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DIRECTORS

Mr Zhu Yuening (Chairman)

Mr Qiu Yiyong

Mr Zheng Hongqing

Mr Xu Shiquan

Mr Zheng Heshui

Mdm Wu Yingqiu

Mr Chen Wangtao

Mr Wang Changle

Dr The Honourable

Philip Wong Yu Hong*#

Dr Fong Yun Wah*

Mr Peter Wong Man Kong*#

* Independent Non-Executive Directors

members of the audit committee

COMPANY SECRETARY

Woo Wai See, Alice, Solicitor

REGISTERED OFFICE

12th Floor, CTS House

78-83 Connaught Road Central

Hong Kong

AUDITORS

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

SHARE REGISTRAR

Standard Registrars Limited

5/F, Wing On Centre

111 Connaught Road Central

Hong Kong

SOLICITORS

Woo, Kwan, Lee & Lo

26th Floor, Jardine House

1 Connaught Place

Central

Hong Kong

PRINCIPAL BANKERS

Bank of China, Hong Kong Branch

Bayerische Hypo-und Vereinsbank AG,

Hong Kong Branch

CITIC Ka Wah Bank Limited

Hang Seng Bank Limited

The China & South Sea Bank, Limited

Hong Kong Branch

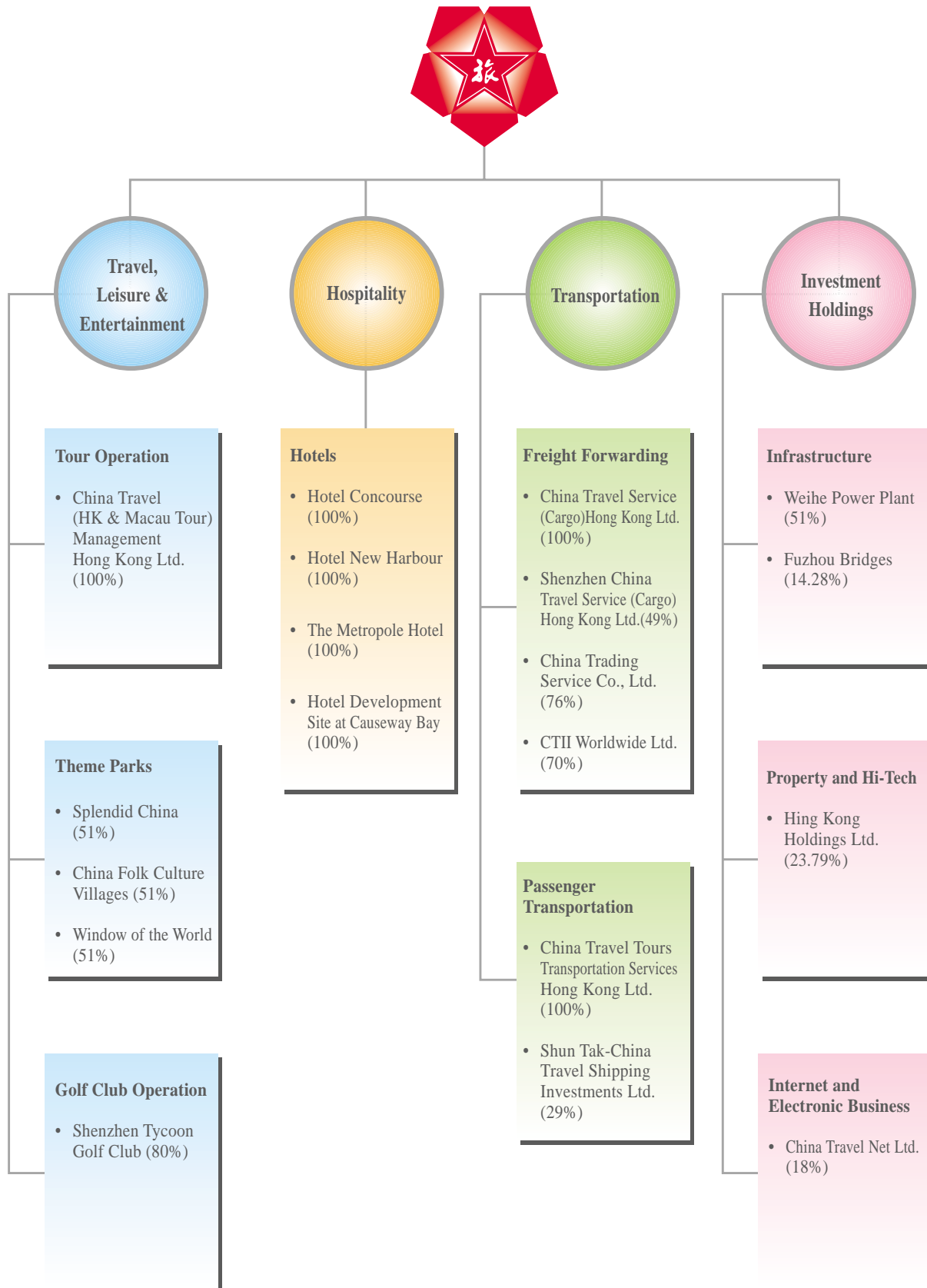
The Sakura Bank, Limited

The Sumitomo Bank, Limited

WEBSITE

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

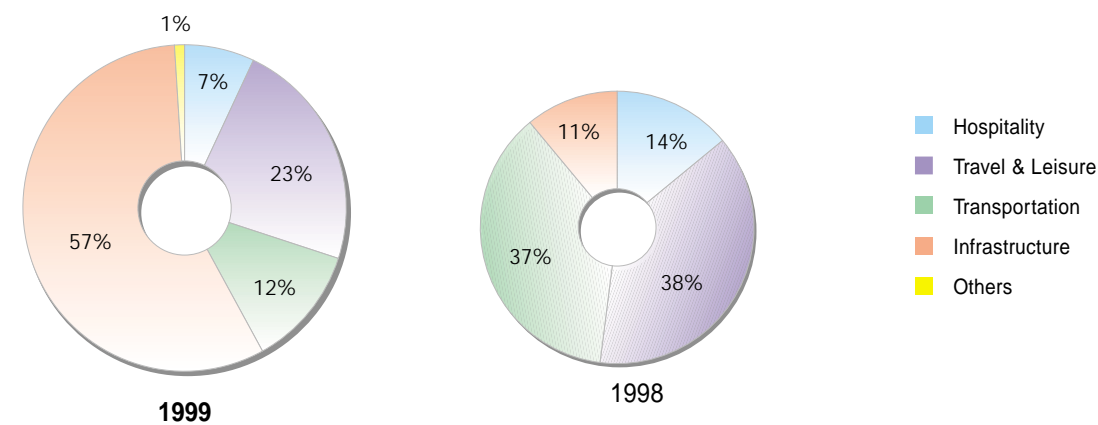
Major Operations



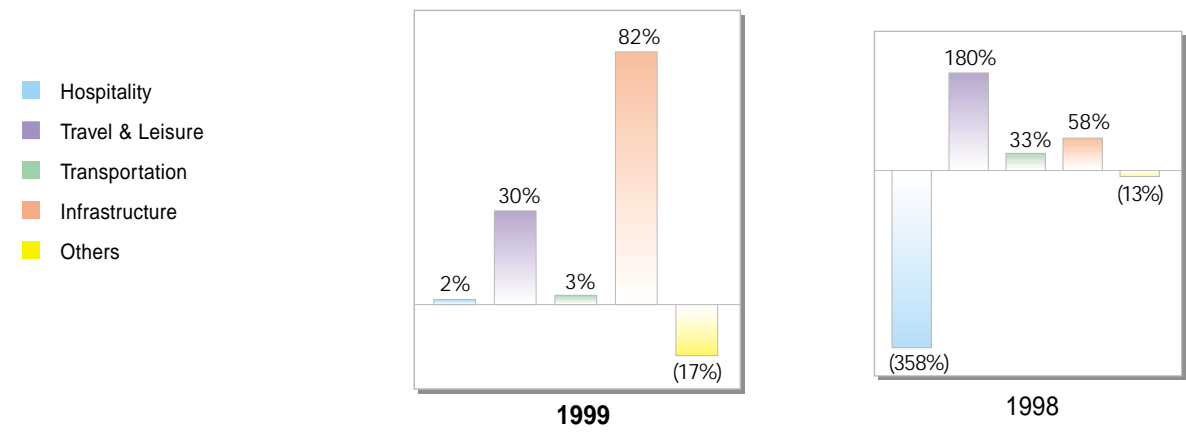
FIVE YEAR FINANCIAL SUMMARY

	1999 <i>HK'000</i>	1998 <i>HK'000</i>	1997 <i>HK'000</i>	1996 <i>HK'000</i>	1995 <i>HK'000</i>
Results					
Turnover	2,766,954	1,566,007	2,107,377	1,452,748	991,788
Net profit/(loss)					
from ordinary activities					
attributable to shareholders	250,132	(317,358)	376,140	264,447	197,653
Dividends	65,022	—	105,332	93,696	39,828
Asset and liabilities					
Total assets	11,666,428	11,384,745	9,911,399	7,057,917	4,008,220
Total liabilities	5,305,005	5,408,282	2,705,351	3,294,322	2,285,215
Total liabilities (excluding minority interests)	3,999,617	4,299,080	2,520,540	3,069,309	2,064,718

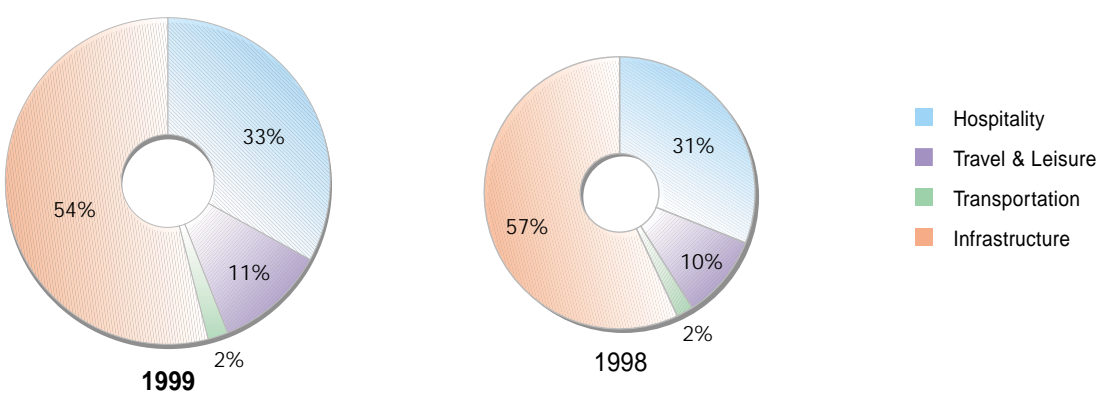
TURNOVER BY MAJOR OPERATIONS



OPERATING PROFIT BY MAJOR OPERATIONS



FIXED ASSETS DISTRIBUTION



DIRECTORS

Mr. Zhu Yuening, 55, was appointed Chairman of the Company in August 1995. A graduate from the Finance and Commerce Department of the People's University of China, Mr. Zhu has been engaged in economic development work since 1970. He was the Vice-Mayor of Shenzhen in charge of industry, transport, science and technology from 1986 to 1994 with extensive experience in corporate management and economic development. Mr. Zhu is also the General Manager of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the ultimate holding company of the Company, and holds chairmanships and directorships in various subsidiaries and joint venture companies of CTS (Holdings).

Mr. Qiu Yiyong, 43, was appointed Executive Director of the Company in October 1995. He graduated from the Xiamen University, major in Economics. He had over 20 years of experience in economic development work and is a Qualified Senior Statistician. Prior to joining the Company, he was a Director of the Planning Department of the National Tourist Bureau of the People's Republic of China ("PRC"), overseeing the planning and development of travel industry, the investment in travel-related infrastructure projects, the approval of foreign joint ventures in tourism and the management of travel-related investment projects in the PRC. He has extensive experience in investment management.

Mr. Zheng Hongqing, 52, was appointed Executive Director of the Company in January 1997. He graduated from the Planning and Statistics Department of the People's University of China and holds a Master Degree in Economics. He has over 20 years of experience in economic development work and is a Qualified Senior Economist. Prior to joining the Group, he was a Committee Member of the State Commission for Restructuring Economic System and Director of the Comprehensive Planning Department and General Manager of the China Container Corporation. He is also a Director and Deputy General Manager of CTS (Holdings) and holds chairmanships and directorships in various subsidiaries of CTS (Holdings).

Mr. Xu Shiquan, 53, was appointed Executive Director of the Company in January 1997. He has been involved in the finance industry since 1972. Prior to joining the Group, he was the President of Bank of Communications, Chongqing branch and Hainan branch, the Director of Bank of Communications and the Director of China Pacific Insurance Co. He is a Qualified Senior Economist.

