



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

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Stock Code : 00308

Interim Report 2008

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CORPORATE INFORMATION

DIRECTORS

Mr. Zhang Xuewu (*Chairman*)
Mr. Xiong Weiping (*Vice Chairman, General Manager*)
Mr. Zheng Heshui (*Vice Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (appointed on 8 April 2008)
Mr. Wei Qing (resigned on 8 April 2008)
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Wong Man Kong, Peter (*Chairman*)
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

REMUNERATION COMMITTEE

Mr. Wong Man Kong, Peter (*Chairman*)
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

COMPANY SECRETARY

Ms. Woo Wai See, Alice

AUDITORS

Ernst & Young

LEGAL ADVISORS

Mayer Brown JSM
Woo, Kwan, Lee & Lo

REGISTERED OFFICE

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

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2008 Interim Results	9 September 2008
Announcement of 2007 Final Results	8 April 2008
Announcement of 2007 Interim Results	3 September 2007
Announcement of 2006 Final Results	12 April 2007
Announcement of 2006 Interim Results	5 September 2006
Dividends	
2008 Interim	HK 5 cents per share payable on 10 October 2008
2007 Final	HK 3 cents per share paid on 16 June 2008
2007 Interim	HK 3 cents per share paid on 4 October 2007
2006 Final	HK 1 cent per share paid on 28 June 2007
2006 Interim	HK 2 cents per share paid on 20 October 2006
Closure of Register of Members for 2008 Interim Dividend	Period from 23 September 2008 to 25 September 2008
Annual General Meeting	20 May 2008
Website address	irasia.com/listco/hk/ctii
Stock Code	00308
Board Lot	2,000 shares
Financial Year End	31 December
Share Registrar	Tricor Tengis Limited 26/F, Tesbury Centre 28 Queen's Road East Hong Kong 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 2008 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	3	2,015,369	2,126,677
Cost of sales		(1,198,183)	(1,308,057)
Gross profit		817,186	818,620
Other income and gains	4	137,484	44,713
Selling and distribution costs		(211,329)	(235,923)
Administrative expenses		(478,458)	(402,213)
Excess over the cost of a business combination		55,277	–
Net gain from a fair value adjustment in investment properties		29,970	3,038
Finance costs	5	(5,725)	(15,641)
Share of profits and losses of:			
Jointly-controlled entities		62,450	141,003
Associates		(25,326)	31,250
PROFIT BEFORE TAX	6	381,529	384,847
Tax	7	(53,266)	(71,264)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		328,263	313,583
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	8	386,205	36,782
PROFIT FOR THE PERIOD		714,468	350,365
ATTRIBUTABLE TO:			
Equity holders of the parent		671,451	304,323
Minority interests		43,017	46,042
		714,468	350,365
DIVIDEND PER SHARE (HK CENTS)			
Interim dividend	9	2.00	3.00
Special interim dividend		3.00	–
		5.00	3.00
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK CENTS)			
Basic	10		
– For profit for the period		11.79	5.34
– For profit from continuing operations		5.08	4.83
Diluted			
– For profit for the period		N/A	N/A
– For profit from continuing operations		N/A	N/A

INTERIM RESULTS *(continued)*

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,113,231	4,418,186
Investment properties		861,597	200,049
Prepaid land lease payments		3,095,195	3,036,028
Goodwill		1,247,507	1,244,769
Intangible assets		51,526	2,168
Interests in jointly-controlled entities		1,240,974	1,176,160
Interests in associates		410,896	438,293
Available-for-sale investments	11	18,639	17,977
Held-to-maturity investments	12	–	15,691
Deferred tax assets		5,420	250
Total non-current assets		12,044,985	10,549,571
CURRENT ASSETS			
Inventories		26,526	18,377
Trade receivables	13	290,127	283,823
Tax recoverable		4,489	2,967
Prepayments, deposits and other receivables		470,951	370,878
Pledged time deposits		6,853	11,169
Cash and cash equivalents	14	1,643,253	2,272,346
Amount due from the immediate holding company		28,110	28,230
Amounts due from fellow subsidiaries		49,643	21,676
		2,519,952	3,009,466
Assets of a disposal group classified as held for sale		–	995,260
Total current assets		2,519,952	4,004,726
CURRENT LIABILITIES			
Trade payables	15	342,605	402,841
Tax payable		86,114	69,203
Other payables and accruals		998,148	858,975
Interest-bearing bank and other borrowings		50,000	5,385
Amount due to the immediate holding company		–	902
Amounts due to fellow subsidiaries		13,607	2,623
		1,490,474	1,339,929
Liabilities directly associated with the assets classified as held for sale		–	473,546
Total current liabilities		1,490,474	1,813,475
NET CURRENT ASSETS		1,029,478	2,191,251
TOTAL ASSETS LESS CURRENT LIABILITIES		13,074,463	12,740,822

INTERIM RESULTS *(continued)*

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		13,074,463	12,740,822
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		148,263	148,108
Interest-bearing bank and other borrowings		180,726	578,949
Deferred tax liabilities		414,152	373,435
Total non-current liabilities and deferred income		743,141	1,100,492
Net assets		12,331,322	11,640,330
EQUITY			
Share capital	16	569,536	569,536
Reserves	17	10,978,018	10,365,589
Proposed dividend		284,768	170,861
Equity attributable to equity holders of the parent		11,832,322	11,105,986
Minority interests	17	499,000	534,344
Total equity		12,331,322	11,640,330

