



香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00308)

ANNOUNCEMENT OF 2006 FINAL RESULTS

The Board of Directors (the “Board”) of China Travel International Investment Hong Kong Limited (the “Company”) is pleased to present the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
REVENUE	5	6,979,546	5,635,743
Cost of sales		<u>(5,336,361)</u>	<u>(4,283,620)</u>
Gross profit		1,643,185	1,352,123
Other income and gains	5	126,677	90,021
Selling and distribution costs		(348,901)	(165,072)
Administrative expenses		(973,673)	(812,388)
Revaluation surplus of hotel properties and investment properties and impairment of items of property, plant and equipment, net		27,536	58,107
Fair value gains on derivative financial instruments		–	99,204
Impairment of goodwill		(16,591)	–
Finance costs		(79,561)	(55,453)
Share of profits and losses of:			
Jointly-controlled entities		134,077	175,598
Associates		57,433	45,751
PROFIT BEFORE TAX	6	570,182	787,891
Tax	7	<u>(112,613)</u>	<u>(102,759)</u>
PROFIT FOR THE YEAR		<u>457,569</u>	<u>685,132</u>
Attributable to:			
Equity holders of the parent		375,004	612,660
Minority interests		82,565	72,472
		<u>457,569</u>	<u>685,132</u>
DIVIDENDS	8		
Interim		113,907	151,204
Proposed final		56,954	151,165
Adjustments to 2005/2004 final dividend		15,809	27,094
		<u>186,670</u>	<u>329,463</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CENTS)	9		
Basic		<u>6.86</u>	<u>12.59</u>
Diluted		<u>N/A</u>	<u>12.00</u>

CONSOLIDATED BALANCE SHEET

31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,464,151	4,342,549
Investment properties		240,085	223,605
Prepaid land lease payments		3,056,985	3,109,552
Properties under development		–	3,270
Goodwill		1,244,769	1,260,837
Interests in jointly-controlled entities		1,151,917	1,375,421
Interests in associates		418,996	418,913
Available-for-sale investments		18,898	20,009
Held-to-maturity investments		15,547	15,477
Deferred tax assets		11,839	15,641
Total non-current assets		<u>10,623,187</u>	<u>10,785,274</u>
CURRENT ASSETS			
Available-for-sale investments		–	1,427
Inventories		17,831	19,182
Trade receivables	10	704,253	572,914
Tax recoverable		2,974	1,580
Prepayments, deposits and other receivables		356,255	313,166
Pledged time deposits		4,176	4,306
Cash and cash equivalents		2,157,297	2,258,655
Amount due from the ultimate holding company		23,202	27,886
Amounts due from fellow subsidiaries		3,279	5,266
Total current assets		<u>3,269,267</u>	<u>3,204,382</u>
CURRENT LIABILITIES			
Trade payables	11	731,617	609,801
Tax payable		45,093	29,156
Other payables and accruals		822,234	951,616
Interest-bearing bank and other borrowings		179,733	13,311
Amount due to the ultimate holding company		1,421	–
Amounts due to fellow subsidiaries		3,138	4,509
Total current liabilities		<u>1,783,236</u>	<u>1,608,393</u>
NET CURRENT ASSETS		<u>1,486,031</u>	<u>1,595,989</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,109,218</u>	<u>12,381,263</u>
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		149,002	145,726
Interest-bearing bank and other borrowings		504,843	2,008,022
Deferred tax liabilities		361,966	364,496
Total non-current liabilities and deferred income		<u>1,015,811</u>	<u>2,518,244</u>
Net assets		<u>11,093,407</u>	<u>9,863,019</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	569,536	503,885
Reserves		10,023,435	8,802,449
Proposed final dividend	8	56,954	151,165
		<u>10,649,925</u>	<u>9,457,499</u>
Minority interests		<u>443,482</u>	<u>405,520</u>
Total equity		<u>11,093,407</u>	<u>9,863,019</u>

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Total equity at 1 January	9,457,499	8,028,962
Exchange differences on translation of the financial statements of foreign entities	111,252	34,051
Surplus on revaluation of hotel and investment properties	2,684	6,249
Total income and expense for the year recognised directly in equity	113,936	40,300
Profit for the year	375,004	612,660
Total income and expense for the year	488,940	652,960
Share of reserve of an associate	(5,652)	1,283
Dividends paid	(280,881)	(401,681)
Issue of new shares	65,651	57,269
Premium on issue of new shares	924,368	1,121,001
Repurchase of own shares	–	(2,295)
Total equity at 31 December	<u>10,649,925</u>	<u>9,457,499</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

China Travel International Investment Hong Kong Limited is a limited liability company incorporated in Hong Kong.

