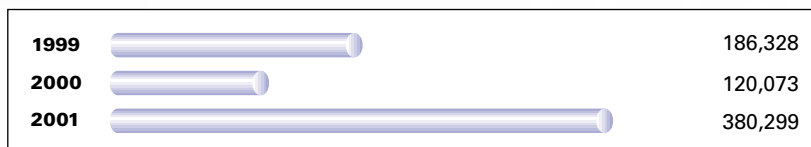


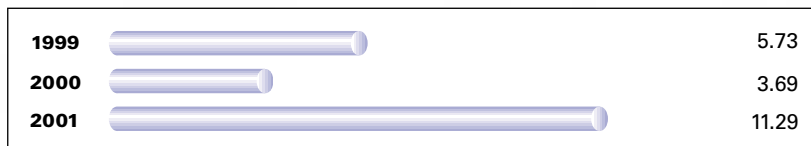
FINANCIAL HIGHLIGHTS

	Interim Period		
	2001	2000	% Change
Turnover generated from continuing operations (HK\$'000)	993,764	636,893	+56.03
Net profit attributable to shareholders (HK\$'000)	380,299	120,073	+216.72
Profit & loss account ratios			
Interest coverage ratio	11.41	4.19	+172.18
Earnings per share (HK cents)	11.29	3.69	+206.02
Dividend per share (HK cents)	5	1	+400.00
Dividend payout ratio (%)	50	27	+85.19
Balance sheet ratios			
Current ratio	1.13	1.05	+7.27
Assets coverage ratio	3.44	3.23	+6.78
Total liabilities to capitalisation ratio	0.29	0.31	-6.35
Net assets value per share (HK\$)	1.96	1.99	-1.77

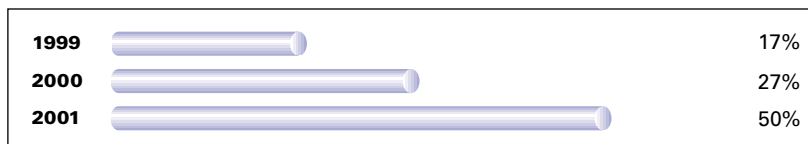
Net profit attributable to shareholders (HK\$'000)



Earnings per share (HK cents)



Dividend payout ratio



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 financial statements of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2001 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 Statement For the six months ended 30 June 2001

	Notes	For the six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
TURNOVER	(3)	993,764	1,405,116
Including:			
Continuing operations		993,764	636,893
Power generating operations reclassified as a jointly controlled entity in December 2000		-	768,223
Cost of sales		(499,328)	(757,842)
Gross profit		494,436	647,274
Other revenue	(4)	106,241	61,118
Distribution costs		(12,237)	(31,874)
Administrative expenses		(232,208)	(202,957)
Other operating expenses		(25,935)	(31,126)
Provision for doubtful debts and bad debts written off		(62)	(16,000)
PROFIT FROM OPERATING ACTIVITIES	(3), (5)	330,235	426,435
Including:			
Continuing operations		330,235	142,256
Power generating operations reclassified as a jointly controlled entity in December 2000		-	284,179
Finance costs	(6)	(36,962)	(88,822)
Loss on deemed disposal of an associate		-	(34,521)
Gain on disposal of an associate		53,043	-
Share of profits and losses of:			
Jointly controlled entities		119,848	(478)
Associates		13,412	18,287
PROFIT BEFORE TAX		479,576	320,901
Tax	(7)	(56,711)	(44,581)
PROFIT BEFORE MINORITY INTERESTS		422,865	276,320
Minority interests		(42,566)	(156,247)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		380,299	120,073
EARNINGS PER SHARE (HK CENTS)	(8)		
Basic		11.29	3.69
Diluted		10.27	3.59
DIVIDEND PER SHARE (HK CENTS)	(9)	5.00	1.00

