

Business Review and Prospects

The year 2001 witnessed the significant development made by the Group. The Board of Directors' reaffirmed the travel business as its core business as the future direction for the Group's operation and development. During the year, the Group had acquired China Travel Service (Hong Kong) Limited ("CTSHK") and its overseas branches, China Travel Net Limited ("CTNet") and Hotel Grandeur Macau for HK\$1.18 billion in cash and HK\$600 million in convertible bonds, thus strengthening the earnings base from the travel business. At the same time, the Group had disposed of its non-core interests in property, road and bridge investments. Furthermore, the Group has increased its efforts in the expansion of travel network in Hong Kong, the PRC and overseas. A wholly-owned travel agency was established in Beijing and two new branches were added in Hong Kong. Overseas branches were revamped and preparatory work was undertaken to prepare the Group for future mergers and acquisitions of travel agencies in the PRC. These measures have reinforced the travel business concept of the Group and laid down the conditions for continuous development in the future.

The audited net profit attributable to shareholders of the Group for the year ended 31 December 2001 was HK\$651 million, which is an increase of 331% as compared with last year. By excluding the non-operational gain of HK\$53 million and write-offs last year, the operating profit has increased by 55%. The weighted average earnings per share increased by 285% to HK\$0.1785. The net asset value of the Group increased by 25%, from HK\$6.41 billion last year to HK\$8.01 billion as at 31 December 2001. Overall, the financial conditions of the Group is very good with strong operating cash flows.

TOUR OPERATION AND LEISURE BUSINESS

During the year, CTSHK received approximately 3.5 million of tourists. In the nine months after the acquisition by the Group, CTSHK and its subsidiaries contributed HK\$1.035 billion in turnover and HK\$175 million in profit to the Group. After the refinement of its performance-based incentive remuneration policy, CTSHK's operation, management and quality of services have shown marked improvement. In recognition of its outstanding achievements, CTSHK was awarded the Quality Summit for Excellence and Business Prestige by Business Initiative Directions. With respect to the on-line travel business, more on-line products were added to the travel website and the turnover from on-line transactions accounted for



CTSHK participating in 2002 Chinese New Year Parade



Office of China Travel International Ltd.



Outlook of Hotel
Grandeur Macau



Brochure of
www.chinatravelOne.com

23.9% of the on-line travel business' turnover. The number of visitors to the travel website reached 110,000 per month in the latter half of the year.

China Travel (HK & Macau Tour) Management Hong Kong Limited ("HK & Macau Tour") received 213,522 Mainland visitors in 2001, which is a slight increase from last year. However, as a result of the sharp reduction in tour package fares, the profit of HK & Macau Tour has decreased by 34% and accounted for only 8% of the Group's operating profit for the year. Although from the beginning of last year HK & Macau Tour has started to implement initiatives to control the expenditure on tour guides and coach fleet, to develop conference travel business starting from the beginning of last year, these measures could not offset the adverse impact from the reduction of tour package fares.

The three national "quadruple A" rated theme parks of the Group in Shenzhen attracted approximately 4.48 million visitors in 2001. Affected by the rainy weather during the Chinese New Year and summer, and coupled with the September 11th event, the number of visitors dropped slightly by 2%. Despite the drop, the contribution of profit to the Group by the three theme parks reached HK\$69.40 million, which is an increase of 3% over the equally strong results of last year. The increase was attributable to the effective measures such as the introduction of new games and attractions like Amazon Bobkart Slide, Fuji Mountain 4D Cylinder Surround Digital Cinema and Global Stage, the provision of management services for other theme parks and the decrease in operating costs. During the extended Labor Day and National Day holidays in the PRC, the turnover of Window of the World achieved a number one ranking among all theme parks in the PRC.

In 2001, Shenzhen Tycoon Golf Club achieved an increase in turnover of 13% and recorded a profit for the first time due to the further tightening up of management control, strengthening of membership sales and cost reduction initiatives.