INTERIM RESULTS *(continued)*

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)
Total equity at 1 January		11,640,330	10,864,022
Changes in equity during the period:			
Exchange differences arising on translating foreign operations attributable to:			
– Equity holders of the parent	17	198,816	107,341
– Minority interests	17	29,231	15,688
		228,047	123,029
Share of reserve of an associate	17	(1,384)	11,996
Fair value gains on available-for-sale investments	17	–	2,777
		226,663	137,802
Net income and expense recognised directly in equity Profit for the period		714,468	350,365
		941,131	488,167
Total recognised income and expense for the period		941,131	488,167
Contribution from minority shareholders	17	–	600
Dividend paid to ordinary equity holders of the parent		(170,861)	(56,954)
Dividend paid to minority shareholders	17	(69,049)	(68,135)
Disposal of interest in a discontinued operation	17	(74,879)	–
Acquisition of subsidiaries	17	41,255	–
Acquisition of minority interests	17	(4,919)	–
Equity-settled share option arrangements	17	28,314	–
		12,331,322	11,227,700
Total equity at 30 June		12,331,322	11,227,700
Total recognised income and expense for the period attributable to:			
– Equity holders of the parent		868,883	426,437
– Minority interests		72,248	61,730
		941,131	488,167

INTERIM RESULTS *(continued)***CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2008*

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	285,348	186,658
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(110,602)	391,726
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(555,266)	(75,585)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(380,520)	502,799
Cash and cash equivalents at beginning of period	1,940,041	1,487,979
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,559,521	1,990,778
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,115,585	846,998
Non-pledged time deposits with original maturity of less than three months when acquired	443,936	1,143,780
	1,559,521	1,990,778

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2008

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

This condensed interim financial information should be read in conjunction with the financial statements of the Group for the year ended 31 December 2007.

The accounting policies and methods of computation used in the preparation of this unaudited condensed interim financial information are consistent with those adopted in the annual financial statements of the Group for the year ended 31 December 2007 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) that are adopted the first time for the current period's financial information.

- HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions
- HK(IFRIC)-Int 12 Service Concession Arrangements
- HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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 the 2007 annual financial statements. Accordingly, certain comparative amounts have been restated.

The effect of these restatements on the condensed consolidated income statement for the six months ended 30 June 2007 is set out below:

	Change in accounting policy for hotel properties <i>HK\$'000</i>	Change in presentation for expenses in marketing department in travel agency and related operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Decrease in cost of sales	10,046	65,352	75,398
Increase in selling expenses	–	(103,752)	(103,752)
Decrease/(increase) in administrative expenses	(19,874)	38,400	18,526
Decrease in net gain from a fair value adjustment in hotel properties	(2,541)	–	(2,541)
Increase in tax expense	(232)	–	(232)
	(12,601)	–	(12,601)

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

3. SEGMENT INFORMATION

The Company is an investment holding company and the Group principally operates in business segments as described below. The analysis of the Group's revenue and results by business segment and the Group's revenue by geographical segment 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 2008 and 2007.

	Continuing operations									Discontinued operation	Consolidated	
	Travel agency and related operations	Hotel operations	Theme park operations	Resort operations	Passenger transportation services	Golf club operations	Power generation	Corporate and others	Eliminations	Total		Freight forwarding and transportation services
	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	
Segment revenue:												
Sales to external customers	1,135,540	296,578	235,824	161,624	143,804	31,385	-	10,614	-	2,015,369	1,256,254	3,271,623
Intersegment revenue	4,179	2,703	4,748	3,882	771	-	-	11,801	(28,084)	-	-	-
Other income and gains	13,339	4,300	100	57,472	5,519	2,107	1,443	37,707	-	121,987	8,102	130,089
Total	1,153,058	303,581	240,672	222,978	150,094	33,492	1,443	60,122	(28,084)	2,137,356	1,264,356	3,401,712
Segment results	77,346	74,259	97,890	1,127	6,298	(4,138)	268	26,306	-	279,356	36,703	316,059
Gain on disposal of a discontinued operation										-	355,506	355,506
Excess over the cost of a business combination										55,277	-	55,277
Interest income										15,497	460	15,957
Finance costs										(5,725)	(1,794)	(7,519)
Share of profits and losses of:												
Jointly controlled entities	916	-	-	-	-	-	61,534	-	-	62,450	-	62,450
Associates	-	-	-	-	(25,326)	-	-	-	-	(25,326)	-	(25,326)
Profit before tax										381,529	390,875	772,404
Tax										(53,266)	(4,670)	(57,936)
Profit for the period										328,263	386,205	714,468

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Continuing operations									Discontinued operation	Consolidated	
	Travel agency and related operations	Hotel operations	Theme park operations	Resort operations	Passenger transportation services	Golf club operations	Power generation	Corporate and others	Eliminations	Total		Freight forwarding and transportation services
	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
	(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
		(Restated)		(Restated)						(Restated)		(Restated)
Segment revenue:												
Sales to external customers	1,324,802	231,015	220,230	163,206	149,310	29,516	-	8,598	-	2,126,677	1,547,424	3,674,101
Intersegment revenue	7,466	3,444	1,785	3,337	241	-	-	15,485	(31,758)	-	-	-
Other income and gains	7,679	3,924	118	354	3,085	-	-	4,127	-	19,287	6,284	25,571
Total	1,339,947	238,383	222,133	166,897	152,636	29,516	-	28,210	(31,758)	2,145,964	1,553,708	3,699,672
Segment results:												
As previously reported	56,569	53,565	87,740	(839)	28,756	2,514	(434)	(12,693)	-	215,178	43,183	258,361
Prior year adjustments	-	(1,460)	-	(10,909)	-	-	-	-	-	(12,369)	-	(12,369)
As restated	56,569	52,105	87,740	(11,748)	28,756	2,514	(434)	(12,693)	-	202,809	43,183	245,992
Interest income										25,426	970	26,396
Finance costs										(15,641)	(706)	(16,347)
Share of profits and losses of:												
Jointly-controlled entities	869	-	-	-	-	-	140,134	-	-	141,003	-	141,003
Associates	-	-	-	-	31,250	-	-	-	-	31,250	-	31,250
Profit before tax										384,847	43,447	428,294
Tax										(71,264)	(6,665)	(77,929)
Profit for the period										313,583	36,782	350,365

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

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 2008 and 2007.

