



# 香港中旅國際投資有限公司

## CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 308)

### SUMMARISED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

#### INTERIM RESULTS

The Board of Directors (the "Board") of China Travel International Investment Hong Kong Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 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 2004

	Notes	For the six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (Unaudited and restated) HK\$'000
<b>TURNOVER</b>	2 & 3	<b>2,039,671</b>	1,328,998
Cost of sales		<b>(1,439,097)</b>	(993,936)
Gross profit		<b>600,574</b>	335,062
Other revenue and gains	4	<b>26,833</b>	24,855
Distribution costs		<b>(24,672)</b>	(19,196)
Administrative expenses		<b>(326,247)</b>	(300,320)
Other operating expenses		<b>(42,840)</b>	(41,253)
Revaluation surplus/(deficit) of investment properties, hotel properties and impairment of fixed assets and goodwill		<b>175,767</b>	(388,603)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	5	<b>409,415</b>	(389,455)
Finance costs	6	<b>(18,212)</b>	(11,257)
Share of profits and losses of: Jointly-controlled entities		<b>206,601</b>	165,346
Associates		<b>23,739</b>	(13,420)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES BEFORE TAX</b>		<b>621,543</b>	(248,786)
Tax	7	<b>(91,493)</b>	(45,529)
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>530,050</b>	(294,315)
Minority interests		<b>(29,519)</b>	3,386
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>500,531</b>	(290,929)
<b>EARNINGS/(LOSS) PER SHARE (HK CENTS)</b>	8		
Basic		<b>11.83</b>	(6.89)
Diluted		<b>N/A</b>	(6.90)
<b>DIVIDEND PER SHARE (HK CENTS)</b>		<b>5.00</b>	–

Notes:

#### 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 2003.

#### 2. Turnover

Prior to 30 June 2003, a PRC subsidiary of the Group engaged in the freight forwarding business had recorded its net commission income as turnover.

During the year ended 31 December 2003, the Group had aligned the accounting policy of this PRC subsidiary with those subsidiaries in Hong Kong so that the turnover from its freight forwarding business is recorded at the invoiced sales amount and direct costs are recorded as cost of sales. In the opinion of the directors, this change in accounting policy for the classification of revenue and direct costs for the freight forwarding business results in a more appropriate presentation of these transactions in the financial statements and provides more relevant information about the performance of the Group.

This change in accounting policy has resulted in an increase in the Group's turnover and cost of sales for the six months ended 30 June 2003 by HK\$439,932,000. This has no impact on the Group's gross or net profit for the six months ended 30 June 2003 and the Group's net assets as at 31 December 2003.

#### 3. 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 2004 and 2003.

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and transportation services	Hotel operations	Travel and travel-related operations	Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	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	97,773	181,850	800,266	165,886	774,253	19,386	–	257	–	2,039,671
Intersegment revenue	1,867	1,493	54	7,521	19,604	–	–	3,999	(34,538)	–
Other revenue and gains	1,123	2,259	4,001	1,539	5,893	69	385	2,029	–	17,298
Total	<u>100,763</u>	<u>185,602</u>	<u>804,321</u>	<u>174,946</u>	<u>799,750</u>	<u>19,455</u>	<u>385</u>	<u>6,285</u>	<u>(34,538)</u>	<u>2,056,969</u>
Segment results	<u>15,947</u>	<u>62,406</u>	<u>23,210</u>	<u>217,319</u>	<u>98,035</u>	<u>(2,572)</u>	<u>(238)</u>	<u>(14,227)</u>	<u>–</u>	<u>399,880</u>
Interest income and unallocated gains										9,535
Profit from operating activities										409,415
Finance costs										(18,212)
Share of profits and losses of: Jointly-controlled entities			(541)		255		206,887			206,601
Associates	23,741		(2)							23,739
Profit from operating activities before tax										621,543
Tax										(91,493)
Profit before minority interests										530,050
Minority interests										(29,519)
Net profit from ordinary activities attributable to shareholders										<u>500,531</u>

Group	Passenger transportation services	Tourist attraction operations	Freight forwarding and transportation services	Hotel operations	Travel and travel-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	549,379	97,371	499,853	14,973	–	259	–	1,328,998
Intersegment revenue	1,506	442	309	2,610	2,970	–	–	3,611	(11,448)	–
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>551,511</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>1,342,873</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>(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)							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>

#### (b) Geographical segments

The following table presents revenue of the Group's geographical segments for the six months ended 30 June 2004 and 2003.