Mr. Zheng Heshui, 50, was appointed Executive Director of the Company in September 1998. He graduated from the Xiamen University and has been engaged in economic development work for over 20 years. He is also a Director and Deputy General Manager of CTS (Holdings) and holds chairmanships in various subsidiaries of CTS (Holdings).

Mdm. Wu Yingqiu, 48, was appointed Executive Director of the Company in September 1998 and the Deputy General Manager of the Company in August 1999. She holds a degree in Finance and Banking, and is a Qualified Senior Economist. She has over 10 years of banking experience. Prior to joining the Group, she worked as the Chief Manager of the head office of Agricultural Bank of China, the Senior Consultant of Banco de Roma at Beijing representative office and the Chief Manager of the head office of the People's Bank of China. She has joined CTS (Holdings) since March 1994 and is also a Director of CTS (Holdings).

Mr. Chen Wangtao, 39, was appointed the Deputy General Manager of the Company in April 1996 and was appointed Executive Director of the Company in September 1998. He graduated from the Shipbuilding Department of Harbin Shipbuilding Engineering University and obtained a Master Degree in Sociology from Beijing University. Prior to joining the Company, he worked for the State Planning Commission of the PRC for 9 years. He joined CTS (Holdings) since 1994 and worked as a senior researcher in business research department, a Deputy General Manager of China Travel Industrial Investment (Hong Kong) Ltd., a subsidiary of CTS (Holdings), and a Deputy General Manager of Investment Planning Department of CTS (Holdings). He has over 10 years of experience in investment planning, business research and management.

Mr. Wang Changle, 45, was appointed Executive Director of the Company in July 1995. He graduated from the Accountancy Department of the People's University of China in Beijing and holds a Master of Business Administration Degree. He has over 12 years of experience in financial management. Before being appointed as the Managing Vice General Manager and Financial Controller of Shenzhen The World Miniature Co., Ltd., he was the General Manager of the Finance Department of CTS (Holdings).

Dr. The Honourable Philip Wong Yu Hong*#, 61, formerly an Executive Director of the Company, was re-designated Independent Non-Executive Director in February 1999. He is a Deputy of the National People's Congress, a member of the Legislative Council of Hong Kong Special Administrative Region, the Vice Chairman of The Chinese General Chamber of Commerce, Hong Kong and a member of the Hong Kong Trade Development Council. He is also the Chairman and Chief Executive of Winco Paper Products Co., Ltd., Director of Hop Hing Oil (Holdings) Ltd. and Goldlion Holdings Limited, and holds directorships in a number of other companies in Hong Kong.

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

Mr. Peter Wong Man Kong*#, JP, BSc, FCIT, MRINA, 51, has been appointed as Independent Non-Executive Director of the Company in December 1998. Mr. Wong graduated from the University of California at Berkeley in U.S.A. with a bachelor of science degree in Mechanical Engineering (Naval Architecture). Mr. Wong has over 25 years of industrial, commercial and public service experiences, and served as Managing Director of Chung Wah Shipbuilding & Engineering (Holdings) Company Limited, Chief Executive of Hong Kong Ferry (Holding) Co., Ltd., Vice Chairman of The Chinese General Chamber of Commerce, Director of First Pacific Bank and Kowloon-Canton Railway Corporation and member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He is the Chairman of M.K. Corporation Limited, Chairman of North West Development Limited, Director of Hong Kong Ferry (Holdings) Co., Ltd., Director of Glorious Sun Enterprises Limited, and is currently serving as a Deputy to the People's Republic of China 9th National People's Congress.

* Independent Non-Executive Director

member of audit committee, of which Dr. The Honourable Philip Wong Yu Hong is the Chairman.

MANAGEMENT

Mr. Law Siu Wo, Roger, 37, is the Financial Controller of the Company. He is a Certified Public Accountant in the U.S. and Associate Member of Hong Kong Society of Accountants. Mr. Law graduated from the University of California — Los Angeles with an MBA degree. He spent seven years in the audit department of an international accounting firm, three years in an American investment fund and over two years in a listed company as the Company Secretary and Financial Controller.

Mr. Zhang Yuanxing, 60, was appointed Director and General Manager of Shenzhen The Splendid China Development Co., Ltd. in May 1996. He has over 20 years of experience in corporate management and administration and has extensive experience in travel industry. Prior to joining the Company, he was the General Manager of China Travel Service Yunnan Office and the President of Florida Splendid China, Inc., U.S.A.

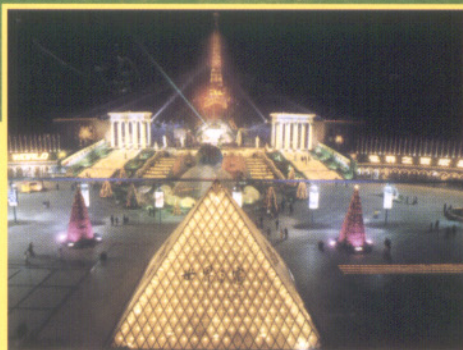
Mr. Bai Bing, 43, has joined CTS (Holdings) since April 1996 and was appointed Director of China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") in August 1998 and is the General Manager of CTS Cargo. He graduated from Chinese Literature Department of Heilongjiang College of Education. Before joining the Company, he was a deputy general manager of Beijing Capital Hotel, the general manager of Shenzhen Xingyuan Hotel and a director of Shenzhen Affair Office in Beijing. He has over 15 years of experience in travel and hotel industries as well as administrative management.

Mr. Chen Jijiang, 39, was appointed General Manager of China Travel (H.K. & Macau Tour) Management Hong Kong Limited in August 1998. He graduated from the Economics Department of the University of Wuhan and holds a master degree in Economics. He served in General Office of The State Council of the PRC and Policy Research Office of The State Council of the PRC for ten years and joined the General Manager Office of CTS (Holdings) as Deputy General Manager in December 1996.

Mr. Liu Jingping, Jean Paul, 40, is the General Manager of Hotel Concourse. He graduated from the Lausanne Hotel School of Switzerland. He worked as Deputy General Manager in the Beijing City Hotel, General Manager in 3I Apartments Building managed by Swiss Belhotel Group, Deputy Chief of Hotel Section in the China National Tourism Administration and Deputy General Manager in the China Travel Hotel Management Services Hong Kong Limited. He has over 17 years of professional experience in hotel administrative management.

Mr. Feng Weixiang, 37, is the Director and Deputy General Manager of China Travel Tours Transportation Services Hong Kong Limited ("CT Tours"), and the Chairman and General Manager of China Travel Express Limited. He holds a bachelor degree from the College of Arts of the Jinan University and is a graduate in Economics and Management. Prior to joining the Company, he worked in Strategy and Countermeasure Search Office of Guangzhou Soft-Science Co., Ltd. and the Economic Department of Policy Searching Office of Guangdong Province. He joined CTS (Holdings) as the Manager of the General Manager Office, and the Assistant General Manager of the Corporate Management Department in 1994 and subsequently joined CT Tours in 1996. He has extensive experience in corporate management, economic research as well as the management experience in cross-border passenger transportation between Hong Kong and Guangdong Province and passenger transportation within PRC.

Mr. Chan Ting Pong, Ricky, 53, joined CTS (Holdings) in 1990 and is the Resident Manager of The Metropole Hotel. He had worked with Hyatt Regency Hong Kong, New World Hotel, Park Lane Hotel and Hongkong Hotel responsible for the hotel administrative management. He has over 30 years of experience in hotel and corporate administration and had been in charge of many hotel planning and renovation projects.



Chairman's Statement



I am pleased to announce on behalf of the Board of Directors of China Travel International Investment Hong Kong Limited and its subsidiaries ("the Group") that for the year ended 31 December 1999 the Group recorded an audited net profit attributable to shareholders of HK\$250,132,000, a substantial improvement as compared with the loss for the same period last year.

The Hong Kong economy remained sluggish under acute deflationary pressure during the first half of 1999, with the unemployment rate climbing to a record high. Fortunately, the situation has stabilized and is on its way to bottom out as good news to Hong Kong kept coming out one after another. Firstly, the Cyber-Port project has been finalized, paving the way for high technology corporates around the globe to invest in Hong Kong. Besides, The Stock Exchange of Hong Kong Limited has launched the Growth Enterprise Market during the year to attract small- and medium-scale companies to seek for listing in Hong Kong. The Hong Kong government has also signed the contract with the US's Walt Disney Company to construct a theme park on the Lantau Island. Later, the PRC and US governments signed a memorandum of understanding in respect of China's entry into the World Trade Organization ("WTO"). All in all, under the leadership of the government of the Hong Kong Special Administration Region ("HKSAR"), the city is hoping to be transformed into a value-added high technology center in Asia. During the past year, the Group has strived to cut costs and explore new opportunities based on the solid foundation of its existing businesses in pursuit of enhancing the quality and results of its business operation. The Group was also dedicated to streamlining the corporate structure to be better prepared for the imminent economic recovery as well as consolidating various businesses to increase its exposure to those areas with strong development potential for the purpose of maximizing the returns to shareholders.

Although the economy of Hong Kong has not fully recovered in 1999, the operating results of our various businesses have improved as compared with 1998 due to the efforts of and cooperation among all staff and the management. The number of visitors to Hong Kong served by the Hong Kong-Macau tours rose to a record high of 168,000 in 1999, driving earnings to its record high. As new programs and facilities were introduced one after another, the three theme parks also saw an increase in the number of visitors. Operating results of the Window of the World improved in 1999. The opening of the new airport has brought about changes in the routes of cross-border buses. There are about 20 dispatches for buses running between the airport and destinations such as Guangdong and

Chairman's Statement

Dongguan. Owing to the introduction of such revised routes, the Group's cross-border bus operation managed to return to profit in 1999. The Group started to invest in Weihe Power Plant three years ago in 1997. Having operated such joint-venture entity over the past two years, the Group's management already set up everything on track. Earnings of the power plant was also in line with the target. Since the amount owed to the Chinese party by the Group have already been fully repaid in May this year, there will be substantial amount of fund inflow to the Group from Weihe Power Plant.

The Group has also made substantial efforts in respect of corporate restructuring and business consolidation.

Originally, the Group had intended to seek for business opportunities together with Citybus to engage in the provision of cross-border transportation services between the PRC and Hong Kong. However, such plans came to a standstill and were unlikely to realize in the near future due to the fierce competition in the bus transportation market. Early in the year Stagecoach Asia Limited from the UK proposed a general offer to every shareholder of Citybus. After careful consideration, the Group decided to dispose of all its equity interests in Citybus, realizing a gain of HK\$60 million. The disposal of such interests does not mean that the Group decided to slow down the development of its existing passenger transportation operation. Indeed, the Group already completed the acquisition of CTS-Parkview Holdings Limited ("CTS-Parkview") in early June 1999 for the purpose of the subsequent merger with the shipping business of Shun Tak Ferries Limited through the establishment of Shun Tak-China Travel Shipping Investments Limited, which presently enjoys over 90% market share in the operation of Hong Kong-Macau ferry transportation services.

During the year, the Group has disposed of the whole 33rd floor of the China Merchants Tower of Shun Tak Centre to Hing Kong Holdings Limited ("Hing Kong") for the purpose of maximizing the return on this property with Hing Kong's professional experience in property investment and development. Besides, the Group is also cooperating with Hing Kong to jointly develop a land lot located in Fanling into a residential project in order to maximize the value of this land lot.

The Group believes the volume of cargo transportation handled by Hong Kong will increase as a result of more and more bilateral trading activities taking place between Hong Kong and the PRC as well as the international market following the PRC's entry to the WTO. CTII Worldwide Limited was therefore established by the Group in the second half of 1999 to extend the freight forwarding network between Hong Kong and the PRC as well as the international market, thus supplementing the Hong Kong-Shenzhen railway network in handling cargoes. During the year, the Group has also started to look into the idea of developing logistic centers in Hong Kong and the PRC with the purpose of blazing a trail for the freight forwarding business.

Meanwhile, the Group has established a golf club management company together with HKR International Ltd. during the year, so as to explore business opportunities in providing quality management services to golf clubs in Mainland China and in other Southeast Asian countries.

Subsequent to the announcement by the HKSAR government and the Walt Disney Company concerning their plan to construct a theme park in the territory, the Group has already started preliminary talks with senior officials of Walt Disney Company in respect of any possible cooperation opportunities. Although no substantive cooperation agreement has yet been reached, it is believed that the Group will stand to benefit from the expected increase in the number of visitors from Mainland China attracted by the Disney theme park in Hong Kong. Such promising outlook lies in the fact that the Group is the largest operator in the provision of travel services to visitors from

Mainland China to Hong Kong and Macau, and that the parent company of the Group, China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), has established close relationship with travel agencies based in various provinces in the PRC.