HOTEL OPERATION

The average occupancy rate of the three hotels of the Group in Hong Kong, namely Hotel Concourse, The Metropole Hotel and Hotel New Harbour, was 83.6% in 2001, which is a slight decrease of 3% as compared with last year. Due to the depression of the Hong

Kong market and fierce price competition, the average room rate decreased by 5.6%. The Group's Metropark Hotel in Causeway Bay, a four-star business hotel with sea view, was completed and commenced soft opening towards the end of 2001. The opening of The Metropark Hotel has helped to expand the source of business travelers of the Group. Hotel Grandeur Macau, a four-star hotel in Macau, had also performed well in 2001. In the nine months after its acquisition of the Group, Hotel Grandeur Macau produced the best ever performance with average occupancy rate increased 7% to 80%, and the average room rate increased by 2.2%.

PASSENGER TRANSPORTATION AND FREIGHT FORWARDING

The bus transportation business continued to expand in a highly competitive market. During the year, China Travel Tours Transportation Services Hong Kong Limited and its subsidiary China Travel Express Limited ("CT Tours") bought 12 coaches and acquired the coach fleet from HK & Macau Tour. With a fleet of over 80 coaches, CT Tours ranked among the largest non-franchised coach operator in Hong Kong. In 2001, the number of passengers carried by CT Tours increased by 22%. The turnover and profit have increased by 24% and 15%, respectively. The load factors of the routes between Hong Kong International Airport and various Mainland cities, and between Shenzhen and Zhuhai have also increased substantially. The number of safety mileage recorded has also achieved new height.

During the year, Shun Tak-China Travel Shipping Investments Limited had implemented effective cost control measures which contributed to an increase in profit by 82%. The aggregate contribution to profit from the coach and ferry transportation businesses amounted to approximately HK\$40 million, which is an increase of 58% over last year.

With respect to the freight forwarding business, the turnover increased slightly by 1% to HK\$299 million in 2001. The Group's export freight volume through railway in Hong Kong decreased by 18% but the Group's sea freight and airfreight volume increased by 29% and 21%, respectively. In the PRC, the turnover of the freight forwarding business increased by 23%. Both the sea freight and airfreight volume increased sharply and the upward trend will continue. During the year, the total profit of the freight forwarding business in Hong Kong and the PRC increased by 37% to reach HK\$20.1 million.



Theme park in Shenzhen



Passenger ferry services



Executive Parlour of Metropark Hotel

INFRASTRUCTURE

The performance from Shaanxi Weihe Power Plant, which is 51%-owned by the Group, improved significantly in terms of the operating level of its power generating units. Operating from a safety conscious working environment, the management had achieved earnings growth of 14% through self-disciplines and effective cost control measures. During the year, Weihe Power Plant had repaid all shareholders' loans owed to the Group and continued to contribute substantial cash flows to the Group.



Touring of Hong Kong & Macau

PROSPECTS

After the September 11th event, the world order was unsettled and the economic environment and conditions have further complicated. Following the opening up of the global market, competition is intensifying in all businesses. The Group will continue to strengthen its operation and corporate management, consolidate internal resources, and leverage on its background and set-up in order to achieve the competitive edge. The Group will strengthen its cooperation with PRC travel agencies and speed up the expansion of the travel network. In order to broaden its earnings base, the Group will selectively develop and construct large-scale resorts and natural attractions with emphasis on travel, entertainment and conference activities in the PRC. The Group will form strategic alliances and develop its overseas travel agencies with an emphasis on expanding the business traveler base. The Group aims to double the turnover of its overseas travel agencies over the next three years. At present, the PRC government is increasing its effort to regulate the tourism market and the tourism industry and, as a result, the operation of travel agencies in Hong Kong and the PRC should become more disciplined in due course. Favorable events such as the entry of China into the World Trade Organisation, the stimulation of internal consumption and the rapid development of the tourism industry in Hong Kong and Macau will bring about tremendous business opportunities and prospects of further development to the tourism industry.