Condensed Consolidated Balance Sheet
30 June 2001

	<i>Notes</i>	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		4,580,588	3,344,757
Properties under development		1,151,748	1,033,872
Interests in jointly controlled entities		1,318,490	1,611,192
Interests in associates		466,853	906,631
Long term investments	(10)	72,333	127,809
Goodwill:			
Goodwill		1,431,713	-
Negative goodwill		(225,557)	-
		8,796,168	<u>7,024,261</u>
CURRENT ASSETS			
Short term investments	(10)	3,603	1,349
Inventories		20,424	16,023
Trade receivables	(11)	264,654	176,852
Tax recoverable		303	579
Other receivables		114,397	62,553
Pledged time deposits	(15)	2,148	43,463
Cash and cash equivalents		1,263,801	801,646
Amount due from ultimate holding company		89,815	51,507
Amounts due from fellow subsidiaries		95,376	143,524
Amount due from a jointly controlled entity		272,839	202,846
		2,127,360	<u>1,500,342</u>
CURRENT LIABILITIES			
Trade payables	(12)	521,105	260,394
Tax payable		96,852	45,364
Other payables and accruals		625,721	325,792
Interest-bearing bank and other borrowings		572,748	608,400
Amount due to a related company		5,689	-
Amounts due to fellow subsidiaries		61,721	4,421
		1,883,836	<u>1,244,371</u>
NET CURRENT ASSETS			
		243,524	<u>255,971</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		9,039,692	7,280,232
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		51,593	45,207
Interest-bearing bank and other borrowings		1,224,877	490,251
Lease payables		1,812	2,123
Deferred tax		8,785	7,173
		1,287,067	<u>544,754</u>
MINORITY INTERESTS			
		(321,725)	<u>(317,251)</u>
		7,430,900	<u>6,418,227</u>
CAPITAL AND RESERVES			
Share capital	(13)	379,197	325,112
Reserves	(14)	6,862,104	5,995,582
Proposed dividends		189,599	97,533
		7,430,900	<u>6,418,227</u>

**Condensed Consolidated Statement of Recognised Gains and Losses
For the six months ended 30 June 2001**

	<i>Note</i>	For the six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Consolidation of a subsidiary which previously was a long term investment	(14)	122,000	-
Exchange differences on translation of the financial statements of foreign entities	(14)	1,207	821
Underaccrued 2000 final dividend	(14)	(16,226)	-
Net gain not recognised in the profit and loss account		106,981	821
Net profit attributable to shareholders		380,299	120,073
Total recognised gains and losses		487,280	120,894
Goodwill credited directly against reserves		-	3,458
		487,280	124,352

**Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2001**

	For the six months ended 30 June 2001 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	344,354
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(162,386)
TAX PAID	(17,689)
INVESTING ACTIVITIES	(455,618)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(291,339)
FINANCING ACTIVITIES	753,494
INCREASE IN CASH AND CASH EQUIVALENTS	462,155
Cash and cash equivalents at the beginning of period	801,646
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	1,263,801
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	952,104
Time deposits	311,697
	1,263,801

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2000, except in relation to SSAP 9 (revised) "Events after the Balance Sheet Date", SSAP 14 (revised) "Leases" and SSAP 30 "Business Combinations".

Following the adoption of SSAP 9 (revised), whereby dividends proposed after the balance sheet date should not be recognised as a liability at the balance sheet date, the final dividend proposed for the year ended 31 December 2000 of HK\$97.53 million, classified as a current liability at 31 December 2000, has been reclassified and shown under the shareholders' equity. There is no impact on the profit and loss account because of this change.

The Group has complied with SSAP 14 (revised) for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31 December 2000 are extracted from the Group's audited financial statements for that year.

The principal impact of adopting SSAP 30 has been the disclosure of goodwill/negative goodwill as an asset in the balance sheet and the amortisation/release of this goodwill/negative goodwill over its estimated useful life to the profit and loss account.