	Hong Kong		Mainland China (including Macau)		Overseas		Consolidated	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)
Segment revenue:								
Sales to external customers	888,741	944,043	2,137,161	2,514,728	245,721	215,330	3,271,623	3,674,101
Other income and gains	63,617	19,982	64,885	4,520	1,587	1,069	130,089	25,571
Attributable to a discontinued operation	(43,605)	(56,685)	(1,184,463)	(1,425,197)	(36,288)	(71,826)	(1,264,356)	(1,553,708)
Revenue from continuing operations	908,753	907,340	1,017,583	1,094,051	211,020	144,573	2,137,356	2,145,964

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest income	15,957	26,396
Rental income	3,934	4,943
Management fee income	2,136	1,010
Exchange gains, net	88,857	7,316
Gain on disposal of property, plant and equipment, net	–	168
Reinvestment tax credit	25,380	–
Commission income	–	580
Compensation income	–	3,806
Others	9,782	7,748
	146,046	51,967
Attributable to a discontinued operation	8,562	7,254
Attributable to continuing operations	137,484	44,713
	146,046	51,967

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

5. FINANCE COSTS

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	10,398	16,347
Less: Interest capitalised	(2,879)	–
	7,519	16,347
Attributable to a discontinued operation	1,794	706
Attributable to continuing operations	5,725	15,641
	7,519	16,347

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)
Depreciation:		
– Hotel properties	35,647	32,749
– Other property, plant and equipment	121,871	126,142
Amortisation on prepaid land lease payments	32,570	30,360
Net gain from a fair value adjustment in investment properties	(29,970)	(6,267)

7. TAX

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000 (Restated)
Current:		
The People's Republic of China:		
– Hong Kong	31,732	53,100
– Elsewhere	20,315	18,246
– Overseas	352	486
Underprovision/(overprovision) in prior years	3,399	(845)
Deferred tax	(2,532)	277
Tax charge for the period	53,266	71,264

INTERIM RESULTS *(continued)***NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION** *(continued)*

30 June 2008

7. TAX *(continued)*

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The share of tax attributable to jointly-controlled entities and associates amounting to HK\$11,133,000 and nil, respectively (2007: HK\$28,691,000 and HK\$4,640,000, respectively) are included in "Share of profits and losses of jointly-controlled entities/associates" on the face of the condensed consolidated income statement.

8. DISCONTINUED OPERATION

On 1 November 2007, the Company announced the decision of its board of directors to dispose of its entire interest in China Travel Service (Cargo) Hong Kong Limited and Common Well Limited (collectively the "Cargo Business"). The Group has decided to cease its freight forwarding and transportation business because it plans to focus its resources on its tourism and hotel related businesses. The disposal of the Cargo Business was completed on 9 May 2008. The gain on disposal of the Cargo Business of HK\$355,506,000 has been credited to the condensed consolidated income statement.

The results of the Cargo Business for the current period (up to the date of disposal) and previous period are presented below:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Revenue	1,256,254	1,547,424
Expenses	(1,219,091)	(1,503,271)
Finance costs	(1,794)	(706)
Profit before tax	35,369	43,447
Tax	(4,670)	(6,665)
Profit for the period	30,699	36,782
Gain on disposal of a discontinued operation	355,506	–
Profit for the period from a discontinued operation	386,205	36,782
Attributable to:		
Equity holders of the parent	382,268	29,155
Minority interests	3,937	7,627
	386,205	36,782

9. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2 cents (2007: HK3 cents) per share and a special interim dividend of HK3 cents (2007: nil) per share for the six months ended 30 June 2008. The interim dividend and the special 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 Thursday, 25 September 2008. The interim dividend and the special interim dividend will be paid on or around Friday, 10 October 2008.

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average of 5,695,355,525 (2007: 5,695,355,525) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	289,183	275,168
From a discontinued operation <i>(Note 8)</i>	382,268	29,155
	671,451	304,323

The diluted earnings per share amount for the six months ended 30 June 2007 was not disclosed as no dilutive events existed during that period. A diluted earnings per share amount for the six months ended 30 June 2008 has not been disclosed as the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for the period.

11. AVAILABLE-FOR-SALE INVESTMENTS

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	18,639	17,977

12. HELD-TO-MATURITY INVESTMENTS

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Unlisted debt investments, at amortised cost	–	15,691

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

13. TRADE RECEIVABLES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	247,081	198,571
3 to 6 months	29,969	63,084
6 to 12 months	9,286	14,569
1 to 2 years	3,791	3,184
Over 2 years	–	4,415
	290,127	283,823

14. CASH AND CASH EQUIVALENTS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Cash and bank balances	1,115,585	1,113,018
Time deposits	527,668	1,159,328
	1,643,253	2,272,346

15. 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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	285,474	343,156
3 to 6 months	15,603	18,487
6 to 12 months	15,169	15,784
1 to 2 years	11,768	14,197
Over 2 years	14,591	11,217
	342,605	402,841

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

16. SHARE CAPITAL

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (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 ordinary shares of HK\$0.10 each	569,536	569,536

17. RESERVES

	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Available- for-sale investment revaluation reserve (Unaudited) HK\$'000	Enterprise expansion/ reserve fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2007											
As previously recorded	8,357,579	350	(4,369)	(1,012,196)	183,703	-	104,495	159,035	2,234,838	10,023,435	443,482
Prior year adjustments	-	-	-	-	(183,703)	-	-	930	(46,612)	(229,385)	-
As restated	8,357,579	350	(4,369)	(1,012,196)	-	-	104,495	159,965	2,188,226	9,794,050	443,482
Share of reserve of an associate	-	-	11,996	-	-	-	-	-	-	11,996	-
Exchange realignments	-	-	-	-	-	-	-	107,341	-	107,341	15,688
Fair value gains on available-for-sale investments	-	-	-	-	-	2,777	-	-	-	2,777	-
Transfer from retained profits	-	-	-	-	-	-	11,999	-	(11,999)	-	-
Profit for the period (as restated)	-	-	-	-	-	-	-	-	304,323	304,323	46,042
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(68,135)
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	600
Proposed 2007 interim dividend	-	-	-	-	-	-	-	-	(170,861)	(170,861)	-
At 30 June 2007	8,357,579	350	7,627	(1,012,196)	-	2,777	116,494	267,306	2,309,689	10,049,626	437,677

