

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

		For the six months ended 30 June	
	Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited and restated) HK\$'000
TURNOVER	2 & 3	2,039,671	1,328,998
Cost of sales		(1,439,097)	(993,936)
Gross profit		600,574	335,062
Other revenue and gains	4	26,833	24,855
Distribution costs		(24,672)	(19,196)
Administrative expenses		(326,247)	(300,320)
Other operating expenses		(42,840)	(41,253)
Revaluation surplus/(deficit) of investment properties, hotel properties and impairment of fixed assets and goodwill		175,767	(388,603)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	409,415	(389,455)
Finance costs	6	(18,212)	(11,257)
Share of profits and losses of:			
Jointly-controlled entities		206,601	165,346
Associates		23,739	(13,420)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES BEFORE TAX		621,543	(248,786)
Tax	7	(91,493)	(45,529)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		530,050	(294,315)
Minority interests		(29,519)	3,386
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		500,531	(290,929)
EARNINGS/(LOSS) PER SHARE (HK CENTS)	8		
Basic		11.83	(6.89)
Diluted		N/A	(6.90)
DIVIDEND PER SHARE (HK CENTS)	9	5.00	-

Condensed Consolidated Balance Sheet

30 June 2004

	Notes	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		5,476,603	5,202,096
Properties under development		224,147	130,830
Goodwill:			
Goodwill		1,267,053	1,283,621
Negative goodwill		(167,219)	(169,048)
Interests in jointly-controlled entities		1,420,469	1,351,795
Interests in associates		389,328	407,393
Long term investments	10	59,773	21,585
Deferred tax assets		–	11,347
		8,670,154	8,239,619
CURRENT ASSETS			
Short term investments	10	13,112	12,760
Inventories		10,949	13,530
Trade receivables	11	423,532	350,940
Tax recoverable		663	3,847
Other receivables		266,329	219,355
Pledged time deposits		4,163	4,323
Cash and cash equivalents		1,815,113	2,339,310
Amount due from ultimate holding company		30,957	30,843
Amounts due from fellow subsidiaries		2,210	3,422
		2,567,028	2,978,330
CURRENT LIABILITIES			
Trade payables	12	466,942	463,618
Tax payable		79,574	32,612
Other payables and accruals		401,935	452,214
Interest-bearing bank and other borrowings		704	471,377
Amounts due to fellow subsidiaries		846	4,478
		950,001	1,424,299
NET CURRENT ASSETS		1,617,027	1,554,031

Condensed Consolidated Balance Sheet (continued)

30 June 2004

	Notes	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		10,287,181	9,793,650
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		112,969	91,796
Interest-bearing bank and other borrowings		710,223	705,770
Lease and hire purchase contract payables		484	525
Convertible bonds		1,178,575	1,168,152
Deferred tax liabilities		275,590	240,589
		2,277,841	2,206,832
MINORITY INTERESTS		(353,134)	(334,755)
		7,656,206	7,252,063
CAPITAL AND RESERVES			
Share capital	13	423,222	423,220
Reserves	14	7,021,373	6,659,555
Proposed dividends		211,611	169,288
		7,656,206	7,252,063

Condensed Consolidated Summary Statement of Changes in Equity

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Total shareholders' equity at 1 January		7,252,063	8,047,694
Prior year adjustment		–	(20,092)
As restated		7,252,063	8,027,602
Exchange differences arising on translation of the financial statements of foreign entities	14	(1,983)	(387)
Surplus/(deficit) on revaluation of hotel properties	14	74,850	(84,818)
Net gains/(losses) not recognised in the profit and loss account		72,867	(85,205)
Net profit/(loss) attributable to shareholders		500,531	(290,929)
Recognition of negative goodwill from capital reserve upon impairment of underlying assets	14	–	(371,342)
Impairment of goodwill previously carried in capital reserve	14	–	13,061
Dividends paid		(169,288)	(168,909)
Issue of new shares	13	2	947
Premium on issue of new shares	14	31	10,603
Total shareholders' equity at 30 June		7,656,206	7,135,828

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	192,376	(19,638)
CASH OUTFLOW FROM INVESTING ACTIVITIES	(73,853)	(239,623)
CASH OUTFLOW FROM FINANCING ACTIVITIES	(642,720)	(57,350)
DECREASE IN CASH AND CASH EQUIVALENTS	(524,197)	(316,611)
Cash and cash equivalents at beginning of period	2,339,310	1,171,891
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,815,113	855,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,379,344	521,462
Time deposits	435,769	333,818
	1,815,113	855,280

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 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 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight forwarding and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000	Travel and travel-related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 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	100,763	185,602	804,321	174,946	799,750	19,455	385	6,285	(34,538)	2,056,969
Segment results	15,947	62,406	23,210	217,319	98,035	(2,572)	(238)	(14,227)	-	399,880
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										500,531

3. Segment Information (continued)

(a) Business segments (continued)

