



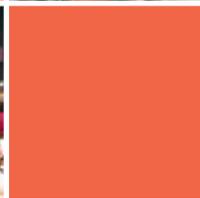
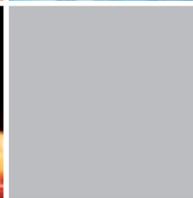
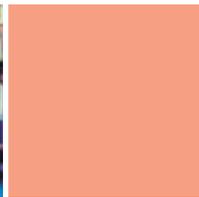
香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 00308)



2009 Interim Report



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Corporate Information

DIRECTORS

Executive Directors:

Mr. Zhang Xuewu (*Chairman*)
Mr. Zheng Heshui (*Vice Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong
Mr. Zhang Fengchun
Mr. Xu Muhan (*Standing Deputy General Manager*)

Independent Non-Executive Directors:

Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

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

DLA Piper Hong Kong

REGISTERED OFFICE

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

Financial Calendar and Investor Relation Information

| | |
|--------------------------------------|--|
| Announcement of 2009 Interim Results | 14 September 2009 |
| Announcement of 2008 Final Results | 6 April 2009 |
| Announcement of 2008 Interim Results | 9 September 2008 |
| Announcement of 2007 Final Results | 8 April 2008 |
| Announcement of 2007 Interim Results | 3 September 2007 |
| Dividends | |
| 2009 Interim | Nil |
| 2008 Final | HK1 cent per share paid on 22 June 2009 |
| 2008 Interim | HK5 cents per share paid on 10 October 2008 |
| 2007 Final | HK3 cents per share paid on 16 June 2008 |
| 2007 Interim | HK3 cents per share paid on 4 October 2007 |
| Annual General Meeting | 26 May 2009 |
| 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 |

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 2009 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

| | Notes | For the six months ended 30 June 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 (Restated) |
|--|-------|--|---|
| CONTINUING OPERATIONS | | | |
| Revenue | 3 | 1,888,806 | 2,015,369 |
| Cost of sales | | (1,156,682) | (1,198,183) |
| Gross profit | | 732,124 | 817,186 |
| Other income and gains | 4 | 27,106 | 138,005 |
| Selling and distribution costs | | (234,521) | (211,329) |
| Administrative expenses | | (523,914) | (478,458) |
| Changes in fair value of investment properties | | 88,143 | 29,970 |
| Loss on write-off of property, plant and equipment | | (29,718) | – |
| Finance costs | 5 | (4,902) | (5,725) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 40,040 | 62,450 |
| Associates | | (8,538) | (25,326) |
| Profit before tax | 6 | 85,820 | 326,773 |
| Tax | 7 | (49,043) | (53,266) |
| Profit for the period from continuing operations | | 36,777 | 273,507 |
| DISCONTINUED OPERATION | | | |
| Profit for the period from a discontinued operation | 8 | – | 428,139 |
| Profit for the period | | 36,777 | 701,646 |
| Attributable to: | | | |
| Equity holders of the parent | | 13,420 | 658,629 |
| Non-controlling interests | | 23,357 | 43,017 |
| | | 36,777 | 701,646 |
| DIVIDEND PER SHARE (HK CENTS) | 9 | | |
| Interim dividend | | – | 2.00 |
| Special interim dividend | | – | 3.00 |
| | | – | 5.00 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK CENTS) | 10 | | |
| Basic | | | |
| – For profit for the period | | 0.24 | 11.56 |
| – For profit from continuing operations | | 0.24 | 4.12 |
| Diluted | | | |
| – For profit for the period | | 0.24 | 11.56 |
| – For profit from continuing operations | | 0.24 | 4.12 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2009*

| | Notes | For the six months ended 30 June | |
|--|--------|-------------------------------------|---|
| | | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 (Restated) |
| Profit for the period | | 36,777 | 701,646 |
| Other comprehensive income for the period: | | | |
| Exchange differences on translation of financial statements of foreign entities | 17, 19 | (29,423) | 228,047 |
| Release of exchange differences upon disposal of subsidiaries | 17, 19 | – | (41,934) |
| Share of hedging reserve of an associate | 17, 19 | 16,203 | (1,384) |
| | | (13,220) | 184,729 |
| Total comprehensive income for the period, net of tax | | 23,557 | 886,375 |
| Attributable to: | | | |
| Equity holders of the parent | | 3,635 | 814,127 |
| Non-controlling interests | | 19,922 | 72,248 |
| | | 23,557 | 886,375 |

Interim Results *(continued)*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

| | Notes | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|---|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 5,269,474 | 5,163,769 |
| Investment properties | | 828,304 | 762,470 |
| Prepaid land lease payments | | 3,052,203 | 3,074,804 |
| Goodwill | | 1,244,769 | 1,244,769 |
| Other intangible assets | | 37,419 | 37,419 |
| Interests in jointly-controlled entities | | 1,095,784 | 1,154,076 |
| Interests in associates | | 338,632 | 333,997 |
| Available-for-sale investments | 12 | 18,001 | 18,033 |
| Prepayments | | 37,175 | 45,654 |
| Deferred tax assets | | 1,199 | 581 |
| Total non-current assets | | 11,922,960 | 11,835,572 |
| CURRENT ASSETS | | | |
| Inventories | | 24,076 | 25,565 |
| Trade receivables | 13 | 207,296 | 230,845 |
| Tax recoverable | | 1,296 | 3,926 |
| Prepayments, deposits and other receivables | | 344,741 | 319,234 |
| Pledged time deposits | 14 | 12,577 | 49,782 |
| Cash and cash equivalents | 14 | 1,594,390 | 1,794,879 |
| Amount due from the immediate holding company | | 34,372 | 28,222 |
| Amounts due from fellow subsidiaries | | 32,777 | 32,526 |
| Total current assets | | 2,251,525 | 2,484,979 |
| CURRENT LIABILITIES | | | |
| Trade payables | 15 | 297,848 | 331,587 |
| Tax payable | | 65,446 | 64,032 |
| Other payables and accruals | | 1,023,956 | 861,403 |
| Bank and other borrowings | | 30,685 | 244,652 |
| Amount due to the immediate holding company | | – | 400 |
| Amounts due to fellow subsidiaries | | 8,535 | 4,006 |
| Total current liabilities | | 1,426,470 | 1,506,080 |
| NET CURRENT ASSETS | | 825,055 | 978,899 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 12,748,015 | 12,814,471 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2009

