香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 308)

2009 Annual Report

CONTENTS

Corporate Information

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 *(General Manager)*
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

Ernst & Young

LEGAL ADVISORS

DLA Piper Hong Kong

REGISTERED OFFICE

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

SHARE REGISTRAR

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
BNP Paribus
Chong Hing Bank

Financial Calendar and Investor Relation Information

Announcement of 2009 Final Results		8 April 2010
Announcement of 2009 Interim Results		14 September 2009
Announcement of 2008 Final Results		6 April 2009
Announcement of 2008 Interim Results		9 September 2008
Dividends	**2009 Final**	Nil
	2009 Interim	Nil
	2008 Final	HK 1 cent per share paid on 22 June 2009
	2008 Interim	HK 5 cents per share paid on 10 October 2008
Annual General Meeting in 2010		25 May 2010
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,695,355,525 (as at 31 December 2009)
Website address		irasia.com/listco/hk/ctii
Stock Code		308
Board Lot		2,000 shares
Financial Year End		31 December
Par Value		HK$0.10

Major Operations

Travel Agency and Related Operations

China Travel International Ltd.	100%
China Travel Service (Hong Kong) Limited	100%
Mangocity.com Limited	100%

Hotel Operations

Metropark Hotel Mongkok	100%
Metropark Hotel Wanchai	100%
Metropark Hotel Kowloon	100%
Metropark Hotel Causeway Bay	100%
Metropark Hotel Macau	100%
CTS (HK) Grand Metropark Hotel Beijing	100%
Metropark Service Apartment Shanghai	100%
Yangzhou Grand Metropole Hotel	60%

Scenic Spots Operations

Splendid China	51%
China Folk Culture Villages	51%
Window of the World	51%

Resort Operations

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd	100%
Xianyang Guanzhong Hotspring Co., Ltd.	83.72%

Passenger Transportation Services

China Travel Tours Transportation Services Hong Kong Limited	100%
Shun Tak-China Travel Shipping Investments Limited	29%
China Travel Express Limited	100%

Golf Club Operations

CTS Tycoon (Shenzhen) Golf Club Company Limited	100%

Arts Performance Operations

China Heaven Creation International Performing Arts Co. Ltd.	85.3%

Power Generation Business

Shaanxi Weihe Power Co., Ltd.	51%

Financial Ratios Highlights

	Continuing operations		Including discontinued operation		
	2009*	2008	**2009***	2008	2007
Income statement ratios					
Interest coverage ratio	**19.24**	12.66	**19.24**	42.22	25.58
Earnings per share (HK cents)	**0.49**	1.88	**0.49**	9.33	11.13
Dividend per share (HK cents)	**–**	3.00	**–**	6.00	6.00
Dividend payout ratio (%)	**–**	159.57	**–**	64.31	53.91
Financial position ratios					
Current ratio	**1.71**	1.65	**1.71**	1.65	2.21
Quick ratio	**1.69**	1.63	**1.69**	1.63	2.20
Net assets value per share (HK$)	**2.03**	2.02	**2.03**	2.02	1.95
Net bank and other borrowings to equity	**(0.14)**	(0.11)	**(0.14)**	(0.12)	(0.16)
Debt to capital ratio (%)	**15.53**	14.08	**15.53**	14.08	20.79
Rate of return ratios					
Return on average equity (%)	**0.54**	1.46	**0.54**	5.07	6.41
Return on total capital and borrowings (%)	**1.38**	1.81	**1.38**	4.85	6.14
Market price ratios					
Dividend yield					
Year low (%)	**–**	0.52	**–**	1.05	0.97
Year high (%)	**–**	3.45	**–**	6.90	2.48
Price to earnings ratio					
Year low	**206.12**	46.28	**206.12**	9.32	21.74
Year high	**504.08**	304.26	**504.08**	61.31	55.71

Formula for financial ratios:

Interest coverage ratio	(Profit before tax + Finance costs)/(Finance costs + Capitalised Interest)
Net assets value per share	Net assets attributable to owners of the Company/ Number of shares as at the end of the reporting period
Net bank and other borrowings to equity	(Bank and other borrowings – Cash and cash equivalents)/ Total equity
Debt to capital ratio	Debt/Equity attributable to owners of the Company
Return on average equity	Profit for the year/Average total equity
Return on total capital and borrowings	(Profit before tax + Finance costs)/ (Total liabilities + Total equity)

* *These ratios have taken into account the assets and liabilities of the disposal group classified as held for sale.*

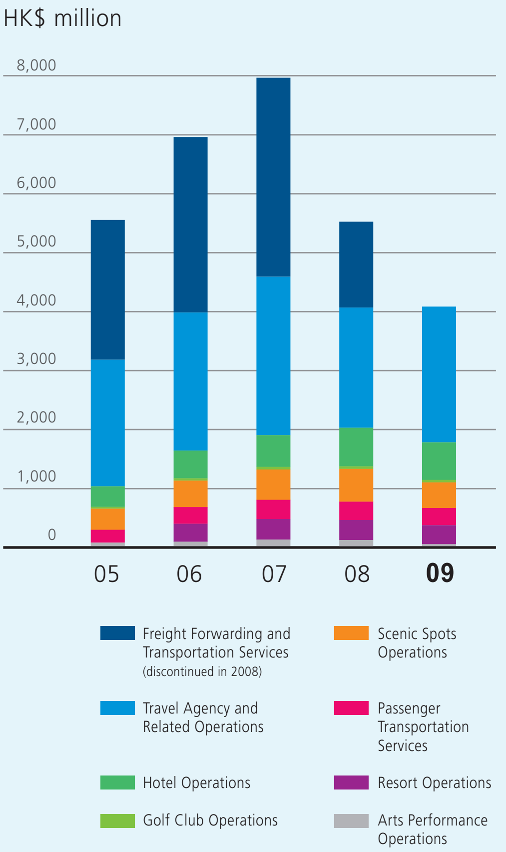
Five Year Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

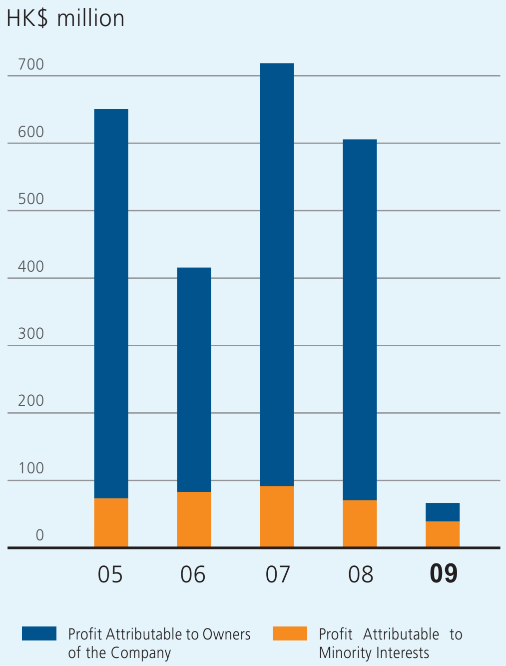
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Results					
CONTINUING OPERATIONS					
REVENUE	**4,090,498**	4,388,443	4,417,195	4,062,251	3,065,524
Cost of sales	**(2,513,357)**	(2,664,108)	(2,687,137)	(2,565,133)	(1,816,259)
Gross profit	**1,577,141**	1,724,335	1,730,058	1,497,118	1,249,265
Other income and gains	**139,426**	211,507	112,618	122,246	84,574
Selling and distribution costs	**(474,784)**	(481,450)	(483,263)	(447,047)	(286,489)
Administrative expenses	**(1,211,580)**	(1,120,283)	(909,834)	(840,227)	(661,870)
Changes in fair value of investment properties	**189,806**	(70,609)	13,947	6,887	25,762
Fair value gains on derivative financial instruments	**–**	–	–	–	99,204
Other expenses	**(80,287)**	(22,435)	–	(16,591)	–
Finance costs	**(10,346)**	(12,013)	(32,713)	(77,793)	(55,159)
Share of profits and losses of:					
Jointly-controlled entities	**60,451**	61,009	248,751	133,354	175,616
Associates	**(1,096)**	(42,339)	67,702	57,588	45,751
PROFIT BEFORE TAX	**188,731**	247,722	747,266	435,535	676,654
Income tax expense	**(123,128)**	(75,062)	(120,626)	(102,352)	(90,914)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**65,603**	172,660	626,640	333,183	585,740
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	428,139	94,272	82,834	71,637
PROFIT FOR THE YEAR	**65,603**	600,799	720,912	416,017	657,377
Attributable to:					
Owners of the Company	**28,100**	531,309	633,974	333,452	584,905
Minority interests	**37,503**	69,490	86,938	82,565	72,472
	65,603	600,799	720,912	416,017	657,377
Assets, liabilities and minority interests					
Total assets	**14,455,603**	14,320,551	14,554,297	13,672,176	13,808,051
Total liabilities	**(2,404,519)**	(2,267,191)	(2,913,967)	(2,808,154)	(4,131,111)
Minority interests	**(483,659)**	(538,713)	(534,344)	(443,482)	(405,520)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**11,567,425**	11,514,647	11,105,986	10,420,540	9,271,420

Financial Review

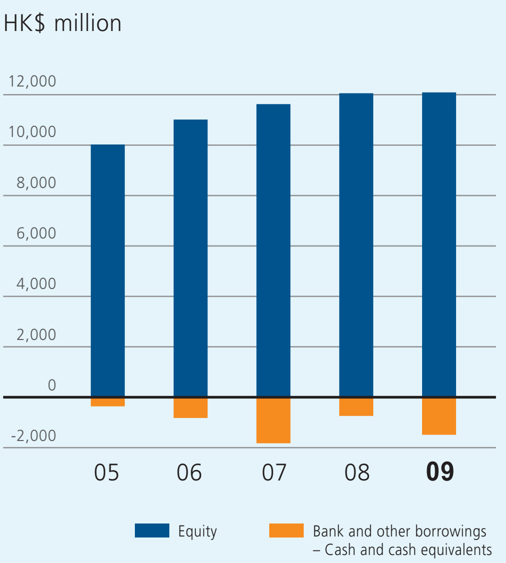
TURNOVER BY PRINCIPAL ACTIVITIES



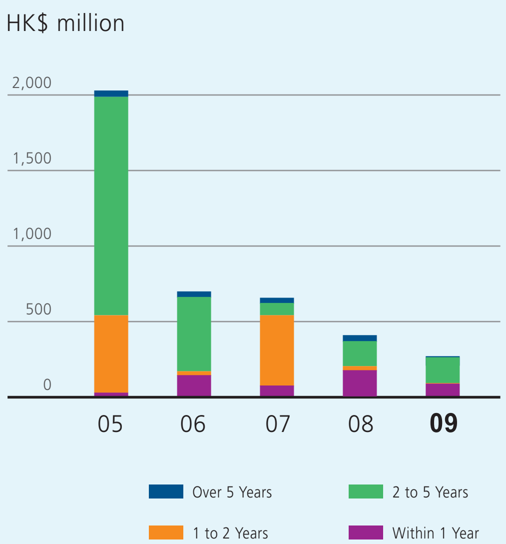
PROFIT FOR THE YEAR



NET BANK & OTHER BORROWINGS TO EQUITY



DEBT MATURITY PROFILE



Biographies of Directors and Senior Management

DIRECTORS

MR. ZHANG XUEWU *Chairman & Executive Director*

Aged 55, appointed in 2001, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company and is also a director of a number of subsidiaries of the Company. Mr. Zhang is a qualified Senior Economist and has extensive experience in corporate management in Mainland of China and overseas. He was the Executive Vice President and Director of Minmetals UK Limited (China), the Senior Vice President of China National Metals & Minerals Import and Export Corp., and the President of Minmetals Development Co., Ltd., a listed company. Mr. Zhang is a National Committee member of the Eleventh Chinese People's Political Consultative Conference, chairman of The Hong Kong Chinese Enterprises Association, a committee member of the Chinese General Chamber of Commerce. He was a member of the Tourism Strategy Group of the HKSAR Government. Mr. Zhang holds a master's degree in Business Administration.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 59, appointed in 1998, is a Director of CTS (Holdings) and director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Zheng has over 20 years' experience in economic development. He graduated from Xiamen University in China.

MR. LO SUI ON *Vice Chairman & Executive Director*

Aged 59, appointed in 2000, is a Director of CTS (Holdings) and is also a director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Lo has over 30 years of operation and management experience in the tourism industry. Mr. Lo is a Deputy of the Eleventh National People's Congress of the PRC, a member of Hong Kong Tourism Board, a member of The Selection Committee for the Second & Third Government of the HKSAR, the Chairman of Committee on Tourism of The Hong Kong Chinese Enterprises Association and the President of Hong Kong Association of China Travel Organisers Limited. In addition, Mr. Lo was appointed as a Director of the Travel Industry Council of Hong Kong, a member of the Tourism Strategy Group of the HKSAR Government and a member of Central Policy Unit Panel on Pan-Pearl River Delta.

MS. JIANG YAN *Executive Director*

Aged 52, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings). Prior to joining CTS (Holdings), Ms. Jiang worked in State Oceanic Administration and All-China Women's Federation. She was also the Senior Assistant of the Director General of Personnel Office and Division Chief of The Liaison Office of the Central People's Government in HKSAR. Ms. Jiang obtained a Master's degree in Business Administration from University of South Australia.

Biographies of Directors and Senior Management

MR. MAO JIANJUN *Executive Director*

Aged 60, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings) and is also a director of a number of subsidiaries of the Company. Prior to joining CTS (Holdings), Mr. Mao was the Chief of General Office of Ministry of Construction P.R. China, the Assistant of Mayor of Xiamen Municipal Government and the Deputy General Manager of China Construction International Corporation. Mr. Mao graduated from Tongji University with a Master's Degree in Business Management.

MR. FANG XIAORONG *Executive director*

Aged 57, appointed in April 2008, is the Director and Deputy General Manager of CTS (Holdings) and the Vice President of China Tourism Restaurant Association. Mr. Fang has extensive experience in tourism and hospitality management. He was the General Manager of China Travel Service (Holdings) Corporation of China, the Chairman of LIDO Hotel Co. Ltd., the Chairman of Oriental Arts Building Ltd. and a Deputy General Manager of its subsidiary – Hilton Beijing Hotel, and the General Manager of China Travel Service Hotel Corporation. He graduated from Beijing International Studies University.