The registered office of the Company is located at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- travel and travel-related operations
- hotel operations
- tourist attraction operations
- passenger transportation services
- golf club operations
- freight forwarding and transportation services
- hot spring resort operations
- power generation (conducted through a jointly-controlled entity)
- investment holding

In the opinion of the directors, the holding company and the ultimate holding company of the Group is China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”), which is incorporated in Hong Kong.

Subsequent to the balance sheet date, on 14 February 2007, China National Travel Service (HK) Group Corporation (“China CTS(HK)”), a company established in the PRC, became the holding company of CTS (Holdings). In the opinion of the directors, China CTS(HK) become the ultimate holding company of the Group with effect from 14 February 2007.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for hotel properties, investment properties and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) *HKAS 21 The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group’s net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) *HKAS 27 Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements.

(c) *HKAS 39 Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) *HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Passenger transportation services 2006 HK\$'000	Tourist attraction operations 2006 HK\$'000	Freight forwarding and trans- portation services 2006 HK\$'000	Hotel operations 2006 HK\$'000	Travel and travel- related operations 2006 HK\$'000	Golf club operations 2006 HK\$'000	Power generation 2006 HK\$'000	Hot spring resort operations 2006 HK\$'000	Corporate and others 2006 HK\$'000	Eliminations 2006 HK\$'000	Consolidated 2006 HK\$'000
Segment revenue:											
Sales to external customers	270,345	414,703	2,917,295	423,381	2,554,308	49,993	-	332,203	17,318	-	6,979,546
Intersegment revenue	958	3,809	-	4,885	13,227	-	-	1,756	30,339	(54,974)	-
Other income and gains	5,382	1,100	2,421	4,301	15,000	1,873	13,779	(1,288)	12,948	-	55,516
Total	276,685	419,612	2,919,716	432,567	2,582,535	51,866	13,779	332,671	60,605	(54,974)	7,035,062
Segment results	39,361	136,459	95,428	73,694	89,021	(6,768)	12,488	(49,773)	(2,838)	-	387,072
Interest income											71,161
Finance costs											(79,561)
Share of profits and losses of:											
Jointly-controlled entities	-	-	723	-	2,815	-	130,539	-	-	-	134,077
Associates	58,002	-	(155)	-	-	-	-	-	(414)	-	57,433
Profit before tax											570,182
Tax											(112,613)
Profit for the year											457,569
Segment assets	122,966	578,544	698,385	3,484,775	2,770,688	283,565	-	2,106,981	99,351	-	10,145,255
Interests in jointly- controlled entities	-	-	203	-	50,092	-	1,100,207	-	1,415	-	1,151,917
Interests in associates	425,705	-	-	-	(7,642)	-	-	-	933	-	418,996
Unallocated assets											2,176,286
Total assets											13,892,454
Segment liabilities	27,477	85,558	389,572	50,252	638,755	194,701	929	299,937	24,388	-	1,711,569
Unallocated liabilities											1,087,478
Total liabilities											2,799,047
Other segment information:											
Capital expenditure	24,593	60,298	38,479	48,996	55,781	4,571	-	78,229	2,316	-	313,263
Depreciation and amortisation	22,273	65,977	16,159	74,610	42,275	17,970	-	124,457	3,072	-	366,793
Impairment losses recognised in the income statement	-	299	-	-	-	-	-	-	16,591	-	16,890
Other non-cash expenses	391	-	1,541	-	2,543	1,997	-	-	504	-	6,976
Surplus on revaluation recognised in the income statement	-	-	5,851	17,345	4,340	-	-	-	-	-	27,536
Surplus on revaluation recognised directly in equity	-	-	-	2,066	-	-	-	1,152	-	-	3,218

