



香港中旅國際投資有限公司  
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

INTERIM REPORT 2005



HINA TRAVE

## CORPORATE INFORMATION

### DIRECTORS

Che Shujian (*Chairman*)

Zhang Xuewu (*Vice Chairman*)

Shen Zhuying

(*Vice Chairman, General Manager*)

Zheng Heshui (*Vice Chairman*)

Lo Sui On (*Vice Chairman*)

Chen Shoujie

Zheng Hongqing

Zhang Fengchun

Ng Chi Man, Michael

Liu Li

Yeh Meou Tsen, Geoffrey\*

Yeh V Nee\*

(*Alternate Director to Yeh Meou Tsen,  
Geoffrey*)

Fong Yun Wah\*

Wong Man Kong, Peter\*

Sze, Robert Tsai To\*

\* *Independent Non-Executive Director*

### AUDIT COMMITTEE

Wong Man Kong, Peter (*Chairman*)

Yeh Meou Tsen, Geoffrey

Yeh V Nee

(*Alternate Director to Yeh Meou Tsen,  
Geoffrey*)

Sze, Robert Tsai To

### REMUNERATION COMMITTEE

Wong Man Kong, Peter (*Chairman*)

Yeh Meou Tsen, Geoffrey

Yeh V Nee

(*Alternate Director to Yeh Meou Tsen,  
Geoffrey*)

Sze, Robert Tsai To

### COMPANY SECRETARY

Woo Wai See, Alice

### AUDITORS

Ernst & Young

### LEGAL ADVISORS

Johnson Stokes & Master

### REGISTERED OFFICE

12th Floor, CTS House

78-83 Connaught Road Central

Hong Kong

**INVESTOR RELATION INFORMATION**

Announcement of 2005 Interim Results	21 September 2005
Announcement of 2004 Final Results	11 April 2005
Announcement of 2004 Interim Results	17 August 2004
Dividends – 2003 Interim	Nil
2003 Final	HK 4 cents per share paid on 28 May 2004
2004 Interim	HK 5 cents per share paid on 22 September 2004
2004 Final	HK 5 cents per share paid on 24 June 2005
2005 Interim	HK 3 cents per share payable on 28 October 2005
Closure of Register of Members for 2005 Interim Dividend	Period from 12 October to 14 October 2005
Annual General Meeting	25 May 2005
Website address	<a href="http://irasia.com/llstco/hk/ctii">irasia.com/llstco/hk/ctii</a>
Stock Code	0308
Board Lot	2,000 shares
Financial Year End	December 31
Share Registrar	Tengis Limited G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong Tel No. 2980-1333

## 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 2005 together with the comparative figures.

### Condensed Consolidated Income Statement

For the six months ended 30 June 2005

		For the six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited and restated)
	Notes	HK\$'000	HK\$'000
TURNOVER	3	<b>2,574,448</b>	2,039,671
Cost of sales		<b>(1,928,844)</b>	(1,439,097)
Gross profit		<b>645,604</b>	600,574
Other revenue and gains	4	<b>28,806</b>	26,833
Distribution costs		<b>(63,208)</b>	(24,672)
Administrative expenses		<b>(277,454)</b>	(326,247)
Other operating expenses		<b>(38,222)</b>	(42,840)
Amortisation on prepaid land lease payments		<b>(22,187)</b>	(22,187)
Depreciation on hotel properties		<b>(12,060)</b>	(11,000)
Fair value changes on investment properties		<b>35,246</b>	3,300
Fair value changes on hotel properties		<b>5,200</b>	33,822
Finance costs	5	<b>1,903</b>	(18,212)
Share of profits and losses of:			
Jointly-controlled entities		<b>112,485</b>	173,720
Associates		<b>20,500</b>	21,042
PROFIT BEFORE TAX	6	<b>436,613</b>	414,133
Tax	7	<b>(53,783)</b>	(61,849)
PROFIT FOR THE PERIOD		<b>382,830</b>	352,284
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>344,575</b>	322,765
Minority interests		<b>38,255</b>	29,519
		<b>382,830</b>	352,284
EARNINGS PER SHARE (HK CENTS)	8		
Basic		<b>7.32</b>	7.63
Diluted		<b>6.90</b>	N/A
DIVIDEND PER SHARE (HK CENTS)	9	<b>3.00</b>	5.00

**Condensed Consolidated Balance Sheet**

30 June 2005

		<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Restated) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets			
Property, plant and equipment		<b>2,273,069</b>	2,172,430
Investment properties		<b>218,640</b>	189,076
Prepaid land lease payments		<b>3,052,167</b>	3,128,586
Properties under development		<b>805,847</b>	466,112
Goodwill:			
Goodwill		<b>1,261,049</b>	1,259,479
Negative goodwill		-	(165,390)
Interests in jointly-controlled entities		<b>1,395,039</b>	1,490,831
Interests in associates		<b>444,877</b>	416,548
Available-for-sale investments	10	<b>21,769</b>	23,096
Deferred tax assets		<b>3,642</b>	4,719
		<b>9,476,099</b>	8,985,487
<b>CURRENT ASSETS</b>			
Short term investments	10	<b>15,515</b>	13,008
Inventories		<b>13,370</b>	14,031
Trade receivables	11	<b>519,614</b>	459,635
Tax recoverable		<b>500</b>	665
Other receivables		<b>302,124</b>	228,214
Pledged time deposits		<b>5,153</b>	4,053
Cash and cash equivalents		<b>2,457,500</b>	1,781,739
Amount due from ultimate holding company		<b>35,883</b>	31,315
Amounts due from fellow subsidiaries		<b>5,936</b>	3,236
		<b>3,355,595</b>	2,535,896