2. Comparative Cash Flow Statement

The comparative cash flow statement for the six months ended 30 June 2000 has not been prepared as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

3. Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations is as follows:

	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Originating in the People's Republic of China ("PRC")				
Hong Kong:				
Hotel operations	103,006	101,351	5,112	3,046
Tour operations	462,678	118,188	175,731	45,143
Passenger transportation	34,056	25,677	4,637	3,906
Freight forwarding and transportation services	105,930	113,489	4,475	(10,334)
Treasury operations	-	-	3,088	(5,588)
	705,670	358,705	193,043	36,173

3. Segment Information (Continued)

	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Elsewhere:				
Hotel operations	12,855	-	3,555	-
Passenger transportation	12,495	10,050	2,783	1,281
Freight forwarding and transportation services	32,282	44,178	13,277	21,364
Tourist attraction operations	210,580	211,450	90,841	85,630
Power generating operations (Note)	-	768,223	-	284,179
Golf club management and membership sale	19,882	12,510	2,035	(5,493)
	288,094	1,046,411	112,491	386,961
	993,764	1,405,116	305,534	423,134
Interest income less unallocated corporate administrative expenses			24,701	3,301
			330,235	426,435

Note: Due to a change in control of the board of directors of Shaanxi Weihe Power Co., Ltd., the Group's interests in the power generating operations have been accounted for as interests in a jointly controlled entity since December 2000.

4. Other Revenue

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Compensation income	9,397	-
Exchange gains, net	2,623	5,321
Gain on disposal of fixed assets	-	2,631
Interest income	53,540	37,534
Management fee income	1,565	719
Write-back of long outstanding receipts in advance	8,536	-
Rental income	3,207	2,306
Service fee income	-	4,984
Write-back of long outstanding unclaimed other payables	21,739	-
Gain on changes in fair value of short term investments	1,563	495
Others	4,071	7,128
	106,241	61,118

5. Profit from Operating Activities

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

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Depreciation	53,788	295,115
Amortisation of goodwill	10,303	-
Negative goodwill released	<u>(1,571)</u>	<u>-</u>

6. Finance Costs

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(45,098)	(97,482)
Finance lease and hire purchase contracts	(160)	(228)
Amortisation of deferred borrowing costs	<u>(3,771)</u>	<u>(4,496)</u>
Total finance costs	(49,029)	(102,206)
Less: Interest capitalised	<u>12,067</u>	<u>13,384</u>
	<u>(36,962)</u>	<u>(88,822)</u>

7. Tax

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Group:		
PRC:		
Hong Kong	(27,526)	(7,382)
Elsewhere	<u>(17,366)</u>	<u>(34,733)</u>
	(44,892)	(42,115)
Jointly controlled entities	(11,219)	-
Associates	<u>(600)</u>	<u>(2,466)</u>
	(11,819)	(2,466)
Tax charge for the period	<u>(56,711)</u>	<u>(44,581)</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

8. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$380,299,000 (2000: HK\$120,073,000) and the weighted average number of 3,367,764,305 shares (2000: 3,251,115,027 shares) in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$392,294,000 (2000: HK\$131,917,000), after adjustment for the interest saved upon deemed conversion of all convertible notes and convertible bonds at the beginning of the period. The weighted average number of shares used in the calculation are 3,367,764,305 shares (2000: 3,251,115,027 shares) in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 450,846,163 shares (2000: 427,272,727 shares) assumed to have been issued at the beginning of the period on the deemed conversion of all the convertible notes, convertible bonds and share options granted in year 2000. The Company's share options granted in year 1997 which the exercise prices are HK\$3.568 and HK\$3.58 and the Company's bonus warrants which will not be exercisable until 3 July 2001 did not have a dilutive effect and, accordingly, were not included in the calculation of the diluted earnings per share.