	Passenger transportation services	Tourist attraction operations	Freight forwarding and trans- portation services	Hotel operations	Travel and travel- related operations	Golf club operations	Power generation	Hot spring resort operations	Corporate and others	Eliminations	Consolidated
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	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	229,650	379,669	2,568,916	389,085	2,014,644	43,617	-	203	9,959	-	5,635,743
Intersegment revenue	1,578	3,335	160	9,776	9,288	-	-	-	28,982	(53,119)	-
Other income and gains	4,513	7,636	3,938	7,148	13,674	-	9,525	-	-	-	46,434
	<u>235,741</u>	<u>390,640</u>	<u>2,573,014</u>	<u>406,009</u>	<u>2,037,606</u>	<u>43,617</u>	<u>9,525</u>	<u>203</u>	<u>38,941</u>	<u>(53,119)</u>	<u>5,682,177</u>
Total											
Segment results	<u>35,594</u>	<u>129,419</u>	<u>83,628</u>	<u>82,687</u>	<u>251,714</u>	<u>(5,792)</u>	<u>8,542</u>	<u>(52,338)</u>	<u>45,768</u>	<u>(814)</u>	<u>578,408</u>
Interest income											43,587
Finance costs											(55,453)
Share of profits and losses of:											
Jointly-controlled entities	-	-	-	-	701	-	174,897	-	-	-	175,598
Associates	45,847	-	-	-	-	-	-	-	(96)	-	45,751
Profit before tax											787,891
Tax											(102,759)
Profit for the year											<u>685,132</u>
Segment assets	133,096	566,867	607,740	3,538,161	2,650,697	296,394	308	2,057,995	63,882	-	9,915,140
Interests in jointly-controlled entities	-	-	(505)	-	49,994	-	1,324,517	-	1,415	-	1,375,421
Interests in associates	417,877	-	-	-	(267)	-	-	-	1,303	-	418,913
Unallocated assets											<u>2,280,182</u>
Total assets											<u>13,989,656</u>
Segment liabilities	23,548	77,288	365,657	59,934	443,306	198,395	779	521,036	25,866	-	1,715,809
Unallocated liabilities											<u>2,410,828</u>
Total liabilities											<u>4,126,637</u>

	Passenger transportation services 2005 HK\$'000	Tourist attraction operations 2005 HK\$'000	Freight forwarding and trans- portation services 2005 HK\$'000	Hotel operations 2005 HK\$'000	Travel and travel- related operations 2005 HK\$'000	Golf club operations 2005 HK\$'000	Power generation 2005 HK\$'000	Hot spring resort operations 2005 HK\$'000	Corporate and others 2005 HK\$'000	Eliminations 2005 HK\$'000	Consolidated 2005 HK\$'000
Other segment information:											
Capital expenditure	51,584	21,414	20,866	13,019	157,133	20,668	-	1,634,040	1,743	-	1,920,467
Depreciation and amortisation	18,626	59,900	13,465	73,554	29,181	16,865	-	1,130	1,943	-	214,664
Impairment losses recognised in the income statement	-	3,029	-	-	4,852	-	-	-	-	-	7,881
Other non-cash expenses	4,471	20	929	-	1,084	-	-	-	-	-	6,504
Fair value gains on derivative financial instruments	-	-	-	-	-	-	-	-	99,204	-	99,204
Surplus on revaluation recognised in the income statement	-	-	3,620	29,620	27,667	-	-	-	4,700	-	65,607
Surplus on revaluation recognised directly in equity	-	-	-	6,249	-	-	-	-	-	-	6,249

(b) *Geographical segments*

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Hong Kong		Mainland China		Overseas		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:								
Sales to external customers	1,835,767	1,657,127	4,670,639	3,592,687	473,140	385,929	6,979,546	5,635,743
Other income and gains	30,337	16,653	20,061	25,239	5,118	4,542	55,516	46,434
	<u>1,866,104</u>	<u>1,673,780</u>	<u>4,690,700</u>	<u>3,617,926</u>	<u>478,258</u>	<u>390,471</u>	<u>7,035,062</u>	<u>5,682,177</u>
Other segment information:								
Segment assets	6,673,148	7,124,658	6,670,946	6,405,236	548,360	459,762	13,892,454	13,989,656
Capital expenditure	88,566	54,721	222,830	1,845,157	1,867	20,589	313,263	1,920,467