INTERIM RESULTS (continued)**NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION** (continued)

30 June 2008

17. RESERVES (continued)

	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Enterprise expansion/ reserve fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2008	8,357,579	350	7,254	(1,012,196)	27,231	116,624	400,398	2,468,349	10,365,589	534,344
Share of reserve of an associate	-	-	(1,384)	-	-	-	-	-	(1,384)	-
Exchange realignments	-	-	-	-	-	-	198,816	-	198,816	29,231
Disposal of interest in a discontinued operation	-	-	-	(19,147)	-	(34,610)	(41,934)	95,691	-	(74,879)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	41,255
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	(4,919)
Transfer from retained profits	-	-	-	-	-	10,179	(98)	(10,081)	-	-
Profit for the period	-	-	-	-	-	-	-	671,451	671,451	43,017
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(69,049)
Equity-settled share option arrangements	-	-	-	-	28,314	-	-	-	28,314	-
Proposed 2008 interim dividend	-	-	-	-	-	-	-	(284,768)	(284,768)	-
At 30 June 2008	8,357,579	350	5,870	(1,031,343)	55,545	92,193	557,182	2,940,642	10,978,018	499,000

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

18. BUSINESS COMBINATION

On 1 November 2007, the Company and its wholly-owned subsidiaries, namely Allied Well Holdings Ltd. and United Capital Management Limited entered into a conditional sale and purchase agreement with China Travel Service (Holdings) Hong Kong Limited ("CTS Holdings"), China Travel Building Contractors Hong Kong Limited and China Travel Investments Hong Kong Limited (collectively the "Vendors") to acquire the entire issued share capital of CTS H.K. Metropark Hotels Management Company Limited, Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, Ruskin Overseas Limited and Wisepak Enterprises Limited (collectively the "Hotel Group") and the respective shareholders' loan owed by the Hotel Group to the Vendors. The transaction was completed on 9 May 2008.

The fair values of the identifiable assets and liabilities of the Hotel Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>	Previous carrying amount <i>HK\$'000</i>
Property, plant and equipment	459,543	400,026
Investment properties	618,400	626,344
Prepaid land lease payments	84,800	45,475
Trademarks	49,358	–
Inventories	4,726	4,726
Trade receivables, prepayments, deposits and other receivables	25,985	25,985
Cash and bank balances	70,968	70,968
Amount due from an intermediate holding company	21,772	21,772
Amounts due from fellow subsidiaries	11,876	11,876
Tax payable	(459)	(459)
Trade and other payables	(56,927)	(56,927)
Amount due to an intermediate holding company	(1,144,102)	(1,144,102)
Amounts due to fellow subsidiaries	(4,875)	(4,875)
Amounts due to minority shareholders	(26,956)	(26,956)
Deferred tax liabilities	(39,545)	(39,545)
Minority interests	(41,255)	(19,712)
	33,309	(85,404)
Excess over the cost of a business combination	(55,277)	
	(21,968)	
Satisfied by :		
Cash paid for acquisition of the Hotel Group	1,107,260	
Cash received on disposal of the Cargo Business	(853,640)	
Net cash	253,620	
Debts assigned to the Group	(1,144,772)	
Fair value of the Cargo Business	869,184	
	(21,968)	

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

18. BUSINESS COMBINATION *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the Hotel Group is as follows:

	<i>HK\$'000</i>
Cash consideration	(253,620)
Cash and bank balances acquired	70,968
Net outflow of cash and cash equivalents	<u>(182,652)</u>

Since its acquisition, the Hotel Group contributed HK\$35,410,000 to the Group's turnover and HK\$6,335,000 to consolidated profit for the six months ended 30 June 2008.

Had the combination taken place at the beginning of the period, the revenue from continuing operations of the Group and the profit of the Group for the period contributed by the Hotel Group would have been HK\$112,520,000 and HK\$22,839,000, respectively.

19. PLEDGE OF ASSETS

As at 30 June 2008, the Group's bank deposits of approximately HK\$6,853,000 (31 December 2007: HK\$11,169,000) 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.

As at 31 December 2007, the aggregate carrying value of the Group's leasehold land and buildings which were pledged to secure banking facilities was HK\$86,235,000 while none was noted as at 30 June 2008.

As at 30 June 2008, the Group's bank loan of HK\$171,070,000 (31 December 2007: HK\$74,866,000) was secured by the same amount of bank deposits from a jointly-controlled entity.