MR. ZHANG FENGCHUN *Executive Director*

Aged 45, appointed in 2000, is the Director and Chief Financial Officer of CTS (Holdings), the Chairman of Shaanxi Weihe Power Co., Ltd., the Vice Chairman of Committee on Financial & Accounting Affairs Steering of The Hong Kong Chinese Enterprises Association and director of a number of subsidiaries of the Company. He is a Certified Public Accountant in China and has extensive experience in investment planning, financial operation and business management. Mr. Zhang graduated from the Accounting Department of Renmin University of China and obtained a Bachelor's degree in Economics in 1987. In January 2006, he graduated from the School of Economics and Management of Tsinghua University with an Executive Master Degree of Business Administration (EMBA).

MR. XU MUHAN

Executive Director and General Manager

Aged 49, appointed as an Executive Director and Standing Deputy General Manager in April 2008 and appointed as the General Manager in October 2009, is the Deputy General Manager of CTS (Holdings), the Chairman of China Travel Service (Hong Kong) Limited and is also a director of a number of subsidiaries of the Company. Mr. Xu has extensive career in tourism and hospitality management. He obtained his master degree in travel and hotel management from The Hong Kong Polytechnic University and the certificate of GMP program from Cornell University.

DR. FONG YUN WAH *S.B.S., J.P.*

Independent Non-Executive Director

Aged 85, appointed as an Independent Non-Executive Director of the Company in 1998, is the Chairman of The Hip Shing Hong Group, Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is also the director of the Real Estate Developers Association of Hong Kong and the council member of United College at the Chinese University of Hong Kong. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC and has also served as the chairman and council member of many charitable organizations in Hong Kong. He was a member of the Selection Committee for the First Government of the HKSAR and was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR.

MR. WONG MAN KONG, PETER

B.B.S.,J.P., BSc, F.C.I.T., MRINA

Independent Non-Executive Director

Aged 61, appointed in 1998, is the Chairman of Audit Committee and Remuneration Committee of the Company. Mr. Wong has over 36 years of experience in industrial, commercial and public service. He is the Chairman of M.K. Corporation Ltd. and North West Development Ltd., as well as the director of Hong Kong Ferry (Holdings) Co. Ltd., Glorious Sun Enterprises Limited, Sun Hung Kai & Co., Limited, Chinney Investments, Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Ltd. and New Times Group Holdings Ltd. Mr. Wong serves as a deputy of the Eleventh National People's Congress of the PRC. He graduated from the University of California at Berkeley in U.S.A.

MR. SZE, ROBERT TSAI TO

Independent Non-Executive Director

Aged 69, appointed in 2005, is a member of Audit Committee and Remuneration Committee of the Company. Mr. Sze is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He was a partner in an international firm of accountants with which he practised for over 20 years. He is also a director of a number of Hong Kong listed companies.

MR. CHAN WING KEE *GBS, OBE, JP*,

Independent Non-Executive Director

Aged 63, appointed in 2007, is a member of Audit Committee and Remuneration Committee of the Company, Managing Director of Yangtzekiang Garment Limited, Director of YGM Trading Limited, Director of Hong Kong Knitters Limited, Director of Asia Television Limited, as well as the Independent Non-Executive Director of China Construction Bank (Asia) Corporation Limited.

Mr. Chan is a Standing Committee Member of the 11th of The Chinese People's Political Consultative Conference, Member of the Selection Committee of Hong Kong S.A.R. and Member of Commission on Strategic Development of Hong Kong S.A.R. He was also a Deputy to the 8th and 9th National People's Congress of China, Standing Committee Member of the 10th of The Chinese People's Political Consultative Conference, member of Hong Kong Affairs Adviser, Committee member of the Preparatory Committee of Hong Kong S.A.R., a member of Basic Law Consultative Committee both in Hong Kong and Macau, Ex-Member of the Judicial Officers Recommendation Commission of Hong Kong and Ex-Chairman of Small and Medium Enterprises Committee of Hong Kong S.A.R.

Mr. Chan is the Permanent Honorary President of Chinese Manufacturers' Association of Hong Kong, Chairman of Friends of Hong Kong Association, Principal President of Federation of Hong Kong Guangdong Community Organizations, Permanent Honorary President & Chairman of Hong Kong Federation of Overseas Chinese Associations, Honorary Chairman of Textile Council of Hong Kong, Honorary President of Federation of Hong Kong Garment Manufacturers, Honorary Chairman of Hong Kong Shippers' Council, Life Honorary President of Hong Kong Chamber of Commerce in China/Guangdong, Honorary Chairman of The Hong Kong Exporters' Association, Honorary President of The Unified Association of Kowloon West, Council Chairman of Cheng Si-yuan (China-International) Hepatitis Research Foundation, Member of Hong Kong/Japan Business Co-operation Committee, Ex-Council Member of Hong Kong Trade Development Council, Ex-Member of Textile Advisory Board and Member of Economic Council of Macau.

SENIOR MANAGEMENT

MR. BO BAOHUA *Deputy General Manager*

Aged 49, appointed in 2007. He was the Deputy General Manager and Vice Chairman of China Travel Service (Holdings) Corporation of China for over 10 years, the General Manager of China Travel Service Head Office, the Chairman of CTS Resort Investment & Development Corp., Ltd. and a Director of Lido Hotel Co. Ltd. He was the Deputy Chief, Chief and Deputy Director of Overseas Chinese Affairs Office of the State Council over for 10 years. He graduated from Shaanxi Normal University and obtained a master of business administration degree (EMBA) from HEC Paris.

Equity attributable to owners of the Company amounted to HK$11,567 million, representing a 0.45% increase as compared to the amount of HK$11,515 million in the last year.

Chairman's Statement

Zhang Xuewu
Chairman

On behalf of the Board of Directors of China Travel International Investment Hong Kong Limited (the "Company"), I hereby announce the annual results of the Company together with its subsidiaries (the "Group") for 2009. The audited profit of the Group attributable to owners of the Company for the year ended 31 December 2009 was HK$28 million, representing a 94.71% decrease from previous year's HK$531 million, which is primarily attributable to an one-off gain of approximately HK$397 million arising from the completion of disposal of non-core business in 2008; the decline in operating profits of certain business segments due to global financial crisis and H1N1 swine flu; and increase in depreciation expenses arising from shortening of useful lives of certain fixed assets. As at 31 December 2009, net asset value of the Group was HK$12,051 million, representing a decrease of 0.02% from previous year's HK$12,053 million. The Board of Directors do not recommend the payment of a final dividend in respect of 2009.

Chairman's Statement

2009 has been the most difficult year in China's economic development since the start of the new century. The tourism industry as a whole as well as the Group's business have been severely hit.

In spite of various obstacles, the Group continued to uphold the guiding principles of "seeking for stable improvement against risks; seeking for good performance and efficiency while achieving larger scale; and seeking for profits through continuous cost reduction". In the meantime, it complied with the requirements of "ensuring safety, seeking for development and attaining standards". The Group sought for profitability from market development, enhancement of existing assets, cost reduction, risk prevention and better management. The Group worked on reform and integration on the one hand and capital market transactions on the other. It implemented a series of measures to improve profitability and sought for new earnings growth engines, ensuring the bottoming out of results and laying a foundation for future development.

The Group innovated new management control and system by adopting "professional operation of subsidiaries under strong headquarter". Through integration of departments, a flat and efficient management structure was established. Through delegation of power, the management efficiency of the headquarter and smooth operation of the subsidiaries were enhanced. The Group succeeded in strengthening the core functionality of departments, reducing management layers and head counts, and enhancing management quality and efficiency.

In its operation and management, the Group took products innovation, strengthening of sales efforts, and market penetration as its top priority. Each of the subsidiaries tracked market trends and developed travel products in demand. Practicable marketing strategies were developed to increase market share, and incentive measures and assessment methods were applied to specific areas such as customer satisfaction, customer loyalty, service quality and new product development. China Travel Service (Hong Kong) Limited commissioned a professional consulting firm to conduct an in-depth research and analysis on Hong Kong's tourism market, and formulated a series of new measures to enhance product design and services. The hotel segment adopted a systematic, standardized and brand-based management system and initiated the establishment of various systems such as the marketing system, customer relationship management system, centralized procurement system, service standard system and brand management system that employed IP technology. Zhuhai Ocean Spring Resort focused on activity planning and product promotion and aggressively proceeded with renovation works and product innovation, resulting in improvement of operating cash flow. Xianyang Ocean Spring Resort strengthened marketing efforts, enhanced service standards and strengthened management, resulting in improvement of operations. Window of the World leveraged on its brand advantages, aggressively innovated products and promoted festival events, maintaining a leading position in the industry in terms of market share and profits amid fierce competition. On the backdrop of series of activities to celebrate its 20th anniversary, Splendid China focused on the market and launched sales promotion, successfully extending the life cycle of the first generation of man-made theme park in China. Tycoon Golf Club carried out reconstruction and normal operation simultaneously, striving to improve customer service quality. China Heaven Creation International Performing Arts Co. Ltd. focused on overseas markets and brought cultural tourism products to the international market. These arrays of proactive and effective initiates for innovation and development ensured that the Group maintained stable operation under challenging conditions.

The Group's aggressive efforts to push forward the integration of internal resources have given a new impetus to the development of its core travel business. By integrating products, markets, customers and marketing, the seven businesses and elements of the Group's core travel business, namely travel agencies, Mangocity.com, hotels, scenic spots and resorts, passenger transportation, golf club and arts performance, were integrated and transformed into an unified value chain to enhance the core competitiveness. Upon completion of the business integration, the Group has carried out substantial foundation work in areas of management system, remuneration mechanism and asset management, strengthening decision making efficiency through lean management structure. To further enhance the profitability of existing assets, the Group conducted an asset review exercise and provided concrete measures to enhance asset return. All these have laid a strong foundation for future development.

The Group has stepped up its capital market transaction initiatives operation. Through the sale of its Mainland travel agencies to and acquisition of quality scenery resort assets from its parent company, the Group further optimize its asset portfolio and accelerate the integration of tourism resources. To further seize the scarce tourism resources in Mainland China, the Group and Dengfeng Songshan Shaolin Culture Tourism Group Co., Ltd. formed the joint venture company, CTS (Dengfeng) Songshan Shaolin Cultural Tourism Co., Ltd., in Henan Province, Mainland

China, for the development and operation of the Songshan Scenic Spot, which includes Shaolin Scenic Spot, Zhongyue Scenic Spot and Songyang Scenic Spot, with an aim to transform it into a national tourist destination. In addition, the Group's passenger transportation business completed the acquisition of Tak Lee Logistics Ltd., resulting in added capacity and further enhancement of market competitiveness. The integration and upgrade of tourism resources will contribute to further enhancement of the overall business scale and economic benefits.

As at 31 December 2009, cash and cash equivalents held by the Group amounted to HK$1,763 million and the net cash was HK$1,495 million. The debt-to-capital ratio was 12.96%. The overall operation and financial position of the Group are sound and stable, laying a sound foundation for steady operation and seizing development opportunities.

Looking forward in 2010, the overall external environment looks better than last year, where opportunities outweigh challenges. As the global financial markets stabilize gradually and the foundation for Mainland economic recovery solidifies, market sentiment improves significantly. However, there are still many uncertainties about global economic development and the foundation for economic recovery remains weak. The economy is still clouded by the financial crisis. It should be noted that China's economy is likely to continue its steady and relatively rapid development, and boosting domestic demand will generate development opportunities for the tourism industry. The Shanghai 2010 World Expo and the construction of the Hainan International Tourist Island will also generate opportunities for the Group's business growth and transformation.

In response to the complex and ever-changing business environment, the Group will adopt a "more conscious, more stable and more prudent" approach in carrying out in-depth analysis and capitalize on changes in situations. It will uphold the guiding principles of "seeking for stable improvement against risks; seeking for good performance and efficiency while achieving larger scale; and seeking for profits through continuous cost reduction" so as to enhance the Group's capabilities to create value and develop in a scientific way. It will focus on operation, profits and business transformation, and take the path of "quality, profits and sustainable development" to ensure the operating results and the quality of development will continue to improve in 2010.

In 2010, the Group will strongly push forward the scale operation and collaborative development of internal tourism resources to strengthen its core travel business. Firstly, the Group will strengthen the scale operation and collaborative development of internal tourism resources broken down in seven core tourism elements. Secondly, there must be new breakthrough and progress in collaboration between traditional travel agencies and Mangocity.com. Thirdly, centralized procurement efforts must be stepped up to reduce procurement costs and enhance profitability. Fourthly, the Group's project development initiatives must be accelerated to enhance profitability, especially the expedition of real estate development in Zhuhai Ocean Spring Resort and investment in new tourism projects. In addition, the Group will strengthen its brand management, implement overall sales plan and strive to enhance its core competitiveness.

The Group will closely monitor the market, enhance its strength by means of capital market transactions, and innovate remuneration mechanisms to reach the next stage of development. The Group will further broaden its horizon for capital expansion and its means of capital market transactions. It will explore and utilize diversified means such as mergers and acquisitions and introduction of strategic investors to attract diversified capital, and use capital as the linkage to complement each other's resources and competitive advantages, and to forge strategic cooperation and strong alliance. The Group will pay closer attention to capital market research, studying trends, seizing opportunities, and planning for development.

The World Tourism Organization has recently published a rating report and market analysis on 181 countries around the globe, saying China's tourism industry still outperformed those of most of the developed countries, and rating China with the fastest growth in the next decade. The gross product of China's tourism industry is projected to grow by 6.5% this year, and by 9% annually over the next decade. It is our firm belief that the Group, with its headquarter in Hong Kong anchoring China, will benefit from the steady growth in the tourism industry in Hong Kong and China, grow rapidly amid competition, and develop into an international tourism group which ranks first in China, leads in Asia and competes well in the world".

Finally, I would like to extend my thanks to all the members of the Board of Directors for their contributions to the Company in the past year, and to the management and all the staff for their diligence. I would also like to express my gratitude to our shareholders and customers for their unwavering support and trust towards the Group.

By Order of the Board
Zhang Xuewu
Chairman

Hong Kong, 8 April 2010

The profit attributable to owners of the Company was HK$28 million, which decreased by 94.71% from HK$531 million of last year

Xu Muhan
Executive Director and General Manager

Management's Discussion and Analysis

BUSINESS REVIEW

In 2009, negative factors such as the lingering impact of the international financial crisis and the outbreak of H1N1 swine flu directly depressed travel frequency and spending of companies, organizations and individuals, which brought adverse impact on the Group's core travel businesses and affected its operational performance to a larger extent. In response to the adverse economic climate, the Group upheld the guiding principles of "maintaining safety operation, pursuing development and excelling in performance" in carrying out its initiatives. Internally, the Group emphasized on market maintenance, cost reduction and enhancement of management control and structure. Externally, the Group actively develops its core travel businesses and forged ahead with mergers and acquisitions of quality tourism assets, adding new business elements to the Group. Through adopting these measures, the Group strived to maintain sound and stable operations and financial position.

