

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 2001 except that disclosed below.

The following recently issued and revised SSAPs are effective for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 1 (revised) :	Presentation of financial statements
SSAP 11 (revised) :	Foreign currency translation
SSAP 15 (revised) :	Cash flow statements
SSAP 34 :	Employee benefits

There is no impact to the financial results and the financial position of the Group by the adoption of the above new or revised SSAPs, except in relation to SSAP 34.

SSAP 34 prescribes the accounting and disclosure requirements for employee benefits. The adoption of the SSAP has resulted in a prior year adjustment in one of the Group's associates to recognise a liability for employee benefits. The effect of this adjustment has been to decrease the Group's interests in associates and retained profits at 1 January 2001 and 31 December 2001 by HK\$7,936,000.

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

2. Segment Information

The Company is an investment holding company and the Group principally operates in eight business segments as described below. The analysis of the Group's revenue and results by business segments and geographical segments are as follows:

(a) Business segments

The following tables present revenue and results of the Group's business segments for the six months ended 30 June.

Group

	Passenger	Tourist	Freight	Hotel	Travel and	Golf club	Power	Corporate	Eliminations	Consolidated
	transportation	attraction	forwarding	operations	related	operations	generation	and others		
	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002
	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	56,777	205,818	131,058	145,610	734,949	19,270	-	110	-	1,293,592
Intersegment revenue	734	187	143	7,070	3,748	-	-	3,621	(15,503)	-
Other revenue and gains	1,509	3,602	3,542	2,292	6,254	-	-	928	-	18,127
Total	59,020	209,607	134,743	154,972	744,951	19,270	-	4,659	(15,503)	1,311,719
Segment results	6,815	82,157	14,185	12,764	139,017	(1,909)	-	(13,583)	-	239,446
Interest income and unallocated gains										45,828
Unallocated expenses										(372)
Profit from operating activities										284,902
Finance costs										(19,040)
Share of profits and losses of:										
Jointly controlled entities	-	-	(1,125)	-	-	-	127,300	-	-	126,175
Associates	22,664	-	(105)	-	-	-	-	-	-	22,559
Profit before tax										414,596
Tax										(51,068)
Profit before minority interests										363,528
Minority interests										(49,314)
Net profit from ordinary activities attributable to shareholders										320,214

(a) *Business segments (continued)*

Group

	Passenger	Tourist	Freight	Hotel	Travel and	Golf club	Power	Corporate	Eliminations	Consolidated
	transportation	attraction	forwarding	operations	travel-	operations	generation	and others		
	services	operations	and trans-	services	related	operations	operations	operations		
	2001	2001	portation	2001	2001	2001	2001	2001		
	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	46,551	210,580	138,212	115,861	462,678	19,882	-	-	-	993,764
Intersegment revenue	829	-	3,240	6,900	15,075	-	-	1,688	(27,732)	-
Other revenue and gains	1,107	1,476	3,405	2,110	1,643	1,795	-	1,493	-	13,029
Total	48,487	212,056	144,857	124,871	479,396	21,677	-	3,181	(27,732)	1,006,793
Segment results	6,977	87,246	13,980	7,129	134,324	1,270	-	(13,903)	-	237,023
Interest income and unallocated gains										93,212
Unallocated expenses										-
Profit from operating activities										330,235
Finance costs										(36,962)
Gain on disposal of an associate										53,043
Share of profits and losses of:										
Jointly controlled entities	-	-	(512)	-	-	-	120,360	-	-	119,848
Associates	13,385	-	27	-	-	-	-	-	-	13,412
Profit before tax										479,576
Tax										(56,711)
Profit before minority interests										422,865
Minority interests										(42,566)
Net profit from ordinary activities attributable to shareholders										380,299

2. Segment Information (Continued)

(b) Geographical segments

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

Group

	Hong Kong		PRC		Overseas		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Revenue from external customers	<u>817,994</u>	<u>667,440</u>	<u>342,718</u>	<u>293,650</u>	<u>151,007</u>	<u>45,703</u>	<u>1,311,719</u>	<u>1,006,793</u>
Segment results	<u>136,562</u>	<u>130,659</u>	<u>97,069</u>	<u>105,996</u>	<u>5,815</u>	<u>368</u>	<u>239,446</u>	<u>237,023</u>

3. Other Revenue and Gains

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Write-back of provision for doubtful debts	7,675	–
Compensation income	–	9,397
Exchange gains, net	1,105	2,623
Gain on disposal of fixed assets	2,150	–
Interest income	11,017	53,540
Management fee income	973	1,565
Rental income	6,235	3,207
Write-back of long outstanding payables	27,136	30,275
Gain on changes in fair value of short term investments	–	1,563
Others	7,664	4,071
	<u>63,955</u>	<u>106,241</u>

