



# 香港中旅國際投資有限公司

## CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

### 2003 RESULTS ANNOUNCEMENT

#### RESULTS

The Board of Directors of China Travel International Investment Hong Kong Limited (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003 are as follows:

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	2	3,300,916	3,401,695
Cost of sales		(2,397,847)	(2,251,890)
Gross profit		903,069	1,149,805
Other revenue and gains	3	57,867	133,383
Distribution costs		(49,730)	(62,221)
Administrative expenses		(592,613)	(602,101)
Other operating expenses, net		(153,575)	(180,819)
Revaluation deficit of hotel properties and impairment of fixed assets and goodwill		(387,111)	(18,656)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(222,093)	419,391
Finance costs	5	(28,066)	(43,114)
Share of profits and losses of:			
Jointly controlled entities		278,996	261,243
Associates		3,854	46,950
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX		32,691	684,470
Tax	6	(37,976)	(84,327)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(5,285)	600,143
Minority interests		(34,525)	(67,545)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(39,810)	532,598
EARNINGS/(LOSS) PER SHARE (HK CENTS)	7		
Basic		(0.94)	12.62
Diluted		N/A	12.29
DIVIDEND PER SHARE (HK CENTS)			
Interim		-	5
Final		4	4

#### NOTES:-

##### 1. Accounting Policy

The Directors are responsible for the preparation of the Group's audited financial statements which have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The accounting policies and method of computation used in the preparation of these financial statements are consistent with those used in audited financial statements for the year ended 31 December 2002 except that the Group has changed its accounting policy to comply with the SSAP12 (Revised) "Income tax" issued by the Hong Kong Society of Accountants, which becomes effective for this accounting year.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

This change in accounting policy has resulted in an increase in the Group's deferred tax assets and liabilities as at 31 December 2003 by HK\$9,173,000 and HK\$229,570,000, respectively, and an increase in deferred tax liabilities by HK\$290,056,000 as at 31 December 2002. As a consequence, the Group's consolidated net loss attributable to shareholders before the share of profits of associates for the year ended 31 December 2003 has been decreased by HK\$1,771,000, the consolidated net profit attributable to shareholders for the year ended 31 December 2002 has been decreased by HK\$6,875,000 while the share of profits of associates decreased by HK\$847,000 and the consolidated retained profits as at 1 January 2003 and 2002 have been reduced by HK\$50,740,000 and HK\$43,018,000, respectively.

##### 2. Segment Information

The Company is an investment holding company and the Group principally operates in eight business segments as described below. The analysis of the Group's revenue and results by business segments and geographical segments are as follows:

###### (a) Business segments

The following tables present revenue and profit/(loss) information for the Group's business segments.

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and trans- portation services	Hotel operations	Travel and travel- related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000
Segment revenue:										
Sales to external customers	127,416	294,686	1,284,969	255,464	1,307,896	29,802	-	683	-	3,300,916
Intersegment revenue	4,241	1,451	280	11,776	7,327	-	-	22,335	(47,410)	-
Other revenue and gains	2,582	6,461	2,928	3,835	20,451	207	377	154	-	36,995
Total	134,239	302,598	1,288,177	271,075	1,335,674	30,809	377	23,172	(47,410)	3,337,911
Segment results	11,726	66,149	27,062	(150,763)	(61,107)	(98,523)	(1,172)	(34,051)	-	(240,679)
Interest income and unallocated gains										20,872
Unallocated expenses										(2,286)
Loss from operating activities										(222,093)
Finance costs										(28,066)
Share of profits and losses of:										
Jointly controlled entities	-	-	(2,068)	-	405	-	280,659	-	-	278,996
Associates	3,669	185	-	-	-	-	-	-	-	3,854
Profit from ordinary activities before tax										32,691
Tax										(37,976)
Loss before minority interests										(5,285)
Minority interests										(34,525)
Net loss from ordinary activities attributable to shareholders										(39,810)