The Internet and e-commerce are set to dominate the business arena in the 21st century. Indeed, some companies in Hong Kong have already oriented their businesses towards developing high technologies and have been rushing to get listed on the Growth Enterprise Market launched by The Stock Exchange of Hong Kong Limited. In view of the above, the Group has also taken advantage of such trends and invested in the China Travel Net Limited with Japan's Softbank Investment (International) Holdings Limited and Cable & Wireless HKT Ltd. to invest in the development of travel services-related e-commerce based on Internet technologies. In March 2000, the Group completed the acquisition of 18% equity in China Travel Net Limited from CTS (Holdings), and the Group may acquire additional shares up to 20% in aggregate in such company on the same acquisition terms within an agreed period.

It is forecast that the Hong Kong economy will continue to improve in 2000. In line with the HKSAR government's current policy to support the development of innovative ideas in the travel industry, the Group will stay on watch for investment targets and look forward to participating in any high quality investment projects for the provision of travel services. On the other hand, in order to stimulate domestic consumption, the PRC government has intentionally extended the statutory holidays of the Labor Festival in May and the National Festival in October to a period of 5 and 7 days, respectively. The long week holiday helped increase holiday spending, directly benefiting the hotels, Hong Kong & Macau tours, theme parks and golf club operated by the Group. As such, the prospects on this front are very promising.

Finally, I would like to express sincere thanks on behalf of the Board of Directors to our Independent Non-Executive Directors, Dr. The Honourable Philip Wong Yu Hong, Dr. Fong Yun Wah and Mr. Peter Wong Man Kong for their invaluable support and contributions over the past year. I would also like to thank my fellow members on the Board and all staff of the Group for their hard work and dedication during the year.

By Order of the Board

Zhu Yuening

Chairman

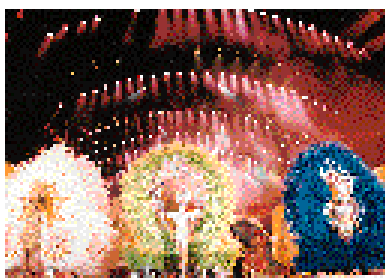
Hong Kong, 26 May, 2000

TOUR OPERATION AND LEISURE BUSINESS

The Group's tour operation and leisure business include HK & Macau Tour, the three Shenzhen theme parks, namely Window of the World, Splendid China and China Folk Culture Villages as well as Shenzhen Tycoon Golf Club.

During the year, the Tour Operation and Leisure Business contributed to the Group a profit of HK\$158 million.

(1) Tour Operation



The total number of local visitors from Mainland China increased by 18.7% in 1999. At the same time, the number of visitors served by China Travel (HK & Macau Tour) Management Hong Kong Limited under the Group also increased by 28.6% over the same period last year. Besides, the profits of China Travel (HK & Macau Tour) Management Hong Kong Limited also recorded an increase in 1999 as compared with the same period last year.

It is expected that visitors from Mainland China will continue to be the major source of growth to the Hong Kong tourist industry in 2000. This is particularly so in view of the plan to construct a Disney theme park on the Lantau Island has been finalized and adoption of other initiatives in the pipeline to develop additional facilities to attract more visitors to Hong Kong. In addition, the implementation of the three long statutory holidays in PRC, namely, Labour Festival in May, National Festival in October and Chinese New Year will boost the tour business in PRC. As such, the Group estimates that the number of PRC tourists visiting Hong Kong and Macau will continue to grow.

(2) Theme Parks

In 1999, there was an increase in the number of visitors to the three Shenzhen theme parks as compared with 1998. While such parks were built several years ago, they continued to attract a steady number of visitors. Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") and Shenzhen The World Miniature Co., Ltd. ("Window of the World") both achieved their targets for cost control and staff value added programs. The two companies maintained their profits level due to corporate re-engineering, structural rationalization and better allocation of human resources.



While there is a number of new theme parks in the Pearl River Delta area, none can compare to Splendid China and Window of the World in terms of scale of operation, publicity, management skill and design

concept. Meanwhile, in order to improve competitiveness, management teams of the three theme parks have kept upgrading the facilities and creating new programs. In 2000, the number of visitors to the Group's theme parks is expected to increase further as compared with 1999. In the long run, with the completion of the new Disney theme park in Hong Kong, there will be many visitors who are interested in visiting theme parks coming to Hong Kong. This will bring additional visitors to the Group's theme parks in Shenzhen.

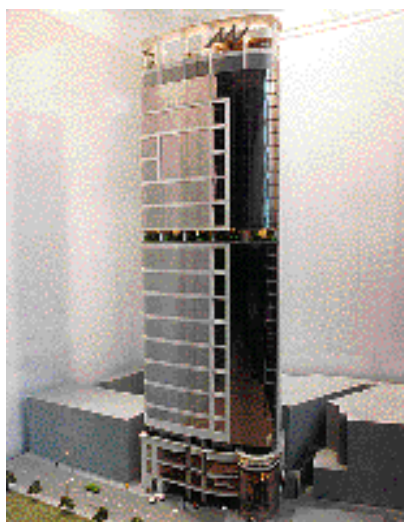
(3) Golf Club



Shenzhen Tycoon Golf Club ("Tycoon Club"), has been in operation since March 1999, is a 27-hole golf course with facilities including a villa hotel, a clubhouse, swimming pool, tennis courts, a sauna and massage center and a restaurant featuring Chinese and Western cuisine. The golf club is located by the Shenzhen Baoan Tiegang Reservoir, near the Shenzhen Huangtian Airport and the Shenzhen Fuyong Terminal, and is accessible from the Guangshen Expressway. Owing to its idyllic scenery and

convenient transportation network, Tycoon Club was elected as the most popular golf club in the PRC in 1999. At the end of 1999, Tycoon Club has approximately 600 members, while its facilities served an average of 4,000 visitors each month during the year.

Hotel Operations



According to the statistics from Hong Kong Tourist Association, the number of visitors to Hong Kong in 1999 reached 10,680,000, representing an increase of 11% over 9,600,000 last year. However, the occupancy rate of hotels in Hong Kong was comparable to 1998, staying at around 79%. Nevertheless, the average occupancy rate of the Group's three hotels in 1999 has increased to 84.7% from 80.4% in 1998. However, the average room rate of the three hotels fell further from HK\$342 to HK\$301 due to vehement price competition among hotels in the face of excess supply. Actually some hotels even let out their rooms on short- or long-term tenancy for residential purpose. Hotel Metropole reduced losses this year and achieved an average occupancy rate of 79.5%. Hotel Concourse and Hotel New Harbour both recorded an increase in profit during the year, with the average occupancy rate of Hotel Concourse at 91.7% and

that of Hotel New Harbour at 82.9%. Overall, the combined results of the three hotels showed a higher profit in comparison with last year. Nevertheless, the Group forecasts that the business environment for the hotel industry will remain difficult in 2000.

Business Review and Prospects

The Group's new hotel situated in Causeway Bay is still under construction. The foundation works were already completed in mid-1999 and over 20 floors of the hotel building have also been built. The whole project is expected to complete fully by the early summer of 2001. The official opening has been scheduled in late autumn of 2001. The four-star hotel will provide 325 guestrooms, targeting at business travellers as its primary customers.

Transportation Business

For 1999, the Group's transportation business recorded a profit of HK\$14 million.

(1) Freight Forwarding



The Group's freight forwarding operation recorded a loss in 1999. The poor results were attributable to the reduction in the volume of cargo transportation due to contracted re-export trading handled by Hong Kong for the PRC. The ever improving expressway networks and deep harbour facilities in the PRC have drawn customers away and brought severe adverse impact on the railway transportation business. In a bid to diversify its freight forwarding operation, CTII Worldwide Limited was established by the Group in the second half of 1999 to focus on

the expansion of the freight forwarding network between Hong Kong and the PRC as well as the international market so as to supplement the railway transportation through the Hong Kong Shenzhen Railway in handling cargoes between Hong Kong and Mainland China. The Group has also started to look into the idea of developing logistic centers in Hong Kong and the PRC. Detailed planning for such investments may begin within 2000.

(2) Passenger Transportation

Competition in cross-border passenger transportation was extremely fierce during the year. On the one hand, through trains running between Hong Kong and Guangzhou has shortened their drive-run and increased the number of dispatch. On the other hand, a number of shuttle bus companies based in Lowu, Shenzhen to other places in Guangdong have also entered into the market. As a result, both the passenger volume and fare level of the Group were under pressure, and 1999 turned out to be a very difficult year to the businesses of through bus operation and cross-border vehicle rental services. Fortunately, owing to the insight of the management of China Travel Tours Transportation Services Hong Kong Limited ("CT Tours") to set up new routes between



Chek Lap Kok Airport and Dongguan as well as Guangzhou, and between Zhuhai and Shenzhen, the Group's passenger transportation business managed to return to profit. Although, it is forecasted that the cross-border transportation will remain vehemently competitive in 2000, the prospects of the Group's through bus operation and vehicle rental service are expected to improve. The Group believes that as long as it can manage to stay ahead of its competitors and remain adaptive to market demand, it will achieve success in gaining a competitive position in the cross-border transportation market.

(3) Citybus

The Group considered that the plan to develop cross-border transportation business with the Citybus Group Limited ("Citybus") had no chance to materialize, and it was meaningless to continue to be a strategic shareholder of Citybus. Therefore, following the general offer proposed by the UK's Stagecoach Asia Limited ("Stagecoach") at the beginning of 1999, the Group, after careful consideration, agreed to dispose of its entire equity interest of 23.13% in Citybus to Stagecoach at a consideration of HK\$1.95 per share. Accordingly, the Group recorded a gain of over HK\$60 million.

(4) Passenger Ferry Operation

The Group completed the capital injection in mid-1999 for its 29% equity interests in Shun Tak-China Travel Shipping Investments Limited ("Shun Tak-CTS"), a merger of the Hong Kong-Macau jetfoil operation of Shun Tak Holdings Limited ("Shun Tak") and the Hong Kong-Macau express ferry service operation of CTS-Parkview under the Parent Company of the Group. The principal routes are Hong Kong-Macau, Hong Kong-Shenzhen and Hong Kong-Guangzhou. Owing to the increase in expenditure caused by personnel reshuffle under the corporate restructuring after the merger, Shun Tak-CTS only managed to register a profit of HK\$16 million in 1999. Nevertheless, Shun Tak-CTS's HK-Macau route market share is over 90%. In the past, Shun Tak had been in direct competition with the Hong Kong-Macau ferry services of the Parent Company of the Group in respect of price as well as the number of dispatch. The Group believes that due to the synergy effect after the merger, it will benefit from better cost control and more responsive adjustment to dispatch frequency by Shun Tak-CTS. In addition, with the improved social order of Macau after the enclave's sovereignty has been returned to the PRC, Shun Tak-CTS is expected to deliver higher profit contribution to the Group in 2000.



Investment Holdings

Apart from the above core businesses, the Group is also a substantial shareholder of Hing Kong Holdings Limited ("Hing Kong"). For the purpose of improving the rate of return on that property, the Group has sold during the year the whole of 33rd floor of the China Merchants Tower of Shun Tak Centre to Hing Kong, whose principle businesses include property development and high technology investment. The consideration of such disposal was HK\$40 million in cash plus HK\$66 million worth of convertible bonds (with the exercise price of HK\$0.986 per share) in Hing Kong. Meanwhile, the Group has also entered into an agreement with Hing Kong to jointly develop a land lot in Fanling held by the Group in order to maximize the value of such land lot.

In late 1999, Hing Kong has acquired 95% equity interests in Shenzhen CyberCity International Co. Ltd. ("SCCIL") through share swap, marking its very first step into the realm of technology investment. Through SCCIL, Hing Kong intends to attract renowned international and local information technology corporation as well as business service providers for the provision of communication infra-structure, internet-hosting, technology management and e-commerce enabling services to set up their bases in the property of SCCIL as tenants and/or business partner of Hing Kong. It is expected that the Group will benefit from Hing Kong's investment in high technology.

Infrastructure

During 1999, profit contributed from the infrastructure projects, including Weihe Power Plant and projects on roads and bridges in the PRC, amounted to HK\$430 million.

(1) Weihe Power Plant

For the year, the total volume of electricity generated by Weihe Power Plant was 5.98 billion kWh, representing an increase of over 200 million kWh over last year. As electricity consumption was little changed in the northwestern region in 1999, the amount of offtake electricity was still lower than the guaranteed minimum amount of electricity sold. During the year, the average tariff was maintained at RMB0.35 per kWh, while the unit cost of electricity generation was RMB0.195 per kWh. Profit before tax of Weihe Power Plant for 1999 recorded a remarkable increase as compared with 1998. It is expected that the profit contributions from Weihe Power Plant will continue to increase as compared with 1999.



