

Interim Results

The Board of Directors (the “Board”) of China Travel International Investment Hong Kong Limited (the “Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and the auditors, Ernst & Young.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2003

	Notes	For the six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
TURNOVER	2	889,066	1,293,592
Cost of sales		(554,004)	(714,677)
Gross profit		335,062	578,915
Other revenue and gains	3	24,855	63,955
Distribution costs		(19,196)	(12,127)
Administrative expenses		(300,320)	(306,684)
Other operating expenses		(41,253)	(39,157)
Revaluation deficit of investment properties, hotel properties and impairment of fixed assets and goodwill		(388,603)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(389,455)	284,902
Finance costs	5	(11,257)	(19,040)
Share of profits and losses of:			
Jointly controlled entities		165,346	126,175
Associates		(13,420)	22,559
PROFIT/(LOSS) FROM OPERATING ACTIVITIES BEFORE TAX		(248,786)	414,596
Tax	6	(45,529)	(53,165)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(294,315)	361,431
Minority interests		3,386	(43,314)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(290,929)	318,117
EARNINGS/(LOSS) PER SHARE (HK CENTS)	7		
Basic		(6.89)	7.54
Diluted		(6.90)	7.21
DIVIDEND PER SHARE (HK CENTS)	8	–	5.00

Condensed Consolidated Balance Sheet

30 June 2003

	Notes	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited and restated) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		5,086,133	5,679,239
Properties under development		153,245	101,718
Goodwill:			
Goodwill		1,240,098	1,410,181
Negative goodwill		(183,787)	(195,410)
Interests in jointly controlled entities		1,311,874	1,261,873
Interests in associates		387,496	417,358
Long term investments	9	23,820	21,986
Long term time deposits		200,370	–
		8,219,249	8,696,945
CURRENT ASSETS			
Short term investments	9	1,247	865
Property held for sale		–	92,000
Inventories		16,663	16,724
Trade receivables	10	281,503	267,583
Tax recoverable		3,927	3,271
Other receivables and prepayment		194,297	155,823
Pledged time deposits		4,804	2,688
Cash and cash equivalents		855,280	1,171,891
Amount due from ultimate holding company		20,471	30,562
Amounts due from fellow subsidiaries		465	2,587
		1,378,657	1,743,994
CURRENT LIABILITIES			
Trade payables	11	362,595	410,476
Tax payable		22,892	42,533
Other payables and accruals		498,219	496,691
Interest-bearing bank and other borrowings		434,656	328,589
Amounts due to fellow subsidiaries		1,713	1,632
		1,320,075	1,279,921
NET CURRENT ASSETS			
		58,582	464,073
TOTAL ASSETS LESS CURRENT LIABILITIES			
		8,277,831	9,161,018
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		74,200	69,632
Interest-bearing bank and other borrowings		712,925	709,341
Lease and hire purchase contract payables		–	141
Deferred tax		23,916	21,475
		811,041	800,589
MINORITY INTERESTS			
		(330,962)	(332,827)
		7,135,828	8,027,602
CAPITAL AND RESERVES			
Share capital	12	423,220	422,273
Reserves	13	6,712,608	7,436,420
Proposed dividends		–	168,909
		7,135,828	8,027,602

Condensed Consolidated Summary Statement of Changes in Equity

For the six months ended 30 June 2003

For the six months
ended 30 June

		2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
	Notes		
Total shareholders' equity at 1 January		8,047,694	7,989,804
Prior year adjustment – note 1		(20,092)	(15,897)
As restated		8,027,602	7,973,907
Exchange differences arising on translation of the financial statements of foreign entities	13	(387)	4,011
Deficit on revaluation of hotel properties	13	(84,818)	–
Underaccrual of proposed final dividends		–	(74)
Net gains/(losses) not recognised in the profit and loss account		(85,205)	3,937
Net profit/(loss) attributable to shareholders		(290,929)	318,117
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	13	(371,342)	–
Realisation of goodwill from capital reserve upon impairment of underlying assets	13	13,061	–
Dividends paid		(168,909)	(168,809)
Issue of new shares	12	947	2,230
Premium on issue of new shares	13	10,603	–
Total shareholders' equity at 30 June		7,135,828	8,129,382

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(19,638)	307,143
CASH OUTFLOW FROM INVESTING ACTIVITIES	(239,623)	(64,384)
CASH OUTFLOW FROM FINANCING ACTIVITIES	(57,350)	(513,100)
DECREASE IN CASH AND CASH EQUIVALENTS	(316,611)	(270,341)
Cash and cash equivalents at beginning of period	1,171,891	1,639,187
CASH AND CASH EQUIVALENTS AT END OF PERIOD	855,280	1,368,846
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	521,462	397,889
Time deposits	333,818	970,957
	855,280	1,368,846

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the preparation of the audited financial statements for the year ended 31 December 2002 except for the adoption of SSAP 12 (Revised) "Income Taxes".