| | Notes | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|--|-------|--|--|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 12,748,015 | 12,814,471 |
| NON-CURRENT LIABILITIES AND DEFERRED INCOME | | | |
| Deferred income | | 160,985 | 164,408 |
| Bank and other borrowings | | 179,032 | 179,068 |
| Deferred tax liabilities | | 422,017 | 417,635 |
| Total non-current liabilities and deferred income | | 762,034 | 761,111 |
| Net assets | | 11,985,981 | 12,053,360 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 16 | 569,536 | 569,536 |
| Reserves | 17 | 10,891,792 | 10,888,157 |
| Proposed dividend | | – | 56,954 |
| | | 11,461,328 | 11,514,647 |
| Non-controlling interests | 17 | 524,653 | 538,713 |
| Total equity | | 11,985,981 | 12,053,360 |

Interim Results *(continued)*

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

| | Notes | For the six months ended 30 June | |
|--|-------|-------------------------------------|---|
| | | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 (Restated) |
| Total equity at 1 January | | 12,053,360 | 11,640,330 |
| Changes in equity during the period: | | | |
| Dividend paid to ordinary equity holders of the parent | | (56,954) | (170,861) |
| Dividend paid to non-controlling shareholders | 17 | (33,982) | (69,049) |
| Disposal of interest in a discontinued operation | 17 | – | (74,879) |
| Acquisition of subsidiaries | 17 | – | 33,912 |
| Acquisition of non-controlling interests | 17 | – | (4,919) |
| Equity-settled share option arrangements | 17 | – | 28,314 |
| Total comprehensive income for the period, net of tax | | 23,557 | 886,375 |
| Total equity at 30 June | | 11,985,981 | 12,269,223 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2009*

| | For the six months ended 30 June | |
|---|---|--|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 141,322 | 285,348 |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | 84,031 | (110,602) |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | (307,783) | (555,266) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (82,430) | (380,520) |
| Cash and cash equivalents at beginning of period | 1,305,870 | 1,940,041 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 1,223,440 | 1,559,521 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 664,506 | 1,115,585 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 558,934 | 443,936 |
| | 1,223,440 | 1,559,521 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

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 unaudited condensed interim financial information should be read in conjunction with the financial statements of the Group for the year ended 31 December 2008.

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 2008 except in relation to the following:

(i) Adoption of new and revised Hong Kong Financial Reporting Standards

The following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) are adopted the first time for the current period's financial information.

- HKFRS 1 and HKAS 27 Amendments
Amendments to HKFRS 1 *First-time adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- HKFRS 2 Amendments
Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- HKFRS 7 Amendments
Amendments to HKFRS 7 *Financial Instruments: Disclosures*
- HKFRS 8
Operating Segments
- HKAS 1 (Revised)
Presentation of Financial Statements
- HKAS 23 (Revised)
Borrowing Costs
- HKAS 32 and HKAS 1 Amendments
Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
- HK(IFRIC) – Int 9 and HKAS 39 Amendments
Amendments to HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*
- HK(IFRIC) – Int 13
Customer Loyalty Programmes
- HK(IFRIC) – Int 15
Agreements for the Construction of Real Estate
- HK(IFRIC) – Int 16
Hedges of a Net Investment in a Foreign Operation
- Improvements to HKFRSs
Amendments to HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41

The adoption of these new interpretations and amendments has had no significant financial effect on this financial information and there have been no significant changes to the accounting policies applied in this financial information, except for the followings:

HKFRS 8 *Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reporting segments (see note 3), but has had no impact on the reported results or financial position of the Group.

HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial information) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)***1. Basis of Preparation and Accounting Policies** *(continued)***(ii) Change in accounting estimate**

In prior years, the Group's leasehold improvements have estimated useful lives of 5 to 40 years. During the period, the directors of the Company have re-assessed the estimated economic useful lives of leasehold improvements, taking into account of current business environment and conditions, historical usage experience and industry practices, and consider the estimated economic useful lives of 5 to 20 years will be more appropriate to the Group's circumstances. This change in accounting estimate has resulted in an increase in depreciation charge of approximately HK\$103 million for the six months ended 30 June 2009.

2. Comparative Figures

Certain comparative amounts have been restated in the unaudited condensed interim financial information to conform with the presentation in the annual financial statements. The details of the restatements are set out below:

(a) Disposal of subsidiaries

On 9 May 2008, the Group disposed of its entire interests in China Travel Service (Cargo) Hong Kong Limited and Common Well Limited (collectively the "Cargo Business").

Exchange fluctuation reserve of the Cargo Business should have been released to the consolidated income statement instead of retained earnings upon disposal. Comparative amount has been restated accordingly.

(b) Business combination

In accordance with HKFRS 3 *Business Combination*, certain provisionally estimated fair value of assets and liabilities acquired on the acquisition of the Hotel Group (being acquisition 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) in May 2008 were used for the six months ended 30 June 2008. The fair value arising from these acquisitions that was applied provisionally as at 30 June 2008 was re-assessed and calculated during the year ended 31 December 2008. Accordingly, comparative figures have been restated to reflect the finalised fair value of the Hotel Group's assets and liabilities.