For the year ended 31 December 2009, the Group's consolidated revenue from continuing operations was HK$4,090 million, a decrease of 6.79% from last year. The profit attributable to owners of the Company was HK$28 million, a decrease of 94.71% from last year. The decline in profit mainly arose from the facts that: 1) there was an one-off gain of HK$397 million from the disposal of freight forwarding and transportation services business which was completed in 2008 and did not recur in 2009; 2) the results of certain segments dropped as a result of the negative macro economic climate and H1N1 swine flu; and 3) there was an increase in depreciation expenses arising from shortening of useful lives of certain fixed assets. Excluding the two exceptional factors of the one-off disposal gain and accelerated depreciation, the Group's profit from continuing operations was HK$273 million, an increase of 58.07% over last year. Basic earnings per share from continuing operations was HK$0.49 cents, a decrease of 73.94% from last year. The equity attributable to owners of the Company was HK$11,567 million, an increase of 0.45% from the end of last year.

TRAVEL AGENCY AND RELATED OPERATIONS

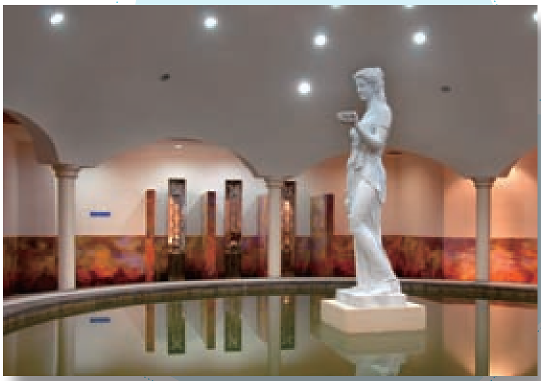
The revenue of the Group's travel agency and related operations in 2009 was HK$2,317 million, a decrease of 7.27% from last year, which was primarily attributable to the remarkable decrease in travel frequency of tourists and their consumption power as a result of the financial crisis and H1N1 swine flu. The segment result was HK$154 million, an increase of 90.77% over last year. Such increase was attributable to increase in gross profit of the travel permit administration services brought by the peak period of permit renewal on the one hand, the continuous improvement in operation of Mangocity.com, and the recovery trends of certain Hong Kong inbound travel markets in the second half of the year. The performance of the outbound travel business of China Travel Service (Hong Kong) Limited ("CTSHK") posted a gradual rebound, while the development of the inbound travel business also improved in certain regions. After the successful completion of special projects for the 2008 Olympics, CTSHK once again succeeded in securing appointment as the general ticketing agency for the 2010 Shanghai World Expo in Hong Kong, ticketing agency in Vietnam, and sales agency for franchised products for the 2010 Shanghai World Expo in Hong Kong. Mangocity.com, the Group's on-line travel consolidator, through active resources integration and marketing innovation, recorded growth in number of members and business volume of air-ticketing and hotel reservation. In particular, business volume of air-ticketing reservation sharply increased by approximately 60%.

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 revenue of the hotel operations in 2009 was HK$643 million, a decrease of 5.97% from last year. The segment result was HK$106 million, a decrease of 38.27% from last year. Under the sluggish business environment, the revenue of the five hotels in Hong Kong and Macau fell by 16.71% and the revenue per available room (Revpar) declined by 20.03%. The operating results of the Group's hotels in Beijing, Shanghai and Yangzhou were also affected to varying extents. Facing the adverse environment of weak demand of the overall hotel market and declining profit, CTS Metropark and its hotels strengthened marketing efforts and controlled cost, maintaining various performance indicators at relatively advanced level among their peers.

SCENIC SPOTS OPERATIONS

In 2009, the revenue of Shenzhen The World Miniature Co., Ltd. ("Window of the World") and Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") fell by 9.77% to HK$438 million, whereas the segment result fell by 34.08% to HK$112 million. Number of visitors amounted to 3.28 million, representing a decrease of 11.60% from last year. Window of the World exhibited relatively strong risk resistance amid economic turmoil and market competition. During the year, it continued to focus on featured festival events and strengthen marketing efforts. To meet the ever changing needs of visitors, it successfully launched a new evening performance show during the Chinese National Day Holiday, which received high praises from visitors and was selected as the designated evening show for the opening ceremony of the 2009 Shenzhen International Tourism and Culture Festival by the Shenzhen municipal government. "Flying Over America", the first show filmed in real locations and to be shown in a theatre with a suspended cylindrical screen, is in the tuning and testing stage, the launching of which will become a new highlight of Window of the World. In response to adverse market conditions, Splendid China strengthened its sales and marketing efforts and launched a series of featured festival events. At the same time, Splendid China actively carried out renovation of the theme park and planned to develop new products and upgrade existing ones, thereby successfully extending the life cycle of the first generation of man-made theme park in China.



RESORT OPERATIONS

The Group's resort operations comprise the Zhuhai Ocean Spring Resort ("Zhuhai OSR") in Zhuhai City, Guangdong Province and the Xianyang Guanzhong Hot Spring ("Xianyang OSR") in Xianyang City, Shaanxi Province. In 2009, the segment revenue was HK$324 million, a decrease of 4.72% from last year. This segment recorded a loss of HK$447 million, compared to a loss of HK$62 million in 2008, which was mainly attributable to increase in depreciation expense arising from shortening of useful lives of certain fixed assets and operational losses. Zhuhai OSR strived to attract leisure tourists by carrying out product innovation and upgrade, and focusing on planning and organization of various activities and featured festival events. In the meantime, it continued to develop conference market and high-end individual travel market in Beijing, Shanghai and Hong Kong. Zhuhai OSR, as one of the organizers of the Cultural Night in Celebration of the 10th Anniversary of the Establishment of the Macao Special Administrative Region, consummated a gala evening show, producing positive advertising results. To further enhance the functionality of facilities and strengthen the capacity for sustainable development, Zhuhai OSR has been actively carrying out preparatory work for the phase two development.

Xianyang OSR was still under market fostering stage. During the year, Xianyang OSR launched five leisure product collections and formulated seven major pricing systems, establishing initial differentiating features in a competitive market which raised its brand awareness. The number of visitors received and revenue recorded increases over last year. Xianyang OSR expedited the construction of the five-star conference hotel which will be complementary to the hot spring center, with an aim to offer wider functionality, enhance their respective customer sources and realize the overall competitive advantages of the project.

PASSENGER TRANSPORTATION SERVICES

The revenue of Passenger Transportation Services in 2009 was HK$293 million, representing a slight decrease of 2.18% from last year. The segment result was HK$24 million as compared to a loss of HK$33 million last year, which was mainly attributable to fuel cost decline and stringent cost control and the share of profit of HK$1.84 million from a new jointly-controlled entity during the year. In response to the adverse market situation of declining visitor traffic between Hong Kong and Guangdong Province, China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries adjusted the allocation of capacity in a timely manner and improved operating efficiency, maintaining a leading position among its peers.

In 2009, the Group's share of losses from its associated company, Shun Tak-China Travel Shipping Investments Limited, was HK$0.9 million, compared to share of losses of HK$42 million in 2008. The reduction in losses was mainly attributable to decline in fuel cost and effective cost control.

GOLF CLUB OPERATIONS

The revenue of the CTS Tycoon (Shenzhen) Golf Club ("Tycoon") in 2009 was HK$43 million, a decline of 23.58% from last year. This segment recorded a loss of HK$68 million, compared to a loss of HK$50 million in 2008. The decline was primarily attributable to the continuing reconstruction of its golf course, the limited services provided as a result, and the suspension of night time service. Under the circumstances, Tycoon emphasized on enhancing its service quality, launched golf plus accommodation packages and offered discounts to golfers to maintain its market share. The reconstruction project for the 27-hole "Dye" course, designed by a world-class American designer, was completed in February 2010, and has been put into operation. Another reconstruction project for the 18-hole "Hurdzan" golf course, designed by another famous designer, commenced immediately. Upon completion of the reconstruction project of the 45-hole golf course and the new 13,000 meters squared clubhouse, Tycoon's facilities standard and service quality will be greatly enhanced, which will in turn bring increases in the number of saleable debentures and their values.

ARTS PERFORMANCE OPERATIONS

China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven") accelerated its strategic move of "Reaching Out", focusing on the overseas market. "The Legend of Kung Fu", the flagship performance show of China Heaven, was brought to the famed London Coliseum in the U.K. with 27 performances from July to August 2009, receiving wide acclaims from the local media and audience. At the end of the year, China Heaven acquired the White House Theatre in Branson, Missouri, the United States at relatively low consideration, taking it as the base for overseas regular performance and bringing the cultural tourism products to the international market further.

POWER GENERATION BUSINESS

Due to an oversupply of electricity in Shaanxi Province, the on-grid electricity volume of Shaanxi Weihe Power Co., Ltd. ("Weihe Power") decreased by 6.88% compared to last year. The Group's share of profit from this jointly-controlled entity, Weihe Power, amounted to HK$57 million, representing a slight decline of 2.72% from last year. During the year, Weihe Power maintained the electricity volume and tariff, controlled cost and completed the desulfurization project which reduced pollution. The overall operating efficiency achieved leading position in the regional market.

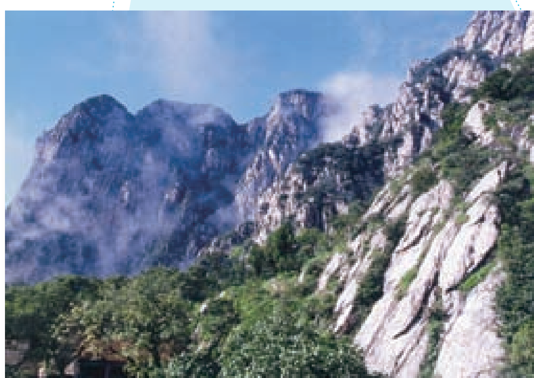
DISPOSAL AND ACQUISITION

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 cash consideration of HK$205 million. CTS (Holdings) has granted an option to the Group to acquire the consolidated and integrated travel agency business within a period of three years after completion or such extended period of up to 6 years after completion upon request by the Group. The disposal was approved at an extraordinary general meeting of the Company held on 20 July 2009. 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.

On 18 November 2009, the Group has entered into a conditional sale and purchase agreement with Dean Glory Development Limited, a wholly-owned subsidiary of CTS (Holdings), to acquire the scenery resort business of CTS (Holdings) in Mainland China at a cash consideration of HK$275 million. The acquisition was approved at an extraordinary general meeting of the Company held on 18 December 2009 and has been completed on 31 December 2009. For detailed information, please refer to the circular of the Company dated 3 December 2009.

FORMATION OF THE JOINT VENTURE

On 25 December 2009, the Group and Dengfeng Songshan Shaolin Culture Tourism Group Co., Ltd. formed the joint venture company, CTS (Dengfeng) Songshan Shaolin Cultural Tourism Co., Ltd. (the "JV Company") in Henan Province, Mainland China, for the development and operation of the Shaolin Scenic Spot, Zhongyue Scenic Spot and Songyang Scenic Spot under the Songshan Scenic Spot. The Group subscribed for 51% of the enlarged registered capital of the JV Company by contributing RMB68.85 million in cash. For detailed information, please refer to the announcement of the Company dated 24 December 2009.



CORPORATE SOCIAL RESPONSIBILITY

The Group has always been committed to social responsibility and public welfare undertakings. When the first incident of H1N1 swine flu was confirmed in Hong Kong, the Group, in cooperation with the HKSAR Government, closed down and quarantined Metropark Hotel Wanchai where an infected patient had stayed, and dealt with and resolved the crisis satisfactorily. The Group succeeded in preventing the first incident of H1N1 swine flu from spreading, exhibited good corporate image and received high praises from the HKSAR Government, the general public and hotel guests. To support the disaster-affected areas in Taiwan and rural poverty-stricken areas in Mainland China, CTSHK organized, through lucky draw, free group tours to visit the disaster-affected areas in Taiwan and Liping County in Guizhou Province to express concerns for the locals. In support of the administration of the HKSAR Government, the Group has taken the initiative in recent years in arranging dozens of Hong Kong university graduates as trainees at its tourism subsidiaries. CTS Metropark continued to set up scholarship programs in two universities in Mainland China to honor those students in hospitality management with academic excellence and high morality.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 31 December 2009, the Group had approximately 14,952 employees. 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 were 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 financial position of the Group was strong. As at 31 December 2009, the cash and cash equivalents of the Group's continuing operations amounted to HK$1,763 million whereas the interest-bearing bank and other borrowings amounted to HK$268 million. The debt-to-capital ratio was 12.96%.

As at 31 December 2009, the Group had bank 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 utilized loan facilities are as follows:

Amount outstanding as at 31 December 2009	Final maturity date of the outstanding loan balance
HK$60 million	29 January 2010

Interest is charged on the outstanding balance at 0.6% 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 2009, the Group did not hold any material fixed assets in the form of finance leases and hire purchase contracts.

As at 31 December 2009, the Group has a pledged time deposit of HK$33 million and pledged assets of HK$18 million. The capital commitments of the Group were HK$555 million and the Group has no material contingent liabilities as at 31 December 2009.

BUSINESS PROSPECTS

According to the economic outlook by the International Monetary Fund, the global recovery is off to a stronger start than earlier anticipated but is proceeding at different speeds in the various regions. However, the foundation of global economic recovery is not stable as yet and the global economy still did not emerge totally from the aftermath of the financial crisis. It is expected that the pace of recovery of the world economy for year 2010 will remain slow and uncertain. Since the beginning of 2009, the Chinese government introduced a RMB4,000 billion economic stimulus package and later published the "Opinions on Accelerating the Development of Tourism Industry" deciding to foster the tourism industry as the strategic pillar industry of national economy. Together with other favourable factors such as the hosting of 2010 Shanghai World Expo, it is expected that the accelerated development of tourism industry in Mainland China will be enhanced.

