31 December 2003 and 1 January 2004	5,932,834	–	161,995	6,094,829
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	402,159	–	–	402,159
Share issue expenses	(6,857)	–	–	(6,857)
Repurchase of own shares	–	200	(3,545)	(3,345)
Net profit for the year	–	–	354,042	354,042
2004 interim dividend – <i>note 12</i>	–	–	(211,817)	(211,817)
Proposed 2004 final dividend – <i>note 12</i>	–	–	(223,383)	(223,383)
At 31 December 2004	6,328,136	200	77,292	6,405,628

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.

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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 certain bank guarantees given in lieu of utility and rental deposits, as further explained in note 24 to the financial statements.

(b) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	7,339	18,627
Interest in an associate	1,373	–
Long term investments	1,511	2,665
Inventories	59	73
Cash and bank balances	9,436	37,328
Trade receivables and other receivables	16,315	32,479
Amounts due from fellow subsidiaries	2,433	–
Amounts due to fellow subsidiaries	(18,566)	–
Trade payables, other payables and accruals	(10,641)	(57,302)
Bank and other borrowings	–	(50)
Tax payable	(119)	(369)
Minority interests	(4,281)	(10,540)
	4,859	22,911
Goodwill on acquisition	9,653	5,071
	14,512	27,982
Accounted for and satisfied by:		
Cash	10,340	27,982
Prepayment	922	–
Reclassification to interests in subsidiaries		
from interests in associates	2,823	–
Reclassification to interests in subsidiaries		
from interests in jointly-controlled entities	427	–
	14,512	27,982

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

(b) Acquisition of subsidiaries (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(10,340)	(27,982)
Cash and bank balances acquired and included in the cash consideration	9,436	37,328
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(904)	9,346

During the year, the Group acquired the following subsidiaries.

Date of acquisition	Name	Percentage of equity interest acquired	Principal activities	Consideration RMB
From independent third parties				
20 January 2004	China Travel International (Xian) Ltd.	51%	Tour operations	1,820,000
From CTS (Holdings)				
1 January 2004	Shenzhen CTS Cargo Transportation Co., Ltd.*	100%	Provision of freight forwarding and cargo transportation services and investment holding	980,000
1 January 2004	Shenzhen China Travel Service (Cargo) Hong Kong Ltd.	51%	Provision of freight forwarding and cargo transportation services	—**
10 August 2004	China Heaven	50%	Production of art performances	9,167,000

Further details of the acquisitions from subsidiaries of CTS (Holdings) are included in notes 42(b) and (c) to the financial statements.

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

(b) Acquisition of subsidiaries (Continued)

Since its acquisition, the acquired subsidiaries contributed HK\$78,093,000 to the Group's turnover and loss of HK\$1,616,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004. In the case of the jointly-controlled entity and associate which were reclassified to subsidiaries, these results exclude the former jointly-controlled entity's and associate's contribution to the results prior to their becoming subsidiaries.

The subsidiaries acquired in the prior year 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 English name of the subsidiary is direct translation of its Chinese registered name.

** This company is a joint venture company formed by Shenzhen CTS Cargo Transportation Co., Ltd. and China Travel Service (Cargo) Hong Kong Limited, a wholly-owned subsidiary of the Company.

(c) Liquidation of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Cash and bank balances	3,235	—
Prepayment and other debtors	13,115	—
Minority interests	(7,333)	—
	9,017	—
Satisfied by:		
Cash	9,017	—

An analysis of the net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	9,017	—
Cash and bank balances realised and included in the cash consideration	(3,235)	—
Net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries	5,782	—

The results of the subsidiary liquidated during the year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

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

(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\$180,000 (2003: HK\$1,931,000).