Group	Hong Kong		PRC		Overseas		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	727,200	473,712	1,161,542	736,743	150,929	118,543	2,039,671	1,328,998
Other revenue and gains	12,464	7,638	3,186	4,498	1,648	1,739	17,298	13,875
Total	<u>739,664</u>	<u>481,350</u>	<u>1,164,728</u>	<u>741,241</u>	<u>152,577</u>	<u>120,282</u>	<u>2,056,969</u>	<u>1,342,873</u>

#### 4. Other Revenue and Gains

	For the six months ended 30 June 2004 (Unaudited) HK\$'000		2003 (Unaudited) HK\$'000
Interest income		<b>9,473</b>	10,980
Rental income		<b>5,985</b>	5,115
Gain on disposal of listed equity investments		–	360
Gain on changes in fair value of short term investments		<b>2</b>	383
Management fee income		<b>1,785</b>	1,204
Exchange gains, net		<b>3,894</b>	343
Gain on disposal of fixed assets		<b>326</b>	178
Others		<b>5,368</b>	6,292
Total		<u><b>26,833</b></u>	<u>24,855</u>

#### 5. 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 2004 (Unaudited) HK\$'000		2003 (Unaudited) HK\$'000
Depreciation		<b>69,113</b>	64,914
Amortisation of goodwill		<b>17,670</b>	20,478
Negative goodwill recognised		<b>(1,829)</b>	(2,070)
Gain on disposal of fixed assets		<b>(326)</b>	(178)
Loss on disposal of an associate		–	117
Impairment of depreciable investment properties		–	4,389
Impairment of fixed assets		–	83,560
Revaluation deficit/(surplus) of other investment properties		<b>(3,213)</b>	25,200
Hotel property revaluation deficit/(surplus)		<b>(172,554)</b>	492,813
Goodwill impairment		–	150,475
Impairment of goodwill previously carried in capital reserve		–	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

#### 6. Finance Costs

	For the six months ended 30 June 2004 (Unaudited) HK\$'000		2003 (Unaudited) HK\$'000
Interest expenses on: Bank loans, overdrafts and other loans wholly repayable within five years		<b>(5,498)</b>	(10,488)
Finance lease and hire purchase contracts		<b>(4)</b>	(26)
Amortisation of deferred borrowing costs		<b>(2,860)</b>	(743)
Accretion of premium on convertible bonds		<b>(9,850)</b>	–
Total		<u><b>(18,212)</b></u>	<u>(11,257)</u>

## 7. Tax

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(44,552)	(8,968)
Elsewhere	(13,102)	(6,371)
Overseas	(104)	(149)
Underprovision in prior years	(344)	(938)
Deferred tax	2,187	(2,441)
	<u>(55,915)</u>	<u>(18,867)</u>
Share of tax attributable to:		
Jointly-controlled entities	(32,881)	(24,922)
Associates	(2,697)	(1,740)
	<u>(35,578)</u>	<u>(26,662)</u>
Tax charge for the period	<u>(91,493)</u>	<u>(45,529)</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

## 8. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$500,531,000 (2003: loss of HK\$290,929,000) and the weighted average of 4,232,199,176 (2003: 4,223,033,876) ordinary shares in issue during the period.

Diluted earnings per share amount for the six months ended 30 June 2004 has not been disclosed, as the Company's convertible bonds and bonus warrants outstanding during the period had anti-dilutive effect on the basic earnings per share for the period.

For the six months ended 30 June 2003, the calculation of diluted loss per share was based on the net loss from ordinary activities attributable to shareholders of HK\$290,929,000. The weighted average number of ordinary shares used in the calculation of 4,223,033,876 ordinary shares in issue during the period, as used in the basic loss per share calculation and the weighted average of 7,748,582 shares assumed to have been issued at no consideration on the deemed exercise of all outstanding bonus warrants.