20. CONTINGENT LIABILITIES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Bank guarantees given in lieu of utility and rental deposits	5,061	5,061
Performance bond given to a customer for due performance of a sales contract	300	300
Guarantees given to suppliers in connection with credit facilities granted	11,789	10,104
	17,150	15,465

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

21. 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 no longer than one year. 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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Investment properties:		
Within one year	39,051	2,495
In the second to fifth years, inclusive	8,752	680
	47,803	3,175
Equipment:		
Within one year	172	161

(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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Land and buildings:		
Within one year	48,966	47,792
In the second to fifth years, inclusive	58,054	70,570
After five years	–	227
	107,020	118,589
Plant and machinery and motor vehicles:		
Within one year	4,642	5,140
In the second to fifth years, inclusive	–	2,163
After five years	–	215
	4,642	7,518

INTERIM RESULTS *(continued)***NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION** *(continued)*

30 June 2008

22. COMMITMENTS

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Scenic spots:		
Contracted, but not provided for	137,205	86,139
Authorised, but not contracted for	428,105	409,679
	565,310	495,818
Plant and equipment and motor vehicles:		
Contracted, but not provided for	67,925	1,580
Authorised, but not contracted for	6,261	1,194
	74,186	2,774
Land:		
Contracted, but not provided for	11,503	26,067
Authorised, but not contracted for	378,925	308,599
	390,428	334,666
Leasehold improvements:		
Contracted, but not provided for	15,314	18,127
Authorised, but not contracted for	101,432	134,070
	116,746	152,197

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

23. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

Name of company	Nature of transaction	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<i>Paid or payable to:</i>			
<i>Immediate holding company</i>			
1. CTS (Holdings)	Office rental	7,679	2,478
<i>Fellow subsidiaries</i>			
2. China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	700	673
3. China Travel Insurance Advisers Hong Kong Limited	Insurance premium	3,028	2,392
4. Tai Sun Services Company Limited	Stevedoring services	538	1,191
5. CTS H.K. Metropark Hotels Management Company Limited	Hotel management fees	6,178	7,347
6. 深圳維景京華酒店有限公司	Hotel room rental	509	499
7. China Travel Head Office	Travel-related services	3,102	–
8. China Merchants International Travel (Shenzhen) Co., Ltd.	Travel-related services	1,502	2,166
9. China Merchants International Travel Co. Guangzhou	Travel-related services	1,465	–
<i>Jointly-controlled entities</i>			
10. Shanghai China Travel International Limited	Travel-related services	1,987	2,372
11. Suzhou China Travel International Travel Service Co., Ltd.	Travel-related services	1,098	–
12. China Travel International (Hangzhou) Travel Service Co., Ltd.	Travel-related services	3,802	5,178
<i>Associate</i>			
13. All China Express Limited	Coach rental	2,318	3,040

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

23. RELATED PARTY TRANSACTIONS *(continued)*

(a) The Group had the following material transactions with related parties during the period: *(continued)*

Name of company	Nature of transaction	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Received or receivable from:			
<i>Immediate holding company</i>			
14. CTS (Holdings)	Travel permit administration income <i>(Note)</i>	147,000	154,501
15. CTS (Holdings)	Hotel room rental	3,232	638
16. CTS (Holdings)	Sale of visa materials	657	643
<i>Fellow subsidiaries</i>			
17. China Travel Computer Service H.K. Limited	Application service provider services	4,508	7,405
18. Grand Metropark Hotel Nanjing	Hotel management fees	521	–
19. China Travel Head Office	Travel-related services	1,872	–
20. China Merchants International Travel (Shenzhen) Co. Ltd.	Commission income	3,183	4,686
21. Shanghai Merchants International Transport Agency Co.	Commission income	3,268	323
22. Guangzhou Merchants International Air Transportation Co., Ltd.	Commission income	1,123	917
<i>Jointly-controlled entities</i>			
23. Shanghai China Travel International Limited	Admission tickets income	720	1,630
<i>Associates</i>			
24. All China Express Limited	Coach rental	22,400	25,256
25. All China Express Limited	Management fee	12,325	16,523
26. All China Express Limited	Quota income	686	686
27. Shun Tak – China Travel Shipping Investments Limited	Ticketing commission	18,612	18,245
28. Shun Tak – China Travel Shipping Investments Limited	Management fee	944	902

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.

Note: The travel permit administration income was determined in accordance with the terms of an agency agreement entered into between the parties and recognised at 45% of the gross fee revenue from travel permit applications.

INTERIM RESULTS *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

30 June 2008

23. RELATED PARTY TRANSACTIONS *(continued)*

- (b) Other transaction with related parties

On 9 May 2008, the Group completed its disposal of the Cargo Business and acquisition of the Hotel Group with CTS (Holdings), the immediate holding company, and its subsidiaries for a cash consideration of HK\$854 million and HK\$1,107 million respectively. Further details of the transaction are included in notes 8 and 18, respectively, to the condensed interim financial information.

24. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the Board on 9 September 2008.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of
China Travel International Investment Hong Kong Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 25, which comprises the condensed consolidated balance sheet of China Travel International Investment Hong Kong Limited as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated summary statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

9 September 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2008, the Group was confronted with a challenging economic environment, including the slowdown of the global economic growth, high volatility in financial markets, and Mainland China suffering from the snow storm disaster in the first quarter, Wenchuan earthquake in the second quarter, rising inflation and weakened consumer confidence. The travel industry was inevitably adversely affected. The Group had adjusted its operating strategies in time, focusing on its core travel business operations, with emphasis on customer retention, new business development, effective cost control and risk management. Overall results recorded growth comparing to the same period of last year.

For the six months ended 30 June 2008, the unaudited consolidated turnover from continuing operations of the Group was HK\$2,015 million, a decrease of 5.2% from the same period last year. The profit attributable to shareholders for the first half of the year was HK\$671 million, an increase of 121% from the same period last year, including a one-off gain of HK\$356 million from the disposal of freight forwarding and transportation services business, and an excess over the cost of a business combination of HK\$55 million arising from the acquisition of hotel operations. Basic earnings per share was 11.79 Hong Kong Cents, an increase of 121% from the same period last year. As at 30 June 2008, the equity attributable to shareholders was HK\$11,832 million, representing an increase of 6.5% from the end of last year.