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue		
Freight forwarding and transportation services	2,917,295	2,568,916
Travel and travel-related operations	2,554,308	2,014,644
Hotel operations	423,381	389,085
Tourist attraction operations	414,703	379,669
Hot spring resort operations	332,203	–
Passenger transportation services	270,345	229,650
Golf club operations	49,993	43,617
Others	17,318	10,162
	<u>6,979,546</u>	<u>5,635,743</u>
Other income		
Interest income	71,161	43,587
Gross rental income	9,246	16,693
Reinvestment tax credit	14,636	–
Others	14,373	15,893
	<u>109,416</u>	<u>76,173</u>
Gains		
Exchange gains, net	13,163	7,982
Write-back of long outstanding payables	2,958	3,771
Gain on disposal of items of property, plant and equipment, net	1,140	754
Gain on disposal of available-for-sale investments	–	1,341
	<u>17,261</u>	<u>13,848</u>
Other income and gains	<u>126,677</u>	<u>90,021</u>

6. PROFIT BEFORE TAX

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Depreciation	306,397	157,269
Prepaid land lease payments amortisation	60,396	57,395
Impairment of goodwill	16,591	–
Revaluation surplus of investment properties	(11,516)	(36,882)
Revaluation surplus of hotel properties	(16,020)	(28,725)
Fair value gains on derivative financial instruments	–	(99,204)

7. TAX

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 year. 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.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	67,134	63,093
Under/(over) provision in prior years	1,512	(1,204)
Current – Elsewhere		
Charge for the year	42,690	40,993
Overprovision in prior years	(401)	(576)
Overseas – Current tax charge for the year	940	556
Deferred tax	738	(103)
	<u>112,613</u>	<u>102,759</u>
Total tax charge for the year	<u>112,613</u>	<u>102,759</u>

The share of tax attributable to jointly-controlled entities and associates amounting to HK\$28,133,000 (2005: HK\$28,157,000) and HK\$5,619,000 (2005: HK\$3,872,000), respectively, is included in “Share of profits and losses of jointly-controlled entities and associates” on the face of the consolidated income statement.

8. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim – HK2 cents (2005: HK3 cents) per ordinary share	113,907	151,204
Proposed final – HK1 cent (2005: HK3 cents) per ordinary share	56,954	151,165
Adjustments to 2005/2004 final dividend	15,809	27,094
	<u>186,670</u>	<u>329,463</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. 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 year attributable to ordinary equity holders of the parent of HK\$375,004,000 (2005: HK\$612,660,000), and the weighted average of 5,465,769,483 (2005: 4,867,459,714) ordinary shares in issue during the year.

No diluted earnings per share amount is presented for the year end 31 December 2006 as the Company's bonus warrants which would have an anti-dilutive effect to the basic earnings per share, have already been either exercised or expired on 31 May 2006.

For the year ended 31 December 2005, the calculation of diluted earnings per share amount is based on the profit attributable to ordinary equity holders of the parent for the year of HK\$612,660,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year of 4,867,459,714, as used in the basic earnings per share calculation, and the weighted average of 238,408,446 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding bonus warrants.

10. TRADE RECEIVABLES

The Group allows an average credit period from 30 to 90 days to its trade debtors. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions for impairment of doubtful debts, is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Outstanding balances with age:		
Less than 1 month	400,412	315,896
Within:		
1 to 3 months	245,689	211,531
4 to 6 months	45,586	28,444
7 to 12 months	7,968	12,722
1 to 2 years	3,932	2,526
Over 2 years	666	1,795
	<u>704,253</u>	<u>572,914</u>

Trade receivables are non-interest bearing.

11. TRADE PAYABLES

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Outstanding balances with age:		
Less than 1 month	551,306	434,673
Within:		
1 to 3 months	109,183	121,099
4 to 6 months	35,393	15,721
7 to 12 months	8,025	15,919
1 to 2 years	13,273	7,465
Over 2 years	14,437	14,924
	<u>731,617</u>	<u>609,801</u>

The trade payables are non-interest bearing and are normally settled on terms ranging from 30 to 90 days.

12. SHARE CAPITAL

Shares

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:		
5,695,355,525 (2005: 5,038,843,875) ordinary shares of HK\$0.10 each	<u>569,536</u>	<u>503,885</u>

During the year, the movements in share capital were due to the issuance of 656,511,650 ordinary shares of HK\$0.10 each 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 of HK\$990,019,000 before expenses.

13. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2006, the consolidated revenue of the Group was HK\$6,980 million, which represented an increase of HK\$1,344 million and 23.8% from HK\$5,636 million of last year. All Group's business segments sustained growth. Among all, turnover of the Group's freight forwarding operation increased by HK\$348 million over last year. The newly launched businesses including on-line travel consolidator (Mangocity.com), and Zhuhai Ocean Spring Resort ("OSR") generated HK\$568 million turnover for the Group. The consolidated profit attributable to shareholders was HK\$375 million, which was a decrease of HK\$238 million and 38.8% from HK\$613 million of last year. The reasons for the decrease in the consolidated net profit attributable to shareholders were partly caused by non-recurring items, including goodwill impairment of HK\$17 million, a decrease of HK\$38 million in surplus from revaluations of hotels and investment properties, and the fair value gains on convertible bonds amounting to HK\$99 million in 2005. Without taking into account these non-recurring items, the Group's consolidated profit attributable to shareholders decreased by HK\$84 million, or 18.8%, over last year, mainly due to the fact that the Group had invested heavily in the start-up cost and marketing for the newly-launched Mangocity.com and OSR so as to lay solid foundation for their future growth. These two investments did not contribute profits to the Group in 2006. The Group's consolidated net asset value was HK\$11,093 million as at 31 December 2006, representing an increase of HK\$1,230 million and 12.5% from the end of last year.

Tour Operation and Leisure Business

The Group's tour operation and leisure business comprise ground travel agencies, on-line travel consolidator (Mangocity.com), OSR, three theme parks and a golf club in Shenzhen, and art performance produced by China Heaven Creation International Performance Art Co. Ltd. ("China Heaven"). The Group continued to invest heavily in core travel business during 2006. The Group's travel agencies actively targeted MICE (meetings, incentives, conference, and events) market and corporate travel markets to expand business in high end market. OSR and Mangocity.com, two of the major investment projects of the Group, commenced in early 2006. Splendid China and Window of the World continued to invest in remodeling and creating new attraction programs. All these investments significantly increased the Group's long term competency in core travel business. During the year, the turnover of the Group's tour operation and leisure business was HK\$3,368 million, representing an increase of 37.6% over last year. The net profit was HK\$167 million, representing a decrease of 47.5%. The decrease was mainly due to the Group's heavy investment in Mangocity.com and OSR.

During the year, China Travel Service (Hong Kong) Limited ("CTSHK") actively pursued a branding strategy of being an "Expert of China Tour" as well as targeted MICE and specialty tours markets. CTSHK is the authorized General Sales Agent ("GSA") in Hong Kong for the 2008 Olympics Games ticketing sales. CTSHK was awarded with the Gold prize in the Hong Kong Top Service Brand Award during the year. China Travel International Limited ("CTI") and Shanghai China Travel International Limited ("CTI Shanghai") launched series of new travel products such as "Island Tour", "Individual Travelers Tour", "Cruise Trip", etc. Destinations of tour package products include Japan, Korea, Singapore, Australia, and England. CTI successfully won a contract with Visa International to host guests from Visa International during 2008 Olympics Games. CTI Shanghai was rewarded the title of "Recommended Service Provider" for the 2010 World Exhibition in Shanghai. CTI, CTI Shanghai, and CTI Shandong were all ranked among the top 100 travel agencies in China in 2006. Our travel agencies in Australia, New Zealand, US, Canada, Northern Europe, and South Korea all contributed to the Group's results.

The Group's on-line travel consolidator, Mangocity.com, officially commenced operation on 31 March 2006. Mangocity.com is successfully executing a creative marketing strategy and built up a young and energetic image in Mainland China. It has entered contracts with 3,450 hotels, offered discount airfares in over 2,500 flight routes, and launched more than one thousand travel package products. Its delivery network covers more than 40 major cities in China. Total number of membership amounted to over 1.6 million. Mangocity.com is rapidly becoming one of the most prominent on-line travel consolidators in China.

OSR commenced operation on 22 January 2006. With its strong competitive edge to provide multiple facilities and services catering for different recreational and business purposes, OSR has rapidly become one of the leading resorts in Zhuhai City as well as in the Pearl River Delta region. Total number of customers reached three million in 2006, contributing to turnover of HK\$332 million. Most recently, the city government of Zhuhai is planning to zone an area of 30 square kilometers surrounding OSR to develop a satellite city especially for tourism purpose. This will further facilitate OSR's growth in the future.