9. Interim Dividends

The Directors have resolved to declare an interim dividend of HK5 cents (2000: HK1 cent) per share for the period ended 30 June 2001. 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 6 September 2001 (Thursday). The interim dividend will be paid on or around 14 September 2001 (Friday).

10. Investments

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Long term investments		
Unlisted equity investments outside Hong Kong:		
Unlisted shares, at fair value	<u>6,303</u>	<u>3,665</u>
Unlisted equity and debt investments in Hong Kong:		
Unlisted shares, at fair value	30	58,144
Unlisted convertible bonds, at fair value	<u>66,000</u>	<u>66,000</u>
	<u>66,030</u>	<u>124,144</u>
	<u>72,333</u>	<u>127,809</u>
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>3,603</u>	<u>1,349</u>

The market value of the Group's short term investments at the date of approval of these interim financial statements was approximately HK\$2,883,000.

11. Trade Receivables

The Group allows an average credit period ranging from 30 to 180 days to its trade debtors. The ageing analysis of trade receivables, net of provisions for doubtful debts, is as follows:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	91,292	86,950
Within:		
1-3 months	91,098	59,267
4-6 months	18,553	10,270
7-12 months	29,089	2,276
1-2 years	18,266	1,583
Over 2 years	16,356	16,506
	264,654	176,852

12. Trade Payables

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
The ageing analysis of trade payables is as follows:		
Less than 1 month	366,275	175,142
Within:		
1-3 months	48,418	51,931
4-6 months	19,570	4,205
7-12 months	58,083	17,281
1-2 years	18,230	2,922
Over 2 years	10,529	8,913
	521,105	260,394

13. Share Capital

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Authorised:		
At 1 January	490,000	490,000
Increase during the period/year	210,000	-
At the end of period/year	700,000	490,000
Issued and fully paid	379,197	325,112

13. Share Capital (Continued)

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

	Number of ordinary shares	Issued and fully paid (Unaudited) HK\$'000
At 1 January 2001	3,251,115,027	325,112
Shares issued on exercise of options	10,000,000	1,000
Shares issued on conversion of bonds	<u>530,859,472</u>	<u>53,085</u>
At 30 June 2001	<u>3,791,974,499</u>	<u>379,197</u>

Pursuant to a conditional sale and purchase agreement signed between China Travel Service (Holdings) Hong Kong Limited, the Company's ultimate holding company, and the Company, the Company agreed to acquire the entire issued share capital of Alton Services Limited at a consideration of HK\$1,911 million. Part of the consideration was settled by the issuance of convertible bonds by the Company for an amount of HK\$600 million which is convertible at an exercise price of HK\$1.1308 per share. Such convertible bonds were converted on 23 May 2001.

14. Reserves

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Investment revaluation 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 2001	4,937,755	217,315	(122,000)	236,730	44,680	(5,939)	687,041	5,995,582
Underaccrued 2000 final dividend	-	-	-	-	-	-	(16,226)	(16,226)
Premium on issue of new shares on exercise of convertible bonds and share options	553,300	-	-	-	-	-	-	553,300
Exchange realignments	-	-	-	-	-	1,207	-	1,207
Net profit for the period	-	-	-	-	-	-	380,299	380,299
Proposed interim dividend	-	-	-	-	-	-	(189,599)	(189,599)
Consolidation of a subsidiary which previously was a long term investment	-	-	122,000	-	-	-	-	122,000
Realisation of reserve upon disposal of an associate	-	15,541	-	-	-	-	-	15,541
Transfers	-	(72,198)	-	-	2,324	-	69,874	-
At 30 June 2001	<u>5,491,055</u>	<u>160,658</u>	<u>-</u>	<u>236,730</u>	<u>47,004</u>	<u>(4,732)</u>	<u>931,389</u>	<u>6,862,104</u>

15. Pledge of Assets

At 30 June 2001, the following assets of the Group were pledged to secure the Group's credit facilities:-