Travel agency and related operations

The turnover of the Group's travel agency and related operations for the first half of the year was HK\$1,136 million, a decrease of 14.3% from the same period last year. The drop in turnover was mainly due to the snow storm disaster in the first quarter and the Wenchuan earthquake in the second quarter, resulting in a decrease in the number of group tours to Mainland China. The segment result was HK\$77 million, an increase of 36.7% from the same period last year. Excluding a revaluation gain on the investment properties in Hong Kong, the segment result was about even to the same period last year. Regarding new business development, as the United States and Taiwan had opened up to group tours of Mainland China citizens, the Group's travel agencies in Mainland China seized the opportunity and successfully organized the first tourist groups from Mainland China to visit the United States and Taiwan. The Group expected to generate increasing revenues from these two new markets. Mangocity.com, the Group's on-line travel consolidator, strived for continuous operating flow optimization and cost-control. The business grew rapidly and the number of active members increased 34% from the end of 2007. The transaction volume handled by Mangocity's call centre increased more than 40% comparing to the same period last year and the volume of on-line transaction also jumped over 50% comparing to the same period last year.

Hotel operations

The Group's hotel operations comprise CTS H.K. Metropark Hotels Management Company Limited ("CTS Metropark"), five hotels in Hong Kong and Macau and three hotels in Mainland China. The turnover of the hotel operations for the first half of 2008 was HK\$297 million, an increase of 28.4% comparing to the same period last year and the segment result was HK\$74 million, an increase of 42.5% comparing to the same period last year, which were benefiting from the acquisition of three hotels in Mainland China and continuous healthy growth of hotel operations in Hong Kong and Macau. The Group has commenced step by step renovations for hotels in Hong Kong since 2006, and gradually raised room rates after renovation. The results have been very satisfactory. During the period, the average room rates of our hotels in Hong Kong and Macau recorded double-digit growth, and average occupancy rate further improved. During the period of Beijing 2008 Olympic Games, CTS Metropark was appointed as the management team of some athlete apartments in the Olympic Village, which further enhanced the reputation of brand name "Metropark".

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Theme park operations

Shenzhen The World Miniature Co., Ltd. ("Window of the World") constantly masterminded and launched a few very exciting new projects. Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") continued to focus on the theme of Chinese folk and festival culture. Thanks to effective market positioning strategy, the two theme parks overcame the impact of negative market factors. Through effective cost control, the business of both theme parks grew amid grim environment and a turnover of HK\$236 million was recorded for the first half of 2008, up 7.1% over the corresponding period of last year. The segment result was HK\$98 million, up 11.6% over the corresponding period of last year.

Resort operations

After Wenchuan earthquake, most corporations had temporarily slashed budgets on corporate conference and travel. Consumer sentiment was also weakened by the slowdown of economic growth of Mainland China and Hong Kong. Thus, the turnover of Zhuhai Ocean Spring Resort ("OSR") in the first half of the year was HK\$162 million, a slight decrease of 1% from the same period last year. The segment result turned into profit of HK\$1.13 million, versus a loss of HK\$12 million in the same period last year. In the first half of the year, the revenue from MICE (meetings, incentives, conferences, events) business of OSR grew over 20% from the same period last year. The MICE business has become one of the competitive advantages of OSR. In order to attract customers from different market segments, OSR introduced various new facilities and services in the first half year, including a new conference venue, a camp site for self-driving tours, and a fishing area. Also, certain new service items were added in the hot spring centre and theme park, and a new performance program was launched in the theatre. All these investments will strengthen OSR's sustainable competitiveness.

Xianyang Guanzhong Hotspring Co., Ltd. ("Guanzhong Hotspring") is yet another investment in the hotspring resort industry after OSR, indicating the Group's development strategy of promoting a series of hot spring projects under the brand name of "Ocean Spring Resort" in Mainland China. The hot spring center of Guanzhong Hotspring measures a construction area of about 46,000 square meters. Guanzhong Hotspring is expected to commence business operation in October 2008 and become the largest hotspring resort with its features in the Northwest China.

Passenger transportation services

The turnover of China Travel Tours Transportation Services Hong Kong limited and its subsidiaries ("CTTT") for the first half of 2008 was HK\$144 million, representing a decrease of 3.7% over the corresponding period of last year. The segment result was HK\$6.3 million, representing a decrease of 78.1% over the corresponding period of last year. The decrease was mainly due to rising oil price and the diversion of passengers from CTTT's shuttle bus service between Hong Kong and Shenzhen to the MTRC's Lok Ma Chau line. CTTT is taking active measures to adjust routes and apply for more quotas for cross-border passenger buses licenses, so to overcome the impact of the adverse operating environment. As a result of high fuel price and market competitions, the Group recorded a share of loss of HK\$25 million from its associate, Shun Tak-China Travel Shipping Investment Limited for the first half of 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Golf club operations

Approximately 38,000 visitors and members played golf in the CTS Tycoon (Shenzhen) Golf Club ("Tycoon") during the first half of 2008, down 8% as compared to the corresponding period of last year. The decrease was mainly attributable to the significant number of rainy days in the first half of the year. Tycoon adjusted its pricing policy and membership administration policy, which stimulated the secondary membership transfer market and contributed to the increase of membership-related income. The turnover of Tycoon was HK\$31 million for the first half of 2008, representing an increase of 6.3% over the corresponding period of last year. However, as the Mainland China government began to levy land use tax from this period, Tycoon recorded a segment loss of HK\$4.14 million for the first half (versus a segment profit of HK\$2.51 million for the same period last year). During the first half of the year, Tycoon succeeded in obtaining an approval from the local government in respect of the expansion of site areas of the golf course. The construction will start in the second half of the year.

Arts performance operations

During the first half of 2008, China Heaven Creation International Performing Art Co., Ltd. ("China Heaven") successfully obtained government subsidies for the renovation of the stage and theatre for "The Legend of Kung Fu", and raised the ticket price, which successfully offset the impact of the decrease of the number of foreign tourists to Beijing during first half of the year and maintained the growth of revenue. "The Legend of Kung Fu" and "Forbidden Love – a tale of classic China", a Beijing opera, both created by China Heaven, were selected by The Beijing Organizing Committee for the Games of the Olympiad as two of the performances at the main stage of the Olympic Games, making China Heaven the only company that had two programs selected. The performance of new operas at the Olympic Games will further enhance the brand image of China Heaven.

