

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)
Total effect on profit	78,414

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 transportation services		Tourist attraction operations		Freight forwarding and transportation services		Hotel operations		Travel and travel-related operations		Golf club operations	Power generation	Hot spring resort	Corporate and others	Eliminations	Consolidated
	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	-	-	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
Total	136,139	207,501	1,313,967	207,765	1,131,619	25,209	144	158,663	29,150	(24,685)	-	-	158,663	7,255	(24,685)	3,185,462
Segment results	24,557	77,834	36,304	35,488	85,992	(344)	(396)	(40,726)	(6,461)	-	-	-	-	-	-	212,248
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)
Profit for the period																251,923

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Passenger transportation services 2005 (Unaudited)	Tourist attraction operations 2005 (Unaudited)	Freight and trans- portation services 2005 (Unaudited)	Hotel operations 2005 (Unaudited)	Travel and travel- related operations 2005 (Unaudited)	Golf club operations 2005 (Unaudited)	Power generation 2005 (Unaudited)	Hot spring resort 2005 (Unaudited)	Corporate and others 2005 (Unaudited)	Eliminations 2005 (Unaudited)	Consolidated 2005 (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
Total	115,137	191,151	1,168,776	187,477	945,536	23,368	596	659	7,516	(47,450)	2,592,766
Segment results	22,384	73,514	33,413	22,254	165,442	(119)	76	(10,867)	84,344	-	390,441
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)
Profit for the period											461,244

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

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

6. PROFIT BEFORE TAX

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

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

7. TAX

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

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

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

11. HELD-TO-MATURITY INVESTMENTS

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) 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
	710,881	572,914

13. CASH AND CASH EQUIVALENTS

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

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

15. SHARE CAPITAL

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
5,695,355,525 (2005: 5,038,843,875) ordinary shares of HK\$0.10 each	569,536	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 shares in issue	Issued and fully paid (Unaudited) HK\$'000
At 1 January 2006	5,038,843,875	503,885
Shares issued upon exercise of bonus warrants	656,511,650	65,651
At 30 June 2006	5,695,355,525	569,536

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 premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Enterprise expansion/ reserve fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained earnings (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) 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 new shares on exercise of bonus warrants and conversion of the Bonds	908,046	-	-	-	-	-	-	-	-	908,046	-
Share of reserve of an associate	-	-	-	7,205	-	-	-	-	-	7,205	-
Exchange realignments	-	-	-	-	-	-	-	(7,309)	-	(7,309)	-
Revaluation surplus of hotel properties	-	-	-	-	-	15,060	-	-	-	15,060	-
Deferred tax arising from revaluation of hotel properties	-	-	-	-	-	(2,327)	-	-	-	(2,327)	-
Profit for the period (as restated)	-	-	-	-	-	-	-	-	422,989	422,989	38,255
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(53,262)
Additional 2004 final dividend paid	-	-	-	-	-	-	-	-	(27,093)	(27,093)	-
Proposed 2005 interim dividend	-	-	-	-	-	-	-	-	(150,325)	(150,325)	-
At 30 June 2005 (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 reserve	Capital reserve	Hotel	Enterprise	Exchange fluctuation reserve	Retained earnings	Total	Minority interests
	Share premium	redemption reserve			property revaluation reserve	expansion/ reserve fund				
	(Unaudited) HK\$'000	(Unaudited) HK\$'000			(Unaudited) HK\$'000	(Unaudited) 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 new shares on exercise of bonus warrants	924,368	-	-	-	-	-	-	-	924,368	-
Share of reserve of an associate	-	-	(1,086)	-	-	-	-	-	(1,086)	-
Exchange realignments	-	-	-	-	-	-	25,246	-	25,246	4,053
Revaluation surplus of hotel properties	-	-	-	-	3,091	-	-	-	3,091	-
Deferred tax arising from revaluation of hotel properties	-	-	-	-	(565)	-	-	-	(565)	-
Transfer from retained profits	-	-	-	-	-	7,039	-	(7,039)	-	-
Profit for the period	-	-	-	-	-	-	-	210,748	210,748	41,175
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(33,044)
Disposal of interests in a subsidiary	-	-	-	-	-	-	-	-	-	3,130
Additional 2005 final dividend paid	-	-	-	-	-	-	-	(15,809)	(15,809)	-
Proposed 2006 interim 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) 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	–
	6,831	2,141

19. COMMITMENTS

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

(i) Capital commitments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Properties under development:		
Contracted, but not provided for	67,734	29,862
Authorised, but not contracted for	127,219	–
	194,953	29,862
Plant and equipment and motor vehicles:		
Contracted, but not provided for	2,664	14,889
Authorised, but not contracted for	5,390	11,025
	8,054	25,914
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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Land and buildings:		
Within one year	6,342	7,853
In the second to fifth years, inclusive	2,448	2,471
After five years	–	47
	8,790	10,371
Equipment:		
Within one year	356	1,081
In the second to fifth years, inclusive	240	327
	596	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:

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

Paid or payable to:

1. China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	673	571
2. China Travel Hip Kee Godown Hong Kong Limited	Storage charges	141	152
3. China Travel Insurance Advisers Hong Kong Limited	Insurance premium	2,903	4,930
4. Tai Sun Services Company Limited	Stevedoring services and coolie charges	685	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) HK\$'000	(Unaudited) HK\$'000
5. China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	3,268	2,803
6. China Travel Service (Holdings) Hong Kong Limited	Office rental	5,178	5,220
7. Shenzhen Windsor Square Industrial Co., Ltd.	Hotel room rental	529	791
8. Hangzhou Continental Hotel Co., Ltd.	Hotel room, food and beverage charges	538	248
9. 深圳華僑城股份有限公司	Land use rights fee	6,158	6,265
10. 深圳華僑城水電有限公司	Water and electricity charges	9,068	10,215
11. 北京港中旅大廈有限公司	Rental charges	514	462
<i>Received or receivable from:</i>			
12. China Travel Hip Kee Godown Hong Kong Limited	Application service provider services	121	150
13. China Travel Service (Holdings) Hong Kong Limited	Travel permit administration income	159,976	161,190
14. China Travel Services (Holdings) Hong Kong Limited	Hotel room rental	975	51
15. China Travel Services (Holdings) Hong Kong Limited	Sale of visa materials	625	1,012
16. China Travel Services (Holdings) Hong Kong Limited	Sale of computer equipment	102	–
17. China Travel Services (Holdings) Hong Kong Limited	Application service provider services	296	222
18. China Travel Services (Holdings) Hong Kong Limited	Advertising and printing	291	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) HK\$'000	(Unaudited) 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.