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and trans- portation services	Hotel operations	Travel and travel- related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	116,028	401,064	796,461	310,017	1,743,250	34,645	-	230	-	3,401,695
Intersegment revenue	6,008	746	80	11,668	65,123	-	-	1,384	(85,009)	-
Other revenue and gains	3,135	8,919	2,268	55,170	13,615	-	-	28	-	83,135
Total	125,171	410,729	798,809	376,855	1,821,988	34,645	-	1,642	(85,009)	3,484,830
Segment results	10,684	125,699	29,975	66,442	219,199	(28,319)	(1,011)	(53,155)	-	369,516
Interest income and unallocated gains										50,248
Unallocated expenses										(373)
Profit from operating activities										419,391
Finance costs										(43,114)
Share of profits and losses of:										
Jointly controlled entities	-	-	(6,859)	-	-	-	268,102	-	-	261,243
Associates	46,850	221	(121)	-	-	-	-	-	-	46,950
Profit from ordinary activities before tax										684,470
Tax										(84,327)
Profit before minority interests										600,143
Minority interests										(67,545)
Net profit from ordinary activities attributable to shareholders										532,598

###### (b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group	Hong Kong		PRC		Overseas		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	1,240,973	1,610,045	1,766,861	1,328,737	293,082	462,913	-	-	3,300,916	3,401,695
Other revenue and gains	25,281	65,980	6,971	11,362	4,743	5,793	-	-	36,995	83,135
Total	1,266,254	1,676,025	1,773,832	1,340,099	297,825	468,706	-	-	3,337,911	3,484,830

###### 3. Other Revenue and Gains

	2003 HK\$'000	2002 HK\$'000
Reversal of hotel property revaluation deficits	-	50,470
Interest income	20,825	22,723
Gain on disposal of fixed assets, net	533	1,365
Exchange gains, net	5,607	5,134
Write-back of long outstanding payables	-	27,174
Gross rental income	13,512	16,069
Dividend income from unlisted investments	47	351
Gain on disposal of associates	236	-
Others	17,107	10,097
Total	57,867	133,383

###### 4. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging /(crediting):

	2003 HK\$'000	2002 HK\$'000 (Restated)
Depreciation	134,488	135,095
Goodwill amortisation for the year *	37,757	39,595
Negative goodwill recognised as income during the year **	(4,314)	(4,414)
Total	167,931	170,276

\* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

\*\* The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

###### 5. Finance Costs

	2003 HK\$'000	2002 HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(20,216)	(31,729)
Finance lease and hire purchase contracts	(41)	(149)
Amortisation of deferred borrowing costs	(2,907)	(12,069)
Accretion of premium on convertible bond	(4,902)	-
Total finance costs	(28,066)	(43,947)
Less: Interest capitalised	-	833
Total	(28,066)	(43,114)

###### 6. Tax

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
The People's Republic of China:		
Current-Hong Kong		
Charge for the year	(45,840)	(46,514)
Overprovision in prior years	298	13,627
Current-Elsewhere	(12,876)	(24,450)
Current-Overseas	(329)	(2,474)
Deferred tax	65,923	12,606
Total	7,176	(47,205)
Share of tax attributable to:		
Jointly controlled entities	(42,559)	(33,371)
Associates	(2,593)	(3,751)
Total	(45,152)	(37,122)
Total charge for the year	(37,976)	(84,327)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

###### 7. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$39,810,000 (2002: profit (as restated) of HK\$532,598,000), and the weighted average of 4,227,324,010 (2002: 4,221,683,129) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2003 has not been disclosed, as the Company's convertible bonds and bonus warrants outstanding during the year had anti-dilutive effect on the basic loss per share for the year.

For the year ended 31 December 2002, the calculation of diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders (as restated) of HK\$532,598,000. The weighted average number of ordinary shares used in the calculation of 4,221,683,129 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 113,575,507 shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options and bonus warrants.

###### 8. Comparative Amounts

Certain comparative amounts have been restated for the adoption of SSAP 12 (Revised) "Income Tax" and the alignment of accounting policy of a PRC subsidiary in classification of turnover and cost of sales.

#### FINAL DIVIDEND

The Board of Directors has resolved to recommend the payment of a final dividend of HK4 cents (2002: final dividend of HK4 cents) per ordinary share for the year ended 31 December 2003.

Subject to shareholders' approval with regard to the proposed payment of the final dividends at the forthcoming Annual General Meeting to be held on Thursday, 13 May 2004, the proposed dividends are expected to be paid on Friday, 28 May 2004.

