

股份代號 00308 Stock Code



INTERIM REPORT  
中期業績報告  
2006



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

## CONTENTS

|   | <i>Page</i> |
|---|-------------|
| <b>Corporate and Investor Relation Information</b>                  | 2           |
| <b>Interim Results</b>  |             |
| Condensed Consolidated Income Statement                             | 4           |
| Condensed Consolidated Balance Sheet                                | 5           |
| Condensed Consolidated Summary Statement of Changes in Equity       | 7           |
| Condensed Consolidated Cash Flow Statement                          | 9           |
| <b>Notes To Condensed Consolidated Interim Financial Statements</b> | 10          |
| <b>Independent Auditors' Review Report</b>                          | 25          |
| <b>Management Discussion and Analysis</b>                           | 26          |
| <b>Other Information</b>  | 31          |

## CORPORATE AND INVESTOR RELATION INFORMATION

### Corporate Information

#### *DIRECTORS*

Zhang Xuewu (*Chairman*)  
Xiong Weiping  
(*Vice Chairman, General Manager*)  
Zheng Heshui (*Vice Chairman*)  
Lo Sui On (*Vice Chairman*)  
Zheng Hongqing  
Jiang Yan  
Mao Jianjun  
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*

#### *COMPANY SECRETARY*

Woo Wai See, Alice

#### *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

#### *AUDITORS*

Ernst & Young

#### *LEGAL ADVISORS*

Johnson Stokes & Master

#### *REGISTERED OFFICE*

12th Floor, CTS House  
78-83 Connaught Road Central,  
Hong Kong

## FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

|   |   |
|---|---|
| Announcement of 2006 Interim Results                        | 5 September 2006  |
| Announcement of 2005 Final Results                          | 28 March 2006   |
| Announcement of 2005 Interim Results                        | 21 September 2005   |
| Dividends – 2004 Interim                                    | HK 5 cents per share paid<br>on 22 September 2004   |
| 2004 Final  | HK 5 cents per share paid<br>on 24 June 2005  |
| 2005 Interim  | HK 3 cents per share paid<br>on 28 October 2005   |
| 2005 Final  | HK 3 cents per share paid<br>on 26 May 2006   |
| 2006 Interim  | HK 2 cents per share payable<br>on 20 October 2006  |
| Closure of Register of Members<br>for 2006 Interim Dividend | Period from 4 October to<br>6 October 2006  |
| Annual General Meeting                                      | 12 May 2006   |
| Website address   | <a href="http://irasia.com/listco/hk/ctii">irasia.com/listco/hk/ctii</a>                        |
| Stock Code  | 00308   |
| Board Lot   | 2,000 shares  |
| Financial Year End  | December 31   |
| Share Registrar   | Tengis Limited<br>26/F Tesbury Centre<br>28 Queen's Road East<br>Hong Kong<br>Tel No. 2980-1333 |

## INTERIM RESULTS

The Board of Directors (the “Board”) of China Travel International Investment Hong Kong Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the comparative figures.

### Condensed Consolidated Income Statement

For the six months ended 30 June 2006

|  |       | For the six months<br>ended 30 June |                                     |
|--|-------|-------------------------------------|-------------------------------------|
|  |       | 2006<br>(Unaudited)                 | 2005<br>(Unaudited<br>and restated) |
|  | Notes | HK\$'000                            | HK\$'000                            |
| REVENUE  | 3     | <b>3,162,124</b>                    | 2,574,448                           |
| Cost of sales  |       | <b>(2,396,733)</b>                  | (1,928,844)                         |
| Gross profit   |       | <b>765,391</b>                      | 645,604                             |
| Other income and gains   | 4     | <b>56,217</b>                       | 28,806                              |
| Selling and distribution costs   |       | <b>(130,823)</b>                    | (63,208)                            |
| General and administrative expenses  |       | <b>(411,835)</b>                    | (315,676)                           |
| Amortisation on prepaid land<br>lease payments   |       | <b>(29,075)</b>                     | (22,187)                            |
| Depreciation on hotel properties   |       | <b>(17,869)</b>                     | (12,060)                            |
| Fair value gains on derivative<br>financial instruments                                      |       | –                                   | 99,204                              |
| Revaluation surplus of<br>investment properties, net   |       | <b>5,461</b>                        | 35,246                              |
| Revaluation surplus of<br>hotel properties, net  |       | <b>7,660</b>                        | 5,200                               |
| Finance costs  | 5     | <b>(49,612)</b>                     | (18,887)                            |
| Share of profits and losses of:<br>Jointly-controlled entities                               |       | <b>80,811</b>                       | 112,485                             |
| Associates   |       | <b>30,340</b>                       | 20,500                              |
| PROFIT BEFORE TAX  | 6     | <b>306,666</b>                      | 515,027                             |
| Tax  | 7     | <b>(54,743)</b>                     | (53,783)                            |
| PROFIT FOR THE PERIOD  |       | <b>251,923</b>                      | 461,244                             |
| ATTRIBUTABLE TO:   |       |                                     |                                     |
| Equity holders of the parent   |       | <b>210,748</b>                      | 422,989                             |
| Minority interests   |       | <b>41,175</b>                       | 38,255                              |
|  |       | <b>251,923</b>                      | 461,244                             |
| EARNINGS PER SHARE<br>ATTRIBUTABLE TO ORDINARY<br>EQUITY HOLDERS OF THE<br>PARENT (HK CENTS) | 8     |                                     |                                     |
| Basic  |       | <b>4.03</b>                         | 8.99                                |
| Diluted  |       | <b>N/A</b>                          | 8.46                                |
| DIVIDEND PER SHARE (HK CENTS)  | 9     | <b>2.00</b>                         | 3.00                                |

## Condensed Consolidated Balance Sheet

30 June 2006

|  | <i>Notes</i> | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--|--------------|--|--|
| <b>NON-CURRENT ASSETS</b>                      |              |  |  |
| Property, plant and equipment                  |              | <b>4,314,380</b>                                     | 4,342,549                                    |
| Investment properties                          |              | <b>234,353</b>                                       | 223,605                                      |
| Prepaid land lease payments                    |              | <b>3,087,753</b>                                     | 3,109,552                                    |
| Properties under development                   |              | <b>17,835</b>  | 3,270  |
| Goodwill                                       |              | <b>1,260,847</b>                                     | 1,260,837                                    |
| Interests in jointly-controlled entities       |              | <b>1,154,495</b>                                     | 1,375,421                                    |
| Interests in associates                        |              | <b>426,721</b>                                       | 418,913                                      |
| Available-for-sale investments                 | <i>10</i>    | <b>19,101</b>  | 20,009                                       |
| Held-to-maturity investments                   | <i>11</i>    | <b>15,489</b>  | 15,477                                       |
| Deferred tax assets                            |              | <b>14,915</b>  | 15,641                                       |
| <b>Total non-current assets</b>                |              | <b>10,545,889</b>                                    | 10,785,274                                   |
| <b>CURRENT ASSETS</b>                          |              |  |  |
| Available-for-sale investments                 | <i>10</i>    | <b>11,169</b>  | 1,427  |
| Inventories                                    |              | <b>20,560</b>  | 19,182                                       |
| Trade receivables                              | <i>12</i>    | <b>710,881</b>                                       | 572,914                                      |
| Tax recoverable                                |              | <b>1,019</b>   | 1,580  |
| Prepayments, deposits<br>and other receivables |              | <b>398,107</b>                                       | 313,166                                      |
| Pledged time deposits                          |              | <b>5,083</b>   | 4,306  |
| Cash and cash equivalents                      | <i>13</i>    | <b>3,226,160</b>                                     | 2,258,655                                    |
| Amount due from<br>ultimate holding company    |              | <b>33,819</b>  | 27,886                                       |
| Amounts due from fellow subsidiaries           |              | <b>2,195</b>   | 5,266  |
| <b>Total current assets</b>                    |              | <b>4,408,993</b>                                     | 3,204,382                                    |