- (i) The Group's bank deposits of approximately HK\$2,148,000 (2000: HK\$43,463,000) were pledged to banks to secure certain bank guarantees given in lieu of utility and rental deposits.
- (ii) Three hotel properties of HK\$2,381,472,000 held by the Group were pledged to secure certain of the Group's bank borrowings. As at 30 June 2001, such facilities were utilised to the extent of HK\$1,300,000,000 (2000: HK\$593,628,000)

16. Contingent Liabilities

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to and utilised by an associate	119,886	136,383
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,888	1,888
	121,774	138,271

17. Commitments

- (i) *Capital commitments*

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Plant and equipment: Contracted, but not provided for	2,569	-
Land and buildings: Contracted, but not provided for	4,261	1,697
Authorised, but not contracted for	61,235	61,235
	65,496	62,932
Unpaid capital contribution to jointly controlled entities: Contracted, but not provided for	6,350	6,350
Others: Contracted, but not provided for	93,737	176,337
Authorised, but not contracted for	-	3,200
	93,737	179,537

17. Commitments (Continued)

(ii) Commitments under operating leases

At 30 June 2001, the Group had commitments under non-cancellable operating leases as follows:

	30 June 2001 (Unaudited) Total commitment HK\$'000	31 December 2000 (Audited) Annual commitment HK\$'000
Land and buildings expiring:		
Within one year	19,072	1,664
In the second to fifth years, inclusive	46,004	953
After five years	50,850	8,480
	115,926	11,097

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

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Authorised, but not contracted for	-	5,478

18. Related Party Transactions

Save as disclosed in note 13 to the financial statements, the Group had the following material transactions with related parties during the period which also constitute connected transactions as defined in the 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	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
China Travel Hip Kee Godown Hong Kong Limited	Car parking fee	971	1,124
China Travel Building Contractors Hong Kong Limited	Decoration expenses	1,690	884
China Travel Insurance Advisers Hong Kong Limited	Insurance payments	3,115	3,938
Tai Sun Services Company Limited	Coolie charges	1,162	707
China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	1,577	845
China Travel Hotel Management Services Hong Kong Limited	Management service fees	747	1,382

18. 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	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
China Travel Service (Hong Kong) Limited	Train and boat tickets	4,454	15,416
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charge	1,527	882
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charge	897	2,029
China Travel Service (Holdings) Hong Kong Limited	Rental fee	1,514	-
China Travel Service (Holdings) Hong Kong Limited	Convertible notes interest	14,280	14,139
China Travel Computer Service HK Limited	Computer maintenance fee	8,490	-

Received or receivable from:

China Travel Service (Hong Kong) Limited	Admission tickets	10,281	12,723
China Travel Service (Hong Kong) Limited	Hotel room charge	3,907	3,534
China Travel Service (Holdings) Hong Kong Limited	Hotel room charge	1,624	-
China Travel Service (Holdings) Hong Kong Limited	Travel permit administration	41,511	-
China Travel Computer Service HK Limited	Application Service Provider services	12,264	-

The above transactions were carried out at market price or, where no market price was available, at cost plus a percentage of profit mark-up.

19. Comparative Figures

Certain comparative figures have been reclassified to conform with current period's presentation.

20. Approval of the Interim Financial Statements

These condensed interim financial statements were approved by the Board on 21 August 2001.

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 2 to 13.

Directors's Responsibilities

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.

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 2001.

Without modifying our review conclusion above, we draw attention to the fact that:

- (i) the comparative profit and loss account for the six months ended 30 June 2000 has not been reviewed in accordance with SAS 700; and
- (ii) as disclosed in note 2 to the interim financial report, a comparative cash flow statement in respect of the six months ended 30 June 2000 has not been prepared.