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 liability as at 30 June 2003 and 31 December 2002 by HK\$2,441,000 and HK\$11,740,000, respectively, and a decrease in the Group's share of net assets from an associate by HK\$8,352,000 as at 30 June 2003 and 31 December 2002. As a consequence, the Group's net loss attributable to shareholders for the period ended 30 June 2003 has been increased by HK\$2,441,000, the net profit attributable to shareholders for the period ended 30 June 2002 has been decreased by HK\$2,097,000, and the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK\$20,092,000 and HK\$15,897,000, respectively.

2. Segment Information

The Company is an investment holding company and the Group principally operates in seven 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 results of the Group's business segments for the six months ended 30 June.

Group	Passenger transportation services		Tourist attraction operations		Freight forwarding and transportation services		Hotel operations		Travel and related operations		Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2003		2003		2003		2003		2003		2003	2003	2003	2003	2003
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:															
Sales to external customers	47,054	120,109	109,447	97,371	499,853	14,973	-	259	-	-	-	3,611	(11,448)	-	889,066
Intersegment revenue	1,506	442	309	2,610	2,970	-	-	-	-	-	-	-	-	-	-
Other revenue and gains	1,318	2,579	1,823	1,905	4,790	127	382	951	-	-	-	-	-	-	13,875
Total	<u>49,878</u>	<u>123,130</u>	<u>111,579</u>	<u>101,886</u>	<u>507,613</u>	<u>15,100</u>	<u>382</u>	<u>4,821</u>	<u>(11,448)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>902,941</u>
Segment results	<u>(2,882)</u>	<u>(7,208)</u>	<u>7,159</u>	<u>(128,463)</u>	<u>(160,605)</u>	<u>(83,502)</u>	<u>382</u>	<u>(25,316)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,435)</u>
Interest income and unallocated gains															10,980
Loss from operating activities															(389,455)
Finance costs															(11,257)
Share of profits and losses of:															
Jointly controlled entities	-	-	(1,400)	-	-	-	166,746	-	-	-	-	-	-	-	165,346
Associates	(13,419)	-	(1)	-	-	-	-	-	-	-	-	-	-	-	(13,420)
Loss from operating activities before tax															(248,786)
Tax															(45,529)
Loss before minority interests															(294,315)
Minority interests															3,386
Net loss from ordinary activities attributable to shareholders															<u>(290,929)</u>

2. Segment Information (continued)

(a) Business segments (continued)

Group	Passenger	Tourist	Freight		Travel and					
	transportation	attraction	forwarding	Hotel	travel-	Golf club	Power	Corporate	Elimin-	Consolid-
	services	operations	and trans-	operations	related	operations	generation	and others	ations	ated
	2002	2002	portation	2002	operations	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	2002	HK\$'000	2002	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			services	HK\$'000	2002					(restated)
Segment revenue:										
Sales to external customers	56,777	205,818	131,058	145,610	734,949	19,270	-	110	-	1,293,592
Intersegment revenue	734	187	143	7,070	3,748	-	-	3,621	(15,503)	-
Other revenue and gains	1,509	3,602	3,542	2,292	6,254	-	-	928	-	18,127
Total	59,020	209,607	134,743	154,972	744,951	19,270	-	4,659	(15,503)	1,311,719
Segment results	6,815	82,157	14,185	12,764	139,017	(1,909)	-	(13,583)	-	239,446
Interest income and unallocated gains										45,828
Unallocated expenses										(372)
Profit from operating activities										284,902
Finance costs										(19,040)
Share of profits and losses of:										
Jointly controlled entities	-	-	(1,125)	-	-	-	127,300	-	-	126,175
Associates	22,664	-	(105)	-	-	-	-	-	-	22,559
Profit from operating activities before tax										414,596
Tax										(53,165)
Profit before minority interests										361,431
Minority interests										(43,314)
Net profit from ordinary activities attributable to shareholders										318,117

2. Segment Information (continued)

(b) Geographical segments

The following table presents revenue of the Group's geographical segments for the six months ended 30 June.