**Condensed Consolidated Balance Sheet** *(continued)*

30 June 2005

		<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Restated) HK\$'000
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>568,276</b>	555,380
Tax payable		<b>55,570</b>	41,818
Other payables and accruals		<b>457,631</b>	435,269
Interest-bearing bank and other borrowings		<b>4,779</b>	7,430
Amounts due to fellow subsidiaries		<b>12,062</b>	4,492
		<b>1,098,318</b>	1,044,389
<b>NET CURRENT ASSETS</b>			
		<b>2,257,277</b>	1,491,507
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>11,733,376</b>	10,476,994
<b>NON-CURRENT LIABILITIES AND DEFERRED INCOME</b>			
Deferred income		<b>133,998</b>	127,553
Interest-bearing bank and other borrowings		<b>1,505,953</b>	709,177
Finance lease and hire purchase contract payables		<b>259</b>	278
Convertible bonds		<b>-</b>	748,887
Deferred tax liabilities		<b>355,615</b>	342,739
		<b>1,995,825</b>	1,928,634
		<b>9,737,551</b>	8,548,360
<b>CAPITAL AND RESERVES</b>			
Equity attributable to equity holders of the parent			
Share capital	13	<b>501,082</b>	446,766
Reserves	14	<b>8,714,838</b>	7,491,898
Proposed dividend		<b>150,325</b>	223,383
		<b>9,366,245</b>	8,162,047
Minority interests	14	<b>371,306</b>	386,313
		<b>9,737,551</b>	8,548,360

**Condensed Consolidated Summary Statement of Changes in Equity**

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited and restated) HK\$'000
Total equity at 1 January:			
As previously reported as equity		<b>8,348,330</b>	7,252,063
As previously reported separately as minority interests		<b>386,313</b>	334,755
		<b>8,734,643</b>	7,586,818
Prior year and opening adjustments	1, 2	<b>(20,893)</b>	191,859
As restated		<b>8,713,750</b>	7,778,677
Changes in equity during the period:			
Exchange differences arising on translating foreign operations	14	<b>(7,309)</b>	(1,983)
Share of reserve of an associate	14	<b>7,205</b>	-
Surplus on revaluation of investment properties		-	5,676
Surplus on revaluation of hotel properties	14	<b>15,060</b>	4,613
Deferred tax arising from revaluation of investment properties		-	(1,004)
Deferred tax arising from revaluation of hotel properties	14	<b>(2,327)</b>	(808)
Net income recognised directly in equity		<b>12,629</b>	6,494
Profit for the period		<b>382,830</b>	352,284

**Condensed Consolidated Summary Statement of Changes in Equity** *(continued)*

For the six months ended 30 June 2005

		For the six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited and restated)
	Notes	HK\$'000	HK\$'000
Total recognised income and expense for the period		<b>395,459</b>	358,778
Dividends paid to equity holders of the parent		<b>(250,476)</b>	(169,288)
Dividends paid to minority shareholders	14	<b>(53,262)</b>	(11,140)
Issue of new shares	13	<b>54,316</b>	2
Premium on issue of new shares	14	<b>877,764</b>	31
<b>Total equity at 30 June</b>		<b>9,737,551</b>	7,957,060
Total recognised income and expense for the period attributable to:			
Equity holders of the parent		<b>357,204</b>	329,259
Minority interests		<b>38,255</b>	29,519
		<b>395,459</b>	358,778
Effects of prior period and opening adjustments attributable to:			
Equity holders of the parent		<b>(20,893)</b>	191,859
Minority interests		-	-
		<b>(20,893)</b>	191,859



**Condensed Consolidated Cash Flow Statement***For the six months ended 30 June 2005*

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>445,383</b>	192,376
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(433,591)</b>	(73,853)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>663,969</b>	(642,720)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>675,761</b>	(524,197)
Cash and cash equivalents at beginning of period	<b>1,781,739</b>	2,339,310
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,457,500</b>	1,815,113
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>2,049,965</b>	1,379,344
Time deposits	<b>407,535</b>	435,769
	<b>2,457,500</b>	1,815,113

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Except for certain properties, investments and financial instruments, which are measured at fair value or revalued amounts, as appropriate, the condensed financial statements have been prepared under the historical cost basis. The accounting policies and basis of preparation adopted 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 2004, except in relation to the changes in accounting policies following the first-time adoption in the current period of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations "HK-Int") which are effective for accounting periods commencing on or after 1 January 2005.

The application of HKFRSs has resulted in a change in the presentation of the income statement and balance sheet. In particular, the presentation of minority interests, share of tax of associates and share of tax of jointly-controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented, and the impact is shown in note 2 herein:

#### (a) HKAS 17 - Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Except as mentioned in note 1(c) below, this change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of leasehold land.

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES** *(continued)*

**(b) HKAS 32 and HKAS 39 - Financial Instruments**

*Convertible bonds*

In prior periods, convertible bonds were stated at amortised cost. Upon the adoption of HKASs 32 and 39, convertible bonds issued are split into liability and equity components.

On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transactions costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with HKAS 32, comparative amounts have been restated.

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES** *(continued)***(c) HK-Int 2 – The Appropriate Accounting Policies for Hotel Properties**

HK-Int 2 “The Appropriate Accounting Policies for Hotel Properties” clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group’s self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. HK-Int 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 “Property, Plant and Equipment”, and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for its hotel properties using the revaluation model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (See note 2 for the financial impact).

**(d) HKAS 40 – Investment Property**

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements.

**(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets**

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES** *(continued)***(e) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets** *(continued)*

Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful lives of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES** *(continued)***(f) HK(SIC)-Int 21 - Income Taxes - Recovery of Revalued Non-depreciable Assets**

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how its results of operations and financial position are prepared and presented.

HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plan and Disclosures"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
HKAS 39 (Amendment)	"The Fair Value Option"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS - Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS - Int 5	"Rights to Interests Arising from Decommission, Restoration and Environment Rehabilitation Funds"

## 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments and opening adjustments are summarised as follows:

### (a) Effect on opening balance of total equity at 1 January 2005

		Capital reserve	Hotel property revaluation reserve	Equity component of convertible bonds	Investment property revaluation reserve	Retained earnings	Total
Effect of new policies (Increase/(decrease))	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Prior period adjustments:</b>							
HKAS 39 - Convertible bonds	1(b)	-	-	30,282	-	-	30,282
HKAS 17 - Leases	1(a)	-	-	-	-	(299,529)	(299,529)
HK-Int 2 - Hotel properties	1(c)	-	(92,923)	-	-	179,054	86,131
HK(SIC)-Int 21 - Deferred tax arising from revaluation of investment properties	1(f)	-	-	-	(4,725)	1,558	(3,167)
Net increase/(decrease) in total equity before opening adjustments		-	(92,923)	30,282	(4,725)	(118,917)	(186,283)
<b>Opening adjustments:</b>							
HKAS 40 - Surplus on revaluation of investment properties	1(d)	-	-	-	(29,775)	29,775	-
HKFRS 3 - Derecognition of negative goodwill	1(e)	(170,000)	-	-	-	335,390	165,390
<b>Total effect at 1 January 2005</b>		<b>(170,000)</b>	<b>(92,923)</b>	<b>30,282</b>	<b>(34,500)</b>	<b>246,248</b>	<b>(20,893)</b>

**2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES** *(continued)***(b) Effect on opening balance of total equity at 1 January 2004**

Effect of new policies (Increase/(decrease))	Notes	Hotel property revaluation reserve (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Retained earnings (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Prior period adjustments:</b>					
HKAS 39 - Convertible bonds	1(b)	-	44,615	-	44,615
HKAS 17 - Leases	1(a)	-	-	(255,157)	(255,157)
HK-Int 2 - Hotel properties	1(c)	36,218	-	360,289	396,507
HK(SIC)-Int 21 - Deferred tax arising from revaluation of investment properties	1(f)	-	-	5,894	5,894
<b>Total effect at 1 January 2004</b>		<b>36,218</b>	<b>44,615</b>	<b>111,026</b>	<b>191,859</b>



**2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES** *(continued)*

The following tables summarise the impact on profit after tax, income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKASs 39, 40 and HKFRS 3, the amounts shown for the six months ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

**(c) Effect on profit after tax for the six months ended 30 June 2005 and 2004**

		For the six months ended 30 June	
		2005	2004
		Equity holders of the parent (Unaudited) HK\$'000	Equity holders of the parent (Unaudited) HK\$'000
Effect of new policies (Increase/(decrease))	<i>Notes</i>		
<b>Effect on profit after tax:</b>			
HKAS 40 – Surplus on revaluation of investment properties	<i>1(d)</i>	<b>35,246</b>	-
HKAS 17 – Leases	<i>1(a)</i>	<b>(22,187)</b>	(22,187)
HK-Int 2 – Hotel properties	<i>1(c)</i>	<b>(12,060)</b>	(155,579)
HK(SIC)-Int 21 – Deferred tax arising from revaluation of investment properties	<i>1(f)</i>	<b>(6,168)</b>	-
Total effect for the period		<b>(5,169)</b>	(177,766)
<b>Effect on earnings per share:</b>			
Basic		<b>HK(0.11) cent</b>	HK(4.20) cents
Diluted		<b>HK(0.10) cent</b>	N/A

**2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES** *(continued)***(d) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004**

		For the six months ended 30 June	
		2005	2004
Effect of new policies (Increase/(decrease))	Notes	Equity holders of the parent (Unaudited) HK\$'000	Equity holders of the parent (Unaudited) HK\$'000
HK-Int 2 – Hotel properties	1(c)	12,733	3,805
HKAS 32 and HKAS 39 – Share of hedging reserve of an associate		7,205	-
HK(SIC)-Int 21 – Deferred tax arising from revaluation of investment properties	1(f)	-	(1,004)
Total effect for the period		19,938	2,801

### 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 2005 and 2004.

Group

	Passenger transportation services		Freight forwarding and trans- portation services		Travel and Hotel travel-related operations		Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>											
Sales to external customers	112,197	183,444	1,167,281	179,573	903,930	23,158	-	4,865	-	-	2,574,448
Intersegment revenue	1,471	2,011	85	4,356	39,442	-	-	85	(47,450)	-	-
Other revenue and gains	1,469	5,696	1,410	3,548	2,164	210	596	3,551	-	-	18,644
<b>Total</b>	<b>115,137</b>	<b>191,151</b>	<b>1,168,776</b>	<b>187,477</b>	<b>945,536</b>	<b>23,368</b>	<b>596</b>	<b>8,501</b>	<b>(47,450)</b>	<b>-</b>	<b>2,593,092</b>
<b>Segment results</b>	<b>22,384</b>	<b>73,514</b>	<b>33,413</b>	<b>22,254</b>	<b>165,442</b>	<b>(119)</b>	<b>76</b>	<b>(25,401)</b>	<b>-</b>	<b>-</b>	<b>291,563</b>
Interest income and unallocated gains											10,162
Finance costs											1,903
Share of profits and losses of:											
Jointly-controlled entities	-	-	-	-	(1,096)	-	113,581	-	-	-	112,485
Associates	20,500	-	-	-	-	-	-	-	-	-	20,500
Profit before tax											436,613
Tax											(63,783)
Profit for the period											382,830

**3. SEGMENT INFORMATION** (continued)  
**(a) Business segments** (continued)

Group	Passenger transportation services		Tourist attraction operations		Freight forwarding and transportation services		Travel and Hotel travel-related operations		Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	(Unaudited and restated)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Segment revenue:													
Sales to external customers	97,773	181,850	800,266	165,886	774,253	19,386	-	257	-	2,039,671			
Intersegment revenue	1,867	1,493	54	7,521	19,604	-	-	3,999	(34,538)	-			
Other revenue and gains	1,123	2,259	4,001	1,539	5,893	69	385	2,029	-	17,298			
<b>Total</b>	<b>100,763</b>	<b>185,602</b>	<b>804,321</b>	<b>174,946</b>	<b>799,750</b>	<b>19,455</b>	<b>385</b>	<b>6,285</b>	<b>(34,538)</b>	<b>2,056,969</b>			
Segment results	15,947	62,406	23,210	45,487	98,035	(2,572)	(238)	(14,227)	-	228,048			
Interest income and unallocated gains													9,535
Finance costs													(18,212)
Share of profits and losses of:													
Jointly-controlled entities	-	-	(541)	-	255	-	174,006	-	-	173,720			
Associates	21,044	-	(2)	-	-	-	-	-	-	21,042			
Profit before tax													414,133
Tax													(61,849)
Profit for the period													352,284