Power generation business

For the first half of 2008, the on-grid electricity volume of the Group's power generation business recorded a decrease of 6.2% as compared with that of the corresponding period of last year. During the period, the Group made all effort to mitigate the cost pressure from surging coal price while ensuring sufficient coal supply. Nonetheless, the share of profit from the jointly-controlled entity amounted to HK\$62 million, representing a decrease of 56.1% over the corresponding period of last year.

CORPORATE SOCIAL RESPONSIBILITY

The Group has highly emphasized on fulfilling its social responsibility as usual. During the snow storm disaster in Southern China at the beginning of the year, the Group initiatively cancelled scheduled group tours to the disaster areas and rearranged alternative tour destinations for the sake of customer's concerns. During the riots in Tibet this year, the Group made all efforts to ensure the safe retreat of our customers in Lhasa. The safety measures taken were appreciated and acclaimed by the public at large. The Group and its staff around the world joined hands to participate in the Wenchuan earthquake disaster relief activities and made significant donations, demonstrating a strong sense of social responsibility. During the period of the Olympics Games, the travel agencies, hotels and entertainment companies of the Group in Beijing and Hong Kong provided numerous services to the hosting organisations of the Olympic Games, which helped to contribute to the success of holding of the games.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS FOR SECOND HALF OF 2008

Market prospects remain uncertain given the financial market woes, global economic slowdown and persistently high inflation. The negative effects of such global factors have not yet fully unfolded in the economy of Hong Kong and Mainland China. It is expected that global economic growth will slow down in the second half of 2008. However, we believe that tourism in Mainland China and Hong Kong will recover in the post Olympics fourth quarter. The Group is fully confident that in the long run, the Group's core travel business will enjoy steady growth, driven by continuous per capita income growth in the Mainland China and hence higher per capita travel expenditure. In the second half of the year, the Group will continue to focus on the strengthening of existing businesses, cost control and risk management as well as aggressively exploring new businesses. In particular, travel agency operation will kick off internal business integration, re-engineering and measured expansion. As for hotel operations and theme park operations, stable growth will be sought. We should impose strict cost control on work-in-progress and assure high construction quality. At the same time, taking advantage of our solid financial conditions and strong cash positions, the Group will seize opportunities during the economic slowdown period to identify potential merger and acquisition targets to expand its core travel business and improve profitability, so as to maximize our shareholder value.

DISPOSAL AND ACQUISITION

On 7 December 2007, an extraordinary general meeting of the Company was held in which the disposal of the freight forwarding and transportation services business by the Company to China Travel Services (Holdings) Hong Kong Limited ("CTS Holdings") at a consideration of approximately HK\$854 million was approved. In the same meeting, the acquisition of certain hotel operations comprising interests in CTS H.K. Metropark Hotels Management Company Limited and three hotels in Shanghai, Beijing and Yangzhou by the Group from CTS Holdings at a consideration of approximately HK\$1,107 million was also approved. The disposal and acquisition were settled entirely by cash on the completion date. For detailed information, please refer to the circular of the Company dated 21 November 2007. The disposal and acquisition were completed on 9 May 2008.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 30 June 2008, the Group had a total of 12,940 employees. Total remuneration cost for the period was HK\$467 million (six months ended 30 June 2007: HK\$445 million).

The employees were 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 management. Apart from the pension funds and in-house training programs, discretionary bonuses and share options were awarded to certain employees according to the assessment of individual performance.

On 9 July 2007, the Company granted 97,110,000 share options to qualified employees and directors at an exercise price of HK\$4.65 per share, the exercise period of such share options is from 9 July 2009 to 2 June 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position remains strong. As at 30 June 2008, the cash and cash equivalents of the Group amounted to HK\$1,643 million. The interest-bearing bank and other borrowings amounted to HK\$231 million. The debt to adjusted capital ratio was 13.7%. The debt includes interest-bearing bank and other borrowings, trade and other payables, obligations under finance leases, amounts due to the immediate holding company and fellow subsidiaries. Adjusted capital includes equity attributable to equity holders of the parent, less unaccrued proposed dividends.

As at 30 June 2008, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS Holdings, during the tenure of such loan facilities. The specific performance obligation is that CTS Holdings shall maintain a holding of not less than 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:

Outstanding loan amount as at 30 June 2008	Final maturity date of the loan facilities
HK\$50 million	2 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.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2008, the Group had no material fixed assets which were held under finance leases and hire purchase contracts.

As at 30 June 2008, the Group had a pledged time deposit of approximately HK\$6.85 million. The capital commitments of the Group were approximately HK\$1,147 million and the contingent liabilities were approximately HK\$17 million.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 June 2008, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or its 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 by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(i) Long position in ordinary shares of the Company

ordinary shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	% of the issued share capital
Dr. Fong Yun Wah	Corporation Interests (<i>Note 1</i>)	50,000	0.000878%
Mr. Xu Muhan	Family Interests (<i>Note 2</i>)	2,000	0.00004%

Note 1: These shares were beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah was taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

Note 2: Mr. Xu deemed to be interested in these shares of the Company held by his spouse.

(ii) Long position in share options of the Company

Name of Directors	Number of options directly beneficially owned
Zhang Xuewu	2,130,000
Xiong Weiping	2,130,000
Zheng Heshui	1,770,000
Lo Sui On	1,770,000
Jiang Yan	1,770,000
Mao Jianjun	1,770,000
Zhang Fengchun	1,770,000
Xu Muhan	800,000

OTHER INFORMATION *(continued)*

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme" below, 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, or any of its holding companies, or subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 3 June 2002 (the "Share Option Scheme"). The board of directors of the Company (the "Board") may, at its discretion, grant share options to any eligible person to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

The Company operates the Share Option 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 those of the shareholders.