## Condensed Consolidated Balance Sheet (continued)

30 June 2006

|  |       | 30 June<br>2006<br>(Unaudited)<br>HK\$'000 | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--|-------|--|--|
|  | Notes |  |  |
| <b>CURRENT LIABILITIES</b>                                     |       |  |  |
| Trade payables   | 14    | 642,625                                    | 609,801                                      |
| Tax payable  |       | 52,643                                     | 29,156                                       |
| Other payables and accruals                                    |       | 773,700                                    | 951,616                                      |
| Interest-bearing bank and other borrowings                     |       | 769,457                                    | 13,311                                       |
| Amounts due to fellow subsidiaries                             |       | 1,377                                      | 4,509  |
| <b>Total current liabilities</b>                               |       | <b>2,239,802</b>                           | 1,608,393                                    |
| <b>NET CURRENT ASSETS</b>                                      |       | <b>2,169,191</b>                           | 1,595,989                                    |
| <b>TOTAL ASSETS LESS<br/>CURRENT LIABILITIES</b>               |       | <b>12,715,080</b>                          | 12,381,263                                   |
| <b>NON-CURRENT LIABILITIES<br/>AND DEFERRED INCOME</b>         |       |  |  |
| Deferred income  |       | 147,104                                    | 145,726                                      |
| Interest-bearing bank and other borrowings                     |       | 1,262,557                                  | 2,008,022                                    |
| Deferred tax liabilities                                       |       | 366,607                                    | 364,496                                      |
| <b>Total non-current liabilities<br/>and deferred income</b>   |       | <b>1,776,268</b>                           | 2,518,244                                    |
| <b>Net assets</b>  |       | <b>10,938,812</b>                          | 9,863,019                                    |
| <b>EQUITY</b>  |       |  |  |
| <b>Equity attributable to<br/>equity holders of the parent</b> |       |  |  |
| Issued capital   | 15    | 569,536                                    | 503,885                                      |
| Reserves   | 16    | 9,834,535                                  | 8,802,449                                    |
| Proposed dividend  |       | 113,907                                    | 151,165                                      |
|  |       | <b>10,517,978</b>                          | 9,457,499                                    |
| Minority interests   | 16    | 420,834                                    | 405,520                                      |
| <b>Total equity</b>  |       | <b>10,938,812</b>                          | 9,863,019                                    |

## Condensed Consolidated Summary Statement of Changes in Equity

For the six months ended 30 June 2006

|   |              | <b>For the six months<br/>ended 30 June</b> |                             |
|---|--------------|---|-----------------------------|
|   |              | <b>2006</b>                                 | 2005                        |
|   |              | <b>(Unaudited)</b>                          | (Unaudited<br>and restated) |
|   | <i>Notes</i> | <b>HK\$'000</b>                             | HK\$'000                    |
| <b>Total equity at 1 January:</b>   |              |   |                             |
| As previously reported as equity attributable to equity holders of the parent   |              | <b>9,457,499</b>                            | 8,327,437                   |
| As previously reported separately as minority interests                         |              | <b>405,520</b>                              | 386,313                     |
|   |              | <b>9,863,019</b>                            | 8,713,750                   |
| Prior year adjustment   |              | –   | (298,476)                   |
| As restated   |              | <b>9,863,019</b>                            | 8,415,274                   |
| <b>Changes in equity during the period:</b>                                     |              |   |                             |
| Exchange differences arising on translating foreign operations attributable to: |              |   |                             |
| – Equity holders of the parent  | 16           | <b>25,246</b>                               | (7,309)                     |
| – Minority interests  | 16           | <b>4,053</b>                                | –                           |
|   |              | <b>29,299</b>                               | (7,309)                     |
| Share of reserve of an associate  | 16           | <b>(1,086)</b>                              | 7,205                       |
| Surplus on revaluation of hotel properties                                      | 16           | <b>3,091</b>                                | 15,060                      |
| Deferred tax arising from revaluation of hotel properties                       | 16           | <b>(565)</b>                                | (2,327)                     |
| Net income and expense recognised directly in equity                            |              | <b>30,739</b>                               | 12,629                      |
| Profit for the period   |              | <b>251,923</b>                              | 461,244                     |
| Total recognised income and expense for the period                              |              | <b>282,662</b>                              | 473,873                     |



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

For the six months ended 30 June 2006

|  | Notes | For the six months<br>ended 30 June |   |
|--|-------|-------------------------------------|---|
|  |       | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited<br>and restated)<br>HK\$'000 |
| Total recognised income<br>and expense for the period                          |       | <b>282,662</b>                      | 473,873   |
| Dividend paid to ordinary<br>equity holders of the parent                      |       | <b>(166,974)</b>                    | (250,476)                                       |
| Dividend paid to minority shareholders   | 16    | <b>(33,044)</b>                     | (53,262)  |
| Disposal of interest in a subsidiary   | 16    | <b>3,130</b>                        | –   |
| Issue of new shares  | 15    | <b>65,651</b>                       | 54,316  |
| Premium on issue of new shares   | 16    | <b>924,368</b>                      | 908,046   |
| <b>Total equity at 30 June</b>   |       | <b>10,938,812</b>                   | 9,547,771                                       |
| <b>Total recognised income and<br/>expense for the period attributable to:</b> |       |                                     |   |
| – Equity holders of the parent   |       | <b>237,434</b>                      | 435,618   |
| – Minority interests   |       | <b>45,228</b>                       | 38,255  |
|  |       | <b>282,662</b>                      | 473,873   |
| <b>Effect of prior period<br/>adjustment attributable to:</b>                  |       |                                     |   |
| – Equity holders of the parent   |       | –                                   | (298,476)                                       |
| – Minority interests   |       | –                                   | –   |
|  |       | –                                   | (298,476)                                       |

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

|   | For the six months<br>ended 30 June |                                 |
|---|-------------------------------------|---------------------------------|
|   | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited)<br>HK\$'000 |
| NET CASH INFLOW FROM OPERATING ACTIVITIES   | 232,746                             | 445,383                         |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING<br>ACTIVITIES                                      | 123,660                             | (433,591)                       |
| NET CASH INFLOW FROM FINANCING ACTIVITIES   | 753,349                             | 663,969                         |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 1,109,755                           | 675,761                         |
| Cash and cash equivalents at beginning of period  | 1,923,003                           | 1,781,739                       |
| CASH AND CASH EQUIVALENTS<br>AT END OF PERIOD   | 3,032,758                           | 2,457,500                       |
| ANALYSIS OF BALANCES OF<br>CASH AND CASH EQUIVALENTS  |                                     |                                 |
| Cash and bank balances  | 1,183,049                           | 2,049,965                       |
| Non-pledged time deposits with original maturity<br>of less than three months when acquired | 1,849,709                           | 407,535                         |
|   | 3,032,758                           | 2,457,500                       |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2005 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period's financial statements.