**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.

*Group*

	Hong Kong		PRC		Overseas		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	770,283	727,200	1,583,727	1,161,542	220,438	150,929	2,574,448	2,039,671
Other revenue and gains	8,578	12,464	8,459	3,186	1,607	1,648	18,644	17,298
	778,861	739,664	1,592,186	1,164,728	222,045	152,577	2,593,092	2,056,969

**4. OTHER REVENUE AND GAINS**

	For the six months ended 30 June	
	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	10,488	9,473
Rental income	6,470	5,985
Gain on changes in fair value of short term investments	-	2
Management fee income	1,090	1,785
Exchange gains, net	4,959	3,894
Gain on disposal of fixed assets	635	326
Dividend income	75	-
Others	5,089	5,368
	28,806	26,833

**5. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable		
- within five years	<b>(14,369)</b>	(5,498)
- after five years	<b>(75)</b>	-
Finance lease and hire purchase contracts	-	(4)
Amortisation of deferred borrowing costs	<b>(350)</b>	(2,860)
Write-back of accretion/(accretion) of premium on convertible bonds, net	<b>16,697</b>	(9,850)
<b>Total finance costs, net</b>	<b>1,903</b>	(18,212)

**6. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging/(crediting):

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited and restated)
	<b>HK\$'000</b>	HK\$'000
Depreciation:		
- Hotel properties	<b>12,060</b>	11,000
- Other property, plant and equipment	<b>63,347</b>	69,113
Amortisation on prepaid land lease payments	<b>22,187</b>	22,187
Fair value changes on investment properties	<b>(35,246)</b>	(3,300)
Fair value changes on hotel properties	<b>(5,200)</b>	(33,822)
Amortisation of goodwill	-	17,670
Negative goodwill recognised	-	(1,829)

**7. TAX**

	<b>For the six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited and restated)
	<b>HK\$'000</b>	HK\$'000
Current:		
The People's Republic of China:		
Hong Kong	<b>(29,343)</b>	(44,552)
Elsewhere	<b>(17,069)</b>	(13,102)
Overseas	-	(104)
Underprovision in prior years	-	(344)
Deferred	<b>(7,371)</b>	(3,747)
<b>Tax charge for the period</b>	<b>(53,783)</b>	(61,849)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

Share of tax attributable to jointly-controlled entities and associates amounting to HK\$18,339,000 and HK\$3,524,000, respectively (2004: HK\$32,881,000 and HK\$2,697,000, respectively) are included in "Share of profits and losses of jointly-controlled entities/associates" on the face of the condensed consolidated income statement.

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the parent for the period of HK\$344,575,000 (2004: HK\$322,765,000, as restated) and the weighted average of 4,706,539,387 (2004: 4,232,199,176) ordinary shares in issue during the period.

For the six months ended 30 June 2005, the calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to equity holders of the parent of HK\$344,575,000. The weighted average number of ordinary shares used in the calculation of 4,706,539,387 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 290,902,826 shares assumed to have been issued at no consideration on the deemed exercise of all outstanding bonus warrants.

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

**9. INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK3 cents (2004: HK5 cents) per share for the period ended 30 June 2005. 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 Friday, 14 October 2005. The interim dividend will be paid on or around Friday, 28 October 2005.

**10. INVESTMENTS**

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
<b>Available-for-sale investments</b>		
Equity investments outside Hong Kong:		
Listed shares, at market value	<b>2,644</b>	2,646
Unlisted shares, at fair value	<b>19,095</b>	20,420
Equity investments in Hong Kong:		
Unlisted shares, at fair value	<b>30</b>	30
	<b>21,769</b>	23,096
<b>Short term investments</b>		
Equity investments outside Hong Kong:		
Listed investments, at market value	-	1
Unlisted investments, at fair value	<b>15,515</b>	11,248
Equity investments in Hong Kong:		
Listed investments, at market value	-	1,759
	<b>15,515</b>	13,008



**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:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	<b>280,217</b>	239,102
Within:		
1-3 months	<b>195,903</b>	183,981
4-6 months	<b>34,428</b>	26,848
7-12 months	<b>5,829</b>	6,612
1-2 years	<b>1,999</b>	2,263
Over 2 years	<b>1,238</b>	829
	<b>519,614</b>	459,635

**12. TRADE PAYABLES**

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

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Outstanding balances with ages:		
Less than 1 month	<b>235,156</b>	341,759
Within:		
1-3 months	<b>270,303</b>	168,559
4-6 months	<b>29,299</b>	19,302
7-12 months	<b>14,665</b>	10,251
1-2 years	<b>11,936</b>	11,508
Over 2 years	<b>6,917</b>	4,001
	<b>568,276</b>	555,380

**13. SHARE CAPITAL**

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	<b>700,000</b>	700,000
Issued and fully paid:		
5,010,820,866 (2004: 4,467,658,548) ordinary shares of HK\$0.10 each	<b>501,082</b>	446,766

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

	<b>Number of shares in issue</b>	<b>Issued and fully paid (Unaudited) HK\$'000</b>
At 1 January 2005	4,467,658,548	446,766
Shares issued upon conversion of the convertible bonds	431,547,127	43,155
Shares issued upon exercise of bonus warrants	111,615,191	11,161
<b>At 30 June 2005</b>	<b>5,010,820,866</b>	<b>501,082</b>

During the period, the movements in share capital were as follows:

- (a) Convertible bonds in the amount US\$101,810,000 (equivalent to HK\$794,046,733) were converted into ordinary shares of the Company at conversion price of HK\$1.84 per share, resulting in the issue of 431,547,127 ordinary shares of HK\$0.10 each.
- (b) 111,615,191 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration before expenses, of HK\$168,316,000.