In 2010, the Group will carry out in-depth analysis, leverage on changes in situations, track the trends of the tourism industry continually, focus on market and profits, and take the path of "quality, profits and sustainable development". In respect of existing assets, the Group will focus on the operation and performance enhancement of Zhuhai OSR, Xianyang OSR and Mangocity.com. The Group will enhance the management standard and quality of service of Songshan Scenic Spot with an aim to spur significant growth in number of tourists received. The Group will accelerate the integration of internal resources and strengthen the business interaction of traditional travel agencies and mangocity.com to achieve better synergies. In addition, the Group will seize market opportunities brought by the 2010 Shanghai World Expo and Guangzhou Asian Games through innovation and development of featured tourism products in order to achieve interaction and collaboration in chains of the tourism industry and in every region.

In respect of additional assets, the Group will secure more diversified financing methods, and enhance the core competitiveness of travel businesses through orderly capital expenditure. The Group will allocate adequate capital for the development of new projects and the renovation and upgrade of existing facilities and addition of complementary facilities in existing theme parks and scenic spots in order to maintain their distinguished product features and market appeal. The Group will complete the master planning for Zhuhai OSR phase two and commence construction of tourism & real estate-oriented new projects in a timely manner, so that phase one and phase two can complement each other and create synergies to enhance the overall sustainable development capabilities of the Zhuhai OSR and improve the overall investment return. The Group will continue to actively seek for high quality tourism projects and scarce tourism resources at home and abroad, and carry out investments and mergers and acquisitions in a prudent manner in order to add new earnings growth engines. The Group will actively study various capital operation methods, such as carving out the high-quality assets when the time is appropriate.

The Group believes that the global economic recovery, the steady growth of Mainland economy and the economic recovery in Hong Kong provide a more favourable business environment for the Group. Under its established strategy, the Group has confidence in seizing market opportunities, enhancing operational capability, improving performance, and striving for better returns for shareholders.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the principal activities of the Group's principal subsidiaries are set out in note 39 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 59 to 173.

The Board does not recommend the payment of a final dividend in respect of the current year to the shareholders.

DONATIONS

During the year, the Group made charitable donations amounting to HK$58,000 (2008: HK$2,248,000).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 7. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Summaries of the particulars of the Group's principal hotel properties and principal investment properties are set out on pages 174 and 176, respectively. These summaries do not form part of the audited financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the financial statements.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$1,090,599,000. In addition, the Company's share premium account, in the amount of HK$8,357,579,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager) (Resigned on 25 March 2009)*
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 *(General Manager)*

Independent non-executive directors:

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

The Company has received annual confirmations of independence from Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee and still considers them to be independent.

In accordance with Article 101 of the Company's Articles of Association, Mr. Lo Sui On, Mr. Fang Xiaorong, Mr. Wong Man Kong, Peter and Mr. Chan Wing Kee shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 9 to 12 of the annual report.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings every year. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party during the year.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 2.4 to the financial statements.

MANAGEMENT CONTRACTS

In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the controlling shareholder of the Company (and is therefore a connected person of the Company), pursuant to which CTS (Holdings) has undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and will continue thereafter unless it is terminated by either party giving to the other one month prior written notice. No payment has been made during the year by the Group under such agreement.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2009 and up to the date of this annual report, the Group had the following connected transactions and continuing connected transactions, details of which are as follows:

Connected transactions

(1) On 22 June 2009, CTS (Holdings) and Fame Harvest (Hong Kong) Limited ("Fame Harvest"), a wholly-owned subsidiary of CTS (Holdings), entered into an agreement with the Company and China Travel Service (Hong Kong) Limited ("CTSHK"), a wholly-owned subsidiary of the Company, (collectively the "Vendors") pursuant to which the Vendors conditionally agreed to sell and Fame Harvest conditionally agreed to acquire the entire shareholding in the registered capital of China Travel International Limited ("CTIL") and the 25% shareholding in the registered capital of China Travel International (Hangzhou) Limited at an aggregate consideration of HK$205,343,587 (the "Disposal"). The consideration of HK$205,343,587 will be satisfied entirely by cash payable by Fame Harvest to the Vendors within 10 business days from the date of completion of the Disposal. As one or more of the applicable

percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the Disposal exceeded 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. CTS (Holdings) is a substantial shareholder of the Company, and thus Fame Harvest is a connected person of the Company. Therefore, the Disposal also constitutes a connected transaction for the Company and is subject to the approval by the independent shareholders in the extraordinary general meeting under the Listing Rules. The Disposal has been approved by the independent shareholders in the extraordinary general meeting on 20 July 2009. On 21 December 2009, the Vendors, CTS (Holdings) and Fame Harvest entered into a deed of variation pursuant to which the long stop date of the agreement has been extended to a date on or before 30 June 2010 or such other date as the parties may agree. As at the date of this report, the Disposal has not been completed. The details of the Disposal are set out in the Company's announcement dated 22 June 2009 and the circular dated 3 July 2009.

(2) On 18 November 2009, the Company entered into an agreement with Dean Glory Development Limited ("Dean Glory"), a wholly-owned subsidiary of CTS (Holdings), pursuant to which Dean Glory conditionally agreed to sell and the Company conditionally agreed to acquire the entire issued share capital of Trump Return Limited ("Trump Return"), a wholly-owned subsidiary of Dean Glory, and the entire shareholder's loan and other indebtedness owed by Trump Return to Dean Glory as at the date of completion of the Acquisition at an aggregate consideration of HK$275,000,000 (the "Acquisition"). The consideration of HK$275,000,000 will be payable in cash by the Company to Dean Glory within 5 business days from the date of completion of the Acquisition. As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the Acquisition exceeded 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) the Listing Rules. CTS (Holdings) is a substantial shareholder of the Company, and thus Dean Glory is a connected person of the Company. The Acquisition also constitutes a connected transaction for the Company and is subject to the approval by the independent shareholders in the extraordinary general meeting under the Listing Rules. The Acquisition has been approved by the independent shareholders in the extraordinary general meeting on 18 December 2009. The Acquisition has been completed on 31 December 2009. The details of the Acquisition are set out in the Company's announcement dated 18 November 2009 and the circular dated 3 December 2009.

(3) On 10 September 2009, China Heaven Creation International Performing Arts Co. Ltd. ("China Heaven"), a non-wholly-owned subsidiary of the Company, and China Travel Hong Kong (Qingdao) Ocean Spring Co., Ltd. ("CTI (Qingdao)"), an indirect wholly-owned subsidiary of CTS (Holdings), entered into the design agreement pursuant to which China Heaven agreed to provide a theatre concept design proposal, interior craft design requirements and technical standards of stage equipment for the theatre of Qingdao Qcean Spring Resort for CTI (Qingdao) before 20 December 2009 for a consideration of RMB3.8 million. As the applicable percentage ratios in respect of the transactions under the design agreement is less than 0.1%, the design agreement and the transactions contemplated thereunder were not subject to any reporting, announcement and shareholders' approval requirement at the time it was entered into. China Heaven has on 7 April 2010 entered into a production agreement with CTI (Qingdao) pursuant to which China Heaven agreed to create and prepare a performance show for CTI (Qingdao) to be staged in the theatre of Qingdao Ocean Spring Resort on or before 1 May 2011 for the consideration

of RMB13.2 million. CTS (Holdings) is a substantial shareholder of the Company, and thus CTI (Qingdao) is a connected person of the Company. Therefore, the transactions under the design agreement and the production agreement (the "Transaction") constitute connected transactions for the Company under Rule 14A.13(1)(a) of the Listing Rules. Pursuant to Rule 14A.25 of the Listing Rules, the transactions contemplated under the design agreement and the production agreement will be aggregated and treated as if they were one transaction. As the applicable percentage ratios exceed 0.1% but less than 2.5%, the Transaction is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirement under the Listing Rules. For detailed information, please refer to the announcement of the Company dated 7 April 2010.

In the opinion of the Company's independent non-executive Directors, the above connected transactions were entered into in the ordinary and usual course of business and based on normal commercial terms agreed after arm's length negotiations between the parties and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

Continuing connected transactions

(i) On 24 October 1995, Shenzhen The World Miniature Co. Ltd. ("Window of the World"), a subsidiary of the Company, entered into a lease agreement with a lease term of eighteen years with Huaqiaocheng Group Company ("Huaqiaocheng") which stated that the increase in annual rent for the third renewal period between 28 April 2007 and 5 May 2012 was to be negotiated and agreed between the parties, and subject to a maximum increment of 15% as compared with the annual rent for the period between 28 April 2002 and 27 April 2007. On 10 September 2007, Window of the World entered into a supplemental agreement with Huaqiaocheng to govern the lease transaction with Huaqiaocheng for the period commenced on 28 April 2007 and ending on 27 April 2010 at an annual rent of RMB10.89 million (the "Huaqiaocheng CCT"), representing an increment rate of 10% on the rent for the previous period.

Huaqiaocheng owns approximately a 56% interest in Shenzhen Overseas Chinese Town Holding Company ("Overseas Chinese Town"). Overseas Chinese Town in turn owns a 49% interest in Window of the World, and is therefore a substantial shareholder of Window of the World. Accordingly, Huaqiaocheng and Overseas Chinese Town are connected persons of the Company, and the Huaqiaocheng CCT constitutes a continuing connected transaction of the Company.

Since one or more of the applicable percentage ratios under the Listing Rules for the cap on the aggregate annual consideration for the Huaqiaocheng CCT payable by the Group exceed 0.1% but are all less than 2.5%, the Huaqiaocheng CCT is exempt from the independent shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Huaqiaocheng CCT's cap for the three years ended 31 December 2009 was RMB10.89 million per year. The actual amount of the transactions for the year ended 31 December 2009 was RMB10.89 million.

For detailed information in this regard, please refer to the announcements issued by the Company on 9 October 2007.

(ii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its associates (collectively, the "CTS (Holdings) Group") and China National Travel Service (HK) Group Corporation ("China CTS (HK)") and its associates (collectively, the "China CTS (HK) Group") in the following categories:

(a) Provision of Travel Permission Administration by CTSHK (note (1));
(b) Provision of insurance brokerage services by CTS (Holdings) Group (note (2));
(c) Lease arrangements with CTS (Holdings) Group as lessor (note (2));
(d) Provision of Application Service Provider ("ASP") related services to CTS (Holdings) Group (note (2));
(e) Provision of hotel management fees to CTS (Holdings) Group (note (3));
(f) Provision of travel related services to China CTS (HK) Group (note (2));
(g) Provision of tour group services to China CTS (HK) Group (note (4)); and
(h) Provision of tour group services by China CTS (HK) Group (note (4)).

(1) On 15 May 2001, CTSHK, a wholly-owned subsidiary of the Company, entered into an agreement (the "Agency Agreement") with CTS (Holdings), a controlling shareholder of the Company (and is therefore a connected person of the Company), to document the transactions relating to the general administration services provided in Hong Kong for application for tourist visas and travel permits for entry into the PRC for a fixed term up to 30 June 2047 (the "Travel Permit Administration").

CTSHK has continued to provide the Travel Permit Administration during its ordinary and usual course of business and in accordance with the terms of the Agency Agreement. At the extraordinary general meeting held on 22 December 2006, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$400 million for the Travel Permit Administration for each of the three financial years ended 31 December 2009. At the extraordinary general meeting held on 18 December 2009, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$420 million for the Travel Permit Administration for each of the three financial years ending 31 December 2012. For detailed information, please refer to the Company's announcement dated 18 November 2009 and the circular dated 3 December 2009.

(2) The Company entered into a master agreement (the "2006 Master Agreement") with CTS (Holdings) on 29 December 2006 to govern the continuing connected transactions referred to in (b), (c) and (d) above for a term commenced from 1 January 2007 and ended on 31 December 2009. On the same date, the Company also entered into a master agreement with China CTS (HK) to govern the continuing connected transactions referred to in (f) above between the Group and China CTS (HK) Group for a term commenced from 1 January 2007 and ended on 31 December 2009. On 18 November 2009, the Company entered into a renewal agreement with CTS (Holdings) to renew the terms of the continuing connected transactions referred to in (b), (c) and (d) above for a term commenced from 1 January 2010 and ending on 31 December 2012, and to enlarge the scope of services of certain continuing connected transactions in the 2006 Master Agreement.

As CTS (Holdings) is a substantial shareholder of the Company, members of the CTS (Holdings) Group are connected persons of the Company. China CTS (HK) is the sole shareholder of CTS (Holdings), and accordingly members of the China CTS (HK) Group are also connected persons of the Company. For detailed information, please refer to the Company's announcements dated 29 December 2006 and 18 November 2009.

(3) On 9 May 2008, the Company and CTS (Holdings) entered into a hotel management services master agreement (the "HMS Master Agreement") to govern the continuous provision of hotel management services by CTS H.K. Metropark Hotels Management Company Limited ("CTS Hotels Management"), a wholly-owned subsidiary of the Company, to certain subsidiaries of CTS (Holdings) for a term commenced from 9 May 2008, date of signing of the HMS Master Agreement, and ending on 31 December 2015. Since one or more of the applicable percentage ratios in respect of the annual hotel management fees under the HMS Master Agreement exceed 0.1% but are all less than 2.5%, the continuous connected transactions are only subject to reporting and announcements requirements under Chapter 14A of the Listing Rules and do not require independent shareholders' approval. For detailed information, please refer to the announcement and circular respectively issued by the Company on 1 November 2007 and 21 November 2007.

(4) On 19 August 2008, the Company and China CTS (HK) entered into a tour group service agreement (the "Tour Group Services Agreement") in relation to the provision of tour group services by the Group and China CTS (HK) Group to each other for the period commenced on 1 January 2008 and ending on 31 December 2010 in order to benefit from the extensive coverage of the travelling network of China CTS (HK) Group and to allocate resources more efficiently. China CTS (HK) is a substantial shareholder of the Company and is therefore a connected person of the Company. Accordingly, the transactions will constitute continuing connected transactions of the Company under the Listing Rules. Since one or more of the applicable percentage ratios in respect of the continuing connected transactions, on an annual basis, are more than 0.1% but are all less than 2.5%, the continuing connected transactions and the caps are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. For detailed information, please refer to the Company's announcement dated 19 August 2008.

As mentioned under the section headed "Connected Transactions" above, CTIL shall cease to be a wholly-owned subsidiary of the Company on completion of the Disposal and therefore the continuing provision of tour group services between the Group and CTIL together with its subsidiaries shall constitute continuing connected transactions of the Company under the Listing Rules. It is expected that the original annual cap for the provision of tour group services by China CTS (HK) Group and the Group to each other contemplated under the Tour Group Services Agreement will be exceeded as a result of the addition of the continuing connected transactions after the completion of the Disposal. On 22 June 2009, the Company and China

CTS (HK) entered into the Tour Group Services Supplemental Agreement, which shall become effective on completion of the Disposal, to extend the term of the Tour Group Services Agreement to 31 December 2011. All other terms and conditions of the Tour Group Services Agreement remain unchanged. As at the date of this report, the Disposal has not been completed. For detailed information, please refer to the Company's announcement dated 22 June 2009 and circular dated 3 July 2009.