4. Profit from Operating Activities

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

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	58,449	53,788
Amortisation of goodwill	18,893	10,303
Negative goodwill recognised	(2,070)	(1,571)
Loss on disposal of fixed assets	224	–
Loss on disposal of a subsidiary	372	–
Provision for doubtful debts	1,279	62
	<u> </u>	<u> </u>

5. Finance Costs

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	(17,670)	(45,098)
Finance lease and hire purchase contracts	(131)	(160)
Amortisation of deferred borrowing costs	(2,072)	(3,771)
	<u> </u>	<u> </u>
Total finance costs	(19,873)	(49,029)
Less: Interest capitalised	833	12,067
	<u> </u>	<u> </u>
	<u>(19,040)</u>	<u>(36,962)</u>

6. Tax

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Group:		
The People's Republic of China:		
Hong Kong	(25,794)	(27,526)
Elsewhere	(16,133)	(17,366)
Overprovision in prior years	13,036	–
Deferred tax	(204)	–
	<u>(29,095)</u>	<u>(44,892)</u>
Share of tax attributable to:		
Jointly controlled entities	(19,943)	(11,219)
Associates	(2,030)	(600)
	<u>(21,973)</u>	<u>(11,819)</u>
Tax charge for the period	<u>(51,068)</u>	<u>(56,711)</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

7. Earnings Per Share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2002 are based on the following data:

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Net profit attributable to shareholders for the period for the purpose of basic earnings per share	320,214	380,299
Interest saved upon deemed conversion of all convertible bonds and notes at the beginning of the period	-	11,995
	<u> </u>	<u> </u>
Net profit attributable to shareholders for the period for the purpose of diluted earnings per share	<u>320,214</u>	<u>392,294</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,220,832,015	3,367,764,305
Effect of dilutive potential ordinary shares:		
Bonus warrants	193,026,551	-
Share options	-	121,599
Convertible bonds and notes	-	450,724,564
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,413,858,566</u>	<u>3,818,610,468</u>

8. Interim Dividends

The Directors have resolved to declare an interim dividend of HK5 cents (2001: HK5 cents) per share for the period ended 30 June 2002. The interim dividends will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 11 September 2002. The interim dividends will be paid on or around Monday, 16 September 2002.

9. Investments

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Long term investments		
Unlisted equity investments outside Hong Kong:		
Unlisted shares, at fair value	<u>21,949</u>	<u>21,947</u>
Unlisted equity and debt investments in Hong Kong:		
Unlisted shares, at fair value	<u>30</u>	<u>123</u>
Unlisted convertible bonds, at fair value	<u>—</u>	<u>66,000</u>
	<u>30</u>	<u>66,123</u>
	<u>21,979</u>	<u>88,070</u>
Short term investments		
Unlisted debt investments in Hong Kong:		
Unlisted convertible bonds, at fair value	<u>66,000</u>	<u>—</u>
Listed equity investments in Hong Kong at market value	<u>1,509</u>	<u>1,900</u>
	<u>67,509</u>	<u>1,900</u>

The market value of the Group's short term listed investments at the date of approval of these interim financial statements was approximately HK\$1,042,000.

10. Trade Receivables

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	98,385	119,876
Within:		
1-3 months	102,793	49,005
4-6 months	6,706	20,764
7-12 months	7,996	9,811
1-2 years	4,929	2,025
Over 2 years	14,864	15,838
	<u>235,673</u>	<u>217,319</u>

11. Trade Payables

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Less than 1 month	218,891	211,690
Within:		
1-3 months	126,244	46,473
4-6 months	8,238	39,962
7-12 months	7,633	7,077
1-2 years	5,106	2,255
Over 2 years	11,434	9,432
	<u>377,546</u>	<u>316,889</u>

12. Share Capital

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:		
4,222,061,439 (2001: 4,220,233,742) ordinary shares of HK\$0.10 each	<u>422,206</u>	<u>422,023</u>

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

	Number of shares in issue	Issued and fully paid (Unaudited) HK\$'000
At 1 January 2002	4,220,233,742	422,023
Shares issued on exercise of bonus warrants	<u>1,827,697</u>	<u>183</u>
At 30 June 2002	<u>4,222,061,439</u>	<u>422,206</u>

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

During the period, 1,827,697 warrants were exercised for 1,827,697 shares of HK\$0.10 each at a subscription price HK\$1.22 per share. At the balance sheet date, the Company had 755,580,686 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 755,580,686 additional shares of HK\$0.10 each in the Company, for gross proceeds of approximately HK\$921,808,000.