- |                                |   |
|--------------------------------|---|
| • HKAS 21 Amendment            | Net Investment in a Foreign Operation               |
| • HKAS 39 Amendment            | The Fair Value Option                               |
| • HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts                       |
| • HK(IFRIC)-Int 4              | Determining whether an Arrangement contains a Lease |

The adoption of the above-mentioned accounting standards does not have significant impact on the Group as at the date of the interim financial statements.

### 2. COMPARATIVE FIGURES

The condensed consolidated income statement was revised for the prior interim period to bring it in line with the policies adopted in annual financial statements. Accordingly, certain comparative amounts have been restated.

The effect of these restatements on the income statement during the six months ended 30 June 2005 is set out below:

|  | HK\$'000      |
|--|---------------|
| Increase in fair value gains on derivative financial instruments | 99,204        |
| Increase in finance costs  | (20,790)      |
| <b>Total effect on profit</b>                                    | <b>78,414</b> |

### 3. 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 the Group's revenue by 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 2006 and 2005.

|                                 | Passenger<br>transportation<br>services<br>2006<br>(Unaudited)<br>HK\$'000 | Tourist<br>attraction<br>operations<br>2006<br>(Unaudited)<br>HK\$'000 | Freight<br>forwarding<br>and trans-<br>portation<br>services<br>2006<br>(Unaudited)<br>HK\$'000 | Hotel<br>operations<br>2006<br>(Unaudited)<br>HK\$'000 | Travel and<br>travel-<br>related<br>operations<br>2006<br>(Unaudited)<br>HK\$'000 | Golf club<br>operations<br>2006<br>(Unaudited)<br>HK\$'000 | Power<br>generation<br>2006<br>(Unaudited)<br>HK\$'000 | Hot spring<br>resort<br>2006<br>(Unaudited)<br>HK\$'000 | Corporate<br>and others<br>2006<br>(Unaudited)<br>HK\$'000 | Eliminations<br>2006<br>(Unaudited)<br>HK\$'000 | Consolidated<br>2006<br>(Unaudited)<br>HK\$'000 |
|---------------------------------|--|--|---|--|---|--|--|---|--|---|---|
| Segment revenue:                |  |  |   |  |   |  |  |   |  |   |   |
| Sales to external customers     | 132,177  | 205,447  | 1,312,472   | 203,034  | 1,118,707   | 25,209   | -  | 157,823   | 7,255  | -   | 3,162,124                                       |
| Intersegment revenue            | 463  | 1,100  | -   | 2,049  | 4,945   | -  | -  | -   | 16,138   | (24,685)  | -   |
| Other income and gains          | 3,489  | 954  | 1,495   | 2,682  | 7,967   | -  | 144  | 840   | 5,757  | -   | 23,338  |
| <b>Total</b>                    | <b>136,139</b>   | <b>207,501</b>   | <b>1,313,967</b>  | <b>207,765</b>   | <b>1,131,619</b>  | <b>25,209</b>  | <b>144</b>   | <b>158,663</b>  | <b>29,150</b>  | <b>(24,685)</b>                                 | <b>3,185,462</b>                                |
| <b>Segment results</b>          | <b>24,557</b>  | <b>77,834</b>  | <b>36,304</b>   | <b>35,488</b>  | <b>85,992</b>   | <b>(344)</b>   | <b>(396)</b>   | <b>(40,726)</b>   | <b>(6,461)</b>   | <b>-</b>  | <b>212,248</b>                                  |
| Interest income                 |  |  |   |  |   |  |  |   |  |   | 32,879  |
| Finance costs                   |  |  |   |  |   |  |  |   |  |   | (49,612)  |
| Share of profits and losses of: |  |  |   |  |   |  |  |   |  |   |   |
| Jointly-controlled entities     | -  | -  | -   | -  | 568   | -  | 80,243   | -   | -  | -   | 80,811  |
| Associates                      | 30,340   | -  | -   | -  | -   | -  | -  | -   | -  | -   | 30,340  |
| Profit before tax               |  |  |   |  |   |  |  |   |  |   | 306,666   |
| Tax                             |  |  |   |  |   |  |  |   |  |   | (54,743)  |
| <b>Profit for the period</b>    |  |  |   |  |   |  |  |   |  |   | <b>251,923</b>                                  |

### 3. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

|                                 | Passenger<br>transportation<br>services | Tourist<br>attraction<br>operations | Freight<br>and trans-<br>portation<br>services | Hotel<br>operations | Travel and<br>travel-<br>related<br>operations | Golf club<br>operations | Power<br>generation | Hot spring<br>resort | Corporate<br>and others | Eliminations        | Consolidated        |
|---------------------------------|---|-------------------------------------|--|---------------------|--|-------------------------|---------------------|----------------------|-------------------------|---------------------|---------------------|
|                                 | 2005<br>(Unaudited)                     | 2005<br>(Unaudited)                 | 2005<br>(Unaudited)                            | 2005<br>(Unaudited) | 2005<br>(Unaudited)                            | 2005<br>(Unaudited)     | 2005<br>(Unaudited) | 2005<br>(Unaudited)  | 2005<br>(Unaudited)     | 2005<br>(Unaudited) | 2005<br>(Unaudited) |
|                                 | 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     | 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 income and gains          | 1,469                                   | 5,696                               | 1,410  | 3,548               | 2,164  | 210                     | 596                 | 659                  | 2,566                   | -                   | 18,318              |
| <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>659</b>           | <b>7,516</b>            | <b>(47,450)</b>     | <b>2,592,766</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>(10,867)</b>      | <b>84,344</b>           | <b>-</b>            | <b>390,441</b>      |
| Interest income                 |   |                                     |  |                     |  |                         |                     |                      |                         |                     | 10,488              |
| Finance costs                   |   |                                     |  |                     |  |                         |                     |                      |                         |                     | (18,887)            |
| Share of profits and losses of: |   |                                     |  |                     |  |                         |                     |                      |                         |                     |                     |
| Jointly-controlled entities     | -                                       | -                                   | -  | -                   | (1,096)  | -                       | 113,581             | -                    | -                       | -                   | 112,485             |
| Associates                      | 20,500                                  | -                                   | -  | -                   | -  | -                       | -                   | -                    | -                       | -                   | 20,500              |
| Profit before tax               |   |                                     |  |                     |  |                         |                     |                      |                         |                     | 515,027             |
| Tax                             |   |                                     |  |                     |  |                         |                     |                      |                         |                     | (53,783)            |
| <b>Profit for the period</b>    |   |                                     |  |                     |  |                         |                     |                      |                         |                     | <b>461,244</b>      |