Group	Hong Kong		PRC		Overseas		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	473,712	808,875	296,811	337,316	118,543	147,401	889,066	1,293,592
Other revenue and gains	7,638	9,119	4,498	5,402	1,739	3,606	13,875	18,127
	<u>481,350</u>	<u>817,994</u>	<u>301,309</u>	<u>342,718</u>	<u>120,282</u>	<u>151,007</u>	<u>902,941</u>	<u>1,311,719</u>

3. Other Revenue and Gains

For the six months
ended 30 June

	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest income	10,980	11,017
Rental income	5,115	6,235
Gain on disposal of listed equity investments	360	–
Gain on changes in fair value of short term investments	383	–
Management fee income	1,204	973
Exchange gains, net	343	1,105
Gain on disposal of fixed assets	178	2,150
Write-back of long outstanding payables	–	27,136
Write-back of provision for doubtful debts	–	7,675
Others	6,292	7,664
	<u>24,855</u>	<u>63,955</u>

4. Profit/(Loss) from Operating Activities

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

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	64,914	58,449
Amortisation of goodwill	20,478	18,893
Negative goodwill recognised	(2,070)	(2,070)
Loss/(gain) on disposal of fixed assets, net	(178)	224
Loss on disposal of a subsidiary	-	372
Loss on disposal of an associate	117	-
Impairment of depreciable investment properties	4,389	-
Revaluation deficit of other investment properties	25,200	-
Impairment of fixed assets	83,560	-
Hotel property revaluation deficit	492,813	-
Goodwill impairment	150,475	-
Realisation of goodwill from capital reserve upon impairment of underlying assets	13,061	-
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	(371,342)	-
Recognition of negative goodwill upon impairment of underlying assets	(9,553)	-
Provision for doubtful debts	233	1,279
	<u> </u>	<u> </u>

5. Finance Costs

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(10,488)	(17,670)
Finance lease and hire purchase contracts	(26)	(131)
Amortisation of deferred borrowing costs	(743)	(2,072)
Total finance costs	(11,257)	(19,873)
Less: Interest capitalised	-	833
	<u>(11,257)</u>	<u>(19,040)</u>

6. Tax

For the six months
ended 30 June

2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
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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)

(18,867) (30,757)

Share of tax attributable to:

Jointly controlled entities

(24,922) (19,943)

Associates

(1,740) (2,465)

(26,662) (22,408)

Tax charge for the period

(45,529) (53,165)

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 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
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>	4,220,832,015
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><u>4,215,285,294</u></u>	<u><u>4,413,858,566</u></u>

8. 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.

9. Investments

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Long term investments		
Unlisted equity investments outside Hong Kong:		
Unlisted shares, at fair value	<u>23,790</u>	<u>21,956</u>
Unlisted equity investments in Hong Kong:		
Unlisted shares, at fair value	<u>30</u>	<u>30</u>
	<u><u>23,820</u></u>	<u><u>21,986</u></u>
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>1,247</u>	<u>865</u>

10. Trade Receivables

The Group allows an average credit period ranging from 30 to 90 days to its trade debtors. The aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, net of provisions for doubtful debts, is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	129,835	204,949
Within:		
1-3 months	90,613	25,912
4-6 months	33,305	14,981
7-12 months	17,255	11,068
1-2 years	5,665	3,538
Over 2 years	4,830	7,135
	281,503	267,583

11. Trade Payables

The aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	110,174	145,058
Within:		
1-3 months	173,305	214,540
4-6 months	44,184	16,085
7-12 months	21,606	19,471
1-2 years	5,883	5,901
Over 2 years	7,443	9,421
	362,595	410,476

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:		
4,232,198,475 (2002: 4,222,731,839) ordinary shares of HK\$0.10 each	<u>423,220</u>	<u>422,273</u>

A summary of the movements in the issued share capital of the Company during the period is as follows:

	Number of shares in issue	Issued and fully paid (Unaudited) HK\$'000
At 1 January 2003	4,222,731,839	422,273
Shares issued on exercise of bonus warrants	<u>9,466,636</u>	<u>947</u>
At 30 June 2003	<u>4,232,198,475</u>	<u>423,220</u>

On 28 June 2001, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the Register of Members on 1 June 2001, resulting in 758,394,899 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$1.22 per share, payable in cash and subject to adjustment, from the date of issue to 30 June 2003. At the beginning of the year, there were 754,910,286 warrants outstanding.

During the period, 9,466,636 warrants were exercised at a subscription price of HK\$1.22 per share, resulting in the issue of 9,466,636 additional shares of HK\$0.10 each in the Company. The 745,443,650 warrants outstanding were expired and lapsed on 30 June 2003.

