

6. Tax

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
The People's Republic of China:		
Hong Kong	(8,968)	(25,794)
Elsewhere	(6,371)	(16,133)
Overseas	(149)	–
Over/(under)provision in prior years	(938)	13,036
Deferred tax	(2,441)	(1,866)
	<u>(18,867)</u>	<u>(30,757)</u>
Share of tax attributable to:		
Jointly controlled entities	(24,922)	(19,943)
Associates	(1,740)	(2,465)
	<u>(26,662)</u>	<u>(22,408)</u>
Tax charge for the period	<u>(45,529)</u>	<u>(53,165)</u>

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 period. 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.

No recognition of the potential deferred tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

7. Earnings/(Loss) Per Share

The calculation of basic and diluted earnings/(loss) per share for the six months ended 30 June 2003 are based on the following data:

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings/(Loss)		
Net profit/(loss) attributable to shareholders for the period for the purpose of basic and diluted earnings/(loss) per share	<u>(290,929)</u>	<u>318,117</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>4,223,033,876</u>	<u>4,220,832,015</u>
Effect of dilutive potential ordinary shares:		
Bonus warrants	<u>(7,748,582)</u>	<u>193,026,551</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>4,215,285,294</u>	<u>4,413,858,566</u>

8. Comparative Amounts

As explained in note 1 to the condensed consolidated financial statements, due to the adoption of revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operation

During the first half of the year, Hong Kong was adversely affected by SARS for more than a hundred days and the Tourism industry of Hong Kong has suffered seriously. The tour and tour-related operations of the Group were significantly affected, resulting in a sharp decrease in its operating results. During that period, the Group has undertaken a number of cost control measures and the Group has continued the acquisitions of travel agencies in mainland China. Preparation work for the acquisition of China Travel International Shanghai Limited and the establishment of a wholly owned travel agency in Northern Europe have come to the final stage. The preliminary preparation for the establishment of the travel agencies in Qingdao and Xian, PRC, has been completed. In order to fully utilize the internal resources of the Group, operation of different entities within the Group are integrated.

Comparing with last year, the consolidated turnover of the Group for the six months ended 30 June 2003 declined by HK\$404 million to HK\$890 million, representing a decrease of 31%. Notwithstanding the effects of SARS on the tourist related operations, hotel operations, theme parks and passenger transportation business of the Group, the operating results of the Group for the first half year reported a profit of HK\$97.67 million. The net loss attributable to shareholder of HK\$291 million for the first half year was mainly attributed to the provision for devaluation of investment properties, impairment of assets and goodwill of HK\$389 million. The provisions however do not have any impact on the cash flow of the Group.

The Group still has a strong financial position with HK\$860 million cash on hand while the net interest bearing debt to equity ratio was only 3.8%.

Tour Operations and Leisure Business

The consolidated net profit for the first quarter increased by over 10% when compared with the same period of last year but recorded a significant decrease in the second quarter because of SARS. During the first half of the year, the total number of tourists received by the Group was about 1.41 million, representing a decrease of 27% as compared with the same period of last year, while the operating profit decreased by 74%. During the period affected by SARS, China Travel Service (Hong Kong) Limited promptly switched to promote local and Macau tours in order to compete for the market share. The number of visitors received by China Travel (HK & Macau Tour) Management Hong Kong Limited decreased by 40% to 59,027 during the first half year when compared with the same period of last year. Having gone through a series of restructuring and integration processes, the wholly owned travel agency established in Beijing has fostered its business relationship with the travel agencies of the Group in mainland, laying a solid foundation for the future development.

During the first quarter in 2003, the turnover of China Travel Net Limited generated from online transactions increased from about 31.1% of its total turnover to about 40.7%. Notwithstanding the decrease in net profit during the first half year, China Travel Net Limited has completed the installation of a number of online automatic transactions services, including the PPS payment function and inter-agency credit function, etc. The number of visitors to the China Travel website has reached an average of 130,000 visits per month and the number of members was 40,845, representing an increase of 64%.

The number of visitors to the Window of the World decreased by 40% to 726,000, while the number of visitors to the Splendid China and the China Folk Culture Villages dropped by 55% to 389,000. Window of the World still reported a profit during the first half of the year but Splendid China reported a loss for the first time since its operation. Window of the World had launched some new attractions during the first half of the year including the Underground Adventure and the Roman Plaza etc., and were well received by the visitors. Splendid China had also carried out some renovation works to the Water Market, the Miao Village and the Zhuang Village in order to attract more visitors.