**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 2006 and 2005.

|                             | Hong Kong   |             | PRC         |             | Overseas    |             | Consolidated |             |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
|                             | 2006        | 2005        | 2006        | 2005        | 2006        | 2005        | 2006         | 2005        |
|                             | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited)  | (Unaudited) |
|                             | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000     | HK\$'000    |
| Segment revenue:            |             |             |             |             |             |             |              |             |
| Sales to external customers | 866,133     | 770,283     | 2,094,407   | 1,583,727   | 201,584     | 220,438     | 3,162,124    | 2,574,448   |
| Other income and gains      | 15,183      | 8,252       | 4,867       | 8,459       | 3,288       | 1,607       | 23,338       | 18,318      |
|                             | 881,316     | 778,535     | 2,099,274   | 1,592,186   | 204,872     | 222,045     | 3,185,462    | 2,592,766   |

**4. OTHER INCOME AND GAINS**

|  | For the six months ended 30 June |             |
|--|----------------------------------|-------------|
|  | 2006                             | 2005        |
|  | (Unaudited)                      | (Unaudited) |
|  | HK\$'000                         | HK\$'000    |
| Interest income  | 32,879                           | 10,488      |
| Rental income  | 4,864                            | 6,470       |
| Management fee income                                      | 924                              | 1,090       |
| Exchange gains, net  | 8,926                            | 4,959       |
| Gain on disposal of items of property, plant and equipment | 1,756                            | 635         |
| Dividend income  | 18                               | 75          |
| Others   | 6,850                            | 5,089       |
|  | 56,217                           | 28,806      |

**5. FINANCE COSTS**

|   | <b>For the six months<br/>ended 30 June</b> |                             |
|---|---|-----------------------------|
|   | <b>2006</b>                                 | 2005                        |
|   | <b>(Unaudited)</b>                          | (Unaudited<br>and restated) |
|   | <b>HK\$'000</b>                             | HK\$'000                    |
| Interest expenses on:                                   |   |                             |
| Bank loans, overdrafts and other loans wholly repayable |   |                             |
| – within five years                                     | <b>(49,541)</b>                             | (11,498)                    |
| – after five years                                      | <b>(71)</b>                                 | (75)                        |
| Interest on convertible bonds                           | –   | (6,964)                     |
| Amortisation on deferred borrowing costs                | –   | (350)                       |
| <b>Total finance costs</b>                              | <b>(49,612)</b>                             | <b>(18,887)</b>             |

**6. PROFIT BEFORE TAX**

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

|  | <b>For the six months<br/>ended 30 June</b> |                             |
|--|---|-----------------------------|
|  | <b>2006</b>                                 | 2005                        |
|  | <b>(Unaudited)</b>                          | (Unaudited<br>and restated) |
|  | <b>HK\$'000</b>                             | HK\$'000                    |
| Depreciation:  |   |                             |
| – Hotel properties                                   | <b>17,869</b>                               | 12,060                      |
| – Other property, plant and equipment                | <b>135,759</b>                              | 63,347                      |
| Amortisation on prepaid land lease payments          | <b>29,075</b>                               | 22,187                      |
| Fair value gains on derivative financial instruments | –   | (99,204)                    |
| Revaluation surplus of investment properties, net    | <b>(5,461)</b>                              | (35,246)                    |
| Revaluation surplus of hotel properties, net         | <b>(7,660)</b>                              | (5,200)                     |

**7. TAX**

|                                  | <b>For the six months<br/>ended 30 June</b> |                 |
|----------------------------------|---|-----------------|
|                                  | <b>2006</b>                                 | 2005            |
|                                  | <b>(Unaudited)</b>                          | (Unaudited)     |
|                                  | <b>HK\$'000</b>                             | HK\$'000        |
| Current:                         |   |                 |
| The People's Republic of China:  |   |                 |
| Hong Kong                        | <b>(33,015)</b>                             | (29,343)        |
| Elsewhere                        | <b>(19,264)</b>                             | (17,069)        |
| Overseas                         | <b>(385)</b>                                | –               |
| Overprovision in prior years     | <b>204</b>                                  | –               |
| Deferred                         | <b>(2,283)</b>                              | (7,371)         |
| <b>Tax charge for the period</b> | <b>(54,743)</b>                             | <b>(53,783)</b> |

**7. TAX (continued)**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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\$15,787,000 and HK\$2,900,000, respectively (2005: HK\$18,339,000 and HK\$3,524,000, 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 ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

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\$210,748,000 (2005: HK\$422,989,000, as restated) and the weighted average of 5,232,519,970 (2005: 4,706,539,387) ordinary shares in issue during the period.

No diluted earnings per share is presented for the six months ended 30 June 2006 as the Company's bonus warrants have already expired on 31 May 2006 which would have an anti-dilutive effect to the basic earnings per share.

For the six months ended 30 June 2005, the calculation of diluted earnings per share was based on the net profit from ordinary activities attributable to equity holders of the parent of HK\$422,989,000. The weighted average number of ordinary shares used in the calculation is the weighted average 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 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding bonus warrants.

**9. INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK2 cents (2005: HK3 cents) per share for the period ended 30 June 2006. 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, 6 October 2006. The interim dividend will be paid on or around Friday, 20 October 2006.



**10. AVAILABLE-FOR-SALE INVESTMENTS**

|  | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--|--|--|
| <b>Non-current</b>   |  |  |
| Listed equity investments outside Hong Kong, at fair value | 361  | 357  |
| Unlisted equity investments, at cost                       | 18,740   | 19,652                                       |
|  | <b>19,101</b>  | 20,009                                       |
| <b>Current</b>   |  |  |
| Unlisted equity investment, at fair value                  | 1,440  | 1,427  |
| Unlisted debt investment, at fair value                    | 9,729  | –  |
|  | <b>11,169</b>  | 1,427  |

**11. HELD-TO-MATURITY INVESTMENTS**

|  | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--|--|--|
| Unlisted debt investments, at amortised cost | 15,489   | 15,477                                       |

**12. 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<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--------------------------------|--|--|
| Outstanding balances with age: |  |  |
| Less than 1 month              | 359,281  | 315,896                                      |
| Within:                        |  |  |
| 1-3 months                     | 274,811  | 211,531                                      |
| 4-6 months                     | 58,538   | 28,444                                       |
| 7-12 months                    | 16,749   | 12,722                                       |
| 1-2 years                      | 1,502  | 2,526  |
| Over 2 years                   | –  | 1,795  |
|                                | <b>710,881</b>                                       | 572,914                                      |

**13. CASH AND CASH EQUIVALENTS**

|   | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Cash and bank balances  | <b>1,183,049</b>                                     | 1,046,051                                    |
| Non-pledged time deposits with original maturity<br>of less than three months when acquired | <b>1,849,709</b>                                     | 876,952                                      |
| Non-pledged time deposits with original maturity<br>of more than three months when acquired | <b>193,402</b>                                       | 335,652                                      |
|   | <b>3,226,160</b>                                     | 2,258,655                                    |