Ernst & Young
Certified Public Accountants

Hong Kong
21 August, 2001

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operation

The continuous growth of the economy and the travel industry in the PRC and the further recovery of the economy in Hong Kong created a favourable environment for the development of the Group in the first half of 2001. With the strong support of its controlling shareholder, China Travel Service (Holdings) Hong Kong Limited ("CTSH"), the Group successfully completed the acquisition of China Travel Service (Hong Kong) Limited ("CTSHK"), China Travel Net Limited ("CT Net") and Hotel Grandeur Macau during the period. Concurrently, the Group also succeeded in disposing of non-core businesses, which included 389 million shares of Hing Kong Holdings Limited and a 40% interest in China Travel Roads and Bridges JV Investment Limited, at reasonable prices. At the same time, the management have been seeing local and overseas investors to promote the transparency of the Group. This series of major measures helped the Group to sharpen its travel concept, consolidate and broaden its earnings' base, thus creating favorable conditions for continuous development in the future.

In the first half of the year, the Company participated in proposing the establishment of 廣東中旅股份有限公司 Guangdong China Travel Service Stock Limited ("Guangdong CTS"), and held a 10% interest in Guangdong CTS. Guangdong CTS is expected to get listed in the mainland next year. At the same time, the Group is actively exploring the opportunities to establish a travel network in the mainland and there is encouraging progress.

The financial position of the Group is sound. The Group recorded a consolidated net profit attributable to shareholders of HK\$380 million for the six months ended 30 June 2001, which is an increase of 217% as compared with the same period last year. Earnings per share of the Group for the period amounted to HK11.29 cents, representing an increase of 206%. As at 30 June 2001, the shareholders' equity amounted to HK\$7,431 million, representing an increase of 15.78% as compared with the end of last year. As at 30 June 2001, the net debt to equity ratio of the Group was 7%.

1. Tour Operation and Leisure Business

The profit contribution of the tour operation and leisure business of the Group, which include CTSHK, HK and Macau Tour, CT Net, three theme parks and a golf club in Shenzhen, amounted to HK\$269 million for the six months ended 30 June 2001. The turnover of CTSHK and CT Net increased by approximately 15% as compared with the same period last year. The number of visitors received by HK and Macau Tour was approximately 94,000, representing a decrease of 6.5%. Regarding the theme parks, Window of the World, Splendid China and China Folk Culture Villages attracted approximately 2.1 million visitors in the first half of the year, representing a decrease of 4%. The decrease was due to the rainy weather in May and June of this year. However, the operating profit of the theme parks increased as a result of cost control. During the week of the Labour Day long holiday in the mainland, the turnover of Window of the World reached RMB20.74 million and ranked first among all pay scenic spots in the mainland. In the first half of the year, Shenzhen Tycoon Golf Club strengthened its management control further and as a result, the turnover increased by 59% and the administrative expenses decreased by 4%. It was the first time Shenzhen Tycoon Golf Club has recorded a profit.

2. Hotel Operation

In the first half of the year, the average occupancy rate of the three hotels of the Group in Hong Kong was approximately 80%, representing a decrease of 7% as compared with the same period last year. However, the average room rate increased by 9% during the same period. Coupled with the reduction of operating expenses, the net profit contribution of the three hotels in Hong Kong for the period increased by 41%. In Macau, Hotel Grandeur Macau, a four-star hotel acquired in March this year, recorded favourable operation. During the period, the average occupancy rate, the average room rate, and the food and beverage turnover all increased and the total revenue increased by 8.5%. The construction of Metropark Hotel, a four-star business hotel with seaview in Causeway Bay, will be completed and will commence operation in September this year. By that time, the total number of hotel rooms of the Group will increase by approximately 600 in comparison with last year.

3. Transportation

Passenger transportation business of the Group continued to grow substantially. Due to the increase in frequency of bus schedules and improvement of quality of service, the Hong Kong Airport express route managed to maintain its market share amid fierce market competition and recorded an increase in number of passengers of 56% over the same period last year. Regarding the express route between Shenzhen and Zhuhai, passenger volume increased by 17.3% over the same period last year as a result of augmentation of market development efforts. In the first half of the year, the earnings of passenger transportations increased by 43%.