**14. RESERVES**

	Equity			Hotel	Investment	Enterprise			Retained earnings	Total	Minority interests	
	Capital	component		property	property	expansion	Transition	Hedging				
	Share premium	redemption reserve	of convertible bonds	reserve	reserve	reserve	reserve	reserve				
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
As at 1 January 2005												
As previously reported	6,328,136	200	-	(842,196)	267,694	34,500	82,157	13,732	-	1,793,958	7,678,181	386,313
Prior year adjustments:												
HKAS 39 - Convertible bonds	-	-	30,282	-	-	-	-	-	-	-	30,282	-
HKAS 17 - Leases	-	-	-	-	-	-	-	-	-	(299,529)	(299,529)	-
HK-Int 2 - Hotel properties	-	-	-	-	(92,923)	-	-	-	-	179,054	86,131	-
HK(SIC)-Int 21 - Deferred tax arising from revaluation of investment properties	-	-	-	-	-	(4,725)	-	-	-	1,558	(3,167)	-
As restated before opening adjustments	6,328,136	200	30,282	(842,196)	174,771	29,775	82,157	13,732	-	1,675,041	7,491,898	386,313
Opening adjustments:												
HKAS 40 - Surplus on revaluation of investment properties	-	-	-	-	-	(29,775)	-	-	-	29,775	-	-
HK(SIC)-Int 3 - Derecognition of negative goodwill	-	-	-	(170,000)	-	-	-	-	-	335,390	165,390	-
As restated after opening adjustments	6,328,136	200	30,282	(1,012,196)	174,771	-	82,157	13,732	-	2,040,206	7,657,288	386,313
Exchange realignments	-	-	-	-	-	-	-	(7,309)	-	-	(7,309)	-
Share of reserve of an associate	-	-	-	-	-	-	-	-	7,205	-	7,205	-
Fair value changes on hotel properties	-	-	-	-	15,060	-	-	-	-	-	15,060	-
Deferred tax arising from revaluation of hotel properties	-	-	-	-	(2,327)	-	-	-	-	-	(2,327)	-
Profit for the period	-	-	-	-	-	-	-	-	-	344,575	344,575	38,255
Additional 2004 final dividend paid	-	-	-	-	-	-	-	-	-	(27,093)	(27,093)	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(53,262)
Issue of shares	908,046	-	(30,282)	-	-	-	-	-	-	-	877,764	-
Proposed 2005 Interim dividend	-	-	-	-	-	-	-	-	-	(150,325)	(150,325)	-
<b>As at 30 June 2005</b>	<b>7,236,182</b>	<b>200</b>	<b>-</b>	<b>(1,012,196)</b>	<b>187,504</b>	<b>-</b>	<b>82,157</b>	<b>6,423</b>	<b>7,205</b>	<b>2,207,363</b>	<b>8,714,838</b>	<b>371,306</b>

**15. PLEDGE OF ASSETS**

As at 30 June 2005, the Group's bank deposits of approximately HK\$5,153,000 (2004: HK\$4,053,000) were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and certain bank guarantees given in lieu of utility and rental deposits.

**16. CONTINGENT LIABILITIES**

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

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Bank guarantees given in lieu of utility and rental deposits	<b>2,024</b>	2,611
Guarantees given to suppliers in connection with credit facilities granted	<b>6,826</b>	1,801
	<b>8,850</b>	4,412

At the balance sheet date, the Group's share of an associate's guarantees given to third parties, which are not included in above, was HK\$402,000 (2004: HK\$245,000).

**17. COMMITMENTS**

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

**(i) Capital commitments**

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Properties under development:		
Contracted, but not provided for	<b>910,927</b>	651,166
Authorised, but not contracted for	<b>369,692</b>	824,115
	<b>1,280,619</b>	1,475,281
Property, plant and equipment:		
Contracted, but not provided for	<b>24,938</b>	14,644
Authorised, but not contracted for	-	7,725
	<b>24,938</b>	22,369
Leasehold improvements:		
Contracted, but not provided for	<b>586</b>	3,090
Unpaid capital contribution to jointly-controlled entities:		
Contracted, but not provided for	<b>777</b>	777

**17. COMMITMENTS** *(continued)***(ii) Operating lease arrangements***(a) As lessor*

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

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

	<b>30 June</b>	31 December
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Land and buildings:		
Within one year	<b>8,512</b>	9,219
In the second to fifth years, inclusive	<b>4,038</b>	5,831
After five years	<b>403</b>	-
	<b>12,953</b>	15,050
Equipment:		
Within one year	-	1,023
In the second to fifth years, inclusive	-	298
	-	1,321

**17. COMMITMENTS** *(continued)***(ii) 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:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Land and buildings:		
Within one year	<b>29,596</b>	38,236
In the second to fifth years, inclusive	<b>52,486</b>	74,387
After five years	<b>59,733</b>	59,571
	<b>141,815</b>	172,194
Plant and machinery:		
Within one year	<b>324</b>	370
In the second to fifth years, inclusive	<b>214</b>	405
	<b>538</b>	775

**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 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	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
1. China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	571	747
2. China Travel Insurance Advisers Hong Kong Limited	Insurance charges	4,930	5,353
3. Tai Sun Services Company Limited	Stevedoring services and coolie charges	640	568
4. China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	2,803	2,511
5. China Travel Service (Holdings) Hong Kong Limited	Office rental	5,220	5,690
6. Shenzhen Windsor Square Industrial Co., Ltd	Hotel room rental	791	55
<i>Received or receivable from:</i>			
7. China Travel Service (Holdings) Hong Kong Limited	Travel permit administration income	161,190	135,312
8. China Travel Computer Service H.K. Limited	Application service provider services	6,822	5,980
9. China Travel Service (Thailand) Co., Ltd.	Sale of tourism services/products	508	465
10. China Travel System (M) Sdn. Bhd.	Sale of tourism services/products	74	-



**18. RELATED PARTY TRANSACTIONS** *(continued)*

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 1 to the condensed consolidated financial statements, following the first-time adoption in the current period of the new and revised HKFRs which are effective for accounting periods commencing on or after 1 January 2005, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with current period's presentation.

