

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 38 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 110.

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

SUMMARY FINANCIAL INFORMATION

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

FIXED ASSETS AND INVESTMENT PROPERTIES

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

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year are set out in note 34 and 35 to the financial statements.

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GUARANTEED CONVERTIBLE BONDS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$331,283,000 of which HK\$169,288,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$5,932,834,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

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

Independent Non-Executive Directors:

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

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

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DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited ("CTS Holdings") pursuant to which CTS Holdings has undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and will continue thereafter unless it is terminated by either party giving to the other one month prior written notice. No payment has been made during the year by the Group under such agreement.
- (ii) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Smart Concord Enterprises Limited (collectively, "the Companies") which are the owners of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (collectively, "the Hotels"), respectively, entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited ("CT Hotel"). CT Hotel is a wholly owned subsidiary of CTS Holdings. Pursuant to the hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the Companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of the Hotels for the year.

Messrs. Che Shujian, Zhang Xuewu, Shen Zhuying, Zheng Heshui, Lo Sui On, Chen Shoujie, Zheng Hongqing and Zhang Fengchun are Directors of the Company and CTS Holdings, which is the holding company of the Company, as well as all the related companies as listed in note 42 to the financial statements. None of the above-named Directors has any beneficial interest in the share capital of CTS Holdings or any of its subsidiaries referred to above.

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CONNECTED TRANSACTIONS

- (i) On 15 August 2003, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Overseas Chinese Service Centre for the purchase of all the interest in the capital of Shanghai Huajian Import-Export Company ("SHIEC") for a consideration of RMB12,000,000 (i.e. approximately HK\$11,320,755). The consideration was arrived at after arm's length negotiations between the parties with reference to the valuation of SHIEC as estimated by a PRC valuer of approximately RMB16,708,400 (i.e. approximately HK\$15,762,642) as at 30 September 2002.
- (ii) During the year, the following transactions were recorded by Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd. which are 51% owned PRC subsidiaries of the Group, with their substantial shareholders or the associates of these substantial shareholders:

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

Conditional waivers have been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") by the Company in respect of the transactions as set out in note 42(1),(3) to (8),(12),(16) to (19) to the financial statements under the heading of "Related Party Transactions".

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

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

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

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DIRECTORS' INTERESTS IN SHARES

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

Long position in shares of the Company:

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

Notes:

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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SUBSTANTIAL SHAREHOLDERS

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

Long position in the shares of the Company:

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

Notes:

- 17,250,000 shares are held by Foden which is a wholly-owned subsidiary of CTS Holdings.
- The entire issued share capital of CTS Holdings is beneficially owned by CTS-PRC. CTS Holdings is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS Holdings.

Save as disclosed above, as at 31 December 2003, the directors was not aware of any other person (other than the directors or chief executive of the Company) who has an interest, directly or indirectly, or short position in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, at 31 December 2003, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS Holdings, during the tenure of such loan facilities. The specific performance obligation is that CTS Holdings shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amount outstanding as at 31 December 2003	Final maturity of the loan facilities
HK\$700 million	30 October 2007
HK\$460 million	30 April 2005

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CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

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

AUDITORS

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

ON BEHALF OF THE BOARD

Che Shujian

Chairman

Hong Kong, 31 March 2004