As a result of the improvement of freight forwarding infrastructures and facilities in the mainland, re-export freight volume through railway and by sea handled by Hong Kong for the mainland contracted further during the period. On the other hand, airfreight, courier service, cross-border truck service and less than container load cargo service recorded a rather substantial increase. By actively developing logistics services, China Trading Service Co., Ltd. in Shanghai managed to have a significant increase in its operating profit.

4. Infrastructure

During the first half of the year, the 51% held Weihe Power Plant of the Group achieved encouraging results in various aspects such as generation of electricity, sale of on-grid electricity, containment of production cost and safety operation of power generating units. Due to the increase in sale of on-grid electricity of approximately 100 million kWh and the reduction of interest expenses, the profit has increased by approximately 20% as compared with the same period last year.

For the six months ended 30 June 2001, the consolidated net profit attributable to shareholders of the Group amounted to approximately HK\$380 million, the highest level achieved ever, and approximately HK\$53 million of which was derived from non-operating profit arising from the disposal of non-core road and bridge projects. It is evident that the business reorganisation and mergers and acquisitions of assets carried out in the first half of the year were instrumental in enlarging the earnings' base of the core business of the Group.

Future Prospect

Favourable events such as the entry of China into the WTO, the successful bid for the 2008 Olympic games, the anticipated Disney Theme Park in Hong Kong and the western region development in the mainland together will create ample room for development of the Group's travel business, travel peripherals and services. During the first half of the year, CTSHK, CT Net and Hotel Grandeur Macau, which were acquired in this year, contributed only three months of profit to the consolidated results of the Group. In the latter half of the year, their profit contribution will be reflected fully in the consolidated accounts of the Group, thus bringing in greater profit contribution. The progress of mergers and acquisitions of travel agencies in the mainland will expand the travel network of the Group, foster mutual reliance and closer link between businesses in Hong Kong, the mainland and overseas. With the completion of the immense theatres of Window of the World and Splendid China in the first half of the year and the commencement of operation and introduction of new programs in the second half of the year, the three theme parks will become even more attractive. As a result of the progressing internal reorganisation of travel businesses, revamp and enhancement of management standard, the overall competitive advantages will be exploited fully. Furthermore, operating costs could be lowered and competitiveness could be enhanced. The Board of Directors is confident in the business development in the second half of the year and beyond.

Financial Position

As at 30 June 2001, the Group's total interest-bearing bank loans and other borrowings amounted to HK\$1,799 million, which was HK\$698 million higher than the balance as at 31 December 2000. The substantial increase was due to the drawdown of a new bank loan of HK\$800 million during the period.

As at 30 June 2001, the total amount of cash and cash equivalents of the Group, which was not restricted to use, was HK\$1,264 million, which gave rise to a net debt of the Group to HK\$535 million. The net debt to equity ratio was then resulted to a very healthy level of 7%.

In addition to the strong cash position, the Group has unutilised banking facilities of HK\$80 million as at 30 June 2001.

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

Capital Structure

During the period, CTSH had converted HK\$600,295,890 worth of convertible bonds into 530,859,472 ordinary shares of the Company and two of the Directors had also exercised the rights to subscribe for 10,000,000 ordinary shares of the Company under the Company's share option scheme. Accordingly, the number of issued share capital of the Company has been increased from 3,251,115,027 shares to 3,791,974,499 shares as at 30 June 2001.

Number and Remuneration of Employee

As at 30 June 2001, the Group has about 5,140 employees of whom 2,098 are based in Hong Kong, 188 are based in overseas countries and 2,854 are based in mainland China.