In light of the intense market competition, the Group's three theme parks, namely the Window of the World, Splendid China and China Folk Culture Villages, continued to invest in remodeling, launch new performance shows and theme activities to generate traffics. Turnover from the three theme parks was HK\$415 million for 2006, an increase of 9.2% over last year.

Turnover of Tycoon Golf Club in Shenzhen was HK\$50 million, representing an increase of 14.6% over last year. During the year, Tycoon Golf Club adopted innovative marketing strategy to bundle its membership sales with China Merchant Overseas China Town Group's villa property promotion campaign, and set up membership sales channel in Korea.

During the year, China Heaven launched revised versions of "The Legend of KungFu", and "The Romantic River Li". "The Legend of KungFu" won Gold prize as the best stage shows to foreign countries, and will be invited to perform in Japan in 2007.

Hotel Operation

During 2006, the Group's five hotels in Hong Kong and Macau strengthened their cooperation with Mangocity.com to increase the mix of business travelers and individual guests so as to gear up average room prices and gross margins. The five hotels actively participated in industry shows in order to promote their branding and acquire new customers. Average occupancy rate increased by 3% to 88% and average room price increased by 11% over last year. Metropark Hotel Wanchai Hong Kong completed a major remodeling and successfully upgraded itself into a boutique hotel targeting business travelers. However, as Metropark Hotel Wanchai Hong Kong suspended operation between April and November for remodeling, turnover of the Group's five hotels was HK\$423 million, an increase of only 8.8% over last year; net profit was HK\$74 million, a decrease of 10.9% over last year. Metropark Hotel Wanchai Hong Kong reopened in November and its average room price increased by 20%. The result of the remodeling was to the Management's satisfaction.

Transportation

Regarding the passenger transportation operations, the number of passengers carried by China Travel Tours Transportation Development (HK) Limited ("CT Tours") reached 2.33 million in 2006, representing an increase of 28.9% as compared with last year. Turnover increased by 17.7% over last year to HK\$270 million. CT Tours' turnover, the number of passengers carried and the number of safety mileages all achieved new record high. CT Tours has become one of the largest cross-border bus companies and its business is developed all over the greater Pearl River Delta region, including Hong Kong, Macau, Guangdong and Guangxi Province. The cross-border shuttle bus service between Hong Kong and Shenzhen sustained steady growth. CT Tours' operation in Macau recorded significant growth during the year. As a result, CT net profit increased by 10.6% over last year. The profit contribution from the ferry operation in the joint venture of Shun Tak China Travel Shipping Investments Limited increased by 26.5% over last year as a result of Macau's robust tourism and the increase of number of passengers in some of the new routes.

Regarding the freight forwarding operation, the consolidated turnover and net profit increased by 13.6% and 14.1%, respectively, to reach HK\$2,917 million and HK\$95 million respectively in 2006. CTS International Transportation Company Limited (“CTS International”) in Shanghai, with its stronghold in Yangtse River Delta region, further enhanced its presence in northern China and belt area around Gulf of Bohai Sea. During the year, CTS International set up business branches in Wuhan, and Chengdu, and extended its sea freight and air freight forwarding business network internationally to Korea, Dubai, and Los Angeles. Overall gross profit from sea freight forwarding operation increased by 20%. Turnover and profit of CTS International in Shanghai increased by 14.2% and 17.7%, respectively, and are expected to sustain growth.

Infrastructure

During the year, the Group’s share of profit of Shaanxi Weihe Power Company Limited was HK\$131 million, a decrease of 25.4% as compared with last year. The decrease of share of profit was mainly due to decrease in amount of on-grid electricity and continuous rise in coal and fuel prices.

Number and Remuneration of Employee

At the end of 2006, the Group had approximately 12,807 employees. The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group’s employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

Liquidity, Financial Resources and Capital Structure

The Board of Directors considers that the financial position of the Group is strong. At the end of 2006, the cash and bank balance of the Group amounted to HK\$2,157 million whereas the interest-bearing bank borrowings amounted to HK\$680 million. The net interest bearing debt to equity ratio was -0.13.

The net book value of the Group’s property, plant and equipment held under finance leases and hire purchase contracts included in the total amount of motor vehicles and furniture, fixtures, and equipment as at 31 December 2006 amounted to HK\$99,000 (2005: HK\$1,257,000).