During the first half of the year, the number of the golfers in Shenzhen Tycoon Golf Club has decreased by 12%, resulting in the decrease of turnover by 22% as compared with last year. It was mainly due to the traffic jam caused by the renovation work done on the Hezhou-highway and the renovation carried out on one of the three courses. The renovation work for the 9-hole golf course will be completed by October this year and will greatly enhance the facility of the Club.

The master planning of the Zhuhai Ocean Spring Resort has been completed and the design of the buildings and other components will be completed by the end of August this year. The foundation treatment of the site had been commenced and is expected to be completed by the end of August this year.

Hotel Operation

The average occupancy rate of the four hotels of the Group in Hong Kong has decreased from 86.98% in the first half of last year to 51.71% in this year. All of them recorded operating losses. The average occupancy rate of Hotel Grandeur in Macau has dropped to 61% but it still recorded a small operating profit. During the period affected by SARS, there were not sufficient customers and all the hotels had implemented strict and effective cost reduction measures.

Passenger Transportation and Freight Forwarding

The turnover of China Travel Tours Transportation Services Hong Kong Limited decreased by 17%, while the number of passengers decreased by 22%. The number of passengers carried by the joint venture, Shun Tak-China Travel Shipping Investment Limited decreased resulting in a loss for the period.

With respect to the freight forwarding business, the turnover for the first half of the year has decreased by 16%. China Travel Service (Cargo) Hong Kong Limited has established agency relationship with other industry players in the US, Europe, Australia and other Asian countries. It has gradually built up an overseas agency network. CTS International Transportation Company Limited in Shanghai had promptly adjusted its operating strategy by gradually expanding the business from eastern and northern China and the coastal area to the inland China and this has helped to increase its market share.

Infrastructure

During the first half of the year, the total electricity generated by Shaanxi Weihe Power Plant has increased by 255 million kilowatt hour. The Group's profits from the Weihe Power Plant has increased by 37%. It was mainly due to the increase in the sales of on-grid electricity of 10.7% and the decrease in the operating costs because of lower consumption of coal.

Prospects

After the SARS epidemic, the tour-related operations of the Group have been recovering gradually. The numbers of tours, packages and hotel bookings have recorded a relatively large increase. The average occupancy rate of the five hotels of the Group in Hong Kong and Macau had increased from 15.5% in May to 73.7% in July. The number of visitors to the theme parks and the number of passengers carried have also been recovering swiftly. Because of the addition of new routes, the number of passengers carried by China Travel Tours Transportation Services Hong Kong Limited was about 138,400 in July, representing an increase of 118% when compared with July last year.

Recently, the Hong Kong Government has launched a series of policies to promote tourism in Hong Kong. In the past, only residents in Guangdong province are allowed to visit Hong Kong on an individual basis. The policy has extended such permitted visits to cover the residents from Beijing and Shanghai. The number of tourists visiting Hong Kong is expected to increase significantly and will have positive effects on the Group's business such as its hotel operations, passenger transportation and tour operations, etc. As the Group has gradually put in place a overseas and domestic travel network, the customer sources of the Group will be greatly increased and hence the competitive advantages of the Group will be enhanced. The bridge connecting Hong Kong, Zhuhai and Macau is expected to be built in few years' time and will have a very positive effect on the development of the Zhuhai Ocean Spring Resort. The operation of Weihe power plant was steady and producing favourable returns. The Group has overcome the hard time during the period of SARS. Although the mal-practices in the Hong Kong and Macau Tour tourism industry cannot be solved within a short period of time and there is instability in some countries and regions and these factors have certain impacts on the business of the Group, the overall sentiment remains positive and the Directors have full confidence in the future prospects of the Group.

Financial Position

The financial position of the Group is strong. As at 30 June 2003, the cash and bank balances of the Group amounted to HK\$860 million whereas the interest bearing debts from the bank amounted to HK\$1,136 million. The net interest bearing debt to equity ratio was at a low 3.8%.

Capital Structure

During the period, 9,466,636 bonus warrants were exercised for 9,466,636 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 4,222,731,839 shares to 4,232,198,475 shares as at 30 June 2003.

Number and Remuneration of Employees

As at 30 June 2003, the Group has 6,311 employees of whom 2,137 are based in Hong Kong, 205 are based in overseas countries and 3,969 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, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting period covered by this interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms and subject only to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

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 including the review of the unaudited consolidated interim financial statements for the six months ended 30 June 2003.

INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend (2002: HK5 cents per share) for the period ended 30 June 2003.

PUBLICATION OF FINANCIAL INFORMATION

A detailed interim results announcement of the Group for the six months ended 30 June 2003 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> in due course.

By Order of the Board
Shen Zhuying
Managing Director

Hong Kong, 18 August 2003