(2) Roads and Bridges

Through its investment in CTS-Coastal Transportation Investment Limited, the Group has participated in a number of projects on roads and bridges in the PRC. Fuzhou Bridges are already in service, with a daily traffic flow exceeds 23,000 cars. The existing revenue is satisfactory and the traffic flow is expected to increase further.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 1999.

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 1999 is as follows:

	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
Originating in		
Hong Kong:		
Hotel operations	204,660	9,404
Tour operations	264,011	116,390
Passenger transportation	56,531	62,998
Freight forwarding and transportation services	236,358	(53,111)
Treasury operations	3,893	7,114
	<u>765,453</u>	<u>142,795</u>
The People's Republic of China ("PRC"):		
Freight forwarding and transportation services	31,715	4,465
Tourist attraction operations	369,134	72,226
Power generation	1,576,741	430,703
Golf club management and membership sale	23,911	(30,258)
	<u>2,001,501</u>	<u>477,136</u>
	<u>2,766,954</u>	619,931
Interest income less administrative expenses and financing costs		<u>(94,874)</u>
		<u>525,057</u>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 1999 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 80.

An interim dividend of 1 cent per ordinary share was paid on 15 November 1999. The Directors recommend the payment of a final dividend of 1 cent per ordinary share in respect of the year to shareholders on the register of members on 23 June 2000. This recommendation has been incorporated in the financial statements.

SUMMARY FINANCIAL INFORMATION

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

FIXED ASSETS

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

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 16 and 31 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of the Group's interests in its jointly controlled entities are set out in note 17 to the financial statements.

ASSOCIATES

Particulars of the Company's and the Group's interests in associates are set out in note 18 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

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

INTEREST CAPITALISED

Interest of approximately HK\$25,668,000 (1998: HK\$36,526,000) was capitalised during the year in respect of the Group's properties under development.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 28 to the financial statements.

CONVERTIBLE NOTES

Details of convertible notes are set out in note 26 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 1999, 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\$495,011,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$104,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 61% of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 57% of the Group's total turnover.

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

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

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Zhu Yuening	(Chairman)
Mr. Qiu Yiyong	
Mr. Zheng Hongqing	
Mr. Xu Shiquan	
Mr. Zheng Heshui	
Mdm. Wu Yingqiu	
Mr. Chen Wangtao	
Mr. Wang Changle	
Dr. The Honourable Philip Wong Yu Hong	(redesignated as Independent Non-Executive Director on 28 February 1999)
Mr. Zhang Zheng Kui	(resigned on 14 May 1999)

Independent Non-Executive Directors:

Dr. The Honourable Philip Wong Yu Hong	(redesignated from Executive Director on 28 February 1999)
Dr. Fong Yun Wah	
Mr. Peter Wong Man Kong	
Mr. Paul Cheng Ming Fun	(resigned on 28 February 1999)

In accordance with Article 101 of the Company's Articles of Association, Messrs. Zhu Yuening, Qiu Yiyong, Xu Shiquan and Dr. The Honourable Philip Wong Yu Hong will retire at the forthcoming annual general meeting. Messrs. Qiu Yiyong and Xu Shiquan will not offer themselves for re-election and Mr. Zhu Yuening and Dr. The Honourable Philip Wong Yu Hong, being eligible, will offer themselves for re-election.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the Directors' emoluments and of the five highest paid employees in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

MANAGEMENT CONTRACTS

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

Messrs. Zhu Yuening, Zheng Hongqing, Zheng Heshui and Mdm. Wu Yingqiu are Directors of the Company and CTS (Holdings), which is the ultimate holding company of the Company, as well as all the related companies other than (c)(ii) above. 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

Particulars of the Group's connected transactions are set out in note 34 to the financial statements and the Directors of the Company confirm that:

- (i) all connected transactions were conducted in the ordinary and usual course of business of the Company;
- (ii) these transactions were on normal commercial terms and on an arm's length basis;
- (iii) they were fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) they were made in accordance with the terms of the agreements governing such transactions.

DIRECTORS' INTERESTS IN SHARES

At 31 December 1999, the interests of the Director in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

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

Notes:

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 1999, the Directors of the Company who held share options granted under the Company's share option scheme as detailed in note 28 to the financial statements, were as follows:

Name of Director	Number of share options at 1 January 1999	Number of share options granted/ (cancelled) during the year	Number of share options exercised during the year	Number of share options outstanding at 31 December 1999	Exercise period of share options	Exercise price per share HK\$
Zhu Yuening	69,000,000	—	—	69,000,000	14-1-98 to 13-1-01	3.568
Qiu Yiyong	45,000,000	—	—	45,000,000	14-1-98 to 13-1-01	3.568
Zheng Hongqing	45,000,000	—	—	45,000,000	14-1-98 to 13-1-01	3.568
Xu Shiquan	45,000,000	—	—	45,000,000	14-1-98 to 13-1-01	3.568
Wang Changle	3,500,000	—	—	3,500,000	14-1-98 to 13-1-01	3.568
Zheng Heshui	3,000,000	—	—	3,000,000	14-1-98 to 13-1-01	3.568
Chen Wangtao	3,500,000	—	—	3,500,000	14-1-98 to 13-1-01	3.568
Dr. The Honourable Philip Wong Yu Hong	3,500,000	(3,500,000)(a)	—	—	27-2-98 to 26-2-01	4.680

Note: (a) cancelled by the Board on 8 March 1999

Report of the Directors

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 1999, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest in 10% or more in the issued share capital of the Company:

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

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

Save as disclosed above, the register of shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company at 31 December 1999.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employers' retirement benefit scheme contributions charged to the profit and loss account for the year are set out in note 5 to the financial statements.

THE YEAR 2000 ISSUE

The Group completed an assessment of its computer systems in 1999 and modified or replaced portions of its software so that the computer systems would function properly with respect to dates in the year 2000 and thereafter. The Year 2000 project was completed by October 1999. The total Year 2000 project cost was approximately HK\$4 million. Such costs were expensed as incurred.

No significant problems arose within the Group, or its major suppliers from the year 2000 issue. The Group has made a successful transition to the year 2000.

CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

Pursuant to the Listing Rules' requirements, an audit committee, comprising two Independent Non-Executive Directors, namely, Dr. The Honourable Philip Wong Yu Hong and Mr. Peter Wong Man Kong, was established on 29 March 1999 with written terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The audit committee's principal duties are to review and supervise the Group's financial reporting process.

AUDITORS

Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the Directors as auditors to fill the casual vacancy so arising until the next annual general meeting. There have been no other changes of auditors in the past three years. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhu Yuening

Chairman

Hong Kong
26 May 2000

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 29 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 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
26 May 2000

Consolidated Profit and Loss Account

Year ended 31 December 1999

	Notes	1999 HK\$'000	(Restated) 1998 HK\$'000
TURNOVER	4	2,766,954	1,566,007
Cost of sales		(1,702,886)	(927,150)
Gross profit		1,064,068	638,857
Other revenue		124,993	235,408
Distribution costs		(44,838)	(45,267)
Administrative expenses		(294,257)	(266,908)
Other operating expenses		(137,410)	(125,196)
Provisions for doubtful debts and bad debts written off		(63,055)	(76,295)
Revaluation deficits on hotel properties		—	(350,000)
Gain/(loss) on disposal of associates		60,549	(102)
PROFIT FROM OPERATING ACTIVITIES	5	710,050	10,497
Finance costs	6	(184,993)	(108,138)
Share of profits and losses of:			
Jointly controlled entities		(597)	(1,044)
Associates		13,489	(143,313)
PROFIT/(LOSS) BEFORE TAX		537,949	(241,998)
Tax	9	(71,734)	5,299
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		466,215	(236,699)
Minority interests		(216,083)	(80,659)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	10	250,132	(317,358)
Dividends	11	(65,022)	—
RETAINED PROFIT/(ACCUMULATED LOSS) FOR THE YEAR	29	185,110	(317,358)
EARNINGS/(LOSS) PER SHARE (CENTS)	12		
Basic		7.69	(9.76)
Diluted		7.44	N/A

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 1999

	Notes	1999 HK\$'000	(Restated) 1998 HK\$'000
Deficit on revaluation of hotel properties:			
— current year/prior year as previously reported	29	(10,000)	(308,952)
— effect of prior year adjustment	13	—	(101,048)
		<u>(10,000)</u>	<u>(410,000)</u>
Exchange differences on translation of the financial statements of foreign entities	29	<u>5,438</u>	<u>(861)</u>
Share of movement of reserves of associates:			
— current year/prior year as previously reported	29	380	—
— effect of prior year adjustment	13	—	15,786
		<u>380</u>	<u>15,786</u>
Net losses not recognised in the profit and loss account		(4,182)	(395,075)
Net profit/(loss) attributable to shareholders:			
— current year/prior year as previously reported		250,132	(411,224)
— effect of prior year adjustments	13	—	93,866
		<u>250,132</u>	<u>(317,358)</u>
Total recognised gains and losses		245,950	(712,433)
Goodwill written back	29	39,781	—
Goodwill eliminated directly against reserves	29	<u>(52,843)</u>	<u>(517,132)</u>
		<u>232,888</u>	<u>(1,229,565)</u>
Note on prior year adjustments		HK\$'000	
Total recognised gains and losses related to the current year as above		245,950	
Prior year adjustments given effect as to restatement of reserves			
— brought forward at 1 January 1998		(49,009)	
— for the year 1998		<u>8,604</u>	
Total recognised gains and losses since the last annual report		<u>205,545</u>	

Consolidated Balance Sheet

31 December 1999

	Notes	1999 HK\$'000	(Restated) 1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	7,371,613	7,773,946
Properties under development	15	854,602	799,843
Interests in jointly controlled entities	17	35,482	36,915
Interests in associates	18	1,026,217	813,372
Long term investments	19	69,030	74,055
		9,356,944	9,498,131
CURRENT ASSETS			
Short term investments	19	18,761	36,808
Inventories	20	102,032	95,299
Trade receivables		600,311	722,179
Tax recoverable		468	10,264
Other receivables	21	99,095	295,103
Pledged time deposit	22	41,011	4,000
Cash and cash equivalents	23	1,284,303	608,127
Amount due from ultimate holding company	24	48,469	—
Amounts due from fellow subsidiaries	24	115,034	114,834
		2,309,484	1,886,614
CURRENT LIABILITIES			
Trade payables		307,327	258,382
Tax payable		34,928	6,544
Other payables and accruals	25	558,280	690,441
Interest-bearing bank and other borrowings	26	1,146,842	1,426,151
Amount due to ultimate holding company		—	1,651
Amounts due to fellow subsidiaries		—	3,415
		2,047,377	2,386,584
NET CURRENT ASSETS/(LIABILITIES)		262,107	(499,970)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,619,051	8,998,161
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		34,956	—
Interest-bearing bank and other borrowings	26	1,900,039	1,908,916
Deferred tax	27	17,245	3,580
		1,952,240	1,912,496
Minority interests		1,305,388	1,109,202
		6,361,423	5,976,463
CAPITAL AND RESERVES			
Share capital	28	325,112	325,112
Reserves	29	6,036,311	5,651,351
		6,361,423	5,976,463

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Zheng Hongqing
Director

Zheng Heshui
Director

Consolidated Cash Flow Statement

Year ended 31 December 1999

	Notes	1999 HK\$'000	(Restated) 1998 HK\$'000
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	30(a)	1,249,856	(858,688)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		115,703	292,879
Interest paid		(205,844)	(147,070)
Dividends from listed investments		3,893	471
Dividends from associates		380	394
Dividends paid		(32,511)	(48,767)
Dividends paid to minority shareholders	30(b)	(97,536)	(55,207)
Net cash inflow/(outflow) from returns on investments and servicing of finance		(215,915)	42,700
TAX			
Hong Kong profits tax paid		(5,775)	(17,054)
Overseas taxes paid		(13,379)	(15,317)
Taxes paid		(19,154)	(32,371)
INVESTING ACTIVITIES			
Purchases of short term investments		(467)	(846)
Proceeds from disposal of short term investments		24,093	—
Purchases of fixed assets		(95,570)	(59,326)
Proceeds from disposal of fixed assets		44,400	2,410
Additions to properties under development		(59,805)	(29,868)
Purchase of and advances to associates and jointly controlled entities		(510,331)	(173,609)
Purchase of and advances to other investee companies		—	(2,000)
Acquisition of subsidiaries	30(c)	—	(577,385)
Proceeds from disposal of a subsidiary	30(d)	—	131,970
Proceeds from disposal of an associate		526,933	—
Increase in pledged time deposits		(37,011)	(4,000)
Decrease in short term deposits maturing beyond three months		—	400,000
Net cash outflow from investing activities		(107,758)	(312,654)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		907,029	(1,161,013)
FINANCING ACTIVITIES			
Proceeds from issue of share capital	30(b)	—	31
Share issue expenses	30(b)	—	(51)
Capital contributed by a minority shareholder of a subsidiary	30(b)	65,506	81,402
Capital returned to a minority shareholder	30(b)	—	(5,278)
Issue of convertible notes	30(b)	—	470,000
Redemption of guaranteed convertible bonds	30(b)	—	(511,990)
New bank loans	30(b)	1,165,034	194,568
Repayment of bank loans	30(b)	(874,402)	(239,885)
Decrease in amounts due to minority shareholders	30(b)	(589,928)	(10,623)
Increase in golf club debentures		3,188	—
Net cash outflow from financing activities		(230,602)	(21,826)