Group

	Passenger transportation services 2003 HK\$'000	Tourist attraction operations 2003 HK\$'000	Freight forwarding and trans- portation services 2003 HK\$'000 (Restated)	Hotel operations 2003 HK\$'000	Travel and travel-related operations 2003 HK\$'000	Golf club operations 2003 HK\$'000	Power generation 2003 HK\$'000	Corporate and others 2003 HK\$'000	Eliminations 2003 HK\$'000	Consolidated 2003 HK\$'000 (Restated)
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	49,878	123,130	551,511	101,886	507,613	15,100	382	4,821	(11,448)	1,342,873
Segment results	(2,882)	(7,208)	7,159	(128,463)	(160,605)	(83,502)	382	(25,316)	-	(400,435)
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										(290,929)

3. Segment Information (continued)

(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 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
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
	739,664	481,350	1,164,728	741,241	152,577	120,282	2,056,969	1,342,873

4. Other Revenue and Gains

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

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	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	69,113	64,914
Amortisation of goodwill	17,670	20,478
Negative goodwill recognised	(1,829)	(2,070)
Gain on disposal of fixed assets	(326)	(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	(3,213)	25,200
Hotel property revaluation deficit/(surplus)	(172,554)	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	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(5,498)	(10,488)
Finance lease and hire purchase contracts	(4)	(26)
Amortisation of deferred borrowing costs	(2,860)	(743)
Accretion of premium on convertible bonds	(9,850)	–
	(18,212)	(11,257)

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)
	(55,915)	(18,867)
Share of tax attributable to:		
Jointly-controlled entities	(32,881)	(24,922)
Associates	(2,697)	(1,740)
	(35,578)	(26,662)
Tax charge for the period	(91,493)	(45,529)

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. 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.

10. Investments

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Long term investments		
Unlisted equity and debt investments outside Hong Kong:		
Unlisted shares, at fair value	21,236	21,555
Unlisted bonds, at fair value	38,507	–
Unlisted equity investments in Hong Kong:		
Unlisted shares, at fair value	30	30
	59,773	21,585
Short term investments		
Listed equity investments in Hong Kong, at market value	1,511	1,510
Listed equity investments outside Hong Kong, at market value	353	2
Unlisted equity investments outside Hong Kong, at fair value	11,248	11,248
	13,112	12,760

11. 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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	234,958	198,011
Within:		
1-3 months	148,808	121,218
4-6 months	24,108	13,921
7-12 months	12,208	15,149
1-2 years	2,920	2,376
Over 2 years	530	265
	423,532	350,940

12. 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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	192,218	252,139
Within:		
1-3 months	195,302	123,976
4-6 months	41,509	45,503
7-12 months	25,002	27,306
1-2 years	6,994	6,561
Over 2 years	5,917	8,133
	466,942	463,618

13. Share Capital

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised: 7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid: 4,232,220,390 (2003: 4,232,198,475) ordinary shares of HK\$0.10 each	423,222	423,220

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 2004	4,232,198,475	423,220
Shares issued on exercise of bonus warrants	21,915	2
At 30 June 2004	4,232,220,390	423,222

On 28 May 2004, 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 13 May 2004, resulting in 846,439,695 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\$1.508 per share, payable in cash and subject to adjustment, from the date of issue to 31 May 2006.

During the period, 21,915 bonus warrants were exercised at a subscription price of HK\$1.508 per share, resulting in the issue of 21,915 additional shares of HK\$0.10 each in the Company. The number of bonus warrants outstanding and remained unexercised as at 30 June 2004 is 846,417,780, which shall expire and lapse on 31 May 2006.

14. Reserves

	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 2004	5,932,834	(842,196)	148,002	71,590	7,709	1,341,616	6,659,555
Exchange realignments	-	-	-	-	(1,983)	-	(1,983)
Surplus on revaluation	-	-	74,850	-	-	-	74,850
Transfer	-	-	-	2,445	-	(2,445)	-
Premium on issue of new shares on exercise of bonus warrants	31	-	-	-	-	-	31
Net profit for the period	-	-	-	-	-	500,531	500,531
Proposed 2004 interim dividend	-	-	-	-	-	(211,611)	(211,611)
At 30 June 2004	5,932,865	(842,196)	222,852	74,035	5,726	1,628,091	7,021,373

15. Pledge of Assets

As at 30 June 2004, certain of the Group's bank deposits of approximately HK\$4,163,000 (31 December 2003: HK\$4,323,000) were pledged to banks to secure certain bank guarantee given in lieu of utility deposit.

16. Contingent Liabilities

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

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bank guarantees given in lieu of utility and rental deposits	4,935	2,911
Guarantees given to banks in connection with facilities granted to and utilised by an associate	-	94,388
Guarantees given to bank in connection with banking facilities granted to and utilised by an investee company	18,414	18,329
Guarantee given to a supplier in connection with credit facilities granted	2,251	2,251
	25,600	117,879