The effect of the above restatements on the unaudited condensed consolidated income statement for the six months ended 30 June 2008 is set out below:

| | HK\$'000 |
|--|-----------------|
| Increase in gain on disposal of a discontinued operation | 41,934 |
| Decrease in excess over the cost of a business combination | (54,756) |
| Total effect on profit | (12,822) |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

3. Segment Information

The Group's operating businesses are structured and managed separately, according to the nature of their operation and the products and services they provide. For management purposes, the Group operates in nine business units and has nine reportable operating segments. Each of the Group's reportable operating segment represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other reportable operating segments. A summary on the details of the reportable operating segments are as follows:

- (a) the travel agency and related operations segment engages in the provision of travel agency and related services in Hong Kong, Mainland China, South East Asia, Australasia, the United States of America and countries in the European Union;
- (b) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong, Macau and Mainland China;
- (c) the theme park operations segment engages in the operation of theme parks in Shenzhen, Mainland China;
- (d) the resort operations segment engages in the provision of hot spring facilities and other leisure services in Mainland China;
- (e) the passenger transportation services segment engages in the provision of cross border inter-city bus service operation and shuttle bus service operation between Hong Kong and Mainland China;
- (f) the golf club operations segment engages in the provision of comprehensive facilities to individuals or corporate members of the Group's golf club in Shenzhen, Mainland China;
- (g) the arts performance operations segment engages in the production of art performances in Mainland China;
- (h) the power generation business segment engages in the generation of electricity in Mainland China; and
- (i) the others segment comprises the Group's management services business, which provides management services to the group companies, together with corporate income and expense items.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

3. Segment Information (continued)

Operating segments

The following tables present revenue and results information regarding the Group's operating segments for the six months ended 30 June 2009 and 2008, respectively.

| Six months ended 30 June 2009 (Unaudited) | Travel agency and related operations HK\$'000 | Hotel operations HK\$'000 | Theme park operations HK\$'000 | Resort operations HK\$'000 | Passenger transportation services HK\$'000 | Golf club operations HK\$'000 | Arts performance operations HK\$'000 | Power generation business HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 | | |
|---|---|---------------------------------|---|----------------------------------|---|-------------------------------------|---|---|--------------------|--------------------------|---------------------------------|---|--|
| Segment revenue: | | | | | | | | | | | | | |
| Sales to external customers | 1,023,022 | 304,197 | 214,554 | 165,913 | 143,591 | 26,335 | 10,462 | - | 732 | - | 1,888,806 | | |
| Intersegment revenue | 54,669 | 2,144 | 1,214 | 2,519 | 747 | - | 170 | - | 9,971 | (71,434) | - | | |
| Other income and gains | 6,889 | 5,236 | 86 | 912 | 2,314 | - | 1,925 | - | - | - | 17,362 | | |
| Total | 1,084,580 | 311,577 | 215,854 | 169,344 | 146,652 | 26,335 | 12,557 | - | 10,703 | (71,434) | 1,906,168 | | |
| Segment results | 95,904 | 116,443 | 73,363 | (226,806) | 10,623 | (9,064) | (2,620) | (556) | (7,811) | | 49,476 | | |
| Interest income | | | | | | | | | | | 9,744 | | |
| Finance costs | | | | | | | | | | | (4,902) | | |
| Share of profits and losses of: | | | | | | | | | | | | | |
| Jointly-controlled entities | (4) | - | - | - | - | - | (973) | 41,017 | - | - | 40,040 | | |
| Associates | - | - | - | - | (8,323) | - | - | - | (215) | - | (8,538) | | |
| Profit before tax | | | | | | | | | | | 85,820 | | |
| Tax | | | | | | | | | | | (49,043) | | |
| Profit for the period | | | | | | | | | | | 36,777 | | |
| | Continuing operations | | | | | | | | | | Discontinued operation | | |
| Six months ended 30 June 2008 (Unaudited) | Travel agency and related operations HK\$'000 | Hotel operations HK\$'000 | Theme park operations HK\$'000 | Resort operations HK\$'000 | Passenger transportation services HK\$'000 | Golf club operations HK\$'000 | Arts performance operations HK\$'000 | Power generation business HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 (Restated) | Freight forwarding and transportation services HK\$'000 (Restated) | Consolidated HK\$'000 (Restated) |
| Segment revenue: | | | | | | | | | | | | | |
| Sales to external customers | 1,135,540 | 296,578 | 235,824 | 161,624 | 143,804 | 31,385 | 9,934 | - | 680 | - | 2,015,369 | 1,256,254 | 3,271,623 |
| Intersegment revenue | 4,179 | 2,703 | 4,748 | 3,882 | 771 | - | 90 | - | 11,711 | (28,084) | - | - | - |
| Other income and gains | 13,339 | 4,300 | 100 | 57,472 | 5,519 | 2,107 | 242 | 1,443 | 37,465 | - | 121,987 | 8,102 | 130,089 |
| Total | 1,153,058 | 303,581 | 240,672 | 222,978 | 150,094 | 33,492 | 10,266 | 1,443 | 49,856 | (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) | 1,461 | 268 | 24,845 | - | 279,356 | 36,703 | 316,059 |
| Gain on disposal of a discontinued operation | | | | | | | | | | | - | 397,440 | 397,440 |
| Excess over the cost of a business combination | | | | | | | | | | | 521 | - | 521 |
| 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 | | | | | | | | | | | 326,773 | 432,809 | 759,582 |
| Tax | | | | | | | | | | | (53,266) | (4,670) | (57,936) |
| Profit for the period | | | | | | | | | | | 273,507 | 428,139 | 701,646 |