Consolidated Cash Flow Statement

Year ended 31 December 1999

	1999 HK\$'000	(Restated) 1998 HK\$'000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	676,427	(1,182,839)
Cash and cash equivalents at beginning of year	607,292	1,790,191
Effect of foreign exchange rate changes, net	—	(60)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>1,283,719</u>	<u>607,292</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	585,392	608,127
Time deposits	698,911	—
Bank overdrafts	(584)	(835)
	<u>1,283,719</u>	<u>607,292</u>

Balance Sheet

31 December 1999

	Notes	1999 HK\$'000	(Restated) 1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	998	1,481
Interests in subsidiaries	16	6,616,571	6,671,713
Interests in associates	18	65,200	65,753
		<u>6,682,769</u>	<u>6,738,947</u>
CURRENT ASSETS			
Other receivables	21	21,783	171,591
Pledged time deposit	22	41,011	4,000
Cash and cash equivalents	23	509,075	91,657
Amounts due from fellow subsidiaries	24	3,930	3,930
		<u>575,799</u>	<u>271,178</u>
CURRENT LIABILITIES			
Other payables and accruals	25	46,745	7,329
Amount due to ultimate holding company		2,164	2,164
Interest-bearing bank and other borrowings	26	329,134	338,000
		<u>378,043</u>	<u>347,493</u>
NET CURRENT ASSETS/(LIABILITIES)		197,756	(76,315)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,880,525	6,662,632
NON-CURRENT LIABILITY			
Interest-bearing bank and other borrowings	26	1,122,647	870,000
		<u>1,122,647</u>	<u>870,000</u>
		<u>5,757,878</u>	<u>5,792,632</u>
CAPITAL AND RESERVES			
Share capital	28	325,112	325,112
Reserves	29	5,432,766	5,467,520
		<u>5,757,878</u>	<u>5,792,632</u>

Zheng Hongqing
Director

Zheng Heshui
Director

1. CORPORATE INFORMATION

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

- hotel operations
- tour operations
- passenger transportation services
- treasury operations
- tourist attraction operations
- power generation
- golf club operations
- freight forwarding and transportation services
- investment holding

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

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

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates
- SSAP 24: Accounting for Investments in Securities

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 29, 31 and 34 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 30. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed either by way of note (note 5 to the financial statements) or, if significant, on the face of the profit and loss account and are no longer specifically referred to as "exceptional".

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10 and, accordingly, has no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

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

SSAP 24 prescribes the accounting treatment and disclosures for investments in debt and equity securities, including in certain circumstances alternative accounting treatments. For these financial statements, as further explained in the accounting policy note below, investments in long term non-trading listed and unlisted equity securities are stated at their fair values, with revaluation differences being taken to a revaluation reserves. Short term investments in equity securities held for trading purposes are stated at their fair values, with differences in valuation being charged or credited to the profit and loss account. The prior year adjustments arising from the adoption of SSAP 24 in these financial statements are set out in note 13 (iii) to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 1999. 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.

Goodwill

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

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

Upon the disposal of subsidiaries, jointly controlled entities, associates or business segments, the relevant portion of attributable goodwill previously eliminated against reserves or capital reserve credited to reserves is written back and included in the calculation of the gain or loss on disposal of the investment.

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

Subsidiaries

Subsidiaries are companies, other than jointly controlled entities, in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their boards of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Jointly controlled entities

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

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

Associates

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

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

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

Joint venture companies

Joint venture companies comprise companies operating, directly or indirectly, in the mainland of the People's Republic of China (the "PRC") as independent business entities. The joint venture agreements between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the venturers either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreements.

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

Joint venture companies *(continued)*

A joint venture company is treated as:

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

Fixed assets and depreciation

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

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

Leasehold land	Over the term of the lease
Buildings	4.5%
Scenic spots establishment	3.6% to 19%
Power plants	6%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	20%
Furniture, fixtures and equipment	9% to 30%
Motor vehicles	18% to 20%

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

Fixed assets and depreciation *(continued)*

During the year, the estimated economic useful life of the Group's power plants was revised from 9 years to 15 years. In the opinion of the directors, the revised estimated economic useful life of the power plants reflects more fairly the actual conditions and performance of these assets. This change of accounting estimate resulted in a decrease of the Group's 1999 depreciation charge and an increase of the Group's net profit for the year by approximately HK\$67 million and HK\$24 million, respectively.

Land use rights are stated at cost less accumulated depreciation. The cost of land use rights is depreciated on a straight-line basis over the period of the lease or the tenure of the relevant joint ventures to which the land use rights were granted, whichever is shorter.

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

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

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 maintenance and repairs expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the directors consider that depreciation is not necessary due to the Group's ability to maintain or increase the hotel properties' residual values.

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

Properties under development

Properties under development are carried at cost, less any provision considered necessary by the directors. Cost includes all development expenditure, interest charges and other direct costs attributable to such properties.

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in 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 gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstance and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or weighted average basis, where appropriate, and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised until the construction is completed, and are included in the carrying value of the asset. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. The capitalisation rate for the year is based on the actual cost of the related borrowings.

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

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

Retirement benefits scheme

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

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

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

Revenue recognition

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

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

Deferred income

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

Pre-operating expenses

Pre-operating expenses represent expenses incurred by the Group's subsidiaries in the PRC prior to the commencement of commercial operations and are recognised as expenses in the period in which they are incurred. Prior to 1999, pre-operating expenses were deferred and amortised over a period of five years on a straight-line basis from the date of commencement of operation. This represents a change of accounting policy and the details of the resulting prior year adjustments are set out in note 13(ii) to the financial statements.

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

Related parties

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

Cash equivalents

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

4. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	1999 HK\$'000	(Restated) 1998 HK\$'000
Freight income	268,073	525,376
Tour income	264,011	242,049
Hotel income	204,660	216,802
Golf club income	23,911	—
Sales of admission tickets	369,134	363,579
Sales of electricity	1,576,741	167,177
Passenger transportation	56,531	47,989
Treasury operations		
— Interest income	—	2,564
— Dividend income	3,893	471
Turnover	2,766,954	1,566,007
Interest income - other than treasury operations	115,703	224,368
Gross and net rental income	9,290	11,040
Total revenue for the year	2,891,947	1,801,415

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5. PROFIT FROM OPERATING ACTIVITIES

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

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Depreciation	493,561	152,173
Auditors' remuneration	4,636	4,020
Staff costs (including directors' remuneration — note 7)		
Wages and salaries	347,006	371,427
Pension costs	33,452	34,418
Less: Forfeited contributions	(4,688)	(19,061)
Net pension contributions*	28,764	15,357
	<u>375,770</u>	<u>386,784</u>
Operating lease rentals:		
Land and buildings	10,548	17,406
Plant and machinery	16	533
Provision for diminution in value of a jointly controlled entity	2,553	—
Provision for diminution in value of other investments	—	11,069
Loss on disposal of interest in a subsidiary	—	717
Loss on disposal of short term investments	8,879	619
Provision for slow-moving inventories	2,253	—
Gain on changes in value of short term investments	(9,627)	—
Loss/(gain) on disposal of fixed assets	(3,159)	591
Exchange losses/(gains), net	(620)	1,321
Net rental income	<u>(9,290)</u>	<u>(11,040)</u>

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

6. FINANCE COSTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans		
wholly repayable within five years	206,038	136,853
Amortisation of bond issue expenses	—	5,644
Amortisation of syndicated loan expenses	4,623	2,167
	<hr/>	<hr/>
Total finance costs	210,661	144,664
Less: Interest capitalised	(25,668)	(36,526)
	<hr/>	<hr/>
	184,993	108,138
	<hr/>	<hr/>

7. DIRECTORS' REMUNERATION

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

	Group	
	1999	1998
	HK\$'000	HK\$'000
Fees:		
Executive directors	930	1,320
Independent non-executive directors	450	360
	<hr/>	<hr/>
	1,380	1,680
	<hr/>	<hr/>
Other emoluments payable to executive directors:		
Salaries, allowances and benefits in kind	1,810	4,534
Pension scheme contributions	115	—
	<hr/>	<hr/>
	1,925	4,534
	<hr/>	<hr/>
Total remuneration	3,305	6,214
	<hr/>	<hr/>

7. DIRECTORS' REMUNERATION *(continued)*

The remuneration of the directors fell within the following bands:

	Number of directors	
	1999	1998
Nil to HK\$1,000,000	12	15
HK\$1,000,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$3,000,000	—	1
	<u>13</u>	<u>17</u>

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

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (1998: two) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining three (1998: three) non-directors, highest paid employees are as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,629	3,921
Pension scheme contributions	<u>119</u>	<u>165</u>
	<u>3,748</u>	<u>4,086</u>

8. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	Number of employees	
	1999	1998
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$2,000,000	2	2
	<u>3</u>	<u>3</u>

9. TAX

	1999 HK\$'000	1998 HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(15,911)	(8,521)
Elsewhere	(44,006)	(15,672)
Overprovision in prior years	2,583	28,774
Deferred tax — note 27	(13,665)	763
	<u>(70,999)</u>	<u>5,344</u>
Jointly controlled entities	(5)	(7)
Associates	<u>(730)</u>	<u>(38)</u>
	<u>(735)</u>	<u>(45)</u>
Tax credit/(charge) for the year	<u>(71,734)</u>	<u>5,299</u>

Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$30,268,000 (1998: HK\$168,816,000).

The Group's share of aggregate profits less losses retained by its jointly controlled entities and associates for the year amounted to a loss of HK\$602,000 (1998: loss of HK\$1,051,000) and a profit of HK\$12,759,000 (1998: loss of HK\$143,351,000 (as restated)), respectively.

11. DIVIDENDS

	1999 HK\$'000	1998 HK\$'000
Interim — 1 cent (1998: Nil) per ordinary share	32,511	—
Proposed final — 1 cent (1998: Nil) per ordinary share	32,511	—
	<u>65,022</u>	<u>—</u>

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$250,132,000 (1998: loss of HK\$317,358,000 (as restated)), and 3,251,115,027 (1998: weighted average of 3,251,110,698) ordinary shares in issue during the year.

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

No diluted loss per share for the year ended 31 December 1998 has been presented because the conversion of the convertible notes and the guaranteed convertible bonds, and the exercise of the Company's share warrants would have anti-dilutive effects. The Company's share options did not have a dilutive effect.

13. PRIOR YEAR ADJUSTMENTS

- (i) According to the Group's accounting policy, any hotel property revaluation deficit in excess of the available revaluation reserve for that specific hotel property should be charged to the profit and loss account as and when it is incurred. During the year ended 31 December 1997, an excess revaluation deficit of HK\$101,048,000 in respect of one of the Group's hotel properties was wrongly charged to the then available revaluation reserves arising in respect of the Group's other hotel properties. During the year ended 31 December 1998, this amount of revaluation deficit of HK\$101,048,000 was then included in the revaluation deficit of HK\$451,048,000 charged to the Group's profit and loss account.

In restating the results for the year ended 31 December 1998 to correct this fundamental error, a prior year adjustment has been made to reverse the charge in respect of the revaluation deficit of HK\$101,048,000 from the Group's 1998 profit and loss account into the Group's 1997 profit and loss account. This has resulted in a decrease in the Group's net loss for the year ended 31 December 1998 by HK\$101,048,000, and a decrease in the Group's retained earnings brought forward as at 1 January 1998 by the same amount. This prior year adjustment affected only the comparative amounts presented to the current year financial statements and therefore had no impact on the Group's results for the year ended 31 December 1999.

- (ii) To comply with the new requirements of SSAP 1 - as subsequently clarified by an interpretation statement issued by the Hong Kong Society of Accountants, Group policy of accounting for deferred pre-operating expenses which, in prior years, were capitalised and amortised over periods not exceeding five years on a straight-line basis, beginning when the related production commenced, was changed during the year ended 31 December 1999. Deferred pre-operating expenses are now recognised as expenses in the period in which they are incurred.