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
			2004	2003	
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	100	100	Travel and air ticketing agent
Chadwick Developments Limited <i>(Note)</i>	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Chance <i>(Note)</i>	British Virgin Islands	1 share of US\$1	100	100	Provision of financial services
China Heaven	PRC	RMB10,000,000	65.3	15.3	Production of art performances
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

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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
			2004	2003	
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 (Cargo) Logistics Centre Limited (Formerly known as Rida Company Limited)	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Provision of logistic services
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\$128,700,000	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 service 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
China Travel International (Shandong) Ltd.*	PRC	RMB3,000,000	51	51	Tour operations

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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
			2004	2003	
China Travel International (Shanxi) Travel Service Co., Ltd.	PRC	RMB5,000,000	71	–	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.*	PRC	RMB6,000,000	51	51	Tour operations
China Travel International (Xian) Ltd.*	PRC	RMB3,570,000	51	–	Tour operations
China Travel International (Xinjiang) Ltd.*	PRC	RMB4,000,000	51	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
			2004	2003	
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
Coastline Development Limited	Hong Kong	2 ordinary shares of HK\$1@	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

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
			2004	2003	
CTI Business Travel Management Company Ltd.**	PRC	RMB10,000,000	100	100	Air ticketing agent
CTI Cosco Travel Ltd.*	PRC	RMB26,287,300	70	70	Tour operations
CTS International Transportation Co., Ltd.*	PRC	RMB50,000,000	76	76	Freight forwarding
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
Metrocity Hotel Limited (Formerly known as 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
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 @	80	80	Passenger transportation

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
			2004	2003	
Princess Capital Limited (Note)	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen China Travel (Cargo) Hong Kong Ltd.	PRC	US\$1,500,000	100	49	Provision of freight forwarding and cargo transportation services
Shenzhen CTS Cargo Transportation Co., Ltd.	PRC	RMB5,000,000	100	–	Provision of freight forwarding and cargo transportation services and 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

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
			2004	2003	
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	100	100	Property investment holding and hotel operations
Special Asia Travel AB#	Sweden	SEK100,000	100	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
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.

Notes to Financial Statements

31 December 2004

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Note: These subsidiaries are 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.

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,611	2,911	1,724	2,024
Corporate guarantees given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	—	—	108,636	85,783
Corporate guarantee given to banks in connection with credit facilities granted to and utilised by subsidiaries	—	—	700,000	1,160,000
Guarantees given to banks in connection with facilities granted to and utilised by an associate	90,392	94,388	90,392	94,388
Guarantees given to banks in connection with banking facilities granted to and utilised by an investee company	—	18,329	—	—
Guarantee given to suppliers in connection with credit facilities granted	1,801	2,251	—	—
	94,804	117,879	900,752	1,342,195

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and equipment (note 14 to the financial statements) under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to three years, and those for equipment for terms ranging from one to two years. The terms of the leases generally require the tenants to pay security deposits.

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40. OPERATING LEASE ARRANGEMENTS (Continued)

(a) As lessor (Continued)

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	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	9,219	6,010
In the second to fifth years, inclusive	5,831	2,315
	15,050	8,325
Equipment:		
Within one year	1,023	—
In the second to fifth years, inclusive	298	—
	1,321	—

(b) As lessee

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

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	38,236	28,238
In the second to fifth years, inclusive	74,387	51,200
After five years	59,571	73,864
	172,194	153,302
Plant and machinery and motor vehicles:		
Within one year	370	642
In the second to fifth years, inclusive	405	639
	775	1,281

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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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties under development:				
Contracted, but not provided for	651,166	110,833	561	1,806
Authorised, but not contracted for	824,115	1,392,159	819,444	1,370,485
	1,475,281	1,502,992	820,005	1,372,291
Plant and equipment and motor vehicles:				
Contracted, but not provided for	14,644	17,549	743	—
Authorised, but not contracted for	7,725	11,510	—	—
	22,369	29,059	743	—
Leasehold improvements:				
Contracted, but not provided for	3,090	23,982	—	—
Authorised, but not contracted for	—	1,017	—	—
	3,090	24,999	—	—
Unpaid capital contribution to jointly-controlled entities:				
Contracted, but not provided for	777	3,326	—	—
Unpaid capital contribution to investee companies:				
Contracted, but not provided for	—	1,710	—	—
Unpaid capital contribution to subsidiaries:				
Contracted, but not provided for	—	—	651,460	—
Others:				
Contracted, but not provided for	—	7,956	—	—

