

# Report of the Directors

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

## Principal Activities

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

## Results and Dividends

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

An interim dividend of HK5 cents per ordinary share was paid on 22 September 2004. The Directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year ended 31 December 2004, to shareholders on the register of members on 25 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheets.

## Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 6. This summary does not form part of the audited financial statements.

## Fixed Assets and Investment Properties

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

## Share Capital, Share Options and Warrants

Details of movements in the share capital, share options and warrants of the Company during the year, together with the reasons therefore, are set out in notes 34 and 35 to the financial statements.

# Report of the Directors



## Guaranteed Convertible Bonds

In 2003, zero coupon guaranteed convertible bonds of an aggregate principal amount of US\$150,000,000 (the “Bonds”) due in September 2008 were issued by China Chance Developments Limited, a wholly-owned subsidiary of the Company. The Bonds were listed on the Luxembourg Stock Exchange. Subject to the terms and conditions of the Bonds, the bondholders may convert the Bonds into shares of the Company. Details of the Bonds are set out in note 32 to the financial statements.

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

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

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

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

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

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## Reserves

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

# Report of the Directors

## Distributable Reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$300,675,000 of which HK\$223,383,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$6,328,136,000, may be distributed in the form of fully paid bonus shares.

## Major Customers and Suppliers

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

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

## Directors

During the year, the Directors of the Company were:

### Executive Directors:

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

### Independent Non-Executive Directors:

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

# Report of the Directors

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

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

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

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

## Biographies of Directors and Senior Management

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

## Directors' Service Contracts

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

## Directors' Remuneration

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

## Directors' Interests in Contracts

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

# Report of the Directors

## Management Contracts

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”), the controlling shareholder of the Company, pursuant to which CTS (Holdings) has undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and will continue thereafter unless it is terminated by either party giving to the other one month’s prior written notice. No payment has been made during the year by the Group under such agreement.
- (ii) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Metrocity Hotel Limited (formerly known as Smart Concord Enterprises Limited) (collectively, “the Companies”) which are the owners of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (collectively, “the Hotels”), respectively, entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited (“CT Hotel”).

CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to the hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the Companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of the Hotels for the year.

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

## Connected Transactions and Continuing Connected Transactions

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

### Connected Transactions

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

# Report of the Directors

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

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

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

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

## Continuing Connected Transactions

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

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

# Report of the Directors

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

- (ii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its subsidiaries ("CTS (Holdings) Group") in the following categories:
- (a) Provision of insurance brokerage services by CTS (Holdings) Group;
  - (b) Provision of decoration and maintenance services by CTS (Holdings) Group;
  - (c) Provision of sightseeing cruise services by CTS (Holdings) Group;
  - (d) Sale of tourism services/products to CTS (Holdings) Group;
  - (e) Provision of stevedoring services by CTS (Holdings) Group;
  - (f) Lease arrangements; and
  - (g) Provision of application service provider related services to CTS (Holdings) Group.

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

- (iii) During the year, the following transactions were recorded by Shenzhen The Splendid China Development Co., Ltd. and Shenzhen The World Miniature Co., Ltd. which are 51% owned PRC subsidiaries of the Group, with their substantial shareholders or the associates of these substantial shareholders:

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

# Report of the Directors

Conditional waivers have been granted by the Stock Exchange for strict compliance with the Listing Rules by the Company in respect of the transactions as set out in note 42(1),(3) to (6),(10),(14) to (17) to the financial statements under the heading of “Related Party Transactions”.

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

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

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

## Directors’ Interests in the Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests and short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”), were as follows:–

- (i) **Long position in the shares of the Company**  
*ordinary shares of HK\$0.10 each of the Company*

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

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



# Report of the Directors

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

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

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

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

### Directors' Rights to Acquire Shares or Debentures

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

### Share Option Scheme

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

### Substantial Shareholders

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

# Report of the Directors



(i) **Long position in the shares of the Company**  
ordinary shares of HK\$0.10 each of the Company

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

(ii) **Long position in the underlying shares of the Company**  
bonus warrants of the Company (to be expired in May 2006)

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

Notes:

- The entire issued share capital of CTS (Holdings) is beneficially owned by CTS-PRC. CTS (Holdings) is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS (Holdings).
- These shares and underlying shares are held by FIL which is a wholly-owned subsidiary of CTS (Holdings).
- 2,477,443,940 shares were held by CTS (Holdings) directly.
- Bonus warrants with 495,488,788 underlying shares were held by CTS (Holdings) directly.

# Report of the Directors

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

## Disclosures pursuant to Rule 13.21 of the Listing Rules

As at 31 December 2004, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of such obligation will constitute an event of default, in which case, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

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

## Sufficiency of Public Float

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

## Corporate Governance

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

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

# Report of the Directors



## Audit Committee

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

The Company’s Audit Committee established in 1999 for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

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

## Remuneration Committee

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

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

## Post Balance Sheet Event

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

## Auditors

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

ON BEHALF OF THE BOARD

**Che Shujian**

Chairman

Hong Kong, 11 April 2005

