

Business Review and Prospects

The audited net profit attributable to shareholders of the Group for the year ended 31 December 2002 was HK\$540 million, which is a decrease of 16.3% as compared with last year. The decrease was principally attributed to the one-off gain of HK\$53.04 million from the disposal of China Travel Roads and Bridges JV Investment Limited recorded in 2001 and the Group's PRC joint venture, Shaanxi Weihe Power Co., Ltd.'s tax holiday has expired and paid tax at the standard rate since 2002.

In 2002, the Group has successfully completed the acquisition of a 70% interest in Cosco International Travel Inc. (中遠國際旅行社有限公司) and a 100% interest in Sunshine Express International Ltd., (北京商泰航空服務有限責任公司) which focuses on airline ticketing business. The Group has also obtained controlling stakes in joint ventures including China Travel International (Chengdu) Ltd. and China Travel International (Xinjiang) Ltd. All of these transactions have helped to establish the basic structure of the Group's travel network in the PRC. During the year, the Group also undertook a series of mergers and acquisitions and business restructuring exercises including the purchases of each of the remaining 20% interests in Shenzhen Tycoon Golf Club Co., Ltd. and China Travel Net Limited from the respective minority shareholders and the disposal of a 70% interest in CTII Worldwide Limited. These transactions will lay down solid foundation for the continuous development of the Group's core businesses. Meanwhile, in response to the increasing popularity of leisure travel in the travel industry, the Group has signed an agreement with the Zhuhai municipal government to develop an integrated hot spring resort in Pingsha, Zhuhai on 18 April 2002. Upon completion, the resort will become a leading integrated leisure holiday destination in the PRC and rank among the best in the world. All these significant measures will reinforce the Group's travel business concept and provide the Group with further growth opportunities.

TOUR OPERATION AND LEISURE BUSINESS

During the year, China Travel Service (Hong Kong) Limited ("CTSHK") received approximately 3.8 million of tourists, which is an increase of 7.7% as compared with last year, and net profit contribution to the Group has increased by 15.7% as compared with last year. CTSHK has strengthened its business cooperation and integration with its overseas branches and China Travel International Ltd., strengthened the management



CTSHK participating in International Travel Expo



Head office of CTSHK

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of the overseas branches and, as a result, the turnover of the overseas branches increased satisfactorily as compared with last year. CTSHK has further developed the local branch network and has become the travel agency with most branches in Hong Kong. Its operation, management and quality of services have significantly improved during the year. In recognition of its outstanding achievements, CTSHK has received three international awards. China Travel International Ltd. has recorded profit in its first year of operations and made a significant contribution to the Group for the building up of travel network in Mainland. With respect to the on-line travel business, simplified Chinese character support of the network was added onto the travel website to develop the mainland business and on-line products have also been expanded. The number of the travel website visitors has reached 149,000, which was an increase of 50.5% as compared with last year, and the turnover from the on-line transactions has increased by 33.3% as compared with last year.

Hong Kong and Macau tour markets encountered the toughest competition in 2002. Since the rapid increase in the number of mainland and local tour travel agencies and aggressive package fare cutting to attract customers by these competitors, the visitors received by China Travel (HK & Macau Tour) Management Hong Kong Limited (“HK & Macau Tour”) and the average tour package fare per person has decreased by 15.41% and 48.15% respectively and, as a result, the profit has been adversely affected. Facing with the immense challenges, HK & Macau Tour has strengthened its relationship with the mainland tour travel agencies and introduced new marketing initiatives such as the business and conference traveling with a view to expand its product range to enhance the competitiveness.



Theme Parks Brochure



Vic's of Metropark Hotel

The three national “quadruple A” rated theme parks of the Group in Shenzhen attracted approximately 4.12 million visitors in 2002, which is a slight decrease of 7.14% as compared with last year. The reason for the decline can be attributed to the opening of new nearby theme parks, especially the Happy Valley Phase II opened during the first half of the year which had attracted some of the Group’s potential customers. In response to the competition, the Window of the World adopted a series of measures such as the introduction of “One Ticket for All”, revamping the main road of the park, introduction of new attraction “Venezuela Flood”, opening of “Spring in Paris” Shopping Square, and sponsoring of a TV show in “The

Amazing World". These have helped to maintain the competitiveness of the Window of the World. The Splendid China had completed the new stage at the end of 2002, and introduced the new evening show "Dancing Dragon and Phoenix" and the joint production with CCTV-"The New Year Evening Party" which was also very popular and well received. In addition, the Splendid China has also invested to reconstruct its facilities in order to improve the appearance and the linkage to its overall complex.

Shenzhen Tycoon Golf Club has started to rebuild the "C" Course in the second half of the year in order to further upgrade its services. Meanwhile, it will build a club member center with 50 guest rooms and expect to be completed in 2004.