Interim Results *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

4. Other Income and Gains

| | For the six months ended 30 June | |
|--|-------------------------------------|---|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 (Restated) |
| Interest income | 9,744 | 15,957 |
| Rental income | 4,484 | 3,934 |
| Management fee income | 2,496 | 2,136 |
| Foreign exchange gains, net | – | 88,857 |
| Excess over the cost of a business combination | – | 521 |
| Gain on disposal of property, plant and equipment, net | 265 | – |
| Reinvestment tax credit | – | 25,380 |
| Others | 10,117 | 9,782 |
| | 27,106 | 146,567 |
| Attributable to continuing operations reported in the condensed consolidated income statement | 27,106 | 138,005 |
| Attributable to a discontinued operation | – | 8,562 |
| | 27,106 | 146,567 |

5. Finance Costs

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Interest expenses on bank loans, overdrafts and other loans wholly repayable within five years | 4,902 | 10,398 |
| Less: Interest capitalised | – | (2,879) |
| | 4,902 | 7,519 |
| Attributable to continuing operations reported in the condensed consolidated income statement | 4,902 | 5,725 |
| Attributable to a discontinued operation | – | 1,794 |
| | 4,902 | 7,519 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

6. Profit Before Tax

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

| | For the six months ended 30 June | |
|--|-------------------------------------|---------------------------------|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Depreciation: | | |
| Hotel properties | 46,165 | 35,647 |
| Other property, plant and equipment | 264,876 | 121,871 |
| Amortisation on prepaid land lease payments | 33,363 | 32,570 |
| Foreign exchange losses/(gains), net | 11,539 | (88,857) |
| Changes in fair value of investment properties | (88,143) | (29,970) |
| Gain on disposal of a property | (2,214) | – |

7. Tax

| | For the six months ended 30 June | |
|---------------------------------|-------------------------------------|---------------------------------|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Current: | | |
| The People's Republic of China: | | |
| Hong Kong | 25,414 | 31,732 |
| Elsewhere | 18,761 | 20,315 |
| Overseas | 281 | 352 |
| Underprovision in prior years | 436 | 3,399 |
| Deferred tax | 4,151 | (2,532) |
| Tax charge for the period | 49,043 | 53,266 |

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The share of tax attributable to jointly-controlled entities and associates amounting to HK\$7,238,000 and nil, respectively (2008: HK\$11,133,000 and nil, respectively) is included in "Share of profits and losses of jointly-controlled entities/associates" on the face of the condensed consolidated income statement.

Interim Results *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

8. Discontinued Operation

On 1 November 2007, the Company announced the decision of its Board to dispose of its entire interest in the Cargo Business. The Cargo Business is engaged in freight forwarding and transportation services. The disposal of the Cargo Business was completed on 9 May 2008.

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

| | 2008 HK\$'000 (Restated) |
|---|--------------------------------|
| Revenue | 1,256,254 |
| Expenses | (1,219,091) |
| Finance costs | (1,794) |
| Profit before tax | 35,369 |
| Tax | (4,670) |
| Profit for the period | 30,699 |
| Gain on disposal of a discontinued operation | 397,440 |
| Profit for the period from a discontinued operation | 428,139 |
| Attributable to: | |
| Equity holders of the parent | 424,202 |
| Non-controlling interests | 3,937 |
| | 428,139 |

9. Interim Dividend

The Board does not recommend the payment of an interim dividend (2008: interim dividend of HK2 cents per share and special interim dividend of HK3 cents per share) for the six months ended 30 June 2009.

10. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period of 5,695,355,525 (2008: 5,695,355,525).

The calculations of earnings per share are based on:

| | For the six months ended 30 June | |
|--|-------------------------------------|---|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 (Restated) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation: | | |
| From continuing operations | 13,420 | 234,427 |
| From a discontinued operation (note 8) | – | 424,202 |
| | 13,420 | 658,629 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

11. Property, Plant and Equipment

During the period ended 30 June 2009, additions of items of property, plant and equipment amounted to HK\$493,773,000 and the Group had disposed of and written-off items of property, plant and equipment with an aggregate net book value of HK\$46,197,000.

12. Available-for-sale Investments

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|--------------------------------------|--|--|
| Unlisted equity investments, at cost | 18,001 | 18,033 |

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 date of statement of financial position, based on the invoice date and net of provisions for doubtful debts, is as follows:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 3 months | 179,688 | 206,050 |
| 3 to 6 months | 21,405 | 17,927 |
| 6 to 12 months | 6,203 | 6,868 |
| | 207,296 | 230,845 |

14. Cash and Cash Equivalents

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|-----------------------------|--|--|
| Cash and bank balances | 664,506 | 764,147 |
| Time deposits | 942,461 | 1,080,514 |
| | 1,606,967 | 1,844,661 |
| Less: pledged time deposits | (12,577) | (49,782) |
| | 1,594,390 | 1,794,879 |

Interim Results *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

15. Trade Payables

The aged analysis of the trade payables as at the date of statement of financial position, based on the invoice date, is as follows:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 3 months | 247,043 | 275,677 |
| 3 to 6 months | 15,993 | 18,608 |
| 6 to 12 months | 12,837 | 5,386 |
| 1 to 2 years | 10,861 | 18,292 |
| Over 2 years | 11,114 | 13,624 |
| | 297,848 | 331,587 |

16. Share Capital

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (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 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