According to the terms of the zero coupon guaranteed convertible bonds due 2008 convertible into shares of, and guaranteed by, the Company issued on 30 September 2003 (the "Convertible Bonds"), the payment of a cash dividend for the year ended 31 December 2003 may trigger adjustment to the conversion price of HK\$1.90 per share, as follows:-

The conversion price shall be adjusted by multiplying the conversion price in force immediately before the distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the average of the closing prices published in the Daily Quotation Sheet of the Stock Exchange for the five consecutive trading days ending on 29 March 2004, pursuant to the terms and conditions of the Convertible Bonds; and
- B is the fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute (acting as experts), selected by the Company and approved in writing by the trustee of the Convertible Bonds, of the portion of the distribution attributable to one share.

The Company will arrange for the determination of the fair market value of the distribution, and will make a further announcement when the adjusted conversion price is available.

#### BONUS ISSUE OF WARRANTS

The Board of Directors believes that a bonus issue ("Bonus Issue") of warrants ("Warrants") will benefit the Company and its shareholders as a whole.

The Bonus Issue will be made in the proportion of one Warrant for every five ordinary shares of HK\$0.10 each ("Share(s)") held by shareholders (other than those whose registered addresses are outside Hong Kong) whose names appear on the Register of Members of the Company on 13 May 2004 (Thursday). The Warrants will entitle holders thereof to subscribe for Shares at an initial subscription price of HK\$1.508 per Share (subject to adjustment) from 2 June 2004 to 31 May 2006 (both dates inclusive). The Warrants will be traded in board lots of 20,000 units entitling the holders thereof to subscribe HK\$30,160 for 20,000 Shares based on an initial subscription price of HK\$1.508 per Share (subject to adjustment). The Warrants will be issued in registered form. Fractional entitlements will not be allotted but will be aggregated and sold for the benefit of the Company. On the basis of the 4,232,198,475 Shares in issue as at the date hereof, 846,439,695 new Shares, representing 20% of the issued share capital of the Company, would be issued upon exercise of all subscription rights attaching to the Warrants at the initial subscription price of HK\$1.508 per Share, subject to adjustment in accordance with the terms of Warrants. New Shares issued on the exercise of subscription rights under the Warrants will rank pari passu in all respects with the then existing Shares on the relevant subscription date.



# 香港中旅國際投資有限公司

## CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

### 2003 RESULTS ANNOUNCEMENT

The Bonus Issue is conditional upon :-

- the passing of an ordinary resolution by shareholders of the Company to approve the creation and issue of the Warrants and the issue of any new Shares which may fall to be issued upon exercise of the subscription rights attaching to the warrants at an extraordinary general meeting of the Company proposed to be held on the same date immediately after the conclusion of the first extraordinary general meeting of the Company following the annual general meeting on 13 May 2004; and
- the Listing Committee of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) granting listings of, and permission to deal in, the Warrants and any new Shares which may fall to be issued upon exercise of the subscription rights attaching to the Warrants.

Application will be made to the Listing Committee of the Stock Exchange for listings of and permission to deal in the Warrants and the Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants.

The expected date of issue and despatch of the Warrant certificates is 28 May 2004.

A circular containing further details regarding the Bonus Issue will be despatched to shareholders of the Company as soon as practicable.

#### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 May 2004 (Monday) to 13 May 2004 (Thursday), both days inclusive, for the purposes of determining (i) entitlements to the final dividend; and (ii) entitlements to the proposed Bonus Issue. In order to qualify for the final dividend and the proposed Bonus Issue, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Registrar, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 7 May 2004 (Friday).

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Business Review

The audited net loss attributable to shareholders of the Group for the year ended 31 December 2003 was HK\$39.81 million. The loss was mainly due to the outbreak of Severe Acute Respiratory Syndrome (“SARS”), decrease of operating profit, impairment of properties and goodwill. Apart from the above impairment of properties and goodwill which amounted to HK\$387 million, the net profit from ordinary activities attributable to shareholders was HK\$347million, which is a decrease of 37% as compared with last year.

During the outbreak of SARS, besides undertaking a number of cost control measures, the Group has leveraged on this opportunity to expand its travel network in the Mainland and overseas. So far, the Group has established joint ventures of travel agency in four major tourism cities including Shanghai, Shandong, Xiamen and Xian , a call center in Guangzhou, a wholly owned travel agency in a major country in the Northern Europe – Sweden, and branches in the airport of both Osaka in Japan and Frankfurt in Germany. The Group’s travel network in Hong Kong, Mainland and overseas has come into shape which has laid a solid foundation for the future development of the business. In addition, leveraging on the opportunity arose from the “24-hour Passenger Clearance Service”, the Group has commenced the operation of overnight coach across the boundary and has achieved satisfactory result. The Group’s major project, Zhuhai Ocean Spring Resort has also achieved some progress. The amount of the extractable hot spring reserve is found to be twice the amount of the expected usage. The successful issuance of the US\$150 million convertible bond by the Group has provided sufficient fund for the development of the Phase I of the project.

