

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
Prior period adjustments:							
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)
Opening adjustments:							
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
Total effect at 1 January 2005							
		(170,000)	(92,923)	30,282	(34,500)	246,248	(20,893)

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
Prior period adjustments:					
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
Total effect at 1 January 2004		36,218	44,615	111,026	191,859

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

Effect of new policies (Increase/(decrease))	Notes	For the six months ended 30 June	
		2005 Equity holders of the parent (Unaudited) HK\$'000	2004 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		Tourist attraction operations		Freight forwarding and trans- portation services		Travel and Hotel travel-related operations		Golf club operations	Power generation	Corporate and others	Eliminations	Consolidated
	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) 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 revenue and gains	1,469	5,696	1,410	3,548	2,164	210	596	3,551	-	18,644			
Total	115,137	191,151	1,168,776	187,477	945,536	23,368	596	8,501	(47,450)	2,593,092			
Segment results	22,384	73,514	33,413	22,254	165,442	(119)	76	(25,401)	-	291,563			
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													(53,763)
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 (Unaudited and restated) HK\$'000	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited and restated) HK\$'000	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)	2004 (Unaudited)
Segment revenue:													
Sales to external customers	97,773	181,850	800,266	165,886	774,253	19,386	-	257	-	2,039,671			
Intersegment revenue	1,867	1,493	54	7,521	19,604	-	-	3,999	(34,538)	-			
Other revenue and gains	1,123	2,259	4,001	1,539	5,893	69	385	2,029	-	17,298			
Total	100,763	185,602	804,321	174,946	799,750	19,455	385	6,285	(34,538)	2,056,969			
Segment results	15,947	62,406	23,210	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

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

6. PROFIT BEFORE TAX

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

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

7. TAX

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

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

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

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

13. SHARE CAPITAL

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

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

	Number of shares in issue	Issued and fully paid (Unaudited) HK\$'000
At 1 January 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
At 30 June 2005	5,010,820,866	501,082

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		Translation reserve	Hedging reserve	Retained earnings	Total	Minority interests
	Share	Capital	component	Capital	revaluation	revaluation	Enterprise					
	premium	redemption	of convertible	reserve	reserve	reserve	fund					
	(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	
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	7,678,161	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 2) - 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)	-
As of 30 June 2005	7,236,182	200	-	(1,012,196)	187,504	-	82,157	6,423	7,205	2,207,363	8,714,838	371,306

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:

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

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

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

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