

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operation

Following the acquisition of China Travel Service (Hong Kong) Limited and the establishment of a wholly-owned travel agency in Beijing last year, the Group focused on the merger and acquisition of travel agencies in the PRC and successfully acquired a 70% interest in COSCO International Travel Inc., a travel agency established in Beijing. COSCO International Travel Inc. has established joint venture travel agencies in Dalian, Qingdao, Xiamen and Shanghai, and it owns a fleet of 133 small and large passenger vehicles. At the moment, it is undergoing business integration with China Travel International Limited in Beijing. In the western region of the PRC, the Group has set up joint venture travel agencies with controlling interest in Chengdu and Xinjiang. Furthermore, a group of travel agencies and air service companies in the PRC, which focus mainly on business travelers, are still in negotiation with the Group regarding merger and acquisition opportunities.

The Group recorded a consolidated turnover of HK\$1.29 billion for the six months ended 30 June 2002, which is an increase of 30.2% as compared with the same period last year. The consolidated net profit attributable to shareholders amounted to HK\$320 million, representing a decrease of 15.8%. The decline was mainly caused by the absence of the gain on disposal of the roads and bridges project of HK\$53.04 million recorded in the first half of last year, the expiry of the tax holiday enjoyed by Weihe Power Plant, the decrease in on-grid electricity sales and the decrease in profit margin of Hong Kong & Macau Tour business in the first half of the year. Yet the consolidated profit from operating activities after accounting for these factors is comparable with the same period last year.

The financial position of the Group is sound with a total interest-bearing debt to equity ratio of merely 12.9%. The Group is in a net cash position with strong cash reserves.

1. Tour Operation and Leisure Business

Tour operation and leisure business includes travel and travel related operations, tourist attraction operations and golf club operations.

In the first half of the year, the number of visitors served by China Travel Service (Hong Kong) Limited and its overseas branches was approximately 1.93 million, representing an increase of 2.3%. And the turnover of China Travel Service (Hong Kong) Limited increased by 2.5%. With the number of local branches and offices increased to 40, China Travel Service (Hong Kong) Limited is the travel agency with the largest branch network in Hong Kong. The percentage of on-line transactions of China Travel Net Limited increased from 17.4% to 30.9% and the monthly average number of visitors to the website reached 130,000 for the first six months, which is an increase of 55% for the same period last year. Affected by the sharp reduction in tour package fares and mal-practices in the tour market, the turnover of Hong Kong and Macau Tour decreased by 43.6% despite of an increase in the number of tourists received of 5%.

The business operation of China Travel International Limited, which was established by the end of last year, has been developing smoothly. Shortly after the commencement of operation, China Travel International Limited procured the exclusive ticketing agency right of the World Cup in the PRC and received wide acclaim. The overseas branches of China Travel Service (Hong Kong) Limited strove hard to enlarge customer base and tighten internal management control. After financial restructuring, the overseas branch in Singapore has returned to profitability.

Due to the fierce competition from surrounding theme parks, the number of visitors received by the three theme parks of the Group in Shenzhen recorded a slight decrease of 0.9% as compared with the same period last year. Among the three theme parks, Window of the World maintained its competitiveness amid fierce competition. The number of visitors received and the turnover increased by 8.7% and 2%, respectively. In the first half of the year, the number of visitors attracted by Splendid China Miniature Scenic Spot and China Folk Culture Villages decreased by 12%. In response, Shenzhen The Splendid China Development Co., Ltd. implemented measures to develop customer base from overseas and large enterprises aggressively, carry out improvement work on hardware, and strengthen management and cost controls. Together with the opening of the immense theatre of the China Folk Culture Villages in October this year, hopefully it will turn around the falling number of tourists received.

The turnover of Shenzhen Tycoon Golf Club recorded a minor decrease of 3.1%. In order to enhance its competitiveness, Shenzhen Tycoon Golf Club will undergo improvement work on lighting and the golf course to attract members. The Bureau of Foreign Trade and Economic Cooperation in Shenzhen (深圳市對外貿易經濟合作局) has approved the Group to acquire the remaining 20% interest in Shenzhen Tycoon Golf Club from its Chinese joint venture partner. After the completion of the acquisition, Shenzhen Tycoon Golf Club will become a wholly-owned subsidiary of the Group.