As at 31 December 2006, 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 no 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:

Amount outstanding as at 31 December 2006	Final maturity date of the loan facilities
HK\$500 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.

As at 31 December, 2006, the Group had no significant pledge of its assets. The contingent liability increased to HK\$10.25 million from HK\$2.14 million as at 31 December 2005.

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

Future Prospects

Hong Kong's tourism industry is expected to sustain steady growth in 2007. The number of Mainland China's cities that are entitled to IVS is expected to increase. The Hong Kong Government will continue to sponsor various events to attract tourists from around the world. The number of tourist arrivals in Hong Kong is expected to reach 26 million in 2007, an increase of 4.6% over 2006. As Mainland China's per capita income increases, travel spending shall continue to increase. Business travel will also become increasingly frequent as a result of the rapidly growing economy. The PRC government has indicated clearly in its 11th 5-year Plan to actively encourage the development of Mainland China's travel industry. As a consequence, travel industry in Hong Kong and Mainland China shall sustain healthy growth.

The Group will seize opportunity to regroup its ground travel agency network and integrate the ground travel agency network with the online travel platform, Mangocity.com, and leverage on its travel resources to increase market share. OSR will continue to increase new leisure facilities and improve quality of service so as to bring in additional customers from Hong Kong, Macau, Taiwan, Pearl River Delta and the MICE market. OSR is modifying its Phase II development plan, which involves an area of 3.8 square kilometers, to complement with Phase I facilities to cater for different market segments. The Group has launched a campaign of "Year of Quality Service" in 2007, striving to become one of the leading and reputable players to offer quality services in Mainland China's travel industry, and further enhance the Group's corporate image. The Group will pursue a rigorous 3-year cost saving plan to reduce cost and expense so to create higher value for shareholders. The Group will also pursue a branding strategy to develop "CTS" into one of the leading brand names internationally. The Group's strategic goal is to continuously enhance the core travel business competency, and to develop into one of the leading travel business groups in Mainland China as well as in Asia, and one of the most prominent companies in the world travel industry.

The Board and the Management are of the view that although the market environment has placed the Group in a favorable position, the Group is facing various uncertainties and unfavorable factors such as global warming and natural disasters. Increasing coal and fuel prices will pose threats to the bottom line of Group's passenger transportation operations and power generation operations. Mangocity.com will require additional investment to facilitate its growth. The Management shall continuously improve the Group's corporate governance standard, rigorously execute the 3-year cost saving plan, conduct stringent risk management measures and streamline existing businesses, so as to strive for healthy growth of the Group.

FINAL DIVIDEND

The Board of Directors has resolved to recommend the payment of a final dividend of HK1 cent (2005: final dividend of HK3 cents) per ordinary share for the year ended 31 December 2006.

Subject to shareholders' approval with regard to the proposed payment of the final dividends at the forthcoming annual general meeting to be held on Friday, 15 June 2007, the proposed dividends are expected to be paid on Thursday, 28 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 12 June 2007 to Friday, 15 June 2007 (both dates inclusive), for the purposes of determining entitlements to the proposed final dividends. In order to qualify for the proposed dividends, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 11 June 2007.

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 year.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting period for the year ended 31 December 2006 except for the following deviations:

With respect to Code Provision A.4.1, the Independent Non-executive Directors have not been appointed for any specific terms since they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Memorandum and Articles of Association of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive directors of the Company, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed the auditing, internal controls and financial reporting matters including a review of the final results of the Company for the year ended 31 December 2006.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's Annual Report for the year ended 31 December 2006, containing all the relevant information required by Appendix 16 of the Listing Rules, will be dispatched to shareholders and will be published on the Stock Exchange's website (www.hkex.com.hk) in due course.

DIRECTORS

As at the date of this announcement, the Executive Directors are Messrs. Zhang Xuewu, Xiong Weiping, Zheng Heshui, Lo Sui On, Zheng Hongqing, Mao Jianjun, Zhang Fengchun, Ng Chi Man, Michael, Liu Li and Ms. Jiang Yan and the Independent Non-Executive Directors are Dr. Yeh Meou Tsen, Geoffrey (Mr. Yeh V Nee being the Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To.

By Order of the Board
Xiong Weiping
Vice Chairman, General Manager

Hong Kong, 12 April 2007