



REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

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

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

REPORT OF THE DIRECTORS

SEGMENTAL INFORMATION (continued)

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

RESULTS AND DIVIDENDS

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

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

SUMMARY FINANCIAL INFORMATION

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

FIXED ASSETS

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

SUBSIDIARIES

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

JOINTLY CONTROLLED ENTITIES

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

ASSOCIATES

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

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

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

INTEREST CAPITALISED

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

SHARE CAPITAL AND SHARE OPTIONS

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

CONVERTIBLE NOTES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

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

CHARITABLE CONTRIBUTIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

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

Independent Non-Executive Directors:

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

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

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

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

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

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

DIRECTORS' SERVICE CONTRACTS

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

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

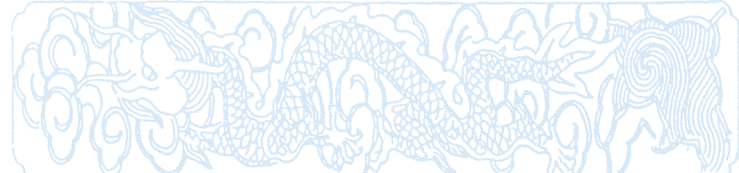
DIRECTORS' INTERESTS IN CONTRACTS

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

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

MANAGEMENT CONTRACTS

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



MANAGEMENT CONTRACTS *(continued)*

(iii) Hotel management contract

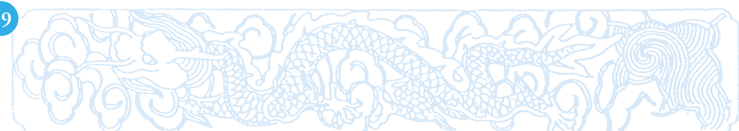
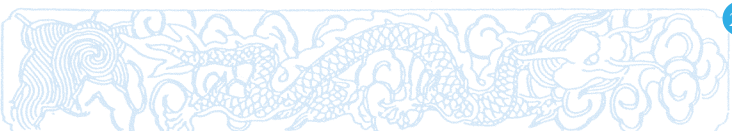
On 29 March 2000, three wholly owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Smart Concord Enterprises Limited (the “Companies”) which are the immediate holding companies of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (the “Hotels”),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

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

CONNECTED TRANSACTIONS

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

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



REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

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

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

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

CONNECTED TRANSACTIONS (continued)

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

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

DIRECTORS’ INTERESTS IN SHARES

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

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

Notes:

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

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

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

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

RETIREMENT BENEFIT SCHEME

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

CODE OF BEST PRACTICE

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

PRACTICE NOTE 19 OF THE LISTING RULES

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

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

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

AUDIT COMMITTEE

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

AUDITORS

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

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

ON BEHALF OF THE BOARD

Che Shujian

Chairman

Hong Kong

25 April 2001