17. Reserves

| | Share premium (Unaudited) HK\$'000 | Capital redemption reserve (Unaudited) HK\$'000 | Hedging reserve (Unaudited) HK\$'000 | Capital reserve (Unaudited) HK\$'000 | Enterprise expansion/ reserve fund (Unaudited) HK\$'000 | Exchange fluctuation reserve (Unaudited) HK\$'000 | Retained profits (Unaudited) HK\$'000 | Attributable to equity holders of the parent (Unaudited) HK\$'000 | Non-controlling interests (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|---|--|---|--|--|--|---|---|---|--|----------------------------------|
| At 1 January 2009 | 8,357,579 | 350 | (23,507) | (1,031,343) | 94,685 | 633,590 | 2,856,803 | 10,888,157 | 538,713 | 11,426,870 |
| Share of reserve of an associate | - | - | 16,203 | - | - | - | - | 16,203 | - | 16,203 |
| Exchange realignments | - | - | - | - | - | (25,988) | - | (25,988) | (3,435) | (29,423) |
| Profit for the period | - | - | - | - | - | - | 13,420 | 13,420 | 23,357 | 36,777 |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | (33,982) | (33,982) |
| At 30 June 2009 | 8,357,579 | 350 | (7,304) | (1,031,343) | 94,685 | 607,602 | 2,870,223 | 10,891,792 | 524,653 | 11,416,445 |

| | Share premium (Unaudited) HK\$'000 | Share option reserve (Unaudited) HK\$'000 | Capital redemption reserve (Unaudited) HK\$'000 | Hedging reserve (Unaudited) HK\$'000 | Capital reserve (Unaudited) HK\$'000 | Enterprise expansion/ reserve fund (Unaudited) HK\$'000 | Exchange fluctuation reserve (Unaudited) HK\$'000 | Retained profits (Unaudited) HK\$'000 | Attributable to equity holders of the parent (Unaudited) HK\$'000 | Non-controlling interests (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|--|--|---|---|--|--|--|---|---|---|--|----------------------------------|
| At 1 January 2008 | 8,357,579 | 27,231 | 350 | 7,254 | (1,012,196) | 116,624 | 400,398 | 2,468,349 | 10,365,589 | 534,344 | 10,899,933 |
| Share of reserve of an associate | - | - | - | (1,384) | - | - | - | - | (1,384) | - | (1,384) |
| Exchange realignments | - | - | - | - | - | - | 198,816 | - | 198,816 | 29,231 | 228,047 |
| Disposal of interest in a discontinued operation | - | - | - | - | (19,147) | (34,610) | (41,934) | 53,757 | (41,934) | (74,879) | (116,813) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | - | 33,912 | 33,912 |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | - | (4,919) | (4,919) |
| Transfer from retained profits | - | - | - | - | - | 10,179 | (98) | (10,081) | - | - | - |
| Profit for the period | - | - | - | - | - | - | - | 658,629 | 658,629 | 43,017 | 701,646 |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | (69,049) | (69,049) |
| Equity-settled share option arrangements | - | 28,314 | - | - | - | - | - | - | 28,314 | - | 28,314 |
| Proposed 2008 interim dividend | - | - | - | - | - | - | - | (284,768) | (284,768) | - | (284,768) |
| At 30 June 2008 | 8,357,579 | 55,545 | 350 | 5,870 | (1,031,343) | 92,193 | 557,182 | 2,885,886 | 10,923,262 | 491,657 | 11,414,919 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

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 Ltd. and China Travel Investments Hong Kong Ltd. (collectively the "Vendors") to acquire 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 HK\$'000 | Previous carrying amount HK\$'000 |
|---|--|--|
| Property, plant and equipment | 454,183 | 399,220 |
| Investment properties | 618,383 | 618,383 |
| Prepaid land lease payments | 89,213 | 46,523 |
| Trademarks | 34,291 | – |
| Deferred tax assets | 570 | 570 |
| Inventories | 4,726 | 4,726 |
| Trade receivables, prepayments, deposits and other receivables | 12,752 | 12,752 |
| 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 | (57,526) | (57,526) |
| Amount due to an intermediate holding company | (1,144,102) | (1,144,102) |
| Amounts due to fellow subsidiaries | (4,875) | (4,875) |
| Other borrowings | (26,357) | (26,357) |
| Deferred tax liabilities | (72,950) | (40,115) |
| Non-controlling interests | (33,912) | (19,712) |
| | (21,447) | (106,356) |
| Excess over the cost of a business combination recognised in the condensed consolidated income statement | (521) | |
| | (21,968) | |
| | HK\$'000 | |
| Satisfied by: | | |
| Cash paid for acquisition of the Hotel Group | 1,107,260 | |
| Cash received on the 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 on assets swap | 869,184 | |
| | (21,968) | |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

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:

| | HK\$'000 |
|---|-------------|
| Cash consideration | (1,107,260) |
| Cash and bank balances acquired | 70,968 |
| Net outflow of cash and cash equivalents in respect of the acquisition of the Hotel Group | (1,036,292) |

Since its acquisition, the Hotel Group contributed HK\$32,148,000 to the Group's revenue and HK\$6,335,000 to the Group's consolidated profit for the six months ended 30 June 2008.

Had the combination taken place at the beginning of the corresponding period, the revenue from the continuing operations of the Group and the profit of the Group for the six months ended 30 June 2008 would have been HK\$2,084,659,000 and HK\$271,505,000, respectively.

19. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income are as follows:

| | For the six months ended 30 June | | | | | |
|---|----------------------------------|----------------------------|----------------------------------|----------------------------------|----------------------------|----------------------------------|
| | 2009 (Unaudited) | | | 2008 (Unaudited) | | |
| | Before-tax amount HK\$'000 | Tax expense HK\$'000 | Net-of-tax amount HK\$'000 | Before-tax amount HK\$'000 | Tax benefit HK\$'000 | Net-of-tax amount HK\$'000 |
| Exchange differences on translation of financial statements of foreign entities | (29,423) | – | (29,423) | 228,047 | – | 228,047 |
| Release of exchange differences upon disposal of subsidiaries | – | – | – | (41,934) | – | (41,934) |
| Share of hedging reserve of an associate | 19,405 | (3,202) | 16,203 | (1,657) | 273 | (1,384) |
| | (10,018) | (3,202) | (13,220) | 184,456 | 273 | 184,729 |

20. Pledge of Assets

As at 30 June 2009, the Group's bank deposits of HK\$12,577,000 (31 December 2008: HK\$49,782,000) were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries, certain bank guarantees given in lieu of utility and rental deposits.