**14. 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<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--------------------------------|--|--|
| Outstanding balances with age: |  |  |
| Less than 1 month              | <b>456,970</b>                                       | 434,673                                      |
| Within:                        |  |  |
| 1-3 months                     | <b>134,553</b>                                       | 121,099                                      |
| 4-6 months                     | <b>21,720</b>  | 15,721                                       |
| 7-12 months                    | <b>8,554</b>   | 15,919                                       |
| 1-2 years                      | <b>4,530</b>   | 7,465  |
| Over 2 years                   | <b>16,298</b>  | 14,924                                       |
|                                | <b>642,625</b>                                       | 609,801                                      |

**15. SHARE CAPITAL**

|   | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Authorised:   |  |  |
| 7,000,000,000 ordinary shares of HK\$0.10 each                          | <b>700,000</b>                                       | 700,000                                      |
| Issued and fully paid:  |  |  |
| 5,695,355,525 (2005: 5,038,843,875)<br>ordinary shares of HK\$0.10 each | <b>569,536</b>                                       | 503,885                                      |

**15. SHARE CAPITAL (continued)**

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

|   | Number of<br>shares in issue | Issued and<br>fully paid<br>(Unaudited)<br>HK\$'000 |
|---|------------------------------|---|
| At 1 January 2006                             | 5,038,843,875                | 503,885   |
| Shares issued upon exercise of bonus warrants | 656,511,650                  | 65,651  |
| <b>At 30 June 2006</b>                        | <b>5,695,355,525</b>         | <b>569,536</b>                                      |

During the period, 656,511,650 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\$990,019,568.

**16. RESERVES**

|  | Share<br>premium<br>(Unaudited)<br>HK\$'000 | Capital<br>redemption<br>reserve<br>(Unaudited)<br>HK\$'000 | Equity<br>component of<br>convertible<br>bonds<br>(Unaudited)<br>HK\$'000 | Hedging<br>reserve<br>(Unaudited)<br>HK\$'000 | Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Hotel<br>property<br>revaluation<br>reserve<br>(Unaudited)<br>HK\$'000 | Enterprise<br>expansion/<br>reserve<br>fund<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | Retained<br>earnings<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 | Minority<br>interests<br>(Unaudited)<br>HK\$'000 |
|--|---|---|---|---|---|--|--|---|---|----------------------------------|--|
| At 1 January 2005  |   |   |   |   |   |  |  |   |   |                                  |  |
| As previously reported   | 6,328,136                                   | 200   | 30,282  | -   | (1,012,196)                                   | 174,771  | 82,157   | 13,732  | 2,040,206                                       | 7,657,288                        | 386,313  |
| Prior year adjustment  | (15,926)                                    | -   | (30,282)  | -   | -   | -  | -  | -   | (252,268)                                       | (298,476)                        | -  |
| As restated  | 6,312,210                                   | 200   | -   | -   | (1,012,196)                                   | 174,771  | 82,157   | 13,732  | 1,787,938                                       | 7,358,812                        | 386,313  |
| Premium on issue of<br>new shares on exercise<br>of bonus warrants<br>and conversion of<br>the Bonds | 908,046                                     | -   | -   | -   | -   | -  | -  | -   | -   | 908,046                          | -  |
| Share of reserve<br>of an associate  | -   | -   | -   | 7,205   | -   | -  | -  | -   | -   | 7,205                            | -  |
| Exchange realignments  | -   | -   | -   | -   | -   | -  | -  | (7,309)   | -   | (7,309)                          | -  |
| Revaluation surplus<br>of hotel properties   | -   | -   | -   | -   | -   | 15,060   | -  | -   | -   | 15,060                           | -  |
| Deferred tax arising<br>from revaluation of<br>hotel properties                                      | -   | -   | -   | -   | -   | (2,327)  | -  | -   | -   | (2,327)                          | -  |
| Profit for the period<br>(as restated)   | -   | -   | -   | -   | -   | -  | -  | -   | 422,989   | 422,989                          | 38,255   |
| Dividend paid to<br>minority shareholders  | -   | -   | -   | -   | -   | -  | -  | -   | -   | -                                | (53,262)   |
| Additional 2004<br>final dividend paid   | -   | -   | -   | -   | -   | -  | -  | -   | (27,093)  | (27,093)                         | -  |
| Proposed 2005<br>interim dividend  | -   | -   | -   | -   | -   | -  | -  | -   | (150,325)                                       | (150,325)                        | -  |
| At 30 June 2005<br>(as restated)   | 7,220,256                                   | 200   | -   | 7,205   | (1,012,196)                                   | 187,504  | 82,157   | 6,423   | 2,033,509                                       | 8,525,058                        | 371,306  |

**16. RESERVES (continued)**

|   | Capital                 |                         | Hedging<br>reserve | Capital<br>reserve | Hotel                              | Enterprise                    | Exchange<br>fluctuation<br>reserve | Retained<br>earnings | Total     | Minority<br>interests |
|---|-------------------------|-------------------------|--------------------|--------------------|------------------------------------|-------------------------------|------------------------------------|----------------------|-----------|-----------------------|
|   | Share<br>premium        | redemption<br>reserve   |                    |                    | property<br>revaluation<br>reserve | expansion/<br>reserve<br>fund |                                    |                      |           |                       |
|   | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 |                    |                    | (Unaudited)<br>HK\$'000            | (Unaudited)<br>HK\$'000       |                                    |                      |           |                       |
| At 1 January 2006   | 7,433,211               | 350                     | 1,283              | (1,012,196)        | 181,019                            | 84,679                        | 47,783                             | 2,066,320            | 8,802,449 | 405,520               |
| Premium on issue of<br>new shares on<br>exercise of bonus<br>warrants | 924,368                 | -                       | -                  | -                  | -                                  | -                             | -                                  | -                    | 924,368   | -                     |
| Share of reserve of<br>an associate                                   | -                       | -                       | (1,086)            | -                  | -                                  | -                             | -                                  | -                    | (1,086)   | -                     |
| Exchange realignments   | -                       | -                       | -                  | -                  | -                                  | -                             | 25,246                             | -                    | 25,246    | 4,053                 |
| Revaluation surplus<br>of hotel properties                            | -                       | -                       | -                  | -                  | 3,091                              | -                             | -                                  | -                    | 3,091     | -                     |
| Deferred tax arising<br>from revaluation<br>of hotel properties       | -                       | -                       | -                  | -                  | (565)                              | -                             | -                                  | -                    | (565)     | -                     |
| Transfer from<br>retained profits                                     | -                       | -                       | -                  | -                  | -                                  | 7,039                         | -                                  | (7,039)              | -         | -                     |
| Profit for the period   | -                       | -                       | -                  | -                  | -                                  | -                             | -                                  | 210,748              | 210,748   | 41,175                |
| Dividend paid to<br>minority shareholders                             | -                       | -                       | -                  | -                  | -                                  | -                             | -                                  | -                    | -         | (33,044)              |
| Disposal of interests<br>in a subsidiary                              | -                       | -                       | -                  | -                  | -                                  | -                             | -                                  | -                    | -         | 3,130                 |
| Additional 2005<br>final dividend paid                                | -                       | -                       | -                  | -                  | -                                  | -                             | -                                  | (15,809)             | (15,809)  | -                     |
| Proposed 2006 interim<br>dividend                                     | -                       | -                       | -                  | -                  | -                                  | -                             | -                                  | (113,907)            | (113,907) | -                     |
| At 30 June 2006   | 8,357,579               | 350                     | 197                | (1,012,196)        | 183,545                            | 91,718                        | 73,029                             | 2,140,313            | 9,834,535 | 420,834               |

**17. PLEDGE OF ASSETS**

As at 30 June 2006, the Group's bank deposits of approximately HK\$5,083,000 (2005: HK\$4,306,000) 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 deposit and rental deposits.