This change in accounting policy has been accounted for retrospectively. The comparative financial statements for 1998 have been restated to conform to the new policy. The effect of the change in respect of the year ended 31 December 1998 is an increase in the share of losses in associates of HK\$8,342,000, a decrease in other operating expenses of HK\$4,683,000, an increase in minority interests of HK\$3,523,000 and a resulting net increase in the net loss of HK\$7,182,000. The opening retained earnings for 1998 have been reduced by HK\$21,889,000, which is the amount of the adjustment in respect of the Group's share of pre-operating expenses in associates and its own pre-operating expenses written off relating to periods prior to 1 January 1998.

- (iii) Prior to 1 January 1999, long term investments were stated at cost less provisions for any permanent diminutions in values. During the year, the Group adopted a new accounting policy on these investments to comply with the SSAP 24 "Accounting for Investments in Securities". Under the new accounting policy, long term investments are stated at their fair values under the alternative treatment as defined in SSAP 24. Accordingly, the comparative amounts for 1998 have been restated, in connection with the Group's share of investment revaluation reserve of an associate, the effect of which is to increase the Group's investment revaluation reserve by HK\$15,786,000 during the year ended 31 December 1998 and to reduce the Group's reserve at 1 January 1998 by HK\$27,120,000.

Notes to Financial Statements

31 December 1999

14. FIXED ASSETS

Group

	Hotel properties HK\$'000	Land and buildings HK\$'000	Scenic spots establishment HK\$'000	Power plants HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	2,390,000	1,964,992	648,471	3,607,063	492,820	9,103,346
Additions	—	25,282	30,180	18,006	52,816	126,284
Disposals	—	(40,577)	(188)	—	(32,868)	(73,633)
Exchange realignments	—	5,229	2,131	11,846	861	20,067
Deficit on revaluation	(10,000)	—	—	—	—	(10,000)
At 31 December 1999	2,380,000	1,954,926	680,594	3,636,915	513,629	9,166,064
At cost	—	1,954,926	680,594	3,636,915	513,629	6,786,064
At 1999 valuation	2,380,000	—	—	—	—	2,380,000
	2,380,000	1,954,926	680,594	3,636,915	513,629	9,166,064
Accumulated depreciation:						
At beginning of year	—	161,561	281,158	599,872	286,809	1,329,400
Provided during the year	—	86,484	43,367	298,747	64,963	493,561
Disposals	—	(2,516)	(59)	—	(29,817)	(32,392)
Exchange realignments	—	500	924	1,971	487	3,882
At 31 December 1999	—	246,029	325,390	900,590	322,442	1,794,451
Net book value:						
At 31 December 1999	2,380,000	1,708,897	355,204	2,736,325	191,187	7,371,613
At 31 December 1998	2,390,000	1,803,431	367,313	3,007,191	206,011	7,773,946

All hotel properties held by the Group were pledged to secure certain of the Group's bank borrowings. As at 31 December 1999, such facilities were utilised to the extent of HK\$581,782,000.

14. FIXED ASSETS (continued)

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	1,588	1,893	1,202	4,683
Additions	—	323	—	323
Disposals	—	(135)	—	(135)
At 31 December 1999	1,588	2,081	1,202	4,871
Accumulated depreciation:				
At beginning of year	1,402	1,319	481	3,202
Provided during the year	67	477	241	785
Disposals	—	(114)	—	(114)
At 31 December 1999	1,469	1,682	722	3,873
Net book value:				
At 31 December 1999	119	399	480	998
At 31 December 1998	186	574	721	1,481

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

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Long term leases	73,621	—	73,621
Medium term leases	31,074	1,850,231	1,881,305
	104,695	1,850,231	1,954,926

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14. FIXED ASSETS (continued)

Particulars of the hotel properties held by the Group as at 31 December 1999 are as follows:

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

The hotel properties were revalued at 31 December 1999 by Vigers Hong Kong Limited, independent professionally qualified valuers, on an open market value, existing use basis.

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	1999 HK\$'000	1998 HK\$'000
This represents:		
Building and plant	—	3,431
Scenic spots establishment	9,993	20,627
Golf course	3,925	958
Hotel properties	840,684	774,827
	<u>854,602</u>	<u>799,843</u>

15. PROPERTIES UNDER DEVELOPMENT *(continued)*

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

	1999 HK\$'000	1998 HK\$'000
Land and buildings in Hong Kong held under long term lease	840,684	774,827
Land and buildings outside Hong Kong held under medium-term lease	13,918	25,016
	<u>854,602</u>	<u>799,843</u>

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

The accumulated net interest capitalised included in properties under development is HK\$73,264,000 (1998: HK\$47,596,000).

16. INTERESTS IN SUBSIDIARIES

	Company	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	1,312,284	1,245,396
Due from subsidiaries	3,405,216	2,842,322
Loans to subsidiaries	3,330,986	3,330,986
Due to subsidiaries	(1,431,915)	(746,991)
	<u>6,616,571</u>	<u>6,671,713</u>

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

Particulars of the Company's principal subsidiaries are set out in note 31 to the financial statements.

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17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	1999	1998
	HK\$'000	HK\$'000
Share of net assets	17,762	18,314
Due from jointly controlled entities	20,273	18,603
Due to jointly controlled entities	—	(2)
	<u>38,035</u>	<u>36,915</u>
Less: Provision for diminution in value	<u>(2,553)</u>	<u>—</u>
	<u><u>35,482</u></u>	<u><u>36,915</u></u>

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

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

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			1999	1998	
Chongqing Long Sight International Container Co., Ltd.#	Corporate	PRC	25	25	Provision of cargo transportation services
Guizhou Panda Brass Co., Ltd.#	Corporate	PRC	30	30	Manufacturing of brass products
Sichuan Jeida Freight Transportation Co., Ltd.#	Corporate	PRC	40	40	Provision of cargo transportation services
Shenzhen China Travel Service (Cargo) Hong Kong Ltd.#	Corporate	PRC	49	49	Provision of freight forwarding and transportation services
Gansu Lida International Co., Ltd.#	Corporate	PRC	30	30	Provision of cargo transportation services

Not audited by Ernst & Young

18. INTERESTS IN ASSOCIATES

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	—	—
Share of net assets	859,142	747,619	—	—
Due from associates	167,075	65,753	65,200	65,753
	1,026,217	813,372	65,200	65,753

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/ registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			1999	1998	
China Railway-China Travel Express Co. (HK) Ltd.	Corporate	Hong Kong	50	50	Dormant
China Travel Roads & Bridges JV Investment Ltd.	Corporate	British Virgin Islands	40	40	Investment holding
Daqing Sweet Come Food Product Co., Ltd.#	Corporate	PRC	33.64	—	Food production
Hing Kong Holdings Limited#	Corporate	Bermuda	36.33	35.76	Investment holding
Shun Tak-China Travel Shipping Investments Limited#	Corporate	British Virgin Islands	29	—	Shipping operations
Storman Ltd.	Corporate	Hong Kong	38	38	Provision of cargo transportation services
Tianchung International Art Production & Exchange Co., Ltd.#	Corporate	PRC	15	—	Organising recreational activities

Not audited by Ernst & Young

Notes to Financial Statements

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18. INTERESTS IN ASSOCIATES *(continued)*

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

	Shun Tak China Travel Shipping Investments Limited For the Period from 22 October 1998 (date of incorporation) to 31 December 1999		
	Hing Kong Holdings Limited 1999 HK\$'000	1998 HK\$'000	1999 HK\$'000
Profit and loss accounts			
Turnover	<u>99,829</u>	<u>242,757</u>	<u>769,050</u>
Profit/(loss) attributable to shareholders	<u>19,650</u>	<u>(480,712)</u>	<u>8,827</u>
Balance sheets			
Long term assets	1,556,881	1,671,752	2,072,069
Current assets	584,111	498,682	335,258
Current liabilities	(261,772)	(68,013)	(339,917)
Long term liabilities	<u>(474,722)</u>	<u>(693,772)</u>	<u>(860,498)</u>
Net assets	<u>1,404,498</u>	<u>1,408,649</u>	<u>1,206,912</u>

19. INVESTMENTS

Long term investments

	Group	
	1999	1998
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	—	5,025
Unlisted equity investments in Hong Kong:		
Unlisted shares, at fair value	30	30
Amount due from an investee company	69,000	69,000
	69,030	69,030
	69,030	74,055

Short term investments

Listed equity investments, at market value:

Hong Kong	18,761	9,794
Elsewhere	—	27,014
	18,761	36,808

The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$10,852,000.

20. INVENTORIES

	Group	
	1999	1998
	HK\$'000	HK\$'000
Raw materials	44,115	44,335
Spare parts and consumables	40,068	39,318
General stores	5,603	2,114
General merchandise	12,246	9,532
	102,032	95,299

Notes to Financial Statements

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21. OTHER RECEIVABLES

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred borrowing costs	15,261	4,847	15,261	4,847
Deposits and other debtors	80,997	287,600	6,420	166,744
Amounts due from minority shareholders	2,837	2,656	102	—
	<u>99,095</u>	<u>295,103</u>	<u>21,783</u>	<u>171,591</u>

22. PLEDGED TIME DEPOSIT

The Company and the Group have pledged bank deposits of approximately HK\$41,011,000 to banks mainly to secure against the provision of bank facilities granted to one of the Group's associates.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	585,392	608,127	5,853	91,657
Time deposits	698,911	—	503,222	—
	<u>1,284,303</u>	<u>608,127</u>	<u>509,075</u>	<u>91,657</u>

24. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

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

These balances are unsecured, interest-free and have no fixed terms of repayment.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and other liabilities	381,606	428,328	14,175	7,295
Staff bonus and welfare fund	55,425	36,157	59	34
Receipts in advance from customers	38,164	88,641	—	—
Due to minority shareholders	50,574	137,315	—	—
Proposed final dividend	32,511	—	32,511	—
	<u>558,280</u>	<u>690,441</u>	<u>46,745</u>	<u>7,329</u>

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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group (Restated)		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Bank overdrafts:				
Secured	<u>584</u>	<u>835</u>	<u>—</u>	<u>—</u>
Syndicated bank loans:				
Unsecured — note (i)	400,000	600,000	400,000	600,000
Secured — note (ii)	481,781	—	481,781	—
Other bank loans:				
Unsecured	431,956	521,853	—	138,000
Secured	<u>100,000</u>	<u>—</u>	<u>100,000</u>	<u>—</u>
	<u>1,413,737</u>	<u>1,121,853</u>	<u>981,781</u>	<u>738,000</u>
Loans from minority shareholders				
— note (iii)	1,157,248	1,740,255	—	—
Convertible notes — note (iv)	470,000	470,000	470,000	470,000
Golf club debentures	<u>5,312</u>	<u>2,124</u>	<u>—</u>	<u>—</u>
	<u>1,632,560</u>	<u>2,212,379</u>	<u>470,000</u>	<u>470,000</u>
	<u>3,046,881</u>	<u>3,335,067</u>	<u>1,451,781</u>	<u>1,208,000</u>
Bank overdrafts repayable within one year or on demand	<u>584</u>	<u>835</u>	<u>—</u>	<u>—</u>
Bank loans repayable:				
Within one year or on demand	760,239	721,006	329,134	338,000
In the second year	317,417	200,847	316,566	200,000
In the third to fifth years, inclusive	<u>336,081</u>	<u>200,000</u>	<u>336,081</u>	<u>200,000</u>
	<u>1,413,737</u>	<u>1,121,853</u>	<u>981,781</u>	<u>738,000</u>
Other loans repayable:				
Within one year or on demand	386,019	704,310	—	—
In the second year	658,413	385,402	470,000	—
In the third to fifth years, inclusive	565,239	1,033,388	—	470,000
Over five years	<u>22,889</u>	<u>89,279</u>	<u>—</u>	<u>—</u>
	<u>1,632,560</u>	<u>2,212,379</u>	<u>470,000</u>	<u>470,000</u>
Total interest-bearing bank and other borrowings	<u>3,046,881</u>	<u>3,335,067</u>	<u>1,451,781</u>	<u>1,208,000</u>
Portion classified as current liabilities	<u>1,146,842</u>	<u>1,426,151</u>	<u>329,134</u>	<u>338,000</u>
Long term portion	<u>1,900,039</u>	<u>1,908,916</u>	<u>1,122,647</u>	<u>870,000</u>

26. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

- (i) The unsecured syndicated bank loan is repayable in 7 semi-annual instalments commencing 26 March 1998. Interest is charged on the outstanding balance at 0.95% above the Hong Kong Interbank Offered Rate for the applicable loan period.
- (ii) The secured syndicated bank loan is repayable in 16 consecutive quarterly instalments. Interest is charged on the outstanding balance at LIBOR plus 2.25% for the applicable loan period. The loan is secured by certain of the Group's hotel properties.
- (iii) Loans from minority shareholders are unsecured and bear interest at prevailing market rate per annum. An amount of HK\$959,642,000 is repayable at an annual amount equals to the portion of depreciation expense of the relevant subsidiary established in the PRC attributable to the minority shareholder based on its percentage of equity interest for the current year less any amounts expensed on technical improvement; approximately HK\$188,413,000 is repayable in 2000. The remaining balance is repayable after one year. A separate amount of HK\$197,606,000 repayable to the minority shareholders by another subsidiary of the Company was repaid subsequent to the balance sheet date.
- (iv) The principal terms of the convertible notes ("Notes") are summarised below:

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

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

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27. DEFERRED TAX

	Group	
	1999	1998
	HK\$'000	HK\$'000
Balance at beginning of year	3,580	4,343
Charge/(credit) for the year — note 9	13,665	(763)
At 31 December	<u>17,245</u>	<u>3,580</u>

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

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

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

28. SHARE CAPITAL

Shares

	1999	1998
	HK\$'000	HK\$'000
Authorised:		
4,900,000,000 ordinary shares of HK\$0.10 each	<u>490,000</u>	<u>490,000</u>
Issued and fully paid:		
3,251,115,027 ordinary shares of HK\$0.10 each	<u>325,112</u>	<u>325,112</u>

28. SHARE CAPITAL (continued)

Share options

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

At 31 December 1999, the following share options remained outstanding:

Number of share options outstanding	Exercisable price per share HK\$	Exercisable period
228,400,000	3.568	14 January 1998 to 13 January 2001
3,950,000	3.580	9 February 1998 to 8 February 2001

During the year, 3,500,000 share options were cancelled upon the redesignation of an executive director of the Company to an independent non-executive director, and 850,000 share options were lapsed upon the resignation of employees of the Group. None of the remaining share options granted was exercised since the date of grant to the date of the approval of these financial statements. No other options were granted during the year.

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29. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group								
At 1 January 1998								
As previously reported	4,937,777	390,309	—	570,848	24,806	(7,216)	1,013,423	6,929,947
Prior year adjustments (note 13)	—	—	(27,120)	101,048	—	—	(122,937)	(49,009)
As restated	4,937,777	390,309	(27,120)	671,896	24,806	(7,216)	890,486	6,880,938
Premium on issue of shares								
on exercise of warrants	29	—	—	—	—	—	—	29
Share issue expenses	(51)	—	—	—	—	—	—	(51)
Deficit on revaluation (restated)	—	—	—	(410,000)	—	—	—	(410,000)
Goodwill on acquisition	—	(517,132)	—	—	—	—	—	(517,132)
Share of movements in reserves								
of an associate	—	—	15,786	—	—	—	—	15,786
Exchange realignments	—	—	—	—	—	(861)	—	(861)
Retained loss for the year (restated)	—	—	—	—	—	—	(317,358)	(317,358)
Transfer from retained profits	—	—	—	—	5,009	—	(5,009)	—
At 31 December 1998, as restated	<u>4,937,755</u>	<u>(126,823)</u>	<u>(11,334)</u>	<u>261,896</u>	<u>29,815</u>	<u>(8,077)</u>	<u>568,119</u>	<u>5,651,351</u>
At 1 January 1999								
As previously reported	4,937,755	(126,823)	—	261,896	29,815	(8,077)	597,190	5,691,756
Prior year adjustments (note 13)	—	—	(11,334)	—	—	—	(29,071)	(40,405)
As restated	4,937,755	(126,823)	(11,334)	261,896	29,815	(8,077)	568,119	5,651,351
Goodwill on acquisition	—	(52,843)	—	—	—	—	—	(52,843)
Goodwill written back	—	39,781	—	—	—	—	—	39,781
Share of movements in reserves								
of an associate	—	—	380	—	—	—	—	380
Exchange realignments	—	—	—	—	—	5,438	—	5,438
Deficit on revaluation	—	—	—	(10,000)	—	—	—	(10,000)
Retained profit for the year	—	—	—	—	—	—	185,110	185,110
Transfer from retained profits	—	—	—	—	4,951	—	(4,951)	—
Goodwill written back on disposal of interest in an associate	—	217,094	—	—	—	—	—	217,094
At 31 December 1999	<u>4,937,755</u>	<u>77,209</u>	<u>(10,954)</u>	<u>251,896</u>	<u>34,766</u>	<u>(2,639)</u>	<u>748,278</u>	<u>6,036,311</u>

29. RESERVES (continued)

	Share premium account HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Enterprise expansion reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	4,937,755	204,453	—	251,896	34,766	(2,639)	896,902	6,323,133
Jointly controlled entities	—	—	—	—	—	—	(2,348)	(2,348)
Associates	—	(127,244)	(10,954)	—	—	—	(146,276)	(284,474)
At 31 December 1999	4,937,755	77,209	(10,954)	251,896	34,766	(2,639)	748,278	6,036,311
Company and subsidiaries (restated)	4,937,755	168,428	—	261,896	29,815	(8,077)	723,896	6,113,713
Jointly controlled entities	—	—	—	—	—	—	(1,746)	(1,746)
Associates (restated)	—	(295,251)	(11,334)	—	—	—	(154,031)	(460,616)
At 31 December 1998	4,937,755	(126,823)	(11,334)	261,896	29,815	(8,077)	568,119	5,651,351

Company

	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 1998	4,937,777	360,949	5,298,726
Premium on issue of shares on exercise of warrants	29	—	29
Share issue expenses	(51)	—	(51)
Profit for the year	—	168,816	168,816
At 31 December 1998 and beginning of year	4,937,755	529,765	5,467,520
Profit for the year	—	30,268	30,268
Dividends	—	(65,022)	(65,022)
At 31 December 1999	4,937,755	495,011	5,432,766

30. NOTES TO THE CASH FLOW STATEMENT

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

	1999	(Restated) 1998
	HK\$'000	HK\$'000
Profit from operating activities	710,050	10,497
Interest income	(115,703)	(226,932)
Dividend income from listed investments	(3,893)	(471)
Depreciation	493,561	152,173
Revaluation deficits on hotel properties	—	350,000
Gain on changes in value of short term investments	(9,627)	—
Provisions for doubtful debts and bad debts written off	63,055	76,295
Loss/(gain) on disposal of associates	(60,549)	102
Provision for slow-moving inventories	2,253	—
Loss/(gain) on disposal of fixed assets	(3,159)	591
Loss on disposal of short term investments	8,879	619
Loss on disposal of interest in a subsidiary	—	717
Provision for diminution in value of other investment	—	11,069
Provision for diminution in value of a jointly controlled entity	2,553	—
Decrease in trade receivables and other receivables	256,591	391,255
Increase in inventories	(8,986)	(4,065)
Increase in amount due from ultimate holding company	(8,688)	—
Increase in amounts due from fellow subsidiaries	(200)	—
Decrease in trade payables, other payables and accruals	(115,727)	(1,596,952)
Decrease in amounts due to minority shareholders	—	(27,662)
Decrease in amount due to ultimate holding company	(1,651)	—
Decrease in amounts due to fellow subsidiaries	(3,415)	—
Increase in deferred income	34,956	—
Effect of foreign exchange rate changes	9,556	4,076
Net cash inflow/(outflow) from operating activities	<u>1,249,856</u>	<u>(858,688)</u>

30. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Convertible notes and guaranteed convertible bonds HK\$'000	Minority interests HK\$'000	Bank loans and amounts due to minority shareholders HK\$'000
At 1 January 1998	5,262,887	506,346	295,103	996,737
Cash outflow from financing, net	(20)	—	—	(55,940)
Redemption of guaranteed convertible bonds	—	(511,990)	—	—
Issue of convertible notes	—	470,000	—	—
Capital contributed by a minority shareholder	—	—	81,402	—
Capital returned to a minority shareholder	—	—	(5,278)	—
Acquisition of subsidiaries	—	—	751,320	2,185,180
Disposal of a subsidiary	—	—	(37,566)	(263,869)
Share of profits for the year	—	—	80,659	—
Dividend paid to a minority shareholder	—	—	(55,207)	—
Amortization of borrowing cost	—	5,644	—	—
Exchange realignments	—	—	(1,231)	—
At 31 December 1998 and beginning of year	5,262,867	470,000	1,109,202	2,862,108
Cash outflow from financing, net	—	—	—	(299,296)
Capital contributed by a minority shareholder	—	—	65,506	—
Share of profits for the year	—	—	216,083	—
Share of reserves	—	—	12,133	—
Dividends paid to minority shareholders	—	—	(97,536)	—
Exchange realignments	—	—	—	8,173
At 31 December 1999	5,262,867	470,000	1,305,388	2,570,985

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30. NOTES TO THE CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries

	1999 HK\$'000	1998 HK\$'000
Net assets acquired		
Fixed assets	—	4,589,769
Deferred expenditure	—	4,414
Properties under development	—	51,690
Other investment	—	271
Inventories	—	74,888
Other receivable, deposits and prepayments	—	232,865
Cash and bank balances	—	62,299
Other payables and accruals	—	(1,813,545)
Trade creditors	—	(66,414)
Short term loans	—	(324,009)
Long term liabilities	—	(2,124)
Tax payable	—	(28,775)
Amounts due to minority shareholders	—	(1,854,737)
Minority interests	—	(751,320)
Share of net assets value of an associate	—	(51,988)
Goodwill arising on acquisition	—	516,400
	—	639,684
Satisfied by consideration cash	—	639,684

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

	1999 HK\$'000	1998 HK\$'000
Cash consideration	—	(639,684)
Cash and bank balances acquired	—	62,299
	—	(577,385)

The subsidiary acquired during last year contributed HK\$133,455,000 to the Group's net operating cash flows, paid HK\$83,469,000 in respect of the net returns on investments and servicing of finance and utilised HK\$13,798,000 for investing activities.

30. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) Disposal of a subsidiary

	1999 HK\$'000	1998 HK\$'000
Net assets disposed of		
Fixed assets	—	364,626
Properties under development	—	2,920
Deferred expenditure	—	13,196
Inventories	—	82,165
Other receivables, deposits and prepayments	—	34,662
Trade receivables	—	56,240
Cash and bank balances	—	22,354
Other payables and accruals	—	(69,053)
Trade payables	—	(38,022)
Bills payable	—	(18,659)
Short term loans	—	(152,514)
Loan due to minority shareholder	—	(106,674)
Minority interests	—	(37,566)
Long term loan	—	(4,681)
	—	148,994
Goodwill on consolidation	—	7,338
Exchange reserve	—	(1,291)
	—	155,041
Less: loss on disposal	—	(717)
	—	154,324
Satisfied by cash consideration	—	154,324

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

	1999 HK\$'000	1998 HK\$'000
Cash consideration	—	154,324
Cash and bank balances disposed of	—	(22,354)
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	—	131,970

Save as disclosed above, the subsidiary disposed of during last year had no material effect to the cash flows of the Group.

