

# Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 36 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## SEGMENTAL INFORMATION

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

## RESULTS AND DIVIDENDS

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

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

## SUMMARY FINANCIAL INFORMATION

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

## FIXED ASSETS AND INVESTMENT PROPERTIES

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

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

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

### **CONVERTIBLE BONDS AND CONVERTIBLE NOTES**

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

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$377,247,000. In addition, the Company's share premium account, in the amount of HK\$5,919,433,000, may be distributed in the form of fully paid bonus shares.

### **CHARITABLE CONTRIBUTIONS**

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

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

## DIRECTORS

The Directors of the Company during the year were:

### Executive Directors:

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

### Independent Non-Executive Directors:

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

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

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' INTERESTS IN CONTRACTS

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

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

### MANAGEMENT CONTRACTS

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") pursuant to which CTS (Holdings) has undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and will continue thereafter unless it is terminated by either party giving to the other one month prior written notice. The Group has not made any payment during the year under such agreement.
- (ii) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Smart Concord Enterprises Limited ("the Companies") which are the immediate holding companies of The Metropole Hotel, Hotel Concourse and Hotel New Harbour ("the Hotels") respectively entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited ("CT Hotel"). CT Hotel is a wholly owned subsidiary of CTS (Holdings). Pursuant to the management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the Companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of the Hotels for the year.

Messrs. Che Shujian, Zhang Xuewu, Zhu Yuening, Chen Shoujie, Zheng Hongqing, Zheng Heshui, Shen Zhuying, Lo Sui On and Zhang Fengchun are Directors of the Company and CTS (Holdings), which is the ultimate holding company of the Company, as well as all the related companies as listed in note 40(a) to the financial statements. None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries referred to above.

## CONNECTED TRANSACTIONS

During the year, the following transactions were recorded by Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd. which are 51% owned PRC joint ventures of the Group, and CTII Worldwide Limited, which is 70% owned subsidiary of the Group, with their substantial shareholders or the associates of these substantial shareholders:

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

Conditional waivers have been granted by The Stock Exchange of Hong Kong Limited ("the Stock Exchange") for strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") by the Company in respect of the transactions as set out in note 40(a)(i), (iv), (ix), (xi) to (xiv), (xviii), (xxiii), (xxvi), (xxx) and (xxxiii) to (xxxvii) to the financial statements under the heading of "Related Party Transactions".

These connected transactions have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business and on normal commercial terms;
- (ii) are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions (or where there is no such agreement, on terms no less favourable than terms available to third parties).

Save as aforesaid, transactions as set out in note 40(b) to the financial statements under the heading of "Related Party Transactions" have been previously announced in the newspapers by the Company. The remaining transactions as set out under the heading of "Related Party Transactions" were also connected transactions.

**DIRECTORS' INTERESTS IN SHARES AND WARRANTS**

As at 31 December 2001, the interests of the Directors in the share capital and warrants of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

**Interest in Ordinary Shares of the Company**

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

**Interest in Warrants of the Company**

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

*Notes:*

- (i) The shares beneficially owned by certain connected persons in which Mr. Chen Shoujie is taken to be interested by virtue of the SDI Ordinance.
- (ii) The shares beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested by virtue of the SDI Ordinance.
- (iii) The shares beneficially owned by certain charitable foundations in which Dr. Fong Yun Wah is the chairman and has non-beneficial interests.

Save as disclosed above, none of the Directors or their associates had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

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

Notes:

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

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

## INFORMATION OF SHARE OPTION SCHEME

On 21 October 1992, a share option scheme ("the Scheme") was approved by the shareholders under which the Company's Directors may grant options to employees of the Group, including directors of any members of the Group, to subscribe for shares of the Company. The subscription price will be determined by the Company's Board of Directors and will not be less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is higher.

**INFORMATION OF SHARE OPTION SCHEME** (continued)

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company. An option may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the Company's Board of Directors to each grantee and, in any event, such period of time shall not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted and shall expire at the end of the three year period or on 20 October 2002, whichever is earlier. An option may lapse earlier in the event of termination of employment, retirement or death of the employees, or other specified circumstances.

At 31 December 2001, no share option was outstanding under the Scheme and none of the Company's Directors and none of the Group's employees were granted share options during the year.

**SUBSTANTIAL SHAREHOLDERS**

At 31 December 2001, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest in 10% or more in the issued share capital of the Company:

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

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

Save as disclosed above, the register of shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company at 31 December 2001.



## PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2001, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

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

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice ("the Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles.

## AUDIT COMMITTEE

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

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

## AUDITORS

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

ON BEHALF OF THE BOARD

**Che Shujian**  
*Chairman*

Hong Kong, 10 April 2002