As at 30 June 2009, the Group's buildings were pledged to secure banking facilities with an aggregate net carrying value of HK\$18,139,000 (31 December 2008: HK\$5,674,000).

As at 30 June 2009, the aggregate carrying amount of the Group's investment properties which were pledged to secure banking facilities was HK\$12,254,000 (31 December 2008: HK\$12,900,000).

Interim Results *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

21. Contingent Liability

At the statement of financial position date, the Group had the following material contingent liability:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|--|--|--|
| Performance bond given to a customer for due performance of a sales contract | 414 | 415 |

22. 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 statement of financial position date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|---|--|--|
| Investment properties: | | |
| Within one year | 27,171 | 39,757 |
| In the second to fifth years, inclusive | 17,108 | 25,697 |
| | 44,279 | 65,454 |
| Equipment: | | |
| Within one year | 219 | 401 |
| In the second to fifth years, inclusive | – | 30 |
| | 219 | 431 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

22. Operating Lease Arrangements (continued)

(b) As lessee

At the statement of financial position date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|---|--|--|
| Land and buildings: | | |
| Within one year | 43,621 | 63,079 |
| In the second to fifth years, inclusive | 62,197 | 42,300 |
| | 105,818 | 105,379 |
| Plant and equipment and motor vehicles: | | |
| Within one year | 11,272 | 2,698 |
| In the second to fifth years, inclusive | – | 988 |
| | 11,272 | 3,686 |

23. Commitments

At the statement of financial position date, the Group had the following capital commitments:

| | 30 June 2009 (Unaudited) HK\$'000 | 31 December 2008 (Audited) HK\$'000 |
|---|--|--|
| Scenic spots: | | |
| Contracted, but not provided for | 13,335 | 37,090 |
| Authorised, but not contracted for | 24,340 | 39,297 |
| | 37,675 | 76,387 |
| Plant and equipment and motor vehicles: | | |
| Contracted, but not provided for | 1,811 | – |
| Authorised, but not contracted for | 8,749 | 19,250 |
| | 10,560 | 19,250 |
| Land and buildings: | | |
| Contracted, but not provided for | 124,382 | 112,133 |
| Authorised, but not contracted for | 354,104 | 429,487 |
| | 478,486 | 541,620 |
| Leasehold improvements: | | |
| Contracted, but not provided for | 1,108 | 23,093 |

Interim Results *(continued)*

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

24. 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 | |
|---|-----------------------------|----------------------------------|---------------------------------|
| | | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| <i>Paid or payable to:</i> | | | |
| <i>Immediate holding company</i> | | | |
| 1. CTS (Holdings) | Office rental | 8,013 | 7,679 |
| <i>Fellow subsidiaries</i> | | | |
| 2. China Travel Hip Kee Godown Hong Kong Limited | Car parking fees | 700 | 700 |
| 3. China Travel Insurance Advisers Hong Kong Limited | Insurance premium | 2,954 | 3,028 |
| 4. CTS H.K. Metropark Hotels Management Company Limited | Hotel management fees | – | 6,178 |
| 5. China Travel Head Office | Travel-related service fees | 768 | 3,102 |
| 6. China Merchants International Travel Co., Ltd. Shenzhen | Travel-related service fees | 3,639 | 1,502 |
| 7. China Merchants International Travel Co. Guangzhou | Travel-related service fees | 2,402 | 1,465 |
| 8. 上海天澤房地產有限公司 | Office rental | 1,274 | 219 |
| <i>Jointly-controlled entities</i> | | | |
| 9. Shanghai China Travel International Limited | Travel-related service fees | 1,652 | 1,987 |
| 10. Suzhou China Travel International Ltd. | Travel-related service fees | 433 | 1,098 |
| 11. China Travel International (Hangzhou) Ltd. | Travel-related service fees | 5,452 | 3,802 |
| 12. Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe") | Finance cost | 3,784 | 2,995 |
| <i>Associate</i> | | | |
| 13. All China Express Limited | Coach rental | 1,425 | 2,318 |

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION (continued)

24. 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 | |
|---|--|----------------------------------|---------------------------------|
| | | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Received or receivable from: | | | |
| <i>Immediate holding company</i> | | | |
| 14. CTS (Holdings) | Travel permit administration income (Note) | 168,711 | 147,000 |
| 15. CTS (Holdings) | Hotel room rental | 879 | 3,232 |
| 16. CTS (Holdings) | Sale of visa materials | 639 | 657 |
| <i>Fellow subsidiaries</i> | | | |
| 17. China Travel Computer Service H.K. Limited | Application service provider services | 5,197 | 4,508 |
| 18. Metropark Hotel Nanjing | Hotel management fees | 1,682 | 521 |
| 19. China Travel Head Office | Travel-related service fees | 4,384 | 1,872 |
| 20. China Travel International (Hangzhou) Ltd. | Hotel management fees | 1,338 | 448 |
| <i>Jointly-controlled entity</i> | | | |
| 21. Shanghai China Travel International Limited | Admission tickets income | 2,882 | 720 |
| <i>Associates</i> | | | |
| 22. All China Express Limited | Coach rental | 20,307 | 22,400 |
| 23. All China Express Limited | Management fee | 8,876 | 12,325 |
| 24. All China Express Limited | Quota income | 686 | 686 |
| 25. Shun Tak – China Travel Shipping Investments Ltd. | Ticketing commission | 13,123 | 18,612 |
| 26. Shun Tak – China Travel Shipping Investments Ltd. | Management fee | 815 | 944 |

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 was charged at 45% of the gross fee revenue from travel permit applications.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION *(continued)*

24. Related Party Transactions *(continued)*

(b) Other transaction with related parties

- (i) On 22 June 2009, the Group entered into an agreement with Fame Harvest (Hong Kong) Limited, a wholly-owned subsidiary of CTS Holdings, to dispose of the entire registered capital of China Travel International Limited and a 25% shareholding of China Travel International (Hangzhou) Ltd. for a total cash consideration of HK\$205 million. Further details are included in the circular issued by the Company dated 3 July 2009.
- (ii) During the period, an entrustment loan arrangement amounting to RMB150 million (HK\$170 million) was in place between Shaanxi Weihe, a jointly-controlled entity of the Company, Xianyang Guanzhong Hotspring Co., Ltd., a subsidiary of the Company, and a bank.