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Enterprise expansion reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2003							
As previously reported	5,922,231	(406,993)	264,215	64,246	4,099	1,608,714	7,456,512
Prior year adjustment:							
SSAP 12 "Income Taxes"							
- note 1	-	-	-	-	-	(20,092)	(20,092)
As restated	5,922,231	(406,993)	264,215	64,246	4,099	1,588,622	7,436,420
Exchange realignments	-	-	-	-	(387)	-	(387)
Deficit on revaluation	-	-	(84,818)	-	-	-	(84,818)
Recognition of negative goodwill upon impairment of underlying assets	-	(371,342)	-	-	-	-	(371,342)
Premium on issue of new shares on exercise of bonus warrants	10,603	-	-	-	-	-	10,603
Net loss for the period	-	-	-	-	-	(290,929)	(290,929)
Realisation of goodwill upon impairment of underlying assets	-	13,061	-	-	-	-	13,061
At 30 June 2003	5,932,834	(765,274)	179,397	64,246	3,712	1,297,693	6,712,608

14.

Pledge of Assets

As at 30 June 2003, the Group's bank deposits of approximately HK\$4,804,000 (2002: HK\$2,688,000) were pledged to banks to secure certain bank guarantee given in lieu of utility deposit and credit facilities granted by suppliers to the Group's subsidiaries.

15.

Contingent Liabilities

At the balance sheet date, the Group had the following material contingent liabilities:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,911	2,911
Guarantees given to banks in connection with facilities granted to and utilised by an associate	88,738	98,688
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,885	1,885
	<u>93,534</u>	<u>103,484</u>

At the balance sheet date, the Group had the following commitments:

(i) Capital commitments

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Land and buildings:		
Contracted, but not provided for	<u>4,385</u>	<u>11,068</u>
Plant and equipment:		
Contracted, but not provided for	<u>6,441</u>	3,908
Authorised, but not contracted for	<u>–</u>	<u>9,611</u>
	<u>6,441</u>	<u>13,519</u>
Properties under development:		
Contracted, but not provided for	<u>187,408</u>	31,714
Authorised, but not contracted for	<u>1,531,703</u>	<u>1,709,600</u>
	<u>1,719,111</u>	<u>1,741,314</u>
Unpaid capital contribution to jointly controlled entities:		
Contracted, but not provided for	<u>3,540</u>	<u>3,540</u>
Unpaid capital contribution to investee companies:		
Contracted, but not provided for	<u>17,549</u>	<u>768</u>
Others:		
Contracted, but not provided for	<u>–</u>	<u>7,619</u>

(ii) Operating lease arrangements**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 2 to 5 years. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	6,901	6,774
In the second to fifth years, inclusive	4,791	3,864
	<u>11,692</u>	<u>10,638</u>

(b) As lessee

The Group leases certain of its office properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 18 years, and those for plant and machinery for terms ranging from 1 to 5 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Land and buildings:		
Within one year	41,025	33,281
In the second to fifth years, inclusive	54,929	49,360
After five years	79,302	90,358
	<u>175,256</u>	<u>172,999</u>
Plant and machinery:		
Within one year	163	166
In the second to fifth years, inclusive	101	199
	<u>264</u>	<u>365</u>

The Group had the following material transactions with related parties during the period which also constitute connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”):

China Travel Service (Holdings) Hong Kong Limited or its subsidiaries

Name of company	Nature of transaction	For the six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
1. China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	994	1,075
2. China Travel Building Contractors Hong Kong Limited	Decoration expenses	–	544
3. China Travel Insurance Advisers Hong Kong Limited	Insurance charges	4,180	3,421
4. Tai Sun Services Company Limited	Stevedoring services and coolie charges	875	1,151
5. China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	830	2,064
6. China Travel Service (Holdings) Hong Kong Limited	Office rental	7,258	7,109

17. Related Party Transactions (continued)

China Travel Service (Holdings) Hong Kong Limited or its subsidiaries (continued)

Name of company	Nature of transaction	For the six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
<i>Received or receivable from:</i>			
7. China Travel Service (Holdings) Hong Kong Limited	Sale of computer equipment	940	–
8. China Travel Service (Holdings) Hong Kong Limited	Travel permit administration income	101,577	169,691
9. China Travel Computer Service H.K. Limited	Application service provider services	3,939	7,462
10. China Travel Service (Thailand) Co., Ltd.	Sale of tourism services/products	319	929
11. China Travel System (M) Sdn. Bhd.	Sale of tourism services/products	289	643

The above transactions were carried out in accordance with the terms of agreements, if any, governing such transactions, at market price or, where no market price was available, at cost plus a percentage of profit mark-up.