**20. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed interim financial statements were approved and authorised for issue by the board of directors on 21 September 2005.



## 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 3 to 32.

### 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 HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 HKICPA. 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 2005.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong, 21 September 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Results and Operation

During the first half of 2005, the tourism industry in Hong Kong and Mainland China continued to sustain strong growth and the Group's core travel business developed considerably further compared with the same period last year. The revenue of the Group's travel agencies in Hong Kong and overseas continued to grow and the 15 wholly-owned and joint venture travel agencies in Mainland China entered the harvesting stage. Excellent achievements were made in areas such as consolidation of internal resources, joint development of MICE markets and addition of sales outlets. At the same time, the Group concluded the ticketing agency arrangement with Hong Kong Disneyland and devised the joint promotion plan of Hong Kong Disneyland related travel products between the Group's travel agencies in Hong Kong and Mainland China. Operating profits of complementary services to core travel business such as hotel, passenger transportation and art performance for the period increased significantly compared with the same period last year whereas the revenue and profit of the theme parks during the period remained stable compared with the same period last year. The construction work of Zhuhai Ocean Spring Resort progressed smoothly and it will commence operation by the end of this year as scheduled. The online Centralized Platform is expected to come to the market in December this year. The launch of these two projects will make positive contributions in strengthening the competitiveness of the Group's core travel business and enhancing earning power.

For the six months ended 30 June 2005, the consolidated revenue of the Group was HK\$2,574 million, an increase of 26.2% from the same period last year. Due to the continuous rise in coal and oil prices in Mainland China, the profit of Weihe Power Plant decreased significantly and affected the consolidated net profit of the Group. During the period, the consolidated net profit of the Group was HK\$345 million, an increase of 6.8% from HK\$323 million as restated in accordance with the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards for the same period last year. The earnings per share for the period was HK7.32 cents, a decrease of 4.1% from the same period last year. The shareholders' equity of the Group as at 30 June 2005 reached HK\$9,366 million, an increase of 14.8% from the end of last year. The net interest bearing debt to equity ratio at the end of the period was -10.1%.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Tour Operation and Leisure Business

The Tour Operation and Leisure Business of the Group comprise of travel agency business, China Travel Net, three theme parks and a golf club in Shenzhen. During the first half of the year, the revenue was HK\$1,110 million, an increase of 14% from the same period last year.

China Travel Service (Hong Kong) Limited ("CTSHK") actively developed new businesses and established a conference travel division which handled large conferences such as the "2005 China Investment Forum" and "International Computer Exchange Conference" and served more international premier customers. In addition, CTSHK launched a membership program "Friends of CTSHK" to enhance customer loyalty and cooperated with Mainland travel agencies to prepare for launching tour and ticketing businesses after the opening of Hong Kong Disneyland. The Group made achievements in the expansion of Mainland travel agency network. Shanghai China Travel International Limited established joint venture travel agencies in Suzhou and Hangzhou and China Travel International (Xinjiang) Limited also actively established network in its peripheral region. During the first half of the year, the revenue of the Mainland travel agency network increased by 25.8% compared with the same period last year. During the period, the number of website visitors and number of members of China Travel Net increased by 29.41% and 13% respectively compared with the same period last year. According to professional market research report, China Travel Net was one of the mostly visited travel website in Hong Kong.

The well-planned Centralized Platform purchased property in Shenzhen to use as the operational headquarter office, machine room and call center. Preparation work such as restructuring of internal resources, procurement of hardware and software systems, recruitment of human resources, design of workflow regarding booking of hotel rooms and air tickets, etc. progressed smoothly and the Centralized Platform is expected to commence operation by the end of this year.

During the first half of the year, the revenue of Window of the World, Splendid China and China Folk Culture Villages was HK\$183 million, an increase of 1% from the same period last year and the total number of visitors received was 1.75 million, an increase of 3% from the same period last year. Window of the World carried out the planning and organization work for the Chinese New Year and the Labor Day Holiday well, launched the "Beer Festival" in summer and brought in large dance groups from Ukraine and Ireland. At the same time, Window of the World carried out the revamp work of attractions and the construction work of a new hotel next to the park. Splendid China launched several programs such as the "Temple Torch Festival", "1st Chinese Kung Fu Festival" and "10th Water Splashing Festival" in summer, etc. and strengthened marketing and promotional efforts.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Tour Operation and Leisure Business *(continued)*

"Legend of Kung Fu" and "Goddess", mega stage shows produced by China Heaven Creation International Performance Art Co., Ltd. ("China Heaven"), were included in the 2005 and 2006 Guidance Directory for Export of National Commercial Performances and Exhibition of Cultural Products published by the Ministry of Culture of the PRC. "Legend of Kung Fu" launched its premiere 5-month tour to the United States and Canada in August this year and "Goddess" was also invited to launch its premiere 12-month tour to the United States in September this year. The favorable development of China Heaven will make contributions to the Group.

Tycoon Golf Club in Shenzhen managed to overcome the negative effects of rainy weather in the first half of the year and the number of golfers and golfing-related revenue increased by 11.3% and 30.5% respectively compared with the same period last year. Tycoon Golf Club introduced the new one-year membership to promote sales and the total revenue for the period increased by 19.5% compared with the same period last year. The new wing of the Club, which is a small hotel, will commence operation in the second half of the year and will further enhance membership sales.

The construction work of Zhuhai Ocean Spring Resort progressed smoothly and the interior decorating work on the hotels, private club, hotspring centre, health and fitness center, fisherman's wharf and staff quarter was in progress. The pre-opening work was planned in details and the sales strategy to focus on target markets including Hong Kong, Macau, Taiwan, Pearl River Delta, Beijing and Shanghai was adopted. Pre-opening promotional work was being carried out and well-received by the market.