The maximum aggregate annual consideration for the above-said continuing connected transactions for the year ended 31 December 2009 and the years ending 31 December 2010 and 31 December 2011 and the actual amounts of such transactions for the year ended 31 December 2009 are as follows:

	Caps for the three years ended/ ending 31 December			**Actual amounts for the year ended 31 December**
	2009	**2010**	**2011**	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000
I. *Continuing connected transactions with CTS (Holdings) Group*				
(a) Provision of Travel Permit Administration by CTSHK	400,000	420,000	420,000	348,678
(b) Provision of insurance brokerage services by CTS (Holdings) Group	8,270	5,400	6,200	4,943
(c) Lease arrangements with CTS (Holdings) Group as lessor	20,010	24,500	29,500	17,103
(d) Provision of ASP related services to CTS (Holdings) Group	14,230	11,300	11,300	11,717
(e) Provision of hotel management services to CTS (Holdings) Group	11,326	13,138	–	8,128

	Caps for the three years ended/ ending 31 December 2009 HK$'000	2010 HK$'000	2011 HK$'000	Actual amounts for the year ended 31 December 2009 HK$'000
II. Continuing connected transactions with China CTS (HK) Group				
(f) Provision of travel related services to China CTS (HK) Group	13,730	–	–	912
(g) Provision of tour group services by the Group to China CTS (HK) Group	43,240	59,520	–	8,943
(h) Provision of tour group services by China CTS (HK) Group to the Group	34,900	41,870	–	16,893

(iii) On 29 December 2006, Pacific Travel and Trade Corporation ("Pacific Travel") and U.S. China Travel Services, Inc. ("USCTS") entered into a ticketing service agreement for a term of three years commenced from 1 January 2007, pursuant to which Pacific Travel has agreed to provide airline ticketing related services and technical support services in respect of the maintenance of USCTS's computer system to USCTS for fees no less favourable than those charged by independent third parties. The fees payable by USCTS to Pacific Travel in respect of the ticketing related services shall be the price of the airline tickets charged at the airline contract rates of Pacific Travel plus a fixed fee of US$5 for each ticket issued. For the technical support services, USCTS paid a monthly fee of US$1,500 to Pacific Travel in 2007 and such monthly fee shall increase by 5% in each of 2008 and 2009. Details of this transaction were set out in the Company's announcement dated 29 December 2006.

On 3 December 2008, the Group entered into an agreement with Pacific Travel to acquire 4,638,320 shares of USCTS, representing 49% of the issued shares of USCTS at an aggregate consideration of US$264,000 (the "Share Acquisition"). Upon completion of the Share Acquisition, USCTS become a wholly-owned subsidiary of the Company and therefore ceased to be a connected person of the Company, and Pacific Travel is still a connected person of the Company as it was wholly-owned by a director of USCTS (the "USCTS director"). On 30 December 2008, a resolution was passed at the general meeting of USCTS to approve the resignation of the USCTS director and Pacific Travel was still considered as a connected person of the Company in 2009 in accordance with rules 14A.11(2) and 14A.11(4) of the Listing Rules. The maximum aggregate annual values for the above-said continuing connected transactions for the year ended 31 December 2009 and the actual amounts of such transactions for the year ended 31 December 2009 are as follows:

	Caps for the year ended 31 December 2009	**Actual amounts for the year ended 31 December 2009**
Fees payable by USCTS to Pacific Travel under the ticketing service agreement		
(a) Ticketing related services	US$2,961,000 (approximately HK$22,926,000)	US$62,000 (approximately HK$479,000)
(b) Technical support services	US$19,845 (approximately HK$154,000)	US$Nil (approximately HK$Nil)
Total	US$2,980,845 (approximately HK$23,080,000)	US$62,000 (approximately HK$479,000)

(iv) As mentioned in the section headed "Connected Transactions" above in respect of the Acquisition, CTS Scenery Resort Investment Company Limited ("CTS Scenery Resort"), an indirect wholly-owned subsidiary of Trump Return, entered into a services agreement (the "Services Agreement") with China CTS Asset Management Corporation ("China CTS Asset Management") on 18 November 2009, which shall become effective on completion of the Acquisition, in relation to the provision of management services by China CTS Asset Management to CTS Scenery Resort and its subsidiaries. China CTS Asset Management is a wholly-owned subsidiary of China CTS (HK) and thus a connected person of the Company. CTS Scenery Resort shall become an indirect wholly-owned subsidiary of the Company upon completion of the Acquisition. The continuing provision of the management services by China CTS Asset Management to CTS Scenery Resort shall constitute a continuing connected transaction of the Company under the Listing Rules. The maximum annual caps for the management fees payable by CTS Scenery Resort and its subsidiaries to China CTS Asset Management under the Services Agreement for the three years ending 31 December 2012 are HK$5,100,000, HK$5,700,000 and HK$6,410,000, respectively. For detailed information, please refer to the Company's announcement dated 18 November 2009 and the circular dated 3 December 2009.

The above continuing connected transactions have been reviewed by the independent non-executive Directors of the Company. The Directors (including the independent non-executive Directors) confirm that the continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole; and (iii) either on normal commercial terms or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

The Board has received a letter from the auditors of the Company stating that the above continuing connected transactions:

(i) have received the approval of the Company's board of directors;

(ii) are in accordance with the pricing policies of the Group (where the transactions involve provision of goods or services by the Group);

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the caps disclosed in previous announcements.

The Company confirms that it has disclosed the connected transactions and continuing connected transactions entered into during the year which are required to be disclosed under Chapter 14A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2009, the interests and short positions of the Directors and the Company's chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

Long positions 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	Interest of controlled corporations *(Note 1)*	50,000	0.000878%
Mr. Xu Muhan	Family interests *(Note 2)*	2,000	0.000035%

Note 1: These shares are 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 is taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year 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 spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, or subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 35 to the financial statements.

The Company had no share options outstanding during the year.

During the year, no share options were granted to any Directors, the Company's chief executive or employees of the Group or other participants.

Save as disclosed above, as at 31 December 2009, none of the Directors or the Company's chief executive, 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 or 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following shareholders (other than Directors or chief executive of the Company) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register of interest required to be kept by the Company under Section 336 of the SFO:

(i) Long positions 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 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%

Notes:

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

2 These shares are held by FIL which is a wholly-owned subsidiary of CTS (Holdings).

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

During the year, 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. None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries.

Save as aforesaid, as at 31 December 2009, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Particulars of interest-bearing bank and other borrowings of the Group as at 31 December 2009 are set out in note 32 to the financial statements.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 2009, 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. In the case of such a 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 outstanding as at 31 December 2009 were as follows:

Amount outstanding as at 31 December 2009	Final maturity date of the outstanding loan balance
HK$60 million	29 January 2010

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 47 to 56.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive directors of the Company, namely, Mr. Wong Man Kong, Peter (Chairman of the Audit Committee), Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee. The Audit Committee has reviewed with the management on the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including a review of the final results of the Group for the year ended 31 December 2009.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established in April 2005 to formulate and implement the remuneration policy relating to directors and senior management of the Group.

The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee.

COMPENSATION POLICY

The Group's compensation policy comprises basic salary, annual bonus, benefits and long term incentive award (including grant of share options under the share option scheme). The objective of the Group's compensation policy is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as achieving a balance of short term and long term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation varies with importance of duties, giving bonus in connection with performance directly proportional to the importance of duties, so as to ensure that the Group can recruit, retain and motivate high calibre candidates required for the development of the Group and avoid excess reward. The Group reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Group. No individual employee shall have the right to determine his/her own compensation.

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant event occurring after the end of the reporting period and up to the date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhang Xuewu
Chairman

Hong Kong, 8 April 2010

Corporate Governance Report

The Board of Directors ("the Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2009. The Group considers that good corporate governance is vital to the healthy and sustainable development of the Group. To ensure a high standard of corporate governance, the Group shall strive to enhance the standard of corporate governance continuously, strictly comply with the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and actively apply the principles of the Code.

The Code sets out the principles of good corporate governance and two levels of corporate governance practices:

(a) Code Provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) Recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has complied with all the Code Provisions throughout the accounting period for the year ended 31 December 2009 except for the following deviation:

– With respect to Code Provision A.4.1, the independent non-executive Directors do not have a specific term of appointment. Pursuant to the Company's articles of association (the "Articles"), at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Accordingly, all Directors shall be subject to retirement by rotation and re-election at annual general meetings under the Articles and the Board considers that it is not necessary to appoint the independent non-executive Directors for a specific term as the Articles require all Directors (including the independent non-executive Directors) to retire at least once every three years.

The Company periodically reviews its corporate governance practices to ensure that they continue to meet the requirements of the Code, and acknowledges the important role of its Board in providing effective leadership and direction to the Company's business, and ensuring the transparency and accountability of the Company's operations.

The key corporate governance principles and practices of the Company are summarized as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to ensure the healthy growth of the Company, in the interests of the Company's shareholders ("Shareholders").

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that the Board's procedures and all applicable rules and regulations are followed. In general, each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the General Manager/Chief Executive Officer and senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions (including notifiable and connected transactions) entered into by the above mentioned officers. The Board has the full support of the General Manager/Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Directors of the Board of Directors of the Company during 2009 and up to the date of this report were as follows:

Executive Directors:

Mr. Zhang Xuewu (*Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager) (Resigned on 25 March 2009)*
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 *(General Manager)*

Independent Non-Executive Directors:

Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter *(Chairman of Audit Committee and Remuneration Committee)*
Mr. Sze, Robert Tsai To *(a member of Audit Committee and Remuneration Committee)*
Mr. Chan Wing Kee *(a member of Audit Committee and Remuneration Committee)*

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographies of Directors and Senior Management" on pages 9 to 12.

During the year ended 31 December 2009, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all independent non-executive Directors make positive contributions to the orderly management and effective operation of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to reelection.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

The Board reviews its own structure, size and composition regularly to ensure it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Board has reviewed the independence of the independent non-executive Directors during 2009.

The Board recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 23 April 2010 contains detailed information of the Directors standing for re-election.

Training for Directors

Each newly appointed Director will receive comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

During the year ended 31 December 2009, the Board met four times. On 6 April 2009, the Board met to review the annual results, the report from the first Audit Committee meeting, retirement and re-election of Directors, re-appointment of auditors and connected transactions. On 22 June 2009, the Board met to review discloseable and connected transactions. On 14 September 2009, the Board met to review the interim results, the report from the second Audit Committee meeting and interim dividend. On 18 November 2009, the Board met to review discloseable and connected transactions, and renewal of continuing connected transactions. The attendance rate at each meeting was 83%, 75%, 83% and 67% respectively.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2009 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Zhang Xuewu	4/4	Not applicable	Not applicable
Xiong Weiping*	Not applicable	Not applicable	Not applicable
Zheng Heshui	3/4	Not applicable	Not applicable
Lo Sui On	4/4	Not applicable	Not applicable
Jiang Yan	1/4	Not applicable	Not applicable
Mao Jianjun	3/4	Not applicable	Not applicable
Fang Xiaorong	3/4	Not applicable	Not applicable
Zhang Fengchun	4/4	Not applicable	Not applicable
Xu Muhan	2/4	Not applicable	Not applicable
Fong Yun Wah	3/4	Not applicable	Not applicable
Wong Man Kong, Peter	4/4	2/2	1/1
Sze Robert Tsai To	3/4	2/2	1/1
Chan Wing Kee	3/4	2/2	1/1

* Mr. Xiong Weiping has resigned as the Executive Director, Vice Chairman and General Manager of the Company with effect from 25 March 2009.

Practices and Conduct of Meetings

Annual general meeting schedules and draft agenda of each meeting are made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board meetings and committee meetings, notice is generally given within a reasonable time.

Board papers together with all appropriate, complete and reliable information are sent to all Directors as soon as practicable before each Board meeting or committee meeting to allow the Directors to read the paper and information, to keep them abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The company secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

The Company supports the division of responsibility between the Chairman and the General Manager/Chief Executive Officer to ensure a balance of power and authority. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of senior management, the Chairman is also responsible for ensuring the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The General Manager/Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established two committees, namely, the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of http://www.irasia.com/listco/hk/ctii and are available to Shareholders upon request.

All the members of each Board committees are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of Directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults the Chairman and/or the General Manager/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

One Remuneration Committee meeting was held on 2 April 2009 mainly to review the remuneration of directors and senior management of the Company.

Audit Committee

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To monitor the integrity of the interim and annual financial reports as well as to review significant financial reporting judgements before submission to the Board and to report the same to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2009 mainly to consider 2008 internal audit report and independent opinions of external auditors on the Company, and to review the financial results and reports, financial reporting and process of compliance, 2009 internal audit plan and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

Since 11 April 2004, the Company has adopted its own code of conduct regarding Directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and all Directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2009.

The Company has also adopted written guidelines on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the written guidelines by employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 57 to 58.

Save as disclosed in note 7 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2009, other fees payable for significant non-audit service assignments for the year include:

	Fees (HK$'000)
1. Taxation services	1,336
2. Professional consultation services on special group restructuring project	930
Total	2,266

INTERNAL CONTROLS

The Company has maintained a structure with defined lines of responsibility and appropriate delegation of responsibility and authority to senior management. The Board is responsible for the establishment and effective operation of the internal control system. However, such system aims at limiting the risks of the Company to an acceptable level but not eliminating all risks. Hence, such system can only provide reasonable assurance that there will not be any error in financial information and record, and there will not be any financial loss or fraud.

The Board has established effective and operational procedures to identify, assess and manage major risks faced by the Company. Such procedures shall be updated from time to time to reflect the changes in circumstances and rules and regulation, and shall be used as a guideline for updating the internal control system in a timely manner. The Board considers that as at the date of this annual report, the internal control system is adequate and effective in safeguarding the assets of the Group and protecting the interests of Shareholders, customers and employees of the Group.

The management is responsible for implementing the procedures established by the Board to identify, assess and manage major risks faced by the Company. These procedures include the design, operation and supervision of suitable internal control to mitigate and control risks. Major procedures established for reviewing the suitability and compliance of internal control are as follows:

- The Board is responsible for the supervision of all business activities of the Group and the implementation of strategic plans and policy. The management is responsible for the effective daily operation of the Group and for ensuring the Group operates in accordance with the target, strategy and budget of the Group.