HOTEL OPERATION

All four hotels of the Group in Hong Kong recorded satisfactory results for the year. The average occupancy rate was approximately 88.16%, representing an increase of 4.84% as compared with last year. The average room rate has also increased by 7.38%. In Macau, Hotel Grandeur Macau also recorded satisfactory results. During the year, although the average occupancy rate has dropped slightly by 1.4% as compared with last year, the average room rate has increased by 3.18%.



Franchised coach operator of The 16th World Congress of Accountants



Logistic Operation Centre of CTS International Transportation Co., Ltd.

TRANSPORTATION

By adopting the strategy to focus on cross-border transportation, bus rental and local business, the passenger transportation business of the Group has continued to grow amid fierce competition and managed to achieve several new operating records in 2002. These included the breakthrough of the annual passenger number to over one million for the first time, resulting in increase in turnover by 20.33%, the operating scale of cross-border passenger transportation which passes through Lok Ma Chau and Huangang is ranked first among the operators, and the safety mileage has reached 12 million kilometers. All these achievements have helped the passenger transportation business to rank amongst the leading operators in Hong Kong. During the year, the Group has won a three-year through bus franchise between Hong Kong International Airport and the Mainland through open tender by the Hong Kong Airport Authority. Through mergers and acquisitions and joint venture cooperation, the capacity of the passenger transportation

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business has increased by approximately 40%. Including the ferry transportation business of Shun Tak-China Travel Shipping Investments Limited, the profit contribution of the passenger transportation business increased by 37.91% as compared with last year.

After a long period of decline, the import and re-export freight volume through railway handled by Hong Kong has stabilized. Airfreight and road transportation services recorded a slight increase as compared with last year.

INFRASTRUCTURE

During the year, the Group's 51%-held Weihe Power Plant operated satisfactorily and achieved safety operation of 300 days again. Benchmark measures of coal, fuel, water and electricity consumption of the power plant were lower than last year. Under the condition of safety operation, the management has continued to improve on management quality, strengthen procurement management and streamline excess workforce to control the production costs. The net profit contribution of Power Generating Business to the Group has decreased by 14.19% as compared with last year due to the expiry of its preferential tax holiday.

FINANCIAL POSITION

The financial position of the Group is strong. As at 31 December 2002, the cash and bank balances of the Group amounted to HK\$1,175 million whereas the bank and interest bearing debts amounted to HK\$1,034 million, leaving the Group in a net cash position. The interest bearing debt to equity ratio was at a low 12.85%.

Coupled with its strong credit worthiness, the Group has successfully obtained an unsecured bank facility of HK\$1.5 billion arranged by a five bank consortium during 2002, of which HK\$500 million of revolving credit has remained undrawn. HK\$1 billion of the higher interest cost bank loans which were secured by three of the Group's hotels were repaid out of the proceeds from the above new facility. This 5-year maturing loan refinancing has not only reduced the finance costs of the Group, it has also enhanced the Group's investment capability.

CAPITAL STRUCTURE

During the year, 2,498,097 bonus warrants were exercised for 2,498,097 shares of HK\$0.10 each at an exercise price of HK\$1.22 per share. Accordingly, the number of issued share capital of the Company has been increased from 4,220,233,742 shares to 4,222,731,839 shares as at 31 December 2002.

NUMBER AND REMUNERATION OF EMPLOYEE

At 31 December 2002, the Group has approximately 5,800 employees.

The employees are remunerated based on their work performance, professional experiences 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.

FUTURE PROSPECTS

The tourism market in the PRC is huge with excellent development prospects, which provides the Group with unlimited business opportunities. To enhance the competitiveness of the core travel business of the Group, measures such as the acceleration of the construction of the travel network in the PRC and overseas, the implementation of sophisticated management controls over the travel agencies acquired and the utilization of the website of chinatravelone.com as a platform to complement the development of the traditional travel business are important. The management of the Group will step up their efforts in implementing the above measures to further develop the tourism market in the PRC and increase its market share.

The Group will strive its best to reengineer the internal process of operation, enhance the overall quality of enterprises, improve the incentive scheme and control mechanism, and control its operating costs effectively. At the same time, the Group will attract talents and develop business, leisure, specialty and conference travel.

Upon the completion of the design of the master plan and the individual structures of the Zhuhai hot spring resort, the Group will accelerate the construction of the resort and turn it to become a new profit generating source of the Group.



Master Plan of Zhuhai Hot Spring Resort

After a period of adjustment, restructuring and development, the core travel business of the Group have a solid foundation and will develop rapidly. The recent outbreak of war between the United States and Iraq did not affect our business, but the outbreak of atypical pneumonia have overall immediate adverse impacts on the travel and travel-related businesses of the Group. It is now still not conclusive of the extent of the impact. It all depends on how long this situation will last. If this situation extends beyond 3 months, the Board believes this will significantly affect our Group's profit for the year 2003. But on the other hand, we also believe the business environment will rebound sharply as soon as the atypical pneumonia is under control as people try to catch up on their travel plans.