**18. CONTINGENT LIABILITIES**

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

|  | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--|--|--|
| Bank guarantees given in lieu of utility and rental deposits               | 417  | 2,141  |
| Guarantees given to suppliers in connection with credit facilities granted | 6,414  | –  |
|  | <b>6,831</b>   | <b>2,141</b>                                 |

**19. COMMITMENTS**

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

**(i) Capital commitments**

|   | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Properties under development:                               |  |  |
| Contracted, but not provided for                            | 67,734   | 29,862                                       |
| Authorised, but not contracted for                          | 127,219  | –  |
|   | <b>194,953</b>                                       | <b>29,862</b>                                |
| Plant and equipment and motor vehicles:                     |  |  |
| Contracted, but not provided for                            | 2,664  | 14,889                                       |
| Authorised, but not contracted for                          | 5,390  | 11,025                                       |
|   | <b>8,054</b>   | <b>25,914</b>                                |
| Leasehold improvements:                                     |  |  |
| Contracted, but not provided for                            | 30,904   | 2,169  |
| Unpaid capital contribution to jointly-controlled entities: |  |  |
| Contracted, but not provided for                            | 775  | 775  |

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

The Group leases its investment properties and equipment under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to three years, and those for equipment for terms ranging from one to two years. The terms of the leases generally 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<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Land and buildings:                     |  |  |
| Within one year                         | <b>6,342</b>   | 7,853  |
| In the second to fifth years, inclusive | <b>2,448</b>   | 2,471  |
| After five years                        | –  | 47   |
|   | <b>8,790</b>   | 10,371                                       |
| Equipment:                              |  |  |
| Within one year                         | <b>356</b>   | 1,081  |
| In the second to fifth years, inclusive | <b>240</b>   | 327  |
|   | <b>596</b>   | 1,408  |

**19. COMMITMENTS** (continued)**(ii) Operating lease arrangements** (continued)*(b) As lessee*

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<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Land and buildings:                     |  |  |
| Within one year                         | <b>38,581</b>  | 38,454                                       |
| In the second to fifth years, inclusive | <b>63,612</b>  | 52,498                                       |
| After five years                        | <b>64,435</b>  | 68,789                                       |
|   | <b>166,628</b>                                       | 159,741                                      |
| Plant and machinery and motor vehicles: |  |  |
| Within one year                         | <b>4,120</b>   | 343  |
| In the second to fifth years, inclusive | <b>3,201</b>   | 712  |
|   | <b>7,321</b>   | 1,055  |

**20. 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 |                                 |
|---|--|----------------------------------|---------------------------------|
|   |  | 2006<br>(Unaudited)<br>HK\$'000  | 2005<br>(Unaudited)<br>HK\$'000 |
| <i>Paid or payable to:</i>                              |  |                                  |                                 |
| 1. China Travel Hip Kee<br>Godown Hong Kong Limited     | Car parking fees                           | <b>673</b>                       | 571                             |
| 2. China Travel Hip Kee Godown<br>Hong Kong Limited     | Storage charges                            | <b>141</b>                       | 152                             |
| 3. China Travel Insurance Advisers<br>Hong Kong Limited | Insurance premium                          | <b>2,903</b>                     | 4,930                           |
| 4. Tai Sun Services Company<br>Limited                  | Stevedoring services<br>and coolie charges | <b>685</b>                       | 640                             |

**20. 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 |                         |
|---|---------------------------------------|----------------------------------|-------------------------|
|   |                                       | 2006                             | 2005                    |
|   |                                       | (Unaudited)<br>HK\$'000          | (Unaudited)<br>HK\$'000 |
| 5. China Travel Hotel Management Services Hong Kong Limited | Hotel management fees                 | <b>3,268</b>                     | 2,803                   |
| 6. China Travel Service (Holdings) Hong Kong Limited        | Office rental                         | <b>5,178</b>                     | 5,220                   |
| 7. Shenzhen Windsor Square Industrial Co., Ltd.             | Hotel room rental                     | <b>529</b>                       | 791                     |
| 8. Hangzhou Continental Hotel Co., Ltd.                     | Hotel room, food and beverage charges | <b>538</b>                       | 248                     |
| 9. 深圳華僑城股份有限公司  | Land use rights fee                   | <b>6,158</b>                     | 6,265                   |
| 10. 深圳華僑城水電有限公司   | Water and electricity charges         | <b>9,068</b>                     | 10,215                  |
| 11. 北京港中旅大廈有限公司   | Rental charges                        | <b>514</b>                       | 462                     |
| <i>Received or receivable from:</i>                         |                                       |                                  |                         |
| 12. China Travel Hip Kee Godown Hong Kong Limited           | Application service provider services | <b>121</b>                       | 150                     |
| 13. China Travel Service (Holdings) Hong Kong Limited       | Travel permit administration income   | <b>159,976</b>                   | 161,190                 |
| 14. China Travel Services (Holdings) Hong Kong Limited      | Hotel room rental                     | <b>975</b>                       | 51                      |
| 15. China Travel Services (Holdings) Hong Kong Limited      | Sale of visa materials                | <b>625</b>                       | 1,012                   |
| 16. China Travel Services (Holdings) Hong Kong Limited      | Sale of computer equipment            | <b>102</b>                       | –                       |
| 17. China Travel Services (Holdings) Hong Kong Limited      | Application service provider services | <b>296</b>                       | 222                     |
| 18. China Travel Services (Holdings) Hong Kong Limited      | Advertising and printing              | <b>291</b>                       | 237                     |



**20. 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 |                         |
|--|---------------------------------------|----------------------------------|-------------------------|
|  |                                       | 2006                             | 2005                    |
|  |                                       | (Unaudited)<br>HK\$'000          | (Unaudited)<br>HK\$'000 |
| 19. China Travel Services (Holdings) Hong Kong Limited | Food and beverage income              | 386                              | 298                     |
| 20. China Travel Computer Service H.K. Limited         | Application service provider services | 5,843                            | 6,822                   |
| 21. China Travel Service (Thailand) Co., Ltd.          | Sale of tourism services/products     | 386                              | 508                     |
| 22. China Travel System (M) Sdn. Bhd.                  | Sale of tourism services/products     | –                                | 74                      |

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

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

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 5 September 2006.