2. Hotel Operation

The average occupancy rate of the four hotels of the Group in Hong Kong was 87%, which is an increase of 9.3% as compared with the same period last year. However, the average room rate decreased. Metropark Hotel, a four-star business hotel with sea view, commenced soft opening at the end of last year and has been operating smoothly since then, with an average occupancy rate of 82.1%. Hotel Grandeur Macau, a four-star hotel in Macau, recorded an increase in the average occupancy rate of 4.6%. In the first half of the year, the turnover of the Group's hotels increased by 12.8% as compared with the same period last year.

3. Passenger Transportation and Freight Forwarding

The bus transportation business continued to develop, with increase in turnover and profit before tax by 22% and 42.9%, respectively. The cross border and the PRC bus operation received a total of 352,000 passengers, which is an increase of 14% as compared with the same period last year. The number of safety mileage

reached over 4 million kilometers in the first half of the year. During the period, the Hong Kong Airport Authority has granted the 3-year operating right of bus service running between Hong Kong International Airport and the Mainland, and the acquisition of 80% equity interests in two cross-boarder bus companies is expected to complete in the third quarter this year.

With respect to the freight forwarding business, the export and import freight volume through railway in Hong Kong handled by China Travel Service (Cargo) Hong Kong Limited decreased slightly by 3.9% and 2.1%, respectively, whereas the air freight and sea freight volume increased by 48.3% and 98.4%, respectively. The network of the PRC freight operation, which is based in Shanghai, is expanding continuously, with rapid increase in sales volume and profit in both air freight and sea freight business. The contribution to consolidated profit from the freight forwarding business of the Group increased by 34.7% as compared with same period last year.

4. Infrastructure

In the first half of the year, due to the increase in generation of hydro-electricity and the decrease in generation of coal-fired electricity in Shaanxi, the amount of on-grid electricity sold by Weihe Power Plant decreased by 6.3%. Further aggravated by the expiry of the preferential tax holiday, the profit of Weihe Power Plant decreased by 3%. However, various technical, management and safety benchmarks of the power plant have been improved during the period under review.

Prospects

The recovery of the economy in the United States and Hong Kong is slow and the stock markets are volatile. However, the economy of the PRC continues to prosper. The number of domestic and outbound tourists increased significantly, but the competition in customer base and pricing intensified viciously. Every business segment of the Group is faced with challenges and opportunities. In response to these new circumstances, the Group will accelerate the pace of internal reform, strive to control operating costs, recruit competent personnel and develop new markets. The Group will equip itself well to capture the opportunities brought about by the anticipated opening of the Disney theme park in Hong Kong, in order to enforce and develop core business. At the same time, the Group will selectively acquire or merge with travel agencies in the PRC, set up more overseas branches, and to complete the basic foundation of the travel network in the PRC within the next two years. Following the trend towards leisure holidays by holiday makers, the Group will accelerate the development of the spa resort in Zhuhai, and make it a first class travel destination in the PRC that combines spa, entertainment and recreation. The Board of Directors is confident in the future development of the Group.

Financial Position

As at 30 June 2002, the Group's total interest-bearing bank and other borrowings amounted to HK\$1,054 million, which was HK\$336 million lower than the balance as at 31 December 2001.

As at 30 June 2002, the total amount of cash and cash equivalents of the Group, which was not restricted to use, was HK\$1,369 million and after total interest-bearing bank and other borrowings gave rise to a net cash position of the Group of HK\$315 million.

Three hotel properties held by the Group in Hong Kong namely The Metropole Hotel, Hotel New Harbour and Hotel Concourse were pledged to secure certain bank borrowings of the Group.

Capital Structure

During the period, 1,827,697 bonus warrants were exercised for 1,827,697 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 4,222,061,439 shares as at 30 June 2002.

Number and Remuneration of Employee

As at 30 June 2002, the Group has 5,995 employees of whom 2,352 are based in Hong Kong, 209 are based in overseas countries and 3,434 are based in mainland China.

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.

OTHER INFORMATION

Directors' Interest in Shares

At 30 June 2002, the interests of the Directors in the share capital 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			
	Personal	Corporate	Other	Total
Mr. Chen Shoujie	20,000(i)	–	–	20,000
Mr. Shen Zhuying	2,500,000	–	–	2,500,000
Dr. Yeh Meou Tsen, Geoffrey	7,100,000	–	–	7,100,000
Dr. Fong Yun Wah	–	50,000(ii)	502,000(iii)	552,000

Interest in Warrants

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