### Hotel Operation

Benefiting from the Individual Visit Scheme and the increase in business guests, the revenue and operating profit of the Group's five hotels in the first half of the year increased by 8.3% and 46.2% respectively compared with the same period last year. During the period, the average occupancy rate of the Group's four hotels in Hong Kong decreased slightly to 87% whereas the average room rate increased by 14.1% compared with the same period last year. The average occupancy rate and average room rate of Hotel Grandeur Macau during the period remained stable compared with the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Passenger Transportation and Freight Forwarding

Regarding the passenger transportation operation, the number of passengers carried by China Travel Tours Transportation Services Hong Kong Limited ("CT Tours") during the first half of the year reached 1.72 million, an increase of 18.58% from the same period last year. Revenue for the period reached HK\$112 million, an increase of 14.8% from the same period last year and the profit for the period increased by 15.8% compared with the same period last year. During the period, CT Tours broke several historical records. Currently CT Tours operates more than 40 bus routes which cover most of the Pearl River Delta region and its profitability ranks highly among the 50 best passenger road transportation enterprises in Mainland China. Recently, CT Tours won the through bus franchise between Hong Kong International Airport and Mainland China through open tender again and will continue to provide luxurious through bus service to Guangzhou and Shenzhen, etc. to travelers. Affected by the drastic rise in oil price, the profit of the Group's joint venture company Shun Tak-China Travel Shipping Investments Limited for the period decreased by 2.6% compared with the same period last year.

In respect of the freight forwarding operation, the revenue and profit after tax for the first half of the year increased by 45.9% and 50.7% compared with the same period last year. CTS International Transportation Company Limited ("CTS International") with its base in Yangtze River Delta leveraged on its competitive advantages in networking and human resources and continued to grow rapidly. Its revenue and profit after tax for the period increased by 50% and 25% respectively compared with the same period last year. In the 2004 Ranking of the 100 Best China International Freight Forwarders jointly organized by International Business Daily and China International Freight Forwarders Association, CTS International ranked among the top ten in terms of freight forwarding, air-freight and sea-freight businesses.

### Infrastructure

Due to the drastic rise in coal and oil prices, the profit of Shaanxi Weihe Power Co., Ltd. for the first half of the year decreased significantly from the same period last year. During the period, the profit from the power generation operation decreased by HK\$60.43 million to HK\$114 million, a decrease of 34.7% from the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Prospects

In the second half of the year, various factors will affect the results of the Group considerably. The adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards will increase the depreciation expense of hotel properties, thus limiting room for upward hotel revaluation. In addition, further pre-operating costs such as development costs and promotional costs will be expended towards the commencement of business of Zhuhai Ocean Spring Resort and Centralized Platform by the end of the year. Furthermore, the result of the non-core power generation operation in the second half of the year will continue to drop. Affected by these factors, the profit for this year will decrease considerably compared with 2004.

On a more positive note, the Group's core businesses will benefit from the development of tourism industry in Hong Kong and Mainland China. The steady growth in the Chinese economy will spur leisure and especially business travel activities. The opening of Hong Kong Disneyland and the implementation of measures by the Hong Kong SAR Government to actively promote tourism industry will bring a new wave of visitors to Hong Kong and Macau. The Group will seize the opportunity to expand the travel agency network, strengthen the consolidation of resources, and leverage on competitive advantages in networking and branding to further develop the Group's travel business. The major developments Zhuhai Ocean Spring Resort and Centralized Platform, which capture the demands for leisure holiday travel and online booking of hotel rooms and air tickets, possess great prospects. Towards the end of this year, the two major travel projects will commence operation. Besides strengthening the core competitiveness of the Group's core travel businesses significantly, they will provide new sources of earnings growth to the Group. The Directors and Management will strive to increase revenue sources and control costs, and to prepare well for the launch of Zhuhai Ocean Spring Resort and Centralized Platform, thus laying down a solid foundation for the future development of the Group. The Directors believe the Group's core businesses will have encouraging growth in 2006.

### Employee Relations

As at 30 June 2005, the Group has 7,287 employees of whom 2,555 are based in Hong Kong, 225 are based in overseas countries and 4,507 are based in Mainland China, and the related employee costs for the current six-month period totalled HK\$331 million (six months ended 30 June 2004: HK\$283 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Employee Relations *(continued)*

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 medical coverage, provident funds, retirement plans and long service awards, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. In addition, training and development programmes are provided on an ongoing basis throughout the Group. Sporting and recreational activities were arranged during the period for employees on a Group-wide basis. Group employees also participated in community-orientated events.

### Liquidity, Financial Resources and Capital Structure

The Group maintained a strong financial position for the period. As at 30 June 2005, the Group had total assets of HK\$12,832 million (31 December 2004: HK\$11,521 million), total liabilities of HK\$3,094 million (31 December 2004: HK\$2,973 million) and the equity attributable to equity holders of the parent was HK\$9,366 million (31 December 2004: HK\$8,162 million), amongst which cash and bank balances amounted to HK\$2,463 million (31 December 2004: HK\$1,786 million) whereas interest-bearing bank debts and convertible bonds amounted to HK\$1,505 million (31 December 2004: HK\$712 million) and Nil (31 December 2004: HK\$749 million) respectively. The net interest-bearing debt to equity ratio was -10.1% (31 December 2004: -4.0% as restated). During the period under review, net cash generated from operating activities amounted to approximately HK\$445 million (six months ended 30 June 2004: HK\$192 million).

As at 30 June 2005, the Group had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS Holdings, during the tenure of such loan facilities. The specific performance obligation is that CTS Holdings 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 Group. 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 2005

HK\$1,500 million

#### Final maturity of the loan facilities

30 October 2007

Interest is charged on the outstanding balance at 0.5% per annum over the Hong Kong Interbank Offered Rate for the applicable loan period. The loans are secured by the corporate guarantee given by the Company.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Liquidity, Financial Resources and Capital Structure** *(continued)*

The total capital expenditure on property, plant and equipment during the period amounted to HK\$96 million (2004: HK\$82 million). These capital expenditures were funded mainly by internal resources.

There had been no material change in exposure to fluctuation in exchanges rates since the most recent published annual report, and there was no material charge on group assets as at 30 June 2005, whereas contingent liabilities had increased from HK\$4.41 million as at 31 December 2004 to HK\$8.85 million at the end of the period.