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

The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company. The maximum number of shares issuable under the share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Company's board of directors to each grantee and, in any event, such period of time shall not exceed a period of 10 years from the date of grant of the relevant option.

The offer of a grant of share options may be accepted within 28 days from date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The subscription price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares (the "Shares") as stated in the Stock Exchange's daily quotation sheet at the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

At the date of approval of this condensed interim financial information, the Company had 97,110,000 share options outstanding, which represented approximately 1.7% of the Company's issued shares as at this date.

OTHER INFORMATION *(continued)*

Details of the share options outstanding and movement during the six months ended 30 June 2008 are as follows:

(1) Outstanding share options at 1 January 2008 and at 30 June 2008

Name or category of participant	Number of share options at 1 January 2008 and 30 June 2008	Date of grant of share options	Exercise period of share options*	Exercise price per share option HK\$
Directors, chief executives and their associates				
Zhang Xuewu	2,130,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Xiong Weiping	2,130,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Zheng Heshui	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Lo Sui On	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Jiang Yan	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Mao Jianjun	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Zhang Fengchun	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Xu Muhan	800,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Sub-Total	13,910,000			
Other employees in aggregate	83,200,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Grand Total	97,110,000			

(2) Share options granted during the six months ended 30 June 2008

During the period under review, no share options were granted to any Directors, the Company's chief executives or employees of the Group or other participants.

OTHER INFORMATION *(continued)*

(3) Share options exercised during the six months ended 30 June 2008

During the period under review, no share options were exercised by any Directors, the Company's chief executives or employees of the Group or other participants.

(4) Share options cancelled or lapsed during the six months ended 30 June 2008

During the period under review, no share options were cancelled or lapsed.

Note:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period. The options are exercisable in the following manner:

<u>Maximum proportion of options exercisable</u>	<u>Exercise period</u>
30%	9 July 2009 to 2 June 2012
60%	9 July 2010 to 2 June 2012
100%	9 July 2011 to 2 June 2012

The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Save as disclosed above, as at 30 June 2008, none of the Directors or the Company's chief executives or their associates, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

OTHER INFORMATION *(continued)*

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2008, the following persons (other than the Directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests, directly or indirectly, or 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 ordinary shares of the Company

ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Number of shares held	% of the issued share capital
China National Travel Service (HK) Group Corporation ("China CTS (HK)")	Interest of controlled corporation (<i>Note 1</i>)	2,993,632,728	52.56%
China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)")	Interest of controlled corporation and beneficial owner (<i>Notes 1 and 3</i>)	2,993,632,728	52.56%
Foden International Limited ("FIL")	Beneficial owner (<i>Note 2</i>)	20,700,000	0.36%

Note 1: The entire issued share capital of CTS (Holdings) was beneficially owned by China CTS (HK). CTS (Holdings) was the immediate holding company of the Company. Accordingly, China CTS (HK) was taken to be interested in the shares in which CTS (Holdings) was interested pursuant to Part XV of the SFO and the interests of China CTS (HK) in the Company duplicated the interests of CTS (Holdings).

Note 2: These shares were held by FIL which was a wholly-owned subsidiary of CTS (Holdings).

Note 3: Of these 2,993,632,728 shares, 2,972,932,728 shares were held by CTS (Holdings) directly and 20,700,000 were held by FIL, in which CTS (Holdings) was taken to be interested pursuant to Part XV of the SFO.

Messrs. Zhang Xuewu, Xiong Weiping, Zheng Heshui, Lo Sui On, Mao Jianjun, Fang Xiaorong, Zhang Fengchun and Ms. Jiang Yan are directors of the Company, CTS (Holdings) and China (CTS) HK.

Save as the aforesaid and as disclosed under the heading "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debenture of the Company" above, as at 30 June 2008, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares of the Company 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

The Company is committed to maintaining a high standard of corporate governance. The corporate governance principles of the Company emphasize on transparency and accountability to all shareholders of the Company. Save for the deviation from the Code Provision A.4.1 which is explained as below, the Company has complied with all the code provisions stipulated in Appendix 14, Code on Corporate Governance Practices (the "Code") of the Listing Rules during the six months ended 30 June 2008.

Code A.4.1 specifies that non-executive directors should be appointed for a specific term, subject to re-election. Even though independent non-executive directors are not appointed for specific terms, pursuant to the Company's articles of association, at least one-third of the directors (if the number of directors is not three or a multiple of three, then the number nearest to three) shall retire from office by rotation and subject to re-election at each annual general meeting. The Board is of the opinion that it conforms with the spirit of the Code as such provision will enable each director subject to retirement by rotation at least once every three years.

Save as disclosed above, the Company has applied the principles and complied with all the code provisions set out in the Code during the six months ended 30 June 2008.

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. Sze, Robert Tsai To, Mr. Chan Wing Kee. 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.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code. 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 2008.

OTHER INFORMATION *(continued)*

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2 cents (2007: HK3 cents) per share and a special interim dividend of HK3 cents (2007: nil) per share for the six months ended 30 June 2008. The interim dividend and the special 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 Thursday, 25 September 2008. The interim dividend and the special interim dividend will be paid on or around Friday, 10 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 23 September 2008 to Thursday, 25 September 2008 (both days inclusive), for the purposes of determining entitlements to the interim dividend and the special interim dividend. In order to qualify for the interim dividend and the special interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 22 September 2008.

REVIEW OF INTERIM FINANCIAL INFORMATION

The unaudited condensed interim financial information of the Group for the six months ended 30 June 2008 has been reviewed by the Audit Committee of the Company and the auditors, Ernst & Young.

By order of the Board
Zhang Xuewu
Chairman

Hong Kong, 9 September 2008