18. 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.

19. Approval of the Interim Financial Report

These condensed interim financial statements were approved and authorised for issue by the Board of the Company on 18 August 2003.

Independent Auditors' Review Report

To the Board of Directors of China Travel International Investment Hong Kong Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 19.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to Review Interim Financial Reports" issued by the HKSA. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Group's interim financial report for the six months ended 30 June 2003.

Ernst & Young

Certified Public Accountants

Hong Kong, 18 August 2003

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, the 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 shareholders 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 China, laying a solid foundation for the future development.

Tour Operations and Leisure Business (continued)

During the first quarter in 2003, the turnover of China Travel Net Limited generated from online transactions increased from about 31.1% 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 Golf 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. All the hotels imposed strict cost control measures during the SARS period as a result of low occupancy rate.

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.

Other Information

Disclosure of Interests of Directors

As at 30 June 2003, the directors and their associates have the following interest or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):-

Long position in the shares of the Company

Name of Director	Number of shares held and nature of interest			Total	% of the issued share capital
	Personal	Corporate	Other		
Mr. Shen Zhuying	2,500,000	-	-	2,500,000	0.0591%
Dr. Yeh Meou Tsen, Geoffrey	8,330,000	-	-	8,330,000	0.1968%
Dr. Fong Yun Wah	-	50,000 ⁽¹⁾	502,000 ⁽²⁾	552,000	0.0130%

Notes:

- (1) These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested pursuant to Divisions 7 and 8 of Part XV of the SFO.
- (2) These shares are beneficially owned by certain charitable foundations in which Dr. Fong Yun Wah is the chairman and has non-beneficial interests.

Save as disclosed above, as at 30 June 2003, none of the directors and their associates had any interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

On 3 June 2002, a new share option scheme (the “New Scheme”) was adopted by the Company to replace the share option scheme which was approved by the shareholders of the Company on 21 October 1992 (the “Old Scheme”). The Old Scheme was terminated on 20 October 2002. There were no options outstanding under the Old Scheme as at 1 January 2003 and 30 June 2003.

The Company operates the New Scheme for the purpose of attracting and retaining the best quality personnel for the development of the Group’s businesses; providing additional incentives to employees, officers and executive directors of the Group; and promoting the long term financial success of the Company by aligning the interests of option holders to shareholders.

Eligible participants of the New Scheme include the Company’s executive directors and employees of the Group. The New Scheme became effective on 3 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

At 30 June 2003, no share options was outstanding under the New Scheme and none of the Company’s directors and none of the Group’s employees were granted share options during the period.

Directors’ Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading “Disclosure of Interests of Directors” above, at no time during the period was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company’s Directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

At 30 June 2003, the following shareholders have interests, directly or indirectly, or short positions in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long position in the shares of the Company

Name of shareholders	Notes	Number of issued shares held	% of the issued share capital
Foden International Limited (“Foden”)	1	17,250,000	0.41%
China Travel Service (Holdings) Hong Kong Limited (“CTSH”)	1,2	2,494,693,940	58.95%
China Travel Service Head Office of the PRC (“CTS-PRC”).	2	2,494,693,940	58.95%

Substantial Shareholders (continued)

(i) Long position in the shares of the Company (continued)

Notes:

- 1 17,250,000 shares are held by Foden which is a wholly-owned subsidiary of CTSH.
- 2 The entire issued share capital of CTSH is beneficially owned by CTS-PRC. CTSH is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTSH.

(ii) Long position in the underlying shares of the Company

Name of shareholders	Type of underlying shares	Number of underlying shares held	% of the issued share capital
Foden	Bonus Warrant	3,450,000	0.082%
CTSH	Bonus Warrant	457,484,243	10.810%
CTS-PRC	Bonus Warrant	457,484,243	10.810%

Note: These bonus warrants were listed on the Stock Exchange. They expired and lapsed on 30 June 2003 according to their terms.

Save as disclosed above, as at 30 June 2003, the Company were not aware of any other person (other than the directors or chief executive of the Company) who has an interest, directly or indirectly, or short position in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

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.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Practice Note 19 of the Listing Rules

As at 30 June 2003, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTSH, during the tenure of such loan facilities. The specific performance obligation is that CTSH shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant tenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amount outstanding as at 30 June 2003	Final maturity of the loan facilities
HK\$700 million	30 October 2007
HK\$410 million	30 April 2005

By Order of the Board
Shen Zhuying
Managing Director

Hong Kong, 18 August 2003