

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 2002.

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 37 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 profit for the year ended 31 December 2002 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 97.

An interim dividend of HK5 cents per ordinary share was paid on 16 September 2002. The Directors recommend the payment of a final dividend of HK4 cents per ordinary share in respect of the year to shareholders on the register of members on 30 May 2003. 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 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 notes 33 and 34 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 35 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, 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\$313,560,000, of which HK\$168,909,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$5,922,231,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$26,000.

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*)

Mr. Chen Shoujie

Mr. Zheng Hongqing

Mr. Zheng Heshui

Mr. Shen Zhuying (*Managing Director*)

Mr. Lo Sui On

Mr. Zhang Fengchun

Mr. Ng Chi Man, Michael

Mr. Liu Li

(*appointed on 18 February 2002*)

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DIRECTORS *(continued)*

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"), Messrs. Shen Zhuying, Zhang Fengchun, Ng Chi Man, Michael and Yeh Meou Tsen, Geoffrey will retire at the forthcoming Annual General Meeting (the "AGM") and, being eligible, offer themselves for re-election.

DIRECTOR'S AND MANAGEMENT'S BIOGRAPHIES

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

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 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' 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 and 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. 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 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, 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 41 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

- (i) On 23 April 2002, China Travel Service Cargo (Investment) Limited and China Travel Service (Cargo) Hong Kong Limited (“CTS Cargo”), two of the wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement with JHJ International (Hong Kong) Limited for the sale of 70% of the issued share capital of CTII Worldwide Limited (“CWL”) and the advance (the “Advance”) made by CTS Cargo to CWL. The total consideration was based on 70% of the audited net asset value of CWL as at 31 December 2001 and the face value of the Advance at completion date of approximately HK\$2,192,000 and HK\$2,264,000 respectively.

CONNECTED TRANSACTIONS *(continued)*

- (ii) On 13 June 2002, Invincible Limited, a wholly-owned subsidiary of the Company, entered into agreements with Shenzhen Guan Hualong Industry Co. (“Guan Hualong”), a non wholly-owned subsidiary of Shenzhen Baoheng (Group) Co., Ltd. (“Baoheng”) and Tops Properties Limited, a wholly-owned subsidiary of Baoheng to purchase all the remaining interests in Shenzhen Tycoon Golf Course, comprising 20% of the registered and paid up capital of Shenzhen Tycoon Golf Club Co., Ltd. (“Shenzhen Club Co.”), RMB10,000,000 advance made to Shenzhen Club Co., 20% of the issued capital of Shenzhen Tycoon Golf Club Co., Limited (incorporated in Hong Kong) and Tycoon Golf Club Co., Limited (incorporated in Samoa), at a total consideration of approximately RMB30,002,000. The above consideration was arrived at after arm’s length negotiations between the parties with reference to the initial investment costs made by Baoheng and its subsidiaries. On completion, Guan Hualong was entitled to two free corporate (single nominee) memberships with Shenzhen Tycoon Golf Course. Besides, Shenzhen Club Co. acquired from Baoheng all golf equipment currently provided free of charge to the Shenzhen Club Co. by Baoheng at a total consideration of RMB3,800,000.

- (iii) On 5 November 2002, Alton Services Limited, a wholly-owned subsidiary of the Company, entered into agreements with PCCW e-Ventures Limited and Softbank Investment International (Strategic) Limited, respectively, to acquire all the remaining 20% issued share capital of China Travel Net Limited (“CTN”) at a total consideration of HK\$80,000,000. The consideration was arrived at after arm’s length negotiations between the parties with reference to the estimated net profits of CTN and its subsidiaries of HK\$44,000,000 for the year 2002.

CONNECTED TRANSACTIONS *(continued)*

- (iv) 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 and CWL, which is a disposed 70% owned subsidiary of the Group, with their substantial shareholders or the associates of these substantial shareholders:

Name of Company	Nature of transaction	Group	
		2002 HK\$'000	2001 HK\$'000
<i>Paid or payable to:</i>			
(a) Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity charges	17,619	20,753
(b) Shenzhen SEC Overseas Chinese Town Construction Headquarters	Land use rights fees	11,933	8,480
<i>Received or receivable from:</i>			
(c) JHJ International Limited	Freight charges	Note	9,076

Note: Due to the disposal of 70% interest in CWL, the current year figure is impractical to obtain.

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 notes 41(1), (9), (12) to (14), (17), (22), (25), (29) and (33) to (36) 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:

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

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CONNECTED TRANSACTIONS *(continued)*

- (3) 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.

DIRECTORS’ INTERESTS IN SHARES AND WARRANTS

At 31 December 2002, 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

Name of Director	Number of shares held and nature of interest			Total
	Personal	Corporate	Other	
Mr. Chen Shoujie	20,000 <i>(i)</i>	–	–	20,000
Mr. Shen Zhuying	2,500,000	–	–	2,500,000
Dr. Yeh Meou Tsen, Geoffrey	8,000,000	–	–	8,000,000
Dr. Fong Yun Wah	–	50,000 <i>(ii)</i>	502,000 <i>(iii)</i>	552,000

Interest in warrants

Name of Director	Number of warrants held and nature of interest			Total
	Personal	Corporate	Other	
Dr. Yeh Meou Tsen, Geoffrey	200,000	–	–	200,000

Notes: (i) These shares are beneficially owned by certain connected persons in which Mr. Chen Shoujie is taken to be interested by virtue of the SDI Ordinance.

(ii) 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.

(iii) 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 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

Apart from as disclosed under the heading "Directors' Interests in Shares and Warrants" above, at no time during the year was the Company, its holding company or any of its subsidiaries and 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

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee Benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 34 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 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	59.08%
China Travel Service Head Office of the PRC	2,494,693,940	59.08%

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 2002.

PRACTICE NOTE 19 OF THE LISTING RULES

At 31 December 2002, 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 tenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amount outstanding as at 31 December 2002	Final maturity of the loan facilities
HK\$700 million	30 October 2007
HK\$300 million	30 April 2005

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 as 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'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, 14 April 2003