##### Tour Operation and Leisure Business

Due to impact of SARS, the turnover of travel and leisure business dropped by 25.1% as compared with last year.

During the year, the number of tourists received by China Travel Service (Hong Kong) Limited (“CTSHK”) decreased by 21.7% as compared with last year. The business of hotel room reservation and transportation ticket-booking fell by 24.3% and 9.3% respectively. During the SARS period, CTSHK focused on developing Macau and local Hong Kong tours, and after the SARS, it participated in the “We Love Hong Kong” campaign as solicited by the Tourism Coalition of Hong Kong. In the second half year, the number of outbound tours to China increased by 1.36 times when compared with the first half year, resulting in an overall decrease in the number of outbound tours to China by 14% only; and the outbound tours to overseas had increased by 94.2% when compared with the first half year. Meanwhile, driven by the demand on hotel rooms from individual visitors from Mainland, CTSHK had put more effort on booking and leasing of hotel rooms in Hong Kong, and consequently the business of hotel room reservation had improved by 64.8% as compared to first half year. The above measures had, to a certain extent, reduced the losses brought by SARS.

The Group’s wholly-owned travel agency in Beijing, China Travel International Limited (“CTI”) suffered from the SARS impact in the first half of the year. Since August 2003, business has been restored and the inbound and outbound tour business for the period from August to December increased by 49% and 147% as compared to same period last year. CTI received 183,000 tourists, which is an increase of 716.7% as compared with last year. After two years of business consolidation and restructuring, CTI ranked 38th among the “Top 100 Travel Agents in China” in 2002. After the World Cup in South Korea and Japan, CTI has also been appointed as the sole agent for organizing tour and providing ticketing services for the Chinese citizens to the 2004 Athens Olympics, which has laid a solid foundation for 2004’s business.

Impacted by SARS and the policy of “Individual Traveler Permit Scheme”, the business of organizing Chinese citizens on Hong Kong & Macau tours shrank significantly. The total number of tourists received during the year was about 132,000, represented a decrease of 26.4% as compared with last year. In the second half year, China Travel (HK & Macau Tour) Management Hong Kong Limited refocused on business and exhibition travel by capitalizing on its competitive advantages on the quality of services and brand name, resulting in the turnaround from losses incurred in the first half year.

China Travel Net Hong Kong Limited has recorded a monthly average of 145,000 website visitors, which is an increase of 6.3% as compared with last year. It has also joined an international business travel organization, Synergi, Inc. and has won a tender for the business travel of the multinational companies.

The three theme parks, Window of the World, Splendid China and China Folk Culture Villages attracted approximately 2.8 million visitors in total, which is a decrease of 32.1% as compared with last year; among them, the number of visitors of the Window of the World decreased by 24.9% and the number of visitors of the Splendid China and China Folk Culture Villages decreased by 42.9%. In order to reduce the impact of SARS in the first half year, Window of the World had launched a number of new programs such as “Deep Earth Adventure”, “Lost City”, and “Explore the Pyramids” etc., which are hot spots to the tourists. On the other hand, Splendid China and China Folk Culture Villages has organized some night shows such as “Minorities Music Night”, renovated central theatre and re-packaged the famous show, “Horse Fighting”. The shows in the three theme parks were very successful and earned the applause of both local and overseas tourists.

Shenzhen Tycoon Golf Club had successfully completed the rebuild of the C Course and has installed lighting facilities in November 2003. There is a substantial growth in the membership sales and the number of golfers. The construction of “Home for Member”, which will provide accommodation and conference facilities, will be completed by the end of 2004. It is expected to further enhance the attractiveness of the Club.

##### Hotel Operation

The average occupancy rate of the Group’s four hotels in Hong Kong was 70.1%, representing a decrease of 20.4% as compared with last year; and the average room rate has increased by 1.5%. Both the room rate and occupancy rate had significantly improved since August 2003. Because the impact of SARS on the business of Hotel Grandeur in Macau was relatively less significant, together with tight cost control measures, the average room rate increased by 13.8%. The operating result was satisfactory.