- The Audit Committee periodically reviews the controlled items of internal audit department, external auditors, regulatory bodies and management, and assesses the suitability and effectiveness of risk management and the internal control system. The Audit Committee also reviews the function of internal audit and the independence of the internal audit department, the audit quality and the audit scope.

- The internal audit department also formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of each division to identify any irregularities and risks, develops action plans and makes recommendations to address the identified risks, and reports to the Audit Committee on any key findings and progress of the internal audit process. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

In strict compliance with the requirements of Code Provision C.2.1, the Board kept reviewing the system of internal control of the Group including financial, operational and compliance controls and risk management functions.

The Company will continue where possible to improve its internal control system and strengthen its risk management capability.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of Shareholders and the procedures for demanding a poll on resolutions at general meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all relevant circulars to Shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the website of the Stock Exchange following the general meeting.

The general meetings of the Company provide a forum for communication between the Shareholders and the Board. The Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the general meetings.

The Company is committed to maintain its effective communication with investors. The Company has delegated senior management to supervise and manage directly investor relations affairs, which through various channels to keep close connection and communication with investors and to help investors understand the latest development of the Company. The major investor relations related work of the Company during the year was summarised as follows:

The Company held an investor conference and a press conference after its 2008 annual results and 2009 interim results announcement.

The Company also participated in an investor conference held by a securities firm and managed to keep smooth communication with investors and analysts through various means including one-on-one meeting, small-group conference, telephone conference and e-mail and so on during its daily business operation. In 2009, the Company received over 100 investors and analysts. Besides, at least four securities research institutions issued research reports on the Company.

Currently, investors can access the Company's information through the websites of the Stock Exchange and http://www.irasia.com/listco/hk/ctii.

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the financial statements of China Travel International Investment Hong Kong Limited set out on pages 59 to 173, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

8 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**4,090,498**	4,388,443
Cost of sales		**(2,513,357)**	(2,664,108)
Gross profit		**1,577,141**	1,724,335
Other income and gains	5	**139,426**	211,507
Selling and distribution costs		**(474,784)**	(481,450)
Administrative expenses		**(1,211,580)**	(1,120,283)
Changes in fair value of investment properties		**189,806**	(70,609)
Other expenses		**(80,287)**	(22,435)
Finance costs	6	**(10,346)**	(12,013)
Share of profits and losses of:			
Jointly-controlled entities		**60,451**	61,009
Associates		**(1,096)**	(42,339)
PROFIT BEFORE TAX	7	**188,731**	247,722
Income tax expense	10	**(123,128)**	(75,062)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**65,603**	172,660
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**–**	428,139
PROFIT FOR THE YEAR		**65,603**	600,799
Attributable to:			
Owners of the Company	11	**28,100**	531,309
Minority interests		**37,503**	69,490
		65,603	600,799
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY (HK CENTS)	14		
Basic			
– For profit for the year		**0.49**	9.33
– For profit from continuing operations		**0.49**	1.88
Diluted			
– For profit for the year		**0.49**	9.33
– For profit from continuing operations		**0.49**	1.88

Details of the dividends for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
PROFIT FOR THE YEAR		**65,603**	600,799
OTHER COMPREHENSIVE INCOME			
Share of hedging reserve of an associate		**24,455**	(30,761)
Exchange fluctuation reserve:			
Release of exchange difference upon disposal of subsidiaries	*38(b)*	**–**	(41,934)
Exchange differences on translation of foreign operations		**54,499**	307,413
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**78,954**	234,718
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**144,557**	835,517
Attributable to:			
Owners of the Company	*11*	**109,732**	733,740
Minority interests		**34,825**	101,777
		144,557	835,517

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,031,033**	5,163,769
Investment properties	16	**967,800**	762,470
Prepaid land lease payments	17	**3,095,061**	3,074,804
Goodwill	18	**1,281,230**	1,244,769
Other intangible assets	19	**45,581**	37,419
Interests in jointly-controlled entities	21	**755,234**	1,154,076
Interests in associates	22	**461,394**	333,997
Available-for-sale investments	23	**25,849**	18,033
Prepayments		**26,926**	45,654
Deferred tax assets	33	**1,402**	581
Total non-current assets		**11,691,510**	11,835,572
CURRENT ASSETS			
Inventories	24	**25,508**	25,565
Trade receivables	25	**170,893**	230,845
Tax recoverable		**5,233**	3,926
Prepayments, deposits and other receivables	26	**184,702**	319,234
Pledged time deposits	27	**32,661**	49,782
Cash and cash equivalents	27	**1,762,786**	1,794,879
Amount due from the immediate holding company	28	**32,201**	28,222
Amounts due from fellow subsidiaries	28	**37,881**	32,526
		2,251,865	2,484,979
Assets of a disposal group classified as held for sale	29	**512,228**	–
Total current assets		**2,764,093**	2,484,979
CURRENT LIABILITIES			
Trade payables	30	**285,740**	331,587
Tax payable		**47,404**	64,032
Other payables and accruals	31	**931,673**	861,403
Interest-bearing bank and other borrowings	32	**89,990**	244,652
Amount due to the immediate holding company	28	**1,171**	400
Amounts due to fellow subsidiaries	28	**13,066**	4,006
		1,369,044	1,506,080
Liabilities directly associated with the assets classified as held for sale	29	**248,386**	–
Total current liabilities		**1,617,430**	1,506,080
NET CURRENT ASSETS		**1,146,663**	978,899
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,838,173**	12,814,471

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,838,173**	12,814,471
NON-CURRENT LIABILITIES			
Deferred income		**159,963**	164,408
Interest-bearing bank and other borrowings	*32*	**177,550**	179,068
Deferred tax liabilities	*33*	**449,576**	417,635
Total non-current liabilities		**787,089**	761,111
Net assets		**12,051,084**	12,053,360
EQUITY			
Equity attributable to owners of the Company			
Share capital	*34*	**569,536**	569,536
Reserves	*36(a)*	**10,997,889**	10,945,111
		11,567,425	11,514,647
Minority interests		**483,659**	538,713
Total equity		**12,051,084**	12,053,360

Zhang Xuewu
Director

Xu Muhan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium account* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* HK$'000	Hedging reserve* HK$'000	Capital reserve* HK$'000	Enterprise expansion/ reserve funds* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008	569,536	8,357,579	27,231	350	7,254	(1,012,196)	116,624	400,398	2,639,210	11,105,986	534,344	11,640,330
Total comprehensive income for the year	–	–	–	–	(30,761)	–	–	233,192	531,309	733,740	101,777	835,517
Transfer from retained profits	–	–	–	–	–	–	12,671	–	(12,671)	–	–	–
Disposal of the Cargo Business	–	–	–	–	–	(19,147)	(34,610)	–	53,757	–	(74,494)	(74,494)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	33,912	33,912
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(6,716)	(6,716)
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	19,640	19,640
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(69,750)	(69,750)
Equity-settled share option arrangements *(note 35)*	–	–	130,550	–	–	–	–	–	–	130,550	–	130,550
Cancellation of equity-settled share option arrangements	–	–	(157,781)	–	–	–	–	–	157,781	–	–	–
2007 final dividend approved	–	–	–	–	–	–	–	–	(170,861)	(170,861)	–	(170,861)
2008 interim dividend declared *(note 13)*	–	–	–	–	–	–	–	–	(284,768)	(284,768)	–	(284,768)
At 31 December 2008 and at 1 January 2009	569,536	8,357,579	–	350	(23,507)	(1,031,343)	94,685	633,590	2,913,757	11,514,647	538,713	12,053,360
Total comprehensive income for the year	–	–	–	–	24,455	–	–	57,177	28,100	109,732	34,825	144,557
Transfer from retained profits	–	–	–	–	–	–	2,756	–	(2,756)	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	1,141	1,141
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(16,027)	(16,027)
De-registration of subsidiaries	–	–	–	–	–	–	–	–	–	–	(1,093)	(1,093)
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(2,793)	(2,793)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(71,107)	(71,107)
2008 final dividend approved *(note 13)*	–	–	–	–	–	–	–	–	(56,954)	(56,954)	–	(56,954)
At 31 December 2009	569,536	8,357,579	–	350	948	(1,031,343)	97,441	690,767	2,882,147	11,567,425	483,659	12,051,084

Note: Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries in Mainland China has been transferred to the enterprise expansion fund and reserve fund which are restricted as to use.

* These reserve accounts comprise the consolidated reserves of HK$10,997,889,000 (2008: HK$10,945,111,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**188,731**	247,722
From a discontinued operation	*4*	**–**	432,809
Adjustments for:			
Finance costs	*6*	**10,346**	13,807
Interest income	*7*	**(24,527)**	(44,962)
Loss on disposal of investment properties, land and buildings and items of plant and equipment, net	*7*	**1,339**	10,489
Gain on disposal of a discontinued operation	*12*	**–**	(397,440)
Gain on disposal of a subsidiary	*5*	**(71)**	–
Loss on write-off of items of property, plant and equipment	*7*	**29,962**	15,054
Depreciation	*7*	**637,069**	384,073
Amortisation of prepaid land lease payments	*7*	**65,335**	67,026
Impairment of items of property, plant and equipment	*7*	**50,325**	1,479
Impairment of available-for-sale investments	*7*	**–**	614
Impairment of goodwill	*7, 18*	**–**	7,381
Changes in fair value of investment properties	*16*	**(189,806)**	70,609
Share of profits and losses of jointly-controlled entities		**(60,451)**	(61,009)
Share of profits and losses of associates		**1,096**	42,339
Equity-settled share option expense	*7, 35*	**–**	130,550
Excess over the cost of a business combination	*5*	**(5,332)**	(521)
Exchange loss/(gain) on translation of intercompany balances		**8,536**	(64,888)
Exchange gain on return of capital from a jointly-controlled entity		**(81,168)**	–
		631,384	855,132
Increase in inventories		**(267)**	(2,462)
Decrease in trade receivables, prepayments, deposits and other receivables		**18,893**	146,808
Decrease/(increase) in balances with the immediate holding company		**(3,311)**	22,067
Increase in amounts due from fellow subsidiaries		**(76,188)**	(8,500)
Increase/(decrease) in trade payables, other payables and accruals		**71,119**	(314,520)
Increase/(decrease) in amounts due to fellow subsidiaries		**17,974**	(3,541)
Increase/(decrease) in deferred income, net of sales tax		**(2,734)**	8,577
Decrease in amounts due from jointly-controlled entities		**5,306**	9,313
Increase in amounts due to jointly-controlled entities		**65,945**	328
Decrease in amounts due from associates		**883**	1,857
Decrease in amounts due to associates		**(2,493)**	(4,564)
Cash generated from operations		**726,511**	710,495
Hong Kong, PRC and Macau profits taxes paid		**(95,645)**	(118,753)
Overseas taxes paid		**(365)**	(2,133)
Net cash flows from operating activities		**630,501**	589,609

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from operating activities		**630,501**	589,609
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**24,527**	44,864
Dividends received from an associate		**–**	33,930
Dividends received from jointly-controlled entities		**65,672**	162,805
Purchases of items of property, plant and equipment		**(513,825)**	(432,149)
Prepayment of land lease payments		**(65,923)**	–
Investment in a jointly-controlled entity		**(2,427)**	–
Proceeds from disposal of subsidiaries, net	*38*	**(11,679)**	628,431
Proceeds from disposal of investment properties, land and buildings and items of plant and equipment		**29,488**	58,727
Proceeds from disposal of held-to-maturity investments		**–**	15,776
Additions to passenger service licences and quota	*19*	**(8,162)**	(960)
Acquisition of subsidiaries	*37*	**(180,578)**	(1,036,292)
Acquisition of minority interests		**(1,988)**	(14,097)
Additions to available-for-sale investments		**–**	(414)
Return of capital from a jointly-controlled entity		**427,973**	–
Decrease/(increase) in pledged time deposits		**17,276**	(33,194)
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**(94,242)**	4,604
Net cash flows used in investing activities		**(313,888)**	(567,969)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows used in investing activities		**(313,888)**	(567,969)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(10,346)**	(22,311)
Dividends paid		**(56,954)**	(455,629)
Dividends paid to minority shareholders		**(71,107)**	(69,750)
Contributions from minority shareholders		**–**	19,640
New bank loans		**67,952**	552,305
Repayment of bank loans		**(222,569)**	(706,700)
Capital element of finance lease and hire purchase contract payments		**–**	(18)
Net cash flows used in financing activities		**(293,024)**	(682,463)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**23,589**	(660,823)
Cash and cash equivalents at beginning of year		**1,305,870**	1,940,041
Effect of foreign exchange rate changes, net		**15,559**	26,652
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,345,018**	1,305,870
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**585,855**	764,147
Non-pledged time deposits with original maturity of three months or less when acquired		**644,222**	541,723
Cash and bank balances held for sale	*29*	**109,261**	–
Non-pledged time deposits held for sale with original maturity of three months or less when acquired	*29*	**5,680**	–
		1,345,018	1,305,870

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	911	984
Investment property	16	2,220	2,080
Investments in subsidiaries	20	4,218,404	4,320,430
Investment in a jointly-controlled entity	21	–	1,415
Available-for-sale investment	23	13,949	13,949
Total non-current assets		4,235,484	4,338,858
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	4,493	4,229
Cash and cash equivalents	27	855,503	718,697
Amounts due from subsidiaries	20	6,363,077	6,561,998
Amount due from a fellow subsidiary	28	473	473
		7,223,546	7,285,397
Assets of a disposal group classified as held for sale		174,677	–
Total current assets		7,398,223	7,285,397
CURRENT LIABILITIES			
Tax payable		–	11,273
Other payables and accruals	31	27,474	30,932
Amounts due to subsidiaries	20	1,587,496	1,575,211
Amount due to the immediate holding company	28	673	201
Total current liabilities		1,615,643	1,617,617
NET CURRENT ASSETS		5,782,580	5,667,780
Net assets		10,018,064	10,006,638
EQUITY			
Share capital	34	569,536	569,536
Reserves	36(b)	9,448,528	9,437,102
Total equity		10,018,064	10,006,638

Zhang Xuewu
Director

Xu Muhan
Director

Notes to Financial Statements

31 December 2009

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 agency and related operations
- hotel operations
- scenic spots operations
- resort operations
- passenger transportation services
- golf club operations
- arts performance operations
- power generation (conducted through a jointly-controlled entity)

In the opinion of the directors, the immediate holding company of the Company is China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), which is incorporated in Hong Kong, and the ultimate holding company is China National Travel Service (HK) Group Corporation, a PRC state-owned enterprise under the supervision of the State Council.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 investment properties, which have been measured at fair value. A disposal group held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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 HKFRSs has had no significant effect on these financial statements.