## 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 4 to 24.

### 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 2006.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong, 5 September 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Results and Operation

During the first half of 2006, the Group's core travel and travel related businesses were thriving. The Group's operations including travel agencies, hotels, passenger transportation, theme parks and art performance sustained steady growth. The integration of the resources for the travel and travel related business were effective, and the on-line business developed in synergy with the traditional travel businesses. Key investment projects including Zhuhai Ocean Spring Resort and Mangocity.com commenced operation smoothly in January and March this year respectively. All of these have greatly enhanced the Group's core competitiveness, travel products and resources.

For the six months ended 30 June 2006, the unaudited consolidated revenue of the Group was HK\$3,162 million, an increase of 22.8% from the same period last year. Unaudited net profit attributable to shareholders was HK\$211 million, a decrease of 50.1% from HK\$423 million for the same period last year as restated in accordance with the new and revised Hong Kong Financial Reporting Standards. Without taking into account the non-recurring income of HK\$127 million which includes revaluation surplus of investment properties, hotel properties and change of fair value in convertible bonds, the net profit attributable to shareholders decreased 30.2% from the same period last year. The decrease in net profit attributable to shareholders was mainly due to the initial operating losses of the newly-launched Mangocity.com and Zhuhai Ocean Spring Resort and the decrease in share of profit of Shaanxi Weihe Power Co. Ltd. of HK\$33.10 million from the same period last year, which was caused by reduced sale of on-grid electricity due to oversupply and high levels of coal and fuel prices. In the first half of 2006, the earnings per share were 4.03 Hong Kong cents, representing a decrease of 55.2% from the same period last year. As at 30 June 2006, the equity attributable to shareholders of the Company was HK\$10,518 million, representing an increase of 11.2% from the end of last year.

### Tour Operation and Leisure Business

The tour operation and leisure business of the Group includes travel agency business, Mangocity.com, three theme parks and a golf club in Shenzhen, Zhuhai Ocean Spring Resort and China Heaven, an art performance company. During the first half of 2006 the unaudited revenue was HK\$1,514 million, an increase of 35.8% from the same period of last year. Net profit attributable to shareholders was HK\$78.92 million, a decrease of 41.7% from the same period last year. Excluding the newly-launched Mangocity.com and Zhuhai Ocean Spring Resort, the revenue and net profit attributable to shareholders of the tour operation and leisure business increased by 19% and 14% respectively from the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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

During the first half of 2006, China Travel Service (Hong Kong) Limited (“CTSHK”) actively developed high-end travel market such as business conference and exhibition travel. Through cooperating with the tourism administration bureaus in provinces and cities such as Guizhou, Jiangxi and Shenyang, CTSHK was recognized as “China Travel Expert” in those provinces and cities, and further expanded its market share in Hong Kong and Macau for outbound tour to Mainland China. China Travel International Limited continued to develop its businesses in the highly competitive market, and launched tour business to Russia and India. The number of inbound tourists also continued to grow.

In light of the intense competition, Window of the World and Splendid China added novel programs to attract customers in all kind, and their operating results were better than expectation. China Heaven launched a series of new shows successfully in the United States, Canada, and Mainland China.

Operation of Tycoon Golf Club in Shenzhen continued to improve despite rainy weather in the first half of 2006 and the aging facilities. Zhuhai Ocean Spring Resort commenced operation smoothly in January this year. Constructed in Mediterranean style with comfortable hotels, an ocean hot spring center and a theme park with five one-of-a-kind amusement facilities in Asia, Zhuhai Ocean Spring Resort hosted 1.22 million customers within five months since the commencement of its operations, and was well-received by the market. Mangocity.com commenced operations at the end of March this year after a test run for a three-month period. Number of membership and click-through on the website of Mangocity.com increased robustly, and Mangocity.com became more popular in Shenzhen, Guangzhou, Beijing and other cities. Mangocity.com partnered with numerous hotels, and established delivery network of air tickets and tour package products in Mainland China.

### Hotel Operation

During the first half of 2006, the Group’s hotel operations sustained steady growth. Average room rate and occupancy rate among the Group’s five hotels in Hong Kong and Macau increased 12% and 6.58% respectively from the same period last year. Revenue for the first half of 2006 was HK\$203 million, an increase of 13.1% from the same period last year. Net profit attributable to shareholders was HK\$22.79 million, an increase of 65.5% from the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Transportation

The Group's passenger transportation made record performance during the first half of 2006 despite the high oil price and adverse effect brought about by the implementation of the new cross-border regulations. Number of passengers reached 2.65 million, among which 2.45 million were passengers of regular bus service, an increase of 28.6% from the same period last year. During the first half of 2006, the revenue was HK\$132 million, an increase of 17.8% from the same period last year. The combined net profit attributable to shareholders of the passenger transportation services was HK\$19.49 million, an increase of 17.9% from the same period last year. China Travel Tours Transportation Development (HK) Limited continued to maintain a high standard of operational safety, with its safety indicators far superior over industry average. The operating results of the joint venture passenger ferry operations with Shun Tak China Travel Shipping Investment Limited grew satisfactorily.

In respect of the freight forwarding operation, China Travel Service Cargo continued to maintain its dominant position in railway cargo transportation operations, and also developed its air freight and sea freight operations, streamlined its business and internal resources, and actively seized opportunities to establish strategic alliance with freight forwarding and logistic partners. During the first half of 2006, the consolidated revenue and net profit attributed to shareholders was HK\$1,312 million and HK\$23.98 million respectively, representing an increase of 12.4% and 16.1% respectively from the same period last year.

### Infrastructure

As there was an excess of supply over the demand of electricity, utilization hours of Shaanxi Weihe Power Co. Ltd. decreased 14.85% compared with the same period last year. During the first half of 2006, coal and oil prices remained at high level, resulting in a decrease of HK\$33.10 million for the Group's share of profit attributable to shareholder, representing a decrease of 29% from the same period last year.

### Prospects for second half of 2006

In the second half of 2006, it is expected that China will continue to enjoy stable social and political situation, and that the economy in Mainland China and Hong Kong will continue to grow rapidly. Personal income of Mainland China residents is expected to rise steadily, with a change in their spending pattern towards a higher living standard. All these factors will give solid support to the sustainable growth, and create significant strategic development opportunities, for the Group's core travel and travel related businesses.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Prospects for second half of 2006 (continued)

In the second half of 2006, besides increasing improvement and renovation of the current business facilities and hardware, the Group will continue to develop its business innovatively, improve operational efficiency and resources utilisation, and further enhance the sales capacity of its existing travel agencies network throughout Hong Kong, Mainland China and overseas. The Group will also continue to actively pursue business integration of its internal resources, achieve further operational synergy among its traditional travel network and the on-line network, and further expand its core travel business.