Notes to Financial Statements

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41. COMMITMENTS (Continued)

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

	2004 HK\$'000	2003 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

(a) 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:

			Group	
			2004	2003
Name of company		Nature of transaction	HK\$'000	HK\$'000
Paid or payable to:				
(1)	China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,512	1,823
(2)	China Travel Hip Kee Godown Hong Kong Limited	Storage charges	330	1,087
(3)	CTS (Holdings)	Office rental	10,588	13,811
(4)	China Travel Insurance Advisers Hong Kong Limited	Insurance premium	10,467	9,487
(5)	Tai Sun Services Company Limited	Stevedoring services and coolie charges	1,214	2,002
(6)	China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	5,717	2,451
(7)	Shenzhen Windsor Square Industrial Co., Ltd.	Hotel room rental	1,057	1,373
Received or receivable from:				
(8)	China Travel Hip Kee Godown Hong Kong Limited	Application service provider services	312	313
(9)	CTS (Holdings)	Hotel room rental	162	545
(10)	CTS (Holdings)	Travel permit administration income (Note)	281,068	241,490

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42. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

			Group	
			2004	2003
Name of company		Nature of transaction	HK\$'000	HK\$'000
Received or receivable from: <i>(Continued)</i>				
(11)	CTS (Holdings)	Sale of computer equipment and commission/sale of visa materials	355	458
(12)	CTS (Holdings)	Application service provider services	248	374
(13)	CTS (Holdings)	Advertising and printing	606	293
(14)	China Travel Computer Service H.K. Limited	Application service provider services	12,938	10,002
(15)	China Travel Service (Thailand) Co. Ltd.	Sale of tourism services /products	867	897
(16)	China Travel Service, Inc.	Sale of tourism services /products	1,096	105
(17)	China Travel System (M) Sdn. Bhd.	Sales of tourism services /products	–	439
(18)	Tai Sun Services Company Limited	Management service income	652	652
(19)	Hong Kong China Travel Services Investment (China) Ltd.	Sales of computer equipment and application service provider services	45	253

The above transactions were carried out at market prices 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.

- (b) As detailed in the Company's announcement dated 10 August 2004 (the "Announcement"), the Company acquired a subsidiary, China Heaven, from a subsidiary of CTS (Holdings) for RMB9,167,000. Further details of the transaction are included in note 37(b) to the financial statements and the Announcement.
- (c) As detailed in the Announcement, China Travel International Ltd., a wholly-owned subsidiary of the Company, acquired a property located in Beijing, the PRC, from a subsidiary of CTS (Holdings) for RMB23,408,000, with reference to a valuation based on its open market value performed by RHL Appraisal Ltd., independent professional qualified valuers, as at 24 November 2003.

Notes to Financial Statements

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43. POST BALANCE SHEET EVENTS

- (a) On 2 February 2005, China Travel Service (Hong Kong) Limited, a wholly-owned subsidiary of the Group, entered into a conditional agreement to dispose of its 100% interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada to an independent third party for an aggregate consideration of HK\$500 million (comprising cash consideration of HK\$250 million and convertible notes of HK\$250 million). There is no material gain or loss on the disposal.
- (b) On 4 April 2005, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement to dispose of its 100% interest in Shanghai Huajian Import-Export Company to seven individuals who are either senior management or directors of China Travel Service International Transportation Company Limited, a 76% owned subsidiary of the Group, for an aggregate consideration of approximately HK\$13.5 million (RMB14.3 million). The completion of the transaction is conditional, inter alia, upon the approval from the State Administration for Industry and Commerce. There is no material gain or loss on the disposal. Details of the transaction are set out in the Company's announcement dated 8 April 2005.
- (c) Subsequent to the balance sheet date and up to the date of approval of these financial statements, the Bonds of HK\$316,262,000 (US\$40,550,000) were exercised at the conversion price of HK\$1.84, resulting in the issuance of 171,881,306 ordinary shares of HK\$0.10 each of the Company. In addition, 4,591,000 ordinary shares of HK\$0.10 each of the Company were issued for cash at a subscription price of HK\$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$6,923,000.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2005.