Notes to Financial Statements

31 December 1999

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Chadwick Developments Limited	Hong Kong	1,000 ordinary shares of HK\$1@ 10,000 non-voting deferred shares of HK\$1@	100 —	— —	Investment holding
China Trading Service Co., Ltd.#	PRC	RMB14,000,000	—	76	Freight forwarding
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	—	70	Passenger transportation
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	—	100	Tour operations
China Travel Service (Cargo) Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100 —	— —	Provision of freight forwarding and transportation services
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	— —	100 —	Passenger transportation
China Travel Wing Dah Hong (H.K.) Limited	Hong Kong	1,000 ordinary shares of HK\$100@	—	96.2	Provision of cargo transportation services
Coastline Development Limited	Hong Kong	2 ordinary shares of HK\$1@	—	100	Property investment holding

Notes to Financial Statements

31 December 1999

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1 @ 100 non-voting deferred shares of HK\$1 @	—	100	Property investment holding
CTII Overseas Finance Limited	Cayman Islands	1,000 shares of US\$1 @	100	—	Provision of financial services
CTII Worldwide Limited	British Virgin Islands	641,000 shares of US\$1 @	—	70	Provision of freight forwarding and transportation services
Glading Development Limited	Hong Kong	2 ordinary shares of HK\$1 @ 2 non-voting deferred shares of HK\$1 @	—	100	Property investment holding and hotel operations
Goster Resources Limited	British Virgin Islands	1 share of US\$1	—	100	Provision of financial services
Guangdong Qiaolu Bus Services Company Limited	Hong Kong	2 ordinary shares of HK\$1 @	—	100	Provision of motor vehicle rental services
Hotel Metropole Holdings Limited	British Virgin Islands	1 share of US\$1 100 non-voting deferred shares of US\$1 @	—	100	Property investment holding and hotel operations
Invincible Limited	Western Samoa	7,200,000 shares of US\$1 @	—	100	Investment holding

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Notes to Financial Statements

31 December 1999

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Lui Dah Trucking Company Limited	Hong Kong	100,000 shares of HK\$1@	—	96.2	Provision of cargo transportation services
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@	—	100	Property investment holding
		100 non-voting deferred shares of HK\$1@	—	—	
Princess Capital Limited	British Virgin Islands	1 share of US\$1	100	—	Securities trading
Rida Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	—	100	General trading
Rida Investment Company Limited	Macau	PTC99,000	—	100	Property investment holding
Shaanxi Weihe Power Co., Ltd.#	PRC	RMB1,800,000,000	—	51	Production and sales of electricity
Shenzhen The Splendid China Development Co., Ltd.	PRC	RMB184,000,000	51	—	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.	PRC	US\$29,500,000	51	—	Tourist attraction operations
Shenzhen Miniature World Food Co., Ltd.	PRC	US\$2,400,000	—	60	Restaurant operations

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK\$1 @	—	80	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Limited	PRC	RMB100,000,000	—	80	Golf club operations
Smart Concord Enterprises Limited	British Virgin Islands	1 ordinary share of US\$1 100 non-voting deferred shares of US\$1 @	—	100	Property investment holding and hotel operations
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1 @ 100 non-voting deferred shares of HK\$1 @	—	100	Property investment holding
Vigilant Resources Limited	British Virgin Islands	1 share of US\$1	100	—	Provision of financial services
Well Done Enterprises Inc.	British Virgin Islands	1 share of US\$1	—	100	Property investment holding

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

* The English name is a direct translation of the Chinese name

Not audited by Ernst & Young.

Notes to Financial Statements

31 December 1999

32. CONTINGENT LIABILITIES

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

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees given in lieu of utility and rental deposits	—	2,054	1,437	—
Guarantees given to banks in connection with facilities granted to and utilised by				
— associates	186,381	—	186,381	—
— jointly controlled entities	—	25,305	—	—
	<u>186,381</u>	<u>27,359</u>	<u>187,818</u>	<u>—</u>

33. COMMITMENTS

(a) Capital commitments

	Group	
	1999	1998
	HK\$'000	HK\$'000
Contracted, but not provided for	<u>247,489</u>	<u>378,485</u>
Authorised, but not contracted for	<u>84,938</u>	<u>—</u>

(b) Commitments under operating leases

At 31 December 1999, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	1,623	6,211
In the second to fifth years, inclusive	2,010	5,357
After five years	8,450	8,609
	<u>12,083</u>	<u>20,177</u>

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

34. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

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

Name of company	Nature	Group	
		1999 HK\$'000	1998 HK\$'000
Paid or payable to:			
China Travel Hip Kee Godown Hong Kong Limited	Car parking fee	2,245	3,007
China Travel Hip Kee Godown Hong Kong Limited	Storage charges	799	1,121
China Travel Service (Hong Kong) Limited	Train and boat tickets	17,255	13,868
China Travel Service (Hong Kong) Limited	Bus ticket service fee	2,608	1,812
China Travel Service (Hong Kong) Limited	Office rental	5,746	7,243
China Travel Service (Hong Kong) Limited	Management fee	—	1,798
China Travel Service (Hong Kong) Limited	Management service fee	16,411	25,023
China Travel Service (Hong Kong) Limited	Advertising fee	1,670	2,181
China Travel Service (Hong Kong) Limited	Others	711	1,981
China Travel Service (Holdings) Hong Kong Limited	Convertible notes interest	28,200	2,163
China Travel Service (Holdings) Hong Kong Limited	Management fee	2,892	—
China Travel Advertising Hong Kong Limited	Advertising fee	657	3,842

Notes to Financial Statements

31 December 1999

34. RELATED PARTY TRANSACTIONS (continued)

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

		Group	
Name of company	Nature	1999 HK\$'000	1998 HK\$'000
Paid or payable to:			
China Travel Decoration & Construction Company	Decoration expenses	—	1,694
China Travel Building Contractors Hong Kong Limited	Decoration expenses	4,158	6,295
China Travel Insurance Advisers Hong Kong Limited	Insurance payments	5,759	7,292
Tai Sun Services Company Limited	Coolie charges	1,768	2,322
Grant Tour & Travel Limited	Macau tour charge	1,461	—
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charge	1,136	—
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charge	4,216	—
Received or receivable from:			
China Travel Service (Holdings) Hong Kong Limited	Reimbursement of PRC withholding tax on interest income	50,269	—
China Travel Service (Hong Kong) Limited	Freight charge	2,987	—
Tai Sun Services Company Limited	Freight charge	1,047	—
China Travel Service (Hong Kong) Limited	Admission tickets	10,173	13,506
China Travel Service (Hong Kong) Limited	Hotel room rental	8,087	9,357
China Travel Trading Company (Hong Kong) Limited	Rental income	1,735	416
China Travel Service (Hong Kong) Limited	Coach and tour income (note 1)	675	3,768

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

34. RELATED PARTY TRANSACTIONS (continued)

(ii) Companies connected with substantial shareholders of subsidiaries of the Company

Name of company	Nature	Group	
		1999 HK\$'000	1998 HK\$'000
Paid or payable to:			
Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity	15,929	13,345
China Northwest Electric Power Group Co.	Power despatch service fee (note 2)	39,527	7,295
China Northwest Electric Power Group Co.	Interest	42,268	8,941
Industry Development Company of Weihe Power Plant	Ash disposal service charge	1,399	1,407
Industry Development Company of Weihe Power Plant	Purchase of materials	55,187	3,635
Shannxi Provincial Electric Power Construction Investment and Development Corporation	Interest	37,182	5,662
Shenzhen SEC Overseas Chinese Town Construction Headquarters	Land use rights fee	18,834	7,486
Received or receivable from:			
China Northwest Electric Power Group Co.	Sales of electricity (note 3)	1,576,744	167,777
China Northwest Electric Power Group Co.	Machinery management fee (note 2)	3,061	3,471
Industry Development Company of Weihe Power Plant	Sales of materials	—	255
Finance Company of Northwest Power Plant	Interest (note 2)	131	82

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

34. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (1) Coach income paid to China Travel Tours Transportation Services Hong Kong Limited by CTS (HK) during the year amounted to HK\$675,000, which was within 0.3% of the audited consolidated net tangible assets of the Group.
 - (2) The aggregate consideration in respect of machinery management fee, power despatch services charges and interest income transacted during the year did not exceed 1.2% of the audited consolidated net tangible assets of the Group.
 - (3) Electricity income received from China Northwest Electric Power Group Co. for the year ended 31 December 1999 did not exceed 65% of the consolidated turnover of the Group.
- (iii) Pursuant to an agreement entered into on 14 December 1998, Dalmore Investments Limited acquired from China Travel Service (Hong Kong) Limited ("CTSHK"), a wholly-owned subsidiary of CTS (Holdings), its interest in Progress Power Limited ("Progress Power"), representing its entire issued share capital, and a shareholder's loan of approximately HK\$226 million to Progress Power.

The consideration of HK\$330 million paid by the Group under this agreement was arrived at after arm's length negotiations between the parties.

- (iv) On 16 November 1999, Common Well Limited ("Common Well"), a wholly-owned subsidiary of the Company, entered into a joint development agreement ("JD Agreement") with Longbarn International Limited ("Longbarn"), a wholly-owned subsidiary of Hing Kong Holdings Limited ("Hing Kong"), whereby Longbarn will, through a subsidiary, jointly develop the Site (as defined below) with Common Well.

Pursuant to the JD Agreement, Longbarn will, through a wholly-owned subsidiary ("Developer") jointly develop a site ("Site") known as Lot Nos. 2836R.P., 2837, 2838, 2840, 2846 and 2847 all in Demarcation District No. 51, Fanling, New Territories which is currently owned by Common Well for residential use and/or such other purposes as Common Well and the Developer may agree ("Development"). Each of Common Well and the Developer shall bear 50% of all costs, expenses and charges in carrying out and completing the Development and the sale thereof.

34. RELATED PARTY TRANSACTIONS *(continued)*

- (v) On 16 November 1999, Goster Resources Limited ("Goster"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement ("Sale and Purchase Agreement") with CPL Investments Limited ("CPL Investments"), a wholly-owned subsidiary of Hing Kong whereby CPL Investments will acquire the property situate at 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong ("Property") from Goster.

Consideration for the acquisition of the Property is HK\$106 million of which HK\$40 million was satisfied by payment in cash and HK\$66 million was satisfied by the issue by Hing Kong of 10 convertible bonds.

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

This transaction was completed subsequent to the balance sheet date on 10 January 2000.

35. POST BALANCE SHEET EVENTS

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

(i) Acquisition of 18% interest in China Travel Net Limited

Pursuant to an agreement dated 20 March 2000, Good Way Technology Limited ("Good Way"), a wholly-owned subsidiary of the Company, agreed to acquire from CTS (Holdings) 18% of the entire issued share capital of China Travel Net Limited ("CT Net") at a cash consideration of HK\$180,000,000 (the "Acquisition").

In consideration of HK\$1 payable by the Company to CTS (Holdings), the Company will be granted an option by CTS (Holdings) to require CTS (Holdings) to sell further shares in the listing vehicle of CT Net ("Listco") which will be equal to 2% of the entire issued share capital of Listco immediately prior to the listing of shares in Listco on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, at a consideration of HK\$20,000,000.

The Acquisition was completed on 21 March 2000.

35. POST BALANCE SHEET EVENTS *(continued)*

(ii) Hotel management contract

On 29 March 2000, three wholly owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Smart Concord Enterprises Limited (the “Companies”) which are the immediate holding companies of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (the “Hotels”), respectively entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited (“CT Hotel”). CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to the management agreement, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the Companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of the Hotels for the year. The total remuneration payable by the Group to CT Hotel for the year of 2000 under the management agreement is estimated to be approximately HK\$3,200,000.

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, the profit and loss account, balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. Certain comparative amounts have also been restated to reflect the change in accounting policy and correction of fundamental errors as further explained in note 13 to the financial statements.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 May 2000.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Travel International Investment Hong Kong Limited (“the Company”) will be held at Pearl Room, 3rd Floor, Hotel Furama Hong Kong, 1 Connaught Road Central, Hong Kong on 23 June, 2000 (Friday) at 4:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the Directors and Auditors for the year ended 31 December, 1999;
2. To declare a final dividend;
3. To re-elect Directors and to fix their remuneration;
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration;
5. As special business to consider and, if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (b) of this ordinary resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each (“Shares”) in the capital of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this ordinary resolution shall not exceed 10% of the aggregate nominal amount of Shares in issue as at the date of the passing of this ordinary resolution and the authority pursuant to paragraph (a) of this ordinary resolution shall be limited accordingly; and
- (c) for the purposes of this ordinary resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;

Notice of Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and
 - (iii) the date on which the authority given under this ordinary resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.”
6. As special business to consider and, if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution:

“THAT:

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

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

Notice of Annual General Meeting

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

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

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

“**THAT** conditional upon resolutions numbered 5 and 6 set out in the notice convening this meeting of which this resolution forms part being duly passed the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot and issue additional shares pursuant to the resolution numbered 6 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution numbered 5 set out in the notice convening this meeting, provided that such an amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this ordinary resolution.”

Notice of Annual General Meeting

8. To transact any other ordinary business of the Company.

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

Hong Kong, 26 May, 2000

Registered Office:

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

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting will be enclosed with the 1999 Annual Report to be despatched to the shareholders. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.
- (3) In order to be valid, the instrument appointing a proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's registered office at 12th floor, CTS House, 78-83 Connaught Road Central, Hong Kong, at least 48 hours before the time appointed for holding of the meeting or adjourned meeting (as the case may be).
- (4) In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- (5) The register of members of the Company will be closed, for the purpose of determining entitlements to the proposed final dividend and the identity of members who are entitled to attend and vote at the meeting from 19 June 2000 (Monday) to 23 June 2000 (Friday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Standard Registrars Limited at 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 16 June 2000 (Friday).
- (6) An Explanatory Statement regarding resolutions numbered 5, 6 and 7 above containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolutions will be set out in a separate document and despatched to shareholders together with the 1999 Annual Report.
- (7) With respect to resolutions numbered 5 and 6 above, the Directors of the Company wish to state that they have no immediate intention of exercising the repurchase mandate to repurchase shares and the general mandate to allot shares in the capital of the Company.