##### Transportation

The turnover of China Travel Tours Transportation Services Hong Kong Limited and China Travel Express Limited increased by 10% as compared with last year, while the number of passengers increased by 182.5% to 2.428 million. Leveraging on the opportunity arising from the introduction of the “Individual Traveler Permit Scheme” and “24-hour Passenger Clearance Service”, China Travel Tours Transportation Services Hong Kong Limited has expanded its loading capacity and sources of customers. In addition to recovering losses in the first half year, the overall profit increased by 12.1%. It is the leader in the industry in terms of both loading capacity and number of passengers. Due to the outbreak of SARS and the cost incurred for the new routes, operating result of the joint venture, Shun Tak-China Travel Shipping Investments Limited decreased as compared with last year.

The import and re-export freight volume through railway handled by China Travel Service (Cargo) Hong Kong Limited continually deteriorated and decreased by 13.2% and 11.8% respectively. On the other hand, the business of CTS International Transportation Company Limited in Shanghai had demonstrated a relatively better growth as the turnover increased by 85%. When compared with last year, the sea freight volume ranked among the top three in Shanghai.

##### Infrastructure

The economic and technical benchmark measures of Weihe Power Plant have achieved the top in its history and broke the record of 500 days of safety production. The annual volume of on-grid electricity increased by 6.5% as compared with last year.

##### Number and Remuneration of Employee

As at 31 December 2003, the Group has approximately 6,694 employees.

The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group’s employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

##### Liquidity, Financial Resources and Capital Structure

The financial position of the Group is strong. As at 31 December 2003, the cash and bank balances of the Group amounted to HK\$2,344 million whereas the interest bearing debts from the bank and the convertible bonds amounted to HK\$1,177 million and HK\$ 1,168 million respectively. The interest bearing debt to equity ratio was 32.4%.

During the year, 9,466,636 bonus warrants were exercised for 9,466,636 shares of HK\$0.10 each at the subscription price of HK\$1.22 per share. Accordingly, the number of issued share capital of the Company has been increased from 4,222,731,839 shares to 4,232,198,475 shares as at 31 December 2003.

##### Future Prospects

Amid the economic recovery in Hong Kong and the rest of the world, the consumption power of tourists will increase. With the further extension of the “Individual Traveler Permit Scheme” to cover more Mainland regions, it is forecasted that the number of travelers to Hong Kong will exceed 20 million in 2004. Together with the opening up of European countries participating in the Schengen Agreement to Mainland travelers, the Group will be able to capture unlimited business opportunities.

The established direction of the Group is to strengthen and develop core travel businesses. The important sources of customers of the Group include outbound travelers of Mainland citizens and inbound travelers to Hong Kong. The competitive advantage of the Group is the complement of its passenger transportation business, hotels, theme parks, golf club and domestic and overseas travel networks. Through consolidating travel resources, centralizing purchasing, and coordinating sales and marketing activities, the costs of the Group will be reduced and the market share and competitiveness of the Group will be enhanced.

The financial position of the Group is strong with abundant funds, which provides supports to the continuous development of new travel and leisure projects. Besides closely monitoring the development of the Zhuhai Ocean Spring Resort, the Group will carry out feasibility studies of natural attractions, acquire quality travel-related assets, and strengthen the construction of online travel platform, so as to enhance the core travel business of the Group.

To cope with the demand of individual visitors from Mainland and local tourists, the Group will strengthen its cross-border passenger transportation services between Hong Kong and the Mainland by increasing loading capacity and exploring new routes.

The Group will further develop its freight forwarding business centralized in Shanghai, an air freight godown located at Pudong International Airport was completed and started operation by the end of 2003. It has strengthened and improved the air freight handling power, thereby it will further reduce the operation cost. Amid the development of freight network infrastructure, freight transportation business will have substantial growth.

##### Development of Online Travel Company

Because of the rapid development of the Internet and advanced applications, the usage of online travel products and services have been growing tremendously. Online travel companies provide convenience, 24 hours and value added services to customers through modern and high technological means including internet, call centers, WAP phones, mobile PDA etc. The trend towards more and more online travel transactions are imminent. Some of the more successful example of online travel companies include Expedia, Travelocity, and Orbitz. Their business models and success have been well accepted by the market.