## 9. Comparative Amounts

As further explained in note 2 to the condensed consolidated profit and loss account, the Group's turnover and cost of sales have been increased by HK\$439,932,000 for the six months ended 30 June 2003 to conform with the Group's accounting policy. In the opinion of the directors, this classification would better reflect the results of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Results and Operation

During the first quarter of the year, the travel business of the Group was affected by the outbreak of Asian Bird Flu and scattered cases of Severe Acute Respiratory Syndrome ("SARS") in Asia. Since April, due to the recovery of the worldwide travel market, the extension of "Individual Traveler Permit Scheme", and the aggressive development efforts of the Group, the travel and travel related businesses of the Group achieved encouraging results. During this period, the Group strengthened the development and management of our PRC travel agency network, and completed the acquisition of a travel agency in Shanxi. Up to date, the Group invested in 12 travel agencies in PRC in the form of wholly-owned subsidiary, joint venture and investment. In addition, the consolidation of travel businesses in Hong Kong, the PRC and overseas countries achieved significant progress. The Group acquired 50% shareholding of China Heaven Creation International Performing Arts Co., Ltd. ("CHCIP") from China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") and increased its shareholding in CHCIP to 65.3%. CHCIP is one of the few companies in PRC which has the license to sponsor, organize and promote art and cultural shows and exhibitions in the PRC and overseas. Currently, CHCIP is operating three performances in Beijing, Guilin and Suzhou and have received great reviews by the audience. It will help to support our other core businesses and will drive new profit growth. Zhuhai Ocean Spring Resort has entered the construction phase. Weihe Power Plant and the freight forwarding business also achieved encouraging results.

The consolidated revenue of the Group for the six months ended 30 June 2004 was approximately HK\$2,040 million, which is an increase of 53.5% as compared with the same period of last year. The consolidated profit after tax of the Group was approximately HK\$500.5 million, which is the highest in the history of the Group (a net loss of HK\$291 million was recorded in the same period last year). The operating profit was approximately HK\$323.1 million, which is the historical highest level, and the reversal of provision due to property revaluation was approximately HK\$175.8 million; whereas due to other deferred tax was approximately HK\$1.6 million.

### Tour Operation and Leisure Business

During the first half of the year, the consolidated turnover of the travel and travel related businesses of the Group was approximately HK\$1,239 million, which is an increase of 59% as compared with the same period of last year. The consolidated profit increased by 584% and the number of tourists served was approximately 8.85 million, representing an increase of 80%. During the period, China Travel Service (Hong Kong) Limited ("CTSHK") developed two new businesses, namely the conference and exhibition tour and the study tour, which received more than 12,000 tourists and enhanced the profit margin significantly. China Travel International Ltd. ("CTI"), a wholly owned travel agency of the Group in Beijing, is the sole agent for organizing tours for the Chinese citizens to the 2004 Athens Olympics. CTI has already sold more than 3,000 tickets, organized tours for more than 1,500 tourists and recorded a turnover of over RMB31 million. The number of PRC citizen joining tourist groups to Athens Olympics surpasses that of all previous Olympics.

During the first half of the year, the proportion of online transactions to total transactions of China Travel Net Hong Kong Limited was approximately 27%. During the period, the number of visitors to the China Travel website reached approximately 1.22 million and the number of members reached 62,000, which is a significant development as compared with the same period of last year.

During the first quarter of the year, the three theme parks in Shenzhen, Window of the World, Splendid China and China Folk Culture Villages were affected by Asian Bird Flu and SARS. The growth of the second quarter was faster and the number of tourists received for the first half of the year was 1.705 million, which is an increase of 53% as compared with the same period of last year. Turnover increased by approximately 51%.

Shenzhen Tycoon Golf Club had successfully completed the rebuilding of the "C" course and enhanced the attractiveness of the club. A total of 188 golf club memberships were sold, which is an increase of 623% as compared with the same period of last year. Turnover from operation increased by approximately 30%.

### Hotel Operation

The profit of the Group's five hotels in Hong Kong and Macau was approximately HK\$39.6 million, which is not only a turnaround from losses but also an increase of 230% as compared with the same period in 2002. It is the best result achieved in the last five years. The average occupancy rate of the Group's four hotels in Hong Kong was 89%. The average occupancy rate of Hotel Grandeur in Macau was relatively lower but the average room rate and profit increased by 32% and more than 70% respectively as compared with the same period in 2002.

### Passenger Transportation and Freight Forwarding

Aided by the extension of "Individual Traveler Permit Scheme" and the development of new bus routes, the number of passengers carried by China Travel Tours Transportation Services Hong Kong Limited ("CT Tours") reached 2.241 million in the first half of the year, representing an increase of 308% as compared with the same period of last year. Turnover increased by 108% and CT Tours returned to profit after a loss recorded in the first half of last year. Profit in the first half of the year reached a historically high level. The

passenger ferry business also turned around. During the first half of the year, the total contribution from the passenger transportation business reached HK\$35.77 million, representing an increase of 44% over the same period in the prosperous year of 2002.