The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

DIRECTORS' INTEREST IN SHARES

At 30 June 2001, the interests of the Directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Interest in Ordinary Shares

Name of Director	Ordinary shares of the Company Number of shares held and nature of interest			
	Personal	Corporate	Other	Total
Mr. Shen Zhuying	5,000,000	-	-	5,000,000
Mr. Ng Chi Man, Michael	3,000,000	-	-	3,000,000
Dr. Yeh Meou Tsen, Geoffrey	1,000,000	-	-	1,000,000
Dr. Fong Yun Wah	-	150,000(i)	502,000(ii)	652,000

Interest in Warrants

Name of Director	Warrants of the Company Number of warrants held and nature of interest			
	Personal	Corporate	Other	Total
Mr. Shen Zhuying	1,000,000	-	-	1,000,000
Mr. Ng Chi Man, Michael	1,600,000	-	-	1,600,000
Dr. Yeh Meou Tsen, Geoffrey	200,000	-	-	200,000
Dr. Fong Yun Wah	-	60,000(i)	100,400(ii)	160,400

Notes:

- (i) These shares and warrants are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested by virtue of the SDI Ordinance.
- (ii) These shares and warrants 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, none of the Directors or their associates had any interest in the share capital of the Company or its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 30 June 2001, no Directors of the Company had held any share options granted under the Company's share option scheme. Details of share options lapsed and exercised during the period were as follows:

Name of Director	Number of share options at 1 January 2001	Number of share options lapsed during the period	Number of share options exercised during the period	Number of share options outstanding at 30 June 2001	Exercise period of share options	Exercise price per share HK\$
Mr. Zhu Yuening	69,000,000	(69,000,000)	-	-	14-1-98 to 13-1-01	3.568
Mr. Zheng Hongqing	45,000,000	(45,000,000)	-	-	14-1-98 to 13-1-01	3.568
Mr. Zheng Heshui	3,000,000	(3,000,000)	-	-	14-1-98 to 13-1-01	3.568
Mr. Lo Sui On	1,500,000	(1,500,000)	-	-	14-1-98 to 13-1-01	3.568
Mr. Shen Zhuying	5,000,000	-	(5,000,000)	-	16-5-01 to 20-10-02	0.709
Mr. Ng Chi Man, Michael	5,000,000	-	(5,000,000)	-	16-5-01 to 20-10-02	0.709

Note: According to the share option scheme, the cash consideration paid by each of the directors for granting of the options was HK\$1.

Save as disclosed above, at no time during the period was the Company, its holding company or any of its 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 2001, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest in 10% or more in the issued share capital of the Company:

Name	Number of shares held	%
China Travel Service (Holdings) Hong Kong Limited	2,287,421,213	60.32
China Travel Service Head Office of the PRC	2,287,421,213	60.32

Note: The entire issued share capital of CTSH is beneficially owned by China Travel Service Head Office of the PRC. CTSH is the direct holding company of the Company. Accordingly, the interests of China Travel Service Head Office of the PRC in the Company duplicate the interests of CTSH.

Save as disclosed above, the register of shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company at 30 June 2001.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 30 June 2001, 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 not 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 lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:-

Amount outstanding as at 30 June 2001 Final maturity of the loan facilities

HK\$500 million	15 December 2003
HK\$800 million	20 March 2006

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The members of the audit committee of the Company comprise of Mr Wong Man Kong, Peter and Mr Yeh V-Nee (Alternate Director to Dr Yeh Meou Tsen, Geoffrey), both being Independent Non-Executive Directors of the Company.

The audit 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 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5 September 2001 (Wednesday) to 6 September 2001 (Thursday), both days inclusive, during which period no transfer of shares will be effected. 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 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 4 September 2001 (Tuesday). Warrantheolders 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 4:00 p.m. on 4 September 2001 (Tuesday).

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on The Stock Exchange of Hong Kong Limited 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 as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

By Order of the Board
**China Travel International Investment
Hong Kong Limited**
Shen Zhuying
Managing Director

Hong Kong, 21 August 2001