Whereas the online travel industry in the Mainland is still in its infancy. There is still no one major player that has emerged yet. But yet many of the general demographic and many market elements for a successful Internet travel industry in the Mainland are very similar to the US. The Mainland has now the second largest Internet population next to the US. It is inevitably that the Mainland Internet travel industry will evolve towards the success as seen in the US in due time.

The Board of Directors, after long and careful study and independent research, has concluded that the Group has sufficient resources and networking to develop a world class independent online travel company. The Group will leverage on its abundant travel related resources, its ground networking, its experienced travel manpower and huge cash reserves to create a competitive advantage for its online travel business. The Board of Directors is fully committed in this online travel investment as a long term core development strategy.

After emerging from the difficult times of the SARS epidemic, the Group still has to expose to fierce competition in the industry, lower gross profit margin and other unpredictable adverse factors. The board of Directors and the management are confident to overcome the difficulties and challenges faced by the Group, and will implement action plans to achieve established goals and strive for better results for the shareholders.

#### PROPOSED AMENDMENTS TO THE COMPANY’S ARTICLES OF ASSOCIATION

The Company will propose certain amendments to the Articles of Association to reflect the recent amendments made to the Rules Governing the Listing of Securities (“Listing Rules”) (effective on 31 March 2004) and the Hong Kong Companies Ordinance (effective on 13 February 2004). An extraordinary general meeting is expected to be convened on the same date as the Annual General Meeting. The notice convening the said extraordinary general meeting and the accompanying circular will be despatched to shareholders as soon as practicable.

These amendments include:

- updating the definitions of terms like “associate”, “business day”, “newspaper”, “Hong Kong” and “Secretary”
- allowing directors to be removed by ordinary resolution of the Company
- incorporating the amendments made to Appendix 3 to the Listing Rules in relation to the period within which the intention to propose a person for election as a director should be given to the Company, and the exceptions to prohibitions on directors’ voting
- incorporating the amendments made to the Companies Ordinance in relation to the Company’s indemnity in favour of its officers

#### 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.

#### 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 on the Stock Exchange 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 required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company’s Articles of Association.

#### PUBLICATION OF FINANCIAL INFORMATION

The Group’s annual results announcement containing all the information required by paragraphs 45(1) to 45(3) in Appendix 16 to the Listing Rules on the Stock Exchange will be published on the Stock Exchange’s website in due course.

By Order of the Board  
**Shen Zhuying**  
*Vice Chairman, General Manager*

Hong Kong, 31 March 2004

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of China Travel International Investment Hong Kong Limited (“the Company”) will be held at Cafe du Parc, 2/F, Metropark Hotel, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Thursday, 13 May 2004 at 2:30 p.m. for the following purposes:-

- To receive and consider the audited financial statements and the reports of the Directors and of the Auditors for the year ended 31 December 2003.
- To declare a final dividend.
- To re-elect Directors and to fix the remuneration.
- To re-appoint the Auditors and to authorise the Directors to fix their remuneration.
- To transact any other ordinary business of the Company.

By Order of the Board  
**Woo Wai See, Alice**  
*Company Secretary*

Hong Kong, 31 March 2004

*Registered Office:*  
12th Floor, CTS House  
78-83 Connaught Road Central  
Hong Kong

#### Notes:

- Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- A form of proxy for use at the meeting will be enclosed with the 2003 Annual Report to be despatched to the shareholders. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.
- In order to be valid, the instrument appointing a proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company’s registered office at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting (or adjourned meeting or the taking of the poll, as the case may be).
- In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- The Register of Members of the Company will be closed from Monday, 10 May 2004 to Thursday, 13 May 2004 (both days inclusive), for the purposes of determining entitlements to the final dividend. In order to qualify for the final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company’s Registrar, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 7 May 2004.
- In relation to agenda item 3 in the Notice regarding election of Directors, Mr. Zhang Xuewu, Mr. Zheng Heshui, Mr. Zheng Hongqing and Dr. Fong Yun Wah will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election in accordance with the Articles of Association of the Company. The biographical details and interests in the shares of the Company of the said directors to be re-elected at the Annual General Meeting are set out in the “Biographies of Directors and Senior Management” and “Directors’ Interests in Shares” in the 2003 Annual Report.