The Group's management is of the view that core tour operation and leisure business will sustain steady growth and the operating performance of Mangocity.com and Zhuhai Ocean Spring Resort will be improved by more smooth operation, higher service standard and quality and completed facilities, the initial loss will narrow gradually in the second half year. The Group's management also expect that the five hotels located in Hong Kong and Macau will perform even better than the first half of 2006 due to favorable seasonal factors and reopening of new renovated Metropark Hotel Wanchai Hong Kong which is focused on business traveler market, Passenger transportation business will grow continuously with the increasing of cross-border travelers, the Group will invest more resources to expand operating capacity and strengthen our passenger transportation business profitability. Even though there is very fiercely competition in the freight forwarding market, our freight forwarding business will still extend more development room because of strong domestic economy growth of China. Due to unfavorable market conditions, it is expected that the results of the power generation business for the second half of 2006 will continue to decline.

In general, due to the non-recurring factors and the loss of two growing new investment projects, the Group's consolidated operation result for the whole year is expected to decrease compared to that of last year. However, the Board is of the view that excluding above-mentioned factors, the Group's operating income from core recurring businesses will sustain satisfactory growth.

### Employee Relations

As of 30 June 2006, the Group had approximately 10,975 employees of whom 2,664 are based in Hong Kong, 242 are based in overseas countries and 8,069 are based in Mainland China. Total remuneration cost for the period was HK\$378 million (six months ended 30 June 2005: HK\$331 million).

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

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Liquidity, Financial Resources and Capital Structure

The Group's financial position remains strong. As of 30 June 2006, the cash and cash equivalents of the Group amounted to HK\$3,226 million (31 December 2005: HK\$2,259 million). The interest bearing bank borrowings amounted to HK\$2,032 million (31 December 2005: HK\$2,021 million). The net cash to equity ratio was 11.4% (31 December 2005: 2.5%).

As at 30 June 2006, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, China Travel Services (Holdings) Hong Kong Limited ("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 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

| <b>Amount outstanding<br/>as at 30 June 2006</b> | <b>Final maturity<br/>of the loan facilities</b> |
|--|--|
| HK\$1,500 million                                | 3 January 2009                                   |

Interest is charged on the outstanding balance at 0.25% 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.

For the six months ended 30 June 2006, the total capital expenditure on property, plant and equipment during the period amounted to HK\$94 million (2005: HK\$96 million). These capital expenditures were funded mainly by internal resources.

There was no material charge on the Group's assets during the six months ended 30 June 2006, whereas contingent liabilities had increased from HK\$2.14 million as at 31 December 2005 to HK\$6.83 million at the end of the period.

During the six months ended 30 June 2006, 656,511,650 bonus warrants were exercised for 656,511,650 shares of HK\$0.10 each at the subscription price of HK\$1.508 per share. Accordingly, the number of issued share capital of the Company increased from 5,038,843,875 shares as at 31 December 2005 to 5,695,355,525 shares as at 30 June 2006.

## OTHER INFORMATION

### Directors' Interests

As at 30 June 2006, 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:—

### Long position in the shares of the Company

*ordinary shares of HK\$0.10 each of the Company*

| Name of Directors       | Capacity   | Number of<br>shares held | Percentage<br>of the issued<br>share capital<br>(%) |
|-------------------------|--|--------------------------|---|
| Yeh Meou Tsen, Geoffrey | Beneficial Owner                                       | 5,566,000                | 0.097729%   |
| Fong Yun Wah            | Interest of controlled<br>corporations ( <i>Note</i> ) | 50,000                   | 0.000878%   |

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

Save as disclosed above, as at 30 June 2006, none of the directors and chief executive and/or any of their respective associates had any 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. As at 30 June 2006, there were no options outstanding under the Old Scheme.

The Company operates the New Scheme for the purpose of attracting and retaining the best quality personnel for the development of the Group’s businesses; providing additional incentives to employees, officers and executive directors of the Group; and promoting the long term financial success of the Company by aligning the interests of option holders to shareholders.

Eligible participants of the New Scheme include the Company’s executive directors and employees of the Group. The New Scheme became effective on 3 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

At 30 June 2006, 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 six months ended 30 June 2006.

### 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 period 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 2006, 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 are 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:

*Long position in the shares of the Company  
ordinary shares of HK\$0.10 each of the Company*

| Name of shareholders  | Capacity  | Number of shares held | Percentage of the issued share capital (%) |
|---|---|-----------------------|--|
| China Travel Service<br>Head Office of the PRC<br>("CTS-PRC") | Interest of controlled<br>corporation ( <i>Note 1</i> )                               | 2,993,632,728         | 52.56%                                     |
| CTS Holdings  | Interest of controlled<br>corporation and<br>beneficial owner<br>( <i>Notes 1,3</i> ) | 2,993,632,728         | 52.56%                                     |
| Foden International<br>Limited ("FIL")                        | Beneficial owner<br>( <i>Note 2</i> )   | 20,700,000            | 0.36%                                      |

*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. 2,972,932,728 shares were held by CTS Holdings directly.

Save as aforesaid and disclosed under the heading "Directors' Interests" above, as at 30 June 2006, 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.

## OTHER INFORMATION *(continued)*

### 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.

## CORPORATE GOVERNANCE

In the corporate governance report (the "CG Report") which was published in our Annual Report 2005 dated 28 March 2006, it was reported that the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code") save for few deviations specified and explained therein. Since the beginning of 2006, the Group has made the following changes in respect of such deviations:

1. For Code Provision A.1.1, the Board has already met three times at approximately quarterly intervals as at the date of this interim report. The fourth Board meeting is expected to be held in the next quarter.
2. For Code Provision A.4.1 and A.4.2, a special resolution in respect of the amendment to the Articles of Association of the Company has been passed at the Company's annual general meeting held on 12 May 2006 to the effect that at each annual general meeting of the Company, one-third of the directors of the Company shall retire from office by rotation at least once every three years.
3. For Code Provision E.1.1, each director of the Company who was subject to retirement by rotation was re-elected by a separate resolution at the annual general meeting of the Company held on 12 May 2006.

The non-executive directors of the Company have not been appointed for any specific terms, which constitutes a deviation from Code Provision A.4.1. However, they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Memorandum and Articles of Association of the Company.

Save as disclosed above, the Company met the code provisions set out in the CG Code during the six months ended 30 June 2006.

## BOARD COMMITTEES

The Board has established two Board committees, namely, the Audit Committee and Remuneration Committee. Both committees comprise 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. The Audit and Remuneration Committees are chaired by Mr. Wong Man Kong, Peter. The Board has delegated certain responsibilities to Board committees, which operate within defined terms of reference.

### Audit Committee

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

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

### Remuneration Committee

The Company's Remuneration Committee was established in April 2005. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management of the Group.

The terms of reference of Remuneration Committee has been approved by the Board on 11 April 2005 in order to comply with the code provisions stipulated in Appendix 14 to the Listing Rules.

## 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 six months ended 30 June 2006.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2 cents (2005: HK3 cents) per share for the six months ended 30 June 2006. 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, 6 October 2006. The interim dividend will be paid on or around Friday, 20 October 2006.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 4 October 2006 to Friday, 6 October 2006 (both days inclusive), for the purposes of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 3 October 2006.

## REVIEW OF ACCOUNTS

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2006 have been reviewed by the audit committee of the Company and the auditors, Ernst & Young.

By order of the Board

**Xiong Weiping**

*Vice Chairman and General Manager*

Hong Kong, 5 September 2006