During the period, 111,615,191 bonus warrants were exercised for 111,615,191 shares of HK\$0.10 each at the subscription price of HK\$1.508 per share and US\$101,810,000 of convertible bonds were converted into 431,547,127 shares of HK\$0.10 each at the conversion price of HK\$1.84 per share. Accordingly, the number of issued share capital of the Company increased from 4,467,658,548 shares to 5,010,820,866 shares as at 30 June 2005.

## OTHER INFORMATION

### Directors' Interests

As at 30 June 2005, the interests and short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as 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") were as follows:-

- (i) *Long position in the shares of the Company*  
ordinary shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	Percentage of the issued share capital
Shen Zhuying	Beneficial Owner	2,500,000	0.050%
Yeh Meou Tsen, Geoffrey	Beneficial Owner	2,110,000	0.042%
Fong Yun Wah	Interest of controlled corporations ( <i>Note</i> )	50,000	0.001%

*Note:* These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested.

- (ii) *Long position in the underlying shares of the Company*  
bonus warrants of the Company (to be expired in May 2006)

Name of Directors	Capacity	Number of underlying shares held	Percentage of the issued share capital
Shen Zhuying	Beneficial Owner	500,000	0.010%
Yeh Meou Tsen, Geoffrey	Beneficial Owner	1,240,000	0.025%

Save as disclosed above, as at 30 June 2005, none of the Directors and chief executive and/or any of their respective associates had any interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO).

## **OTHER INFORMATION** *(continued)*

### **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 2002 and 31 December 2002.

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 Group 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 2005, no share options were 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 "Directors' Interests" and "Share Option Scheme" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

**OTHER INFORMATION** *(continued)***Substantial Shareholders' Interests**

As at 30 June 2005, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

- (i) *Long position in the shares of the Company*  
ordinary shares of HK\$0.10 each of the Company

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of the issued share capital</b>
China Travel Service Head Office of the PRC ("CTS-PRC")	Interest of controlled corporation ( <i>Note 1</i> )	2,596,693,940	51.82%
CTS Holdings	Interest of controlled corporation and beneficial owner ( <i>Notes 1,3</i> )	2,596,693,940	51.82%
Foden International Limited ("FIL")	Beneficial owner ( <i>Note 2</i> )	17,250,000	0.34%

- (ii) *Long position in the underlying shares of the Company*  
bonus warrants of the Company (to be expired in May 2006)

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of underlying shares held</b>	<b>Percentage of the issued share capital</b>
CTS-PRC	Interest of controlled corporation ( <i>Note 1</i> )	396,938,788	7.92%
CTS Holdings	Interest of controlled corporation and beneficial owner ( <i>Notes 1,4</i> )	396,938,788	7.92%
FIL	Beneficial owner ( <i>Note 2</i> )	3,450,000	0.07%

## **OTHER INFORMATION** *(continued)*

### **Substantial Shareholders' Interests** *(continued)*

*Notes:*

1. The entire issued share capital of CTS Holdings is beneficially owned by CTS-PRC. CTS Holdings is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS Holdings.
2. These shares and underlying shares are held by FIL which is a wholly-owned subsidiary of CTS Holdings.
3. 2,579,443,940 shares were held by CTS Holdings directly.
4. Bonus warrants with 393,488,788 underlying shares were held by CTS Holdings directly.

Save as aforesaid and disclosed under the heading "Directors' Interests" above, as at 30 June 2005, the Directors are not aware of any other person who had interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company are recorded in the register required to be kept by the Company under section 336 of the SFO.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

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

## **OTHER INFORMATION** *(continued)*

### **Corporate Governance**

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules ("Code") throughout the accounting period for the six months ended 30 June 2005 except for the following deviations:

- With respect to Code Provision A.4.1, the Independent Non-executive Directors do not have a specific term of appointment. According to Code Provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to the Company's articles of association (the "Articles"), at each annual general meeting one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the whole number nearest one-third) shall retire from office. Accordingly, all Directors shall be subject to retirement by rotation and re-election at annual general meetings under the Articles and the Board considers that it is not necessary to appoint the Independent Non-Executive Directors for a specific term as the Articles require all the Directors to retire at least once every three years.
  
- With respect to Code Provision E.1.1, all Directors retired at the Annual General Meeting held on 25 May 2005 were appointed by one resolution. The directors of the Company will be proposed to be re-elected subject to retirement by rotation by passing a separate resolution at the Annual General Meeting to be held in 2006.

### **Model Code For Securities Transactions By Directors**

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors who confirmed compliance with the required standard set out in the Model Code during the period under review.

### **Audit Committee**

The Audit Committee comprises the three Independent Non-Executive Directors of the Company, namely, Mr. Wong Man Kong, Peter, Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey) and Mr Sze, Robert Tsai To. It is chaired by Mr. Wong Man Kong, Peter.

The Company's Audit Committee was established in 1999 for the purposes of assisting the Board in monitoring, amongst others, the financial reporting matters, internal controls, internal audit and external audit of the Group.

## **OTHER INFORMATION** *(continued)*

### **Audit Committee** *(continued)*

The terms of reference of Audit Committee have been revised and approved by the Board on 11 April 2005 in order to comply with the Code Provisions stipulated in Appendix 14 of the Listing Rules.

### **Interim Dividend**

The Board has resolved to declare an interim dividend of HK3 cents (2004: HK5 cents) per share for the period ended 30 June 2005. 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 Friday, 14 October 2005. The interim dividend will be paid on or around Friday, 28 October 2005.

### **Closure of Register of Members**

The Register of Members of the Company will be closed from Wednesday, 12 October 2005 to Friday, 14 October 2005 (both days inclusive), for the purpose 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 Monday, 10 October 2005.

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 4:30 p.m. on Monday, 10 October 2005.

### **Review of Accounts**

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2005 have been reviewed by the Audit Committee of the Company and the auditors, Ernst & Young.

By order of the Board

**Shen Zhuoying**

*Vice Chairman and General Manager*

Hong Kong, 21 September 2005