13. Reserves

	Share premium account <i>(Unaudited)</i> HK\$'000	Capital reserve <i>(Unaudited)</i> HK\$'000	Hotel property revaluation reserve <i>(Unaudited)</i> HK\$'000	Enterprise expansion reserve funds <i>(Unaudited)</i> HK\$'000	Exchange fluctuation reserve <i>(Unaudited)</i> HK\$'000	Retained profits <i>(Unaudited)</i> HK\$'000	Total <i>(Unaudited)</i> HK\$'000
At 1 January 2002	5,919,433	160,658	259,568	55,012	(2,397)	1,025,194	7,417,468
Prior year adjustment - Note 1	-	-	-	-	-	(7,936)	(7,936)
As restated	5,919,433	160,658	259,568	55,012	(2,397)	1,017,258	7,409,532
Exchange realignments	-	-	-	-	4,011	-	4,011
Premium on issue of new shares on exercise of bonus warrants	2,047	-	-	-	-	-	2,047
Net profit for the period	-	-	-	-	-	320,214	320,214
Underaccrual of 2001 final dividends	-	-	-	-	-	(74)	(74)
Proposed 2002 interim dividends	-	-	-	-	-	(211,103)	(211,103)
Transfer from retained profits	-	-	-	7,399	-	(7,399)	-
At 30 June 2002	5,921,480	160,658	259,568	62,411	1,614	1,118,896	7,524,627

14. Pledge of Assets

As at 30 June 2002, the following assets of the Group were pledged to secure against the Group's credit facilities:

- (a) The Group's bank deposits of approximately HK\$2,624,000 (2001: HK\$3,302,000) were pledged to banks to secure certain bank guarantee given in lieu of utility and visa application deposits.
- (b) Certain hotel properties and land and buildings held by the Group were pledged to secure certain of the Group's bank borrowings. As at 30 June 2002, the Group's bank borrowings secured by these properties amounted to HK\$1,004,774,000 (2001: HK\$1,305,010,000)

15. Contingent Liabilities

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to and utilised by an associate	106,550	107,762
Guarantees given to suppliers in connection with facilities granted to and utilised by a jointly controlled entity	1,888	1,885
	<u>108,438</u>	<u>109,647</u>

16. Commitments

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

(i) Capital commitments

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Land and buildings:		
Contracted, but not provided for	38,168	–
Authorised, but not contracted for	3,856	–
	<u>42,024</u>	<u>–</u>
Leasehold improvements:		
Contracted, but not provided for	3,238	2,632
Properties under development:		
Contracted, but not provided for	25,282	29,944
Authorised, but not contracted for	–	91,743
	<u>25,282</u>	<u>121,687</u>
Unpaid capital contribution to jointly controlled entities:		
Contracted, but not provided for	4,987	4,987
Others:		
Contracted, but not provided for	35,563	385
Authorised, but not contracted for	31,006	–
	<u>66,569</u>	<u>385</u>

16. Commitments (Continued)*(ii) Commitments under operating leases*

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 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Land and buildings:		
Within one year	52,428	32,807
In the second to fifth years, inclusive	57,810	79,102
After five years	62,300	159,880
	<u>172,538</u>	<u>271,789</u>
Plant and machinery:		
Within one year	79	1,111
In the second to fifth years, inclusive	157	2,580
	<u>236</u>	<u>3,691</u>

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

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Authorised, but not contracted for	<u>—</u>	<u>18,027</u>

17. Related Party Transactions

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

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

Name of company	Nature of transaction	For the six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
1. China Travel Hip Kee Godown Hong Kong Limited	Car parking fee	1,075	971
2. China Travel Building Contractors Hong Kong Limited	Decoration expenses	544	1,690
3. China Travel Insurance Advisers Hong Kong Limited	Insurance charges	3,421	3,115
4. Tai Sun Services Company Limited	Coolie charges	1,151	1,162
5. China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	1,050	1,577
6. China Travel Hotel Management Services Hong Kong Limited	Management service fees	1,014	747
7. China Travel Service (Hong Kong) Limited	Train and boat tickets	–	4,454
8. Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau tour charges	–	1,527
9. Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Hotel room charges	–	897
10. China Travel Service (Holdings) Hong Kong Limited	Office rental	7,109	1,514
11. China Travel Service (Holdings) Hong Kong Limited	Convertible notes interest	–	14,280
12. China Travel Computer Service H.K. Limited	Computer maintenance fees	–	8,490

17. Related Party Transactions *(Continued)**China Travel Service (Holdings) Hong Kong Limited or its subsidiaries (Continued)*

Name of company	Nature of transaction	For the six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
<i>Received or receivable from:</i>			
13. China Travel Service (Hong Kong) Limited	Admission tickets	–	10,281
14. China Travel Service (Hong Kong) Limited	Hotel room rental	–	3,907
15. China Travel Service (Holdings) Hong Kong Limited	Hotel room rental	371	1,624
16. China Travel Service (Holdings) Hong Kong Limited	Travel permit administration income	169,691	41,511
17. China Travel Computer Service H.K. Limited	Application Service Provider services	7,462	12,264
18. China Travel Service (Thailand) Co., Ltd	Sale of tourism services/products	929	360
19. China Travel System (M) Sdn Bhd	Sale of tourism services/products	643	206

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

18. Approval of the Interim Financial Report

These condensed interim financial statements were approved and authorised for issue by the Board of the Company on 20 August 2002.