17. Commitments

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

(i) Capital commitments

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Land and buildings:		
Contracted, but not provided for	63,731	–
Authorised, but not contracted for	13,184	–
	76,915	–
Properties under development:		
Contracted, but not provided for	143,984	110,833
Authorised, but not contracted for	1,513,205	1,392,159
	1,657,189	1,502,992
Plant and equipment and motor vehicles:		
Contracted, but not provided for	18,646	17,549
Authorised, but not contracted for	10,473	11,510
	29,119	29,059
Leasehold improvements:		
Contracted, but not provided for	2,547	23,982
Authorised, but not contracted for	–	1,017
	2,547	24,999
Unpaid capital contribution to jointly-controlled entities:		
Contracted, but not provided for	3,406	3,326
Unpaid capital contribution to investee companies:		
Contracted, but not provided for	–	1,710
Others:		
Contracted, but not provided for	–	7,956

17. Commitments (continued)

(ii) The Group's share of capital commitments of a jointly-controlled entity is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Contracted, but not provided for	2,460	6,082

(iii) 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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	5,404	6,010
In the second to fifth years, inclusive	2,512	2,315
	7,916	8,325

17. Commitments (continued)

(iii) Operating lease arrangements (continued)

(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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Land and buildings:		
Within one year	31,909	28,238
In the second to fifth years, inclusive	57,035	51,200
After five years	73,532	73,864
	162,476	153,302
Plant and machinery:		
Within one year	301	642
In the second to fifth years, inclusive	484	639
	785	1,281

18. Related Party Transactions

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

Company Name	Nature of Transaction	For the six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
1. China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	747	994
2. China Travel Insurance Advisers Hong Kong Limited	Insurance premium	5,353	4,180
3. Tai Sun Services Company Limited	Stevedoring services and coolie charges	568	875
4. China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	2,511	830
5. China Travel Service (Holdings) Hong Kong Limited	Office rental	5,690	7,258
<i>Received or receivable from:</i>			
6. China Travel Service (Holdings) Hong Kong Limited	Sale of computer equipment	–	940
7. China Travel Service (Holdings) Hong Kong Limited	Travel permit administration income	135,312	101,577
8. China Travel Computer Service H.K. Limited	Application service provider services	5,980	3,939
9. China Travel Service (Thailand) Co., Ltd.	Sale of tourism services/products	465	319
10. China Travel System (M) Sdn. Bhd.	Sale of tourism services/products	–	289

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

19. Comparative Amounts

As further explained in note 2 to the financial statements, 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.

20. Approval of the Interim Financial Report

These condensed interim financial statements were approved and authorised for issue by the board of directors on 17 August 2004.

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 20.

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 2004.

Ernst & Young

Certified Public Accountants

Hong Kong, 17 August 2004

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.

OTHER INFORMATION

Interests of Directors

At 30 June 2004, the directors and their associates have the following interest or short positions in shares, underlying shares and debentures of the Company or any of its 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 and underlying shares of the Company

(a) *ordinary shares of HK\$0.10 each of the Company*

Name of Director	Capacity	Number of shares held	% of the issued share capital
Shen Zhuying	Beneficial Owner	2,500,000	0.06%
Yeh Meou Tsen, Geoffrey	Beneficial Owner	8,300,000	0.20%
Fong Yun Wah	Interest of controlled corporations (Note)	50,000	0.001%

(b) *bonus warrants of the Company*

Name of Director	Capacity	Number of underlying shares held	% of the issued share capital
Shen Zhuying	Beneficial Owner	500,000	0.01%
Yeh Meou Tsen, Geoffrey	Beneficial Owner	1,660,000	0.04%
Fong Yun Wah	Interest of controlled corporations (Note)	10,000	0.0002%

Note: These shares and underlying 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.

Save as disclosed above, none of the directors and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its 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 2004 and 30 June 2004.

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 2004, 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

Save as disclosed under the heading “Interests of Directors” and “Share Option Scheme” mentioned 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.

Interests of Substantial Shareholders

At 30 June 2004, 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:

Long position in the shares and underlying shares of the Company

(a) ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of shares held	% of the issued share capital
China Travel Service Head Office of the PRC (“CTS-PRC”)	Beneficial owner (Note 1)	2,494,693,940	58.95%
China Travel Service (Holdings) Hong Kong Limited (“CTSH”)	Interest of controlled corporation (Notes 1&2)	2,494,693,940	58.95%
Foden International Limited (“FIL”)	Interest of controlled corporation (Note 2)	17,250,000	0.41%
Templeton Asset Management Limited (“TAML”)	Investment Manager	200,032,000	4.73%

Interests of Substantial Shareholders (continued)

(b) *bonus warrants of the Company*

Name of shareholder	Capacity	Number of underlying shares held	% of the issued share capital
CTS-PRC	Beneficial owner (Note 1)	498,938,788	11.79%
CTSH	Interest of controlled corporation (Notes 1&2)	498,938,788	11.79%
FIL	Interest of controlled corporation (Note 2)	3,450,000	0.08%
TAML	Investment Manager	40,006,400	0.95%

Notes:

- 1 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.
- 2 These shares and underlying shares are held by FIL, which is a wholly-owned subsidiary of CTSH.

Save as disclosed above, the directors was 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.

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).

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 Chapter 13 of the Listing Rules

As at 30 June 2004, 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 2004	Final maturity of the loan facilities
HK\$700 million	30 October 2007
Nil	30 April 2005

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.

By order of the Board

Shen Zhuying

Vice Chairman and General Manager

Hong Kong, 17 August 2004