25. Approval of the Interim Financial Information

This interim financial information was approved and authorised for issue by the Board on 14 September 2009.

Report on Review of Interim Financial Information



**To the Board 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 26, which comprises the condensed consolidated statement of financial position of China Travel International Investment Hong Kong Limited as of 30 June 2009 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, 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 as at 30 June 2009 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

14 September 2009

Management's Discussion and Analysis

BUSINESS REVIEW

During the first half of 2009, the global recession and H1N1 swine flu significantly hit the tourism industry, the Group's business also experienced tough challenge. Numbers of measures had been introduced to cope with the severe environment, including intense marketing efforts, cost control and business restructuring programs. Nevertheless, the Group's overall performance for the period was unsatisfactory.

For the six months ended 30 June 2009, the unaudited consolidated turnover from the Group's continuing operation business was HK\$1,889 million, a decrease of 6.28% from the same period last year. The profit attributable to shareholders for the period was HK\$13 million, a sharp decline of 98.0% from the same period last year. The decline of profit mainly arose from the fact that there was a one-off gain of HK\$397 million from the disposal of freight forwarding and transportation services business in the first half of 2008, which did not appear in the corresponding period of 2009, and some segments results dropped as a result of the negative macro business climate. Besides, it was also attributable to an increase of the depreciation expenses arising from shortened useful lives and write-off of certain fixed assets. During the period, basic earnings per share was HK0.24 cents, a decrease of 97.9% from the same period last year. As at 30 June 2009, the equity attributable to shareholders was HK\$11,461 million, a decrease of 0.46% 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\$1,023 million, a decrease of 9.9% from the same period last year. The outbound travel business fell sharply as a result of the economic recession and the impact of the H1N1 swine flu. The segment result was HK\$96 million, representing an increase of 24.0% from the same period last year, thanks to an increase of gross profit in the travel permit administration services. Business volume of air-ticketing and hotel booking continued to grow in Mangocity.com, the Group's on-line travel consolidator, and operational cost was effectively controlled.

Hotel operations

The Group's hotel operations comprise CTS HK Metropark Hotels Management Company Limited ('CTS Metropark'), five hotels in Hong Kong and Macau and three hotels in Mainland China. The Group's hotel business was adversely affected by the economic recession and the H1N1 swine flu. The turnover of the hotel operations for the first half of 2009 was HK\$304 million, an increase of 2.6% over the same period last year. The segment result for the first half of the year was HK\$116 million, an increase of 56.8% over the same period last year due to an appreciation in property revaluation of HK\$74 million. If excluding the effect of the appreciation in property revaluation, the segment result fell by 42.2%. During the period, the turnover of the five hotels in HK and Macau fell by 20.1%. The revenue per available room (Revpar) of the four hotels in Hong Kong declined by 23.5%, and the Revpar of the Metropark Hotel Macau declined by 6.1%. The Group's hotel operation performance in Beijing, Shanghai and Yangzhou also declined amid the weakening business environment.

Management's Discussion and Analysis *(continued)*

In May 2009, one of the incoming guests of the Metropark Hotel Wanchai was confirmed to be infected by the H1N1 swine flu virus. In order to prevent the virus from spreading and protect Hong Kong public interest, the Group decisively closed down the hotel for fourteen days at the request of the HKSAR Government. Although the hotel's operation was impacted in the short term, the Group considered it a social responsibility and obligation to safeguard the Hong Kong people's interest. Such was highly praised by the public and Chief Executive of HKSAR government, Mr. Donald Tsang Yam-kuen. Metropark Hotel Wanchai had already resumed normal operation in June and its business recovered steadily since then.

Theme park operations

The Group's theme park operations comprise Shenzhen The World Miniature Co., Ltd. ("Window of the World") and Shenzhen The Splendid China Development Co., Ltd. ("Splendid China"). For the first half of 2009 the segment turnover fell by 9.0% to HK\$215 million, and the segment result fell by 25.1% to HK\$73 million. The theme park operations saw significant decline in the number of inbound group tours and the corporate events market. During the period, Window of the World and Splendid China had made all effort on cost containment, marketing and adding new attractions to revive the park traffic growth.

Resort operations

The Group's resort operations comprise the Zhuhai Ocean Spring Resort ("Zhuhai OSR") in Guangdong Province and the Xianyang Guanzhong Hotspring ("Xianyang OSR") in Shaanxi Province. The segment turnover for the first half of 2009 was HK\$166 million, an increase of 2.7% from the same period last year. The segment result incurred a loss of HK\$227 million (2008: profit of HK\$1.13 million), attributable to operational losses, assets write-offs and an increase of depreciation expense. Despite growth of customer traffic, the turnover of Zhuhai OSR fell 5.5% as average spending per customer decreased. Xianyang OSR launched soft opening late last year and was still in its market fostering stage. It incurred operational loss during the period, amid weakening business environment.

Passenger transportation services

The turnover of China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries ("CTTT") for the first half of 2009 was HK\$144 million, a slight decrease of 0.15% over the same period last year. The segment result was HK\$11 million, representing an increase of 68.7% over the same period last year, mainly attributable to improvement of operating efficiency and fuel cost decline. The Group recorded a share of loss of HK\$8.32 million (2008: loss of HK\$25 million) from its associated company, Shun Tak - China Travel Shipping Investments Ltd, in the first half of 2009. The reduction of loss was mainly attributable to a decline of fuel cost during the period.