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 – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
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 – Embedded Derivatives*
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*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) 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*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. As the Group is not a first time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 45 to the financial statements while the revised liquidity risk disclosures are presented in note 46 to the financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of HKFRS 8 did not have any effect on the financial position or performance of the Group. However, it has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's senior management and has resulted in changes in identification and presentation of reporting segments. The revised disclosure, including the related comparative information, are shown in note 4 below.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group's current policy is in line with HK(IFRIC)-Int 13, the interpretation has had no material impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

- HKAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 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.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements* to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2010

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 July 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised) and HKFRS 27 (Revised) may result in changes in accounting policies and the adoption of HKAS 24 (Revised) may affect the disclosures of related party transactions, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or any of its holding companies;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The useful lives or principal annual rates used for this purpose are as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Land	Freehold
Hotel properties	Over the shorter of the lease terms and 75 years
Buildings	Over the shorter of the lease terms and 40 years
Scenic spots establishments	3.5% to 19%
Others	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	4.5% to 20%
Furniture, fixtures and equipment	6% to 33.3%
Motor vehicles	12.9% to 20%

In the prior years, the Group's leasehold improvements have estimated useful lives of 5 to 40 years (i.e. annual rates of 2.25% to 20%). During the year, 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 (i.e. annual rates of 4.5% to 20%) 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$207 million for the year ended 31 December 2009.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, hotel properties and scenic spots establishments under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties, deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

The Group's other intangible assets represent trademarks, passenger service licences and quota.

The useful life of passenger service licences, quota and trademarks are assessed to be indefinite as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group. They are not amortised and are tested for impairment annually at the cash-generating unit level. They are reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, and are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, and unquoted financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees and costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to the ultimate holding company and fellow subsidiaries, and interest-bearing loans and borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Derivative financial instruments and hedge accounting

The derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any the ineffective portion is recognised immediately in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or weighted average basis, where appropriate. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred income

Deferred income represents the proceeds received and receivable on the sale of membership of the Group's golf club. Such income is deferred and amortised on the straight-line basis over the tenure of the relevant membership periods and is recognised in the income statement.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recogised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of freight forwarding and transportation services; passenger transportation services; travel-related services and hotel services, when the services have been rendered;

(c) from the rendering of tour services, based on the date of tour completion;

(d) income related to theme park operations, when the admission tickets are sold;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(e) income from the sale of golf club memberships, on the straight-line basis over the expected life of membership;

(f) rental income, on a time proportion basis over the lease terms;

(g) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(h) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the current and prior years by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rule of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group has been operating a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer's contributions. The Prior Scheme is still operating at the end of the reporting period and up to the date of this report.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Pension schemes (Continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The capitalisation rate is based on the actual cost of the related borrowings.

Direct expenses incurred in respect of the arrangement of borrowing long term bank loans are deferred and amortised over the terms of the relevant bank loans on the straight-line basis.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Classification between investment properties and owner-occupied properties *(Continued)*

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 18 to the financial statements.

Depreciation

The net book value of the Group's property, plant and equipment as at 31 December 2009 was HK$5,031,033,000 (2008: HK$5,163,769,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 3 to 75 years depending on the fixed assets category. Policy on depreciation is detailed in note 2.4 to the financial statements. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Change in this estimation may have a material impact on the result.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 33 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties and identifiable assets and liabilities in a business combination

In the absence of current prices in an active market for similar properties and identifiable assets and liabilities, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties and identifiable assets and liabilities of a different nature, condition or location;

(b) recent prices of similar properties and identifiable assets and liabilities on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar properties and identifiable assets and liabilities in the same location and condition, appropriate discount rates, expected future economic outflows and inflows and future maintenance costs associated with the properties and identifiable assets and liabilities. Further details of the carrying amounts of investment properties and the business combination are contained in notes 16 and 37 respectively to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's operating segments 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 operating segments. Summary details of the 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;

4. OPERATING SEGMENT INFORMATION *(Continued)*

(c) the scenic spots operations segment engages in the operation of resort hotels, theme parks, cable car systems and skiing facilities in Mainland China;

(d) the resort operations segment engages in the provision of hot spring services in Mainland China;

(e) the passenger transportation services segment engages in the provision of ground transportation services to individuals 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 arts performances in Mainland China and overseas;

(h) the power generation segment engages in the generation of electricity in Mainland China; and

(i) the freight forwarding and transportation services segment engages in the provision of export and re-export freight and logistics services between Hong Kong and Mainland China; and sea and air freight forwarding to overseas (discontinued in 2008).

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, finance costs, dividend income as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated corporate assets as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009	Travel agency and related operations HK$'000	Hotel operations HK$'000	Scenic spots 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	Consolidated HK$'000
Segment revenue:									
Sales to external customers	2,316,913	642,677	438,453	324,173	292,893	43,296	32,093	–	4,090,498
Intersegment revenue	8,428	5,431	2,929	5,080	3,246	1	304	–	25,419
	2,325,341	648,108	441,382	329,253	296,139	43,297	32,397	–	4,115,917
Elimination of intersegment revenue									(25,419)
Revenue									4,090,498
Segment results	154,224	106,495	111,589	(446,619)	24,386	(68,285)	4,261	133,633	19,684
Interest income									24,527
Finance costs									(10,346)
Change in fair value of investment properties									189,806
Corporate and other unallocated expenses									(34,940)
Profit before tax									188,731
Income tax expense									(123,128)
Profit for the year									65,603

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009	Travel agency and related operations HK$'000	Hotel operations HK$'000	Scenic spots 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	Consolidated HK$'000
Segment assets	2,751,354	4,614,345	822,235	2,563,354	501,831	383,222	63,438	722,198	12,421,977
Corporate and unallocated assets									2,033,626
Total assets									14,455,603
Segment liabilities	663,457	101,772	111,232	460,809	35,880	227,771	8,099	536	1,609,556
Corporate and unallocated liabilities									794,963
Total liabilities									2,404,519
Other segment information:									
Capital expenditure*	96,181	31,129	102,778	398,566	37,843	118,756	28,024	–	813,277
Add: Capital expenditure relates to corporate									428
									813,705
Depreciation and amortisation	49,427	118,673	66,680	419,810	26,774	18,427	2,072	–	701,863
Add: Depreciation relates to corporate									541
									702,404
Impairment losses/(reversal of impairment losses) recognised in the income statement	(2,183)	188	–	–	635	50,325	(5)	–	48,960
Add: Impairment relates to corporate									404
									49,364
Interests in jointly-controlled entities	58,813	–	–	–	20,665	–	11,886	722,198	813,562
Less: Interests in jointly-controlled entities included in assets classified as held for sale									(58,328)
									755,234
Interests in associates	(2,016)	–	102,430	–	360,411	–	569	–	461,394
Share of profits and losses of:									
Jointly-controlled entities	3,373	–	–	–	1,836	–	(1,704)	56,946	60,451
Associates	–	–	–	–	(896)	–	(200)	–	(1,096)
Other non-cash expenses	–	–	–	29,962	–	–	–	–	29,962

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties including assets from acquisition of subsidiaries.

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31 December 2009

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008	Continuing operations									Discontinued operation	
	Travel agency and related operations	Hotel operations	Scenic spots operations	Resort operations	Passenger trans-portation services	Golf club operations	Arts perfor-mance operations	Power generation business	Total	Freight forwarding and trans-portation services	Consolidated
	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	2,498,536	683,504	485,916	340,235	299,414	56,659	24,179	–	4,388,443	1,256,254	5,644,697
Intersegment revenue	8,977	5,804	4,011	6,579	1,347	–	199	–	26,917	–	26,917
	2,507,513	689,308	489,927	346,814	300,761	56,659	24,378	–	4,415,360	1,256,254	5,671,614
Elimination of intersegment revenue									(26,917)	–	(26,917)
Revenue									4,388,443	1,256,254	5,644,697
Segment results	80,844	172,507	169,290	(62,117)	(33,128)	(49,721)	(12,940)	65,364	330,099	36,703	366,802
Gain on disposal of a discontinued operation									–	397,440	397,440
Interest income									44,502	460	44,962
Finance costs									(12,013)	(1,794)	(13,807)
Changes in fair value of investment properties									(70,609)	–	(70,609)
Corporate and other unallocated expenses									(44,257)	–	(44,257)
Profit before tax									247,722	432,809	680,531
Income tax expense									(75,062)	(4,670)	(79,732)
Profit for the year									172,660	428,139	600,799

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008	Travel agency and related operations HK$'000	Hotel operations HK$'000	Scenic spots 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	Consolidated HK$'000
Segment assets	2,505,588	4,660,084	644,808	2,655,285	472,833	338,549	35,006	1,102,371	12,414,524
Corporate and unallocated assets									1,906,027
Total assets									14,320,551
Segment liabilities	618,890	110,608	106,674	222,875	29,438	234,115	5,485	496	1,328,581
Corporate and unallocated liabilities									938,610
Total liabilities									2,267,191
Other segment information:									
Capital expenditure*	24,532	1,196,620	118,519	250,375	25,395	65,928	10,660	–	1,692,029
Add: Capital expenditure relates to corporate									958
									1,692,987
Depreciation and amortisation	56,216	102,592	74,362	153,353	29,930	31,635	2,291	–	450,379
Add: Depreciation relates to corporate									720
									451,099
Impairment losses/(reversal of impairment losses) recognised in the income statement	4,528	1,140	(29)	2,833	5,515	1,431	(32)	–	15,386
Interests in jointly-controlled entities	60,383	–	–	–	(249)	–	5,702	1,088,240	1,154,076
Interests in associates	(4,353)	–	–	–	337,722	–	628	–	333,997
Share of profits and losses of:									
Jointly-controlled entities	4,056	–	–	–	–	–	(1,586)	58,539	61,009
Associates	–	–	–	–	(42,134)	–	(205)	–	(42,339)
Other non-cash expenses	–	–	–	–	–	15,054	–	–	15,054

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from continuing operations from external customers

	2009 HK$'000	2008 HK$'000
Hong Kong	**1,591,117**	1,761,718
Mainland China (including Macau)	**2,202,928**	2,201,748
Overseas	**296,453**	424,977
	4,090,498	4,388,443

The analysis of the Group's revenue by geographical area is based on the location of customers in respect of travel agency and related operations and the location at which the services were provided in respect of other operations.

(b) Non-current assets

	2009 HK$'000	2008 HK$'000
Hong Kong	**5,382,615**	5,369,514
Mainland China (including Macau)	**6,244,930**	6,408,600
Overseas	**62,563**	56,877
	11,690,108	11,834,991

The information about the Group's non-current assets is based on the physical location of assets which excludes deferred tax assets.

Information about major customers

There are no revenue from any single external customers that contributed over 10% of the total sales of the Group during the years ended 31 December 2009 and 2008.

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5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2009 HK$'000	2008 HK$'000
Revenue		
Travel agency and related operations	2,316,913	2,498,536
Hotel operations	642,677	683,504
Scenic spots operations	438,453	485,916
Resort operations	324,173	340,235
Passenger transportation services	292,893	299,414
Golf club operations	43,296	56,659
Arts performance operations	32,093	24,179
Attributable to continuing operations reported in the consolidated income statement	4,090,498	4,388,443
Freight forwarding and transportation services attributable to a discontinued operation *(note 12)*	–	1,256,254
	4,090,498	5,644,697
Other income		
Interest income	24,527	44,502
Gross rental income	11,184	7,001
Reinvestment tax credit	–	37,735
Others	29,274	22,201
	64,985	111,439
Gains		
Foreign exchange differences, net	69,038	99,547
Excess over the cost of a business combination	5,332	521
Gain on disposal of a subsidiary	71	–
	74,441	100,068
Other income and gains		
Attributable to continuing operations reported in the consolidated income statement	139,426	211,507
Attributable to a discontinued operation	–	8,562
	139,426	220,069

6. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**10,346**	22,311
Less: Interest capitalised	**–**	(8,504)
	10,346	13,807
Attributable to continuing operations reported in the consolidated income statement	**10,346**	12,013
Attributable to a discontinued operation *(note 12)*	**–**	1,794
	10,346	13,807

7. PROFIT BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Depreciation	*15*	**637,069**	384,073
Amortisation of prepaid land lease payments	*17*	**65,335**	67,026
Auditors' remuneration:			
Current year		**6,900**	6,416
Underprovision/(overprovision) in the prior year		**88**	(90)
		6,988	6,326
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**928,687**	998,856
Equity-settled share option expense		**–**	134,292
Less: Forfeited share option expense		**–**	(3,742)
Net equity-settled share option expense		**–**	130,550
Pension scheme contributions		**74,527**	78,210
Less: Forfeited contributions		**–**	–
Net pension scheme contributions *(note (i))*		**74,527**	78,210
Total employee benefit expenses		**1,003,214**	1,207,616

7. PROFIT BEFORE TAX *(Continued)*

	Notes	2009 HK$'000	2008 HK$'000
Minimum lease payments under operating leases:			
Land and buildings		**78,562**	67,199
Plant and machinery and motor vehicles		**48,237**	37,799
Impairment of available-for-sale investments *(note (ii))*		**–**	614
Impairment of goodwill *(note (iii))*	*18*	**–**	7,381
Impairment of trade and other receivables, net		**(961)**	5,912
Impairment of items of property, plant and equipment *(note (iii))*	*15*	**50,325**	1,479
Loss on write-off of items of property, plant and equipment *(note (iii))*		**29,962**	15,054
Loss on disposal of investment properties, land and buildings and items of plant and equipment, net		**1,339**	10,489
Rental income on investment properties less direct operating expenses of HK$11,184,000 (2008: HK$7,001,000)		**(11,019)**	(6,565)
Foreign exchange differences, net		**(69,038)**	(98,850)
Bank interest income		**(24,527)**	(44,962)

Notes:

(i) At 31 December 2009, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

(ii) The impairment of available-for-sale investments is included in "Administrative expenses" on the face of the consolidated income statement.

(iii) The impairment of goodwill, impairment of items of property, plant and equipment and loss on write-off of items of property, plant and equipment are included in "Other expenses" on the face of the consolidated income statement.