In respect of the freight forwarding business, turnover increased by 46% as compared with the same period of last year and profit reached HK\$15.09 million, representing an increase of 120%. The sea freight business of CTS International Transportation Company Limited in Shanghai continued to grow rapidly whereas the import and re-export freight volume through railway handled by China Travel Service (Cargo) Hong Kong Limited continued to decline.

### Infrastructure

The amount of electricity generated by Shaanxi Weihe Power Plant increased by 19% as compared with the same period of last year, and each of the fuel consumption rate, the electricity consumption rate of the plant, and the rate of normal operation of generators reached the highest levels in history and profit increased by 21%.

### Prospects

Amid the improvements of the tourism and commercial environment in Hong Kong and the extension of "Individual Traveler Permit Scheme", the number of visitors to Hong Kong from the PRC will continue to grow in the latter half of the year. Together with the increase in business conference and commercial activities, the tour, passenger transportation and hotel businesses of the Group will continue to improve. The room rates and the occupancy rates of the five hotels of the Group have continued to climb in July and August. Starting from 1 September, 2004, twenty-seven European countries shall enjoy the status of an approved destination for tourist groups of Chinese citizens and that will bring ample business opportunities to the travel agencies of the Group in the PRC and Europe. Pioneer tourist group of hundreds of Chinese tourists have been organized and is ready for departure to Europe. The online travel company under planning and the Zhuhai Ocean Spring Resort under construction will create synergies and will provide new future growth to the Group. The three theme parks of the Group have emerged from the adverse impacts of the Asian Bird Flu and SARS and businesses are expected to be better in the latter half of the year. Weihe Power Plant has been operating on higher capacity factor and the rising costs of coal may affect its profit to some degree in the latter half of the year. As the travel, power and freight industries are supported by the PRC government, the austerity measures implemented by the PRC government do not have any adverse impacts on the businesses of the Group. However, the worldwide situations are still unstable and terrorist attacks and other incidental adverse events should be well prepared for. The financial position of the Group is very strong. Travel and leisure is still the focus of our development strategy. Overall, favorable factors are still predominant and the Board is confident of the prospects of the Group.

### Liquidity, Financial Resources and Capital Structure

The financial position of the Group is strong. As at 30 June 2004, the cash and bank balances of the Group amounted to HK\$1,819 million whereas the interest bearing debts from the bank and the convertible bonds amounted to HK\$710 million and HK\$1,178 million respectively. The net interest bearing debt to equity ratio was 0.92%.

During the period, 21,915 bonus warrants were exercised for 21,915 shares of HK\$0.10 each at a subscription price of HK\$1.508 per share. Accordingly, the number of issued share capital of the Company has been increased from 4,232,198,475 shares to 4,232,220,390 shares as at 30 June 2004.

### Number and Remuneration of Employee

As at 30 June 2004, the Group has 6,586 employees of whom 2,214 are based in Hong Kong, 205 are based in overseas countries and 4,167 are based in the mainland China.

The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employees remuneration policy and package 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 THE COMPANY'S LISTED SECURITIES

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

### COMPLIANCE WITH THE 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 to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

### AUDIT COMMITTEE

The audit committee of the Company was established in accordance with the requirements of the Code in 1999 for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two Independent Non-Executive Directors of the Company, namely, Mr. Wong Man Kong, Peter and Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey).

### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK5 cents (2003: nil) per share for the period ended 30 June 2004. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 9 September 2004. The interim dividend will be paid on or around Wednesday, 22 September 2004.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 6 September 2004 to Thursday, 9 September 2004 (both days inclusive), for the purposes of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 3 September 2004. Warrant holders who wish to convert their warrants into shares in order to qualify for the interim dividend must lodge the duly completed subscription form together with the relevant warrant certificates accompanied by the subscription monies with the Company's Registrar not later than 4:30 p.m. on Friday, 3 September 2004.

### PUBLICATION OF FINANCIAL INFORMATION

A detailed interim results announcement of the Group for the six months ended 30 June 2004 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**

*Vice Chairman and General Manager*

Hong Kong, 17 August 2004

*As at the date of this announcement, the Executive Directors are Mr. Che Shujian, Mr. Zhang Xuewu, Mr. Shen Zhuying, Mr. Zheng Heshui, Mr. Lo Sui On, Mr. Chen Shoujie, Mr. Zheng Hongqing, Mr. Zhang Fengchun, Mr. Ng Chi Man, Michael and Mr. Liu Li and the Independent Non-Executive Directors are Dr. Yeh Meou Tsen, Geoffrey (Mr. Yeh V Nee being the Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter.*