Golf club operations

The turnover of the CTS Tycoon (Shenzhen) Golf Club ("Tycoon") for the first half of 2009 was HK\$26 million, a decline of 16.1% over the same period last year. The segment result incurred a loss of HK\$9.06 million (2008: loss of HK\$4.14 million). As Tycoon was undertaking a major reconstruction of its golf courses, the number of holes decreased temporarily from twenty-seven to eighteen, and the night time service had been suspended. During the period Tycoon continued to improve its service quality and launched cross selling strategy in cooperation with the Group's other operating segments. The reconstruction is expected to be completed within next year.

Management's Discussion and Analysis *(continued)*

Arts performance operations

In the first half of 2009, "The Legend of Kung Fu", the flagship performance show of China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven") continued to be hailed by foreign tourists in Beijing. The cumulative number of global performances up until June 2009 was close to three thousand. The "Forbidden Love – a tale of classic China", a novel Beijing opera, was being converted into a regular performance show, after its successful performance during the Beijing Olympics Games last year. The Group will continue to invest in China Heaven to develop it into one of the Group's business growth engine going forward.

Power generation business

In the first half of 2009, the on-grid electricity volume of the Group's power generation business declined by 15.7% over the same period last year, due to an oversupply of electricity and a decline in demand in Shaanxi Province. As a result the Group's share of profit from the jointly-controlled entity amounted to HK\$41 million, a decline of 33.3% over the same period last year.

PROSPECTS FOR THE SECOND HALF OF 2009

It is envisioned that the prospect of the global economy will still be of great uncertainty, and the momentum of the global economic recovery appears to be fragile. The environment for the Group's core travel businesses and related operations will still be challenging in the second half of the year. The Group will continue to commit itself in service innovation, efficiency improvement, cost containment, risk management and new business development, proactively cope with the new environment post global financial crisis, and strive to reward shareholders constantly in the long term.

THE DISPOSAL

On 22 June 2009, the Group has entered into a conditional sale and purchase agreement with CTS Holdings and Fame Harvest (Hong Kong) Limited, a wholly owned subsidiary of CTS (Holdings), to dispose of its travel agency business in Mainland China at a consideration of approximately HK\$205 million. The disposal was approved at an extraordinary general meeting of the Company held on 20 July 2009. The consideration of the disposal will be satisfied entirely by cash within 10 business days from the completion date, the date at which the new business licence of China Travel International Limited is issued. As at the date of this report, the disposal has not been completed. For detailed information, please refer to the circular of the Company dated 3 July 2009.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 30 June 2009, the Group had a total of 14,400 employees. Total remuneration cost for the period was HK\$435 million (six months ended 30 June 2008: HK\$467 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 were awarded to certain employees according to the assessment of individual performance.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position remains strong. The Group generally finances its operations with internally generated cash flows and loan facilities from banks. As at 30 June 2009, the cash and cash equivalents of the Group amounted to HK\$1,594 million, and the bank and other borrowings amounted to HK\$210 million. The debt to adjusted capital ratio was 13.4% and the debt includes bank and other borrowings, trade and other payables, amounts due to the immediate holding company and fellow subsidiaries. Adjusted capital includes equity attributable to equity holders of the parent, less proposed dividends.

FOREIGN EXCHANGE RISK

The Group has certain assets, borrowings, and major transactions which are denominated in foreign currencies, thus exposes a certain level of foreign currency risk. The Group has not engaged in any particular hedging vehicles to hedge against foreign exchange risk. However, the Group will closely manage and monitor foreign currency exposure and to make use of appropriate measures when required.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2009, the Group's bank deposits of approximately HK\$13 million (31 December 2008: HK\$50 million) were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries, certain bank guarantees given in lieu of utility and rental deposits.

As at 30 June 2009, the Group's buildings were pledged to secure banking facilities with an aggregate net carrying value of HK\$18 million (31 December 2008: HK\$6 million).

As at 30 June 2009, the aggregate carrying amount of the Group's investment properties which were pledged to secure banking facilities was HK\$12 million (31 December 2008: HK\$13 million).

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2009, the interests and short positions of the Directors and the Company's chief executives in the shares and underlying shares of the Company or any of 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 Listing Rules, were as follows:

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 | Corporate Interests (Note 1) | 50,000 | 0.000878% |
| Mr. Xu Muhan | Family Interests (Note 2) | 2,000 | 0.000035% |

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 Muhan was deemed to be interested in these shares of the Company held by his spouse.

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

A share option scheme (the "Share Option Scheme") was adopted by the Company on 3 June 2002. The Board of the Company 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 Board 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 as stated in the Stock Exchange's daily quotation sheet at the date of grant; (ii) the average closing price of the Company's 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.

The Company had no share options outstanding at the beginning and end of the period under review.

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.

Save as disclosed above, as at 30 June 2009, 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 OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, 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 (Note 1) | 2,993,632,728 | 52.56% |
| CTS (Holdings) | Interest of controlled corporation and beneficial owner (Notes 1 and 3) | 2,993,632,728 | 52.56% |
| Foden International Limited ("FIL") | Beneficial owner (Note 2) | 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.

During the period, Messrs. Zhang Xuewu, 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" above, as at 30 June 2009, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares or underlying shares of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 six months ended 30 June 2009.

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 2009.

Code Provision 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 (or, if the number of directors is not a multiple of three, then the number nearest to but not less than one-third) 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 2009.

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 and Mr. Chan Wing Kee. The Audit Committee and Remuneration Committee 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.

Other Information *(continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code. Having made specific enquiry of all directors, the directors of the Company confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2009.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (2008: interim dividend of HK2 cents per share and special interim dividend of HK3 cents per share) for the six months ended 30 June 2009.

REVIEW OF INTERIM FINANCIAL INFORMATION

The unaudited condensed interim financial information of the Group for the six months ended 30 June 2009 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, 14 September 2009