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Fees:		
Executive directors	**2,010**	2,246
Independent non-executive directors	**1,040**	1,040
	3,050	3,286
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	–	1,074
Performance related bonuses*	–	252
Equity-settled share option expense	–	20,244
Pension scheme contributions	–	95
	–	21,665
	3,050	24,951

* Certain executive directors of the Company are entitled to bonus payments which are determined in accordance with the degree of accomplishment to various performance indicators.

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant, and the amount is included in the above directors' remuneration disclosures.

During the year ended 31 December 2008, the Company cancelled all remaining share options and has recognised the unvested amount in the income statement. Expenses in respect to this cancellation are included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	Group 2009 HK$'000	2008 HK$'000
Fees:		
Dr. Fong Yun Wah	**260**	260
Mr. Wong Man Kong, Peter	**260**	260
Mr. Sze, Robert Tsai To	**260**	260
Mr. Chan Wing Kee	**260**	260
	1,040	1,040

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors

	Group 2009 HK$'000
Fees:	
Mr. Zhang Xuewu	**330**
Mr. Xiong Weiping	**–**
Mr. Zheng Heshui	**240**
Mr. Lo Sui On	**240**
Ms. Jiang Yan	**240**
Mr. Mao Jianjun	**240**
Mr. Fang Xiaorong	**240**
Mr. Zhang Fengchun	**240**
Mr. Xu Muhan	**240**
	2,010

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(Continued)*

Group	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008						
Executive directors:						
Mr. Zhang Xuewu	330	–	–	2,931	–	3,261
Mr. Xiong Weiping	300	–	–	2,931	–	3,231
Mr. Zheng Heshui	240	–	–	2,436	–	2,676
Mr. Lo Sui On	240	1,074	252	2,436	95	4,097
Ms. Jiang Yan	240	–	–	2,436	–	2,676
Mr. Mao Jianjun	240	–	–	2,436	–	2,676
Mr. Fang Xiaorong	176	–	–	–	–	176
Mr. Zhang Fengchun	240	–	–	2,436	–	2,676
Mr. Xu Muhan	176	–	–	1,101	–	1,277
Mr. Wei Qing	64	–	–	1,101	–	1,165
	2,246	1,074	252	20,244	95	23,911

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include directors of the Company. For the year ended 31 December 2008, the five highest paid employees were all directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five non-directors, highest paid employees for the year ended 31 December 2009 are as follows:

	Group 2009 HK$'000
Salaries, allowances and benefits in kind	**4,428**
Pension scheme contributions	**85**
	4,513

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees
	2009
Nil to HK$1,000,000	**4**
HK$1,000,001 to HK$1,500,000	**1**
	5

10. INCOME TAX

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 year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2009	2008
	HK$'000	HK$'000
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	**56,786**	67,561
Overprovision in prior years	**(2,701)**	(5,140)
Current – Elsewhere		
Charge for the year	**31,242**	37,341
Underprovision in prior years	**4,267**	3,048
Overseas – Current tax charge for the year	**1,094**	609
Deferred tax *(note 33)*	**32,440**	(28,357)
Total tax charge for the year	**123,128**	75,062

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Group – 2009								
Profit/(loss) before tax	433,718		(239,267)		(5,720)		188,731	
Tax at the applicable tax rate	71,563	16.5	(59,817)	25.0	(2,288)	40.0	9,458	5.0
Lower tax rates for specific provinces or enacted by local authority	–		1,251		522		1,773	
Adjustments in respect of current tax of previous periods	(2,701)		4,267		–		1,566	
Profits and losses attributable to jointly-controlled entities and associates	–		(14,236)		–		(14,236)	
Income not subject to tax	(34,179)		(4,254)		(587)		(39,020)	
Expenses not deductible for tax	13,382		83,632		3,447		100,461	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	4,216		–		–		4,216	
Tax losses utilised from previous periods	(2,442)		(5,864)		–		(8,306)	
Tax losses not recognised	25		67,191		–		67,216	
Tax charge at the Group's effective rate	49,864	11.5	72,170	(30.2)	1,094	(19.1)	123,128	65.2

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10. INCOME TAX *(Continued)*

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Group – 2008								
Profit/(loss) before tax (including profit from a discontinued operation)	700,897		(10,890)		(9,476)		680,531	
Tax at the applicable tax rate	115,648	16.5	(2,723)	25.0	(3,790)	40.0	109,135	16.0
Lower tax rates for specific provinces or enacted by local authority	–		3,526		325		3,851	
Effect on opening deferred tax of decrease in rates	(33,342)		–		–		(33,342)	
Adjustments in respect of current tax of previous periods	(5,140)		3,048		–		(2,092)	
Profits and losses attributable to jointly-controlled entities and associates	18,149		(14,635)		–		3,514	
Income not subject to tax	(67,737)		(10,587)		(539)		(78,863)	
Expenses not deductible for tax	22,536		14,625		4,856		42,017	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	5,960		–		–		5,960	
Tax losses utilised from previous periods	(5,407)		(3,813)		–		(9,220)	
Tax losses not recognised	1,237		37,535		–		38,772	
Tax charge at the Group's effective rate	51,904	7.4	26,976	(247.7)	852	(9.0)	79,732	11.7
Represented by:								
Tax charge attributable to a continuing operations reported in the consolidated income statement							75,062	
Tax charge attributable to a discontinued operation *(note 12)*							4,670	
							79,732	

The share of tax attributable to jointly-controlled entities and associates amounting to tax charge of HK$29,059,000 (2008: HK$13,208,000) and HK$3,481,000 (2008: tax credit of HK$8,311,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of HK$68,380,000 (2008: HK$912,583,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DISCONTINUED OPERATION

On 1 November 2007, the Company announced the decision of its board of directors to dispose of its entire interests in China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") and Common Well Limited (collectively the "Cargo Business"). The Cargo Business engages 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 year ended 31 December 2008 (up to the date of disposal) are presented below:

	Note	2008 HK$'000
Revenue		1,256,254
Expenses		(1,219,091)
Finance costs		(1,794)
Profit before tax		35,369
Income tax expense		(4,670)
Profit for the year		30,699
Gain on disposal of a discontinued operation	*38(b)*	397,440
Profit for the year from a discontinued operation		428,139
Attributable to:		
Owners of the Company		424,202
Minority interests		3,937
		428,139

Notes to Financial Statements

31 December 2009

12. DISCONTINUED OPERATION *(Continued)*

The net cash flows of the Cargo Business were as follows:

	2008 HK$'000
Operating activities	19,041
Investing activities	(6,362)
Financing activities	44,974
Net cash inflow	57,653
Earnings per share:	
Basic, from a discontinued operation	HK7.45 cents
Diluted, from a discontinued operation	HK7.45 cents

No adjustment had been made to the basic earnings per share amount from the discontinued operation presented in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2008.

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2008
Profit attributable to ordinary owners of the Company from the discontinued operation	HK$424,202,000
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	5,695,355,525

13. DIVIDENDS

The directors do not recommend the payment of dividend in respect of the year. In 2008, dividend paid and proposed are as follows:

	2008 HK$'000
Interim – HK2 cents per ordinary share	113,907
Special interim – HK3 cents per ordinary share	170,861
Final proposed subsequent to the reporting period – HK1 cent per ordinary share	56,954
	341,722

In 2008, the final dividend proposed subsequent to the reporting period had not been recognised as a liability at the end of the reporting period, and was subject to the approval of the Company's shareholders at the annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary owners of the Company, and the weighted average number of ordinary shares of 5,695,355,525 in issue during the year.

No adjustments has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculations of basic and diluted earnings per share are based on:

	2009	2008
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary owners of the Company,		
used in the basic and diluted earnings per share calculations:		
From continuing operations	**28,100**	107,107
From a discontinued operation *(note 12)*	**–**	424,202
	28,100	531,309

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,695,355,525**	5,695,355,525

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Hotel properties HK$'000	Land and buildings HK$'000	Scenic spots establishment HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
31 December 2009							
At 31 December 2008 and at 1 January 2009:							
Cost		2,779,950	1,820,542	1,213,715	100,305	2,064,504	7,979,016
Accumulated depreciation and impairment		(755,381)	(474,048)	(678,266)	–	(907,552)	(2,815,247)
Net carrying amount		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769
At 1 January 2009, net of accumulated depreciation and impairment		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769
Additions		8	258,813	–	289,684	161,168	709,673
Acquisition of subsidiaries	*37(a)*	11,617	4,527	–	676	7,152	23,972
Assets included as held for sale	*29(a)*	–	(42,586)	–	–	(6,253)	(48,839)
Disposal of subsidiaries	*38(a)*	–	–	–	–	(12,166)	(12,166)
Disposals and write-off		(3,243)	(7,996)	(132)	(975)	(44,249)	(56,595)
Depreciation provided during the year	*7*	(244,902)	(97,691)	(46,189)	–	(248,287)	(637,069)
Impairment	*7*	–	(50,325)	–	–	–	(50,325)
Transfer from/(to) investment properties, net	*16*	(42,306)	2,566	–	–	–	(39,740)
Transfers		43,986	313,033	29,004	(138,932)	(247,091)	–
Exchange realignment		(8,625)	(3,979)	(4,296)	(883)	(3,864)	(21,647)
At 31 December 2009, net of accumulated depreciation and impairment		1,781,104	1,722,856	513,836	249,875	763,362	5,031,033
At 31 December 2009:							
Cost		2,787,592	2,293,912	1,233,096	249,875	1,844,872	8,409,347
Accumulated depreciation and impairment		(1,006,488)	(571,056)	(719,260)	–	(1,081,510)	(3,378,314)
Net carrying amount		1,781,104	1,722,856	513,836	249,875	763,362	5,031,033

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Notes	Hotel properties HK$'000	Land and buildings HK$'000	Scenic spots establishment HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
31 December 2008							
At 1 January 2008:							
Cost		2,215,920	1,517,016	1,122,763	107,354	1,707,287	6,670,340
Accumulated depreciation and impairment		(583,297)	(386,571)	(627,464)	–	(654,822)	(2,252,154)
Net carrying amount		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186
At 1 January 2008, net of accumulated depreciation and impairment		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186
Additions		–	8,132	41,755	346,930	133,431	530,248
Acquisition of subsidiaries	*37(b)*	362,917	–	–	–	91,266	454,183
Disposals and write-off		(444)	(55,528)	–	(2,584)	(18,887)	(77,443)
Depreciation provided during the year	*7*	(76,631)	(82,492)	(44,609)	–	(180,341)	(384,073)
Impairment	*7*	–	–	–	–	(1,479)	(1,479)
Transfers		44,658	288,994	8,616	(358,991)	16,723	–
Exchange realignment		61,446	56,943	34,388	7,596	63,774	224,147
At 31 December 2008, net of accumulated depreciation and impairment		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769
At 31 December 2008:							
Cost		2,779,950	1,820,542	1,213,715	100,305	2,064,504	7,979,016
Accumulated depreciation and impairment		(755,381)	(474,048)	(678,266)	–	(907,552)	(2,815,247)
Net carrying amount		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008:				
Cost	803	2,913	2,379	6,095
Accumulated depreciation	(732)	(2,462)	(2,268)	(5,462)
Net carrying amount	71	451	111	633
At 1 January 2008, net of accumulated depreciation	71	451	111	633
Additions	–	598	342	940
Depreciation provided during the year	(71)	(280)	(238)	(589)
At 31 December 2008, net of accumulated depreciation	–	769	215	984
At 31 December 2008 and at 1 January 2009:				
Cost	803	3,524	1,921	6,248
Accumulated depreciation	(803)	(2,755)	(1,706)	(5,264)
Net carrying amount	–	769	215	984
At 1 January 2009, net of accumulated depreciation	**–**	**769**	**215**	**984**
Additions	**–**	**428**	**–**	**428**
Disposals and write-off	**–**	**(7)**	**–**	**(7)**
Depreciation provided during the year	**–**	**(365)**	**(129)**	**(494)**
At 31 December 2009, net of accumulated depreciation	**–**	**825**	**86**	**911**
At 31 December 2009:				
Cost	**803**	**3,933**	**1,921**	**6,657**
Accumulated depreciation	**(803)**	**(3,108)**	**(1,835)**	**(5,746)**
Net carrying amount	**–**	**825**	**86**	**911**

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 31 December 2008, the net book value of the Group's property, plant and equipment held under a finance lease included in the furniture, fixture and equipment amounted to HK$11,000.

Included in the Group's construction in progress at 31 December 2009 amounting to HK$122,159,000 (2008: HK$35,133,000) was the construction of certain building and golf courses on a parcel of land of which the Group is in the progress of applying for the land use right certificate as at the end of the reporting period.

At 31 December 2009, certain of the Group's buildings with an aggregate value of HK$18,076,000 (2008: HK$5,674,000) were pledged to secure a bank guarantee given to a supplier in connection with credit facility granted and to secure bank loans.

An impairment loss of HK$50,325,000 in respect of the Group's property, plant and equipment was recognised during the year because the Group suspended the use of the respective golf courses subsequent to the end of the reporting period.

Further particulars of the principal hotel properties held by the Group as at 31 December 2009 are included on page 174 and 175.

16. INVESTMENT PROPERTIES

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January		**762,470**	200,049	**2,080**	2,000
Acquisition of subsidiaries	*37(b)*	**–**	618,383	**–**	–
Net profit/(loss) from a fair value adjustment		**189,806**	(70,609)	**140**	80
Transfer from property, plant and equipment, net	*15*	**39,740**	–	**–**	–
Transfer to prepaid land lease payments, net	*17*	**(19,518)**	–	**–**	–
Exchange realignment		**(4,698)**	14,647	**–**	–
Carrying amount at 31 December		**967,800**	762,470	**2,220**	2,080

16. INVESTMENT PROPERTIES *(Continued)*

The Group's and the Company's investment properties are held under the following lease terms:

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
Group			
Long term leases	–	398,900	398,900
Medium term leases	184,700	384,200	568,900
	184,700	783,100	967,800
Company			
Medium term leases	–	2,220	2,220

The Group's and the Company's investment properties were revalued on 31 December 2009 by RHL Appraisal Ltd., the independent professionally qualified valuers, at HK$967,800,000 (2008: HK$762,470,000) and HK$2,220,000 (2008: HK$2,080,000), respectively, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

Further particulars of the Group's principal investment properties are included on page 176.

17. PREPAID LAND LEASE PAYMENTS

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**3,142,882**	3,100,986
Additions		**65,923**	–
Acquisition of subsidiaries	*37*	**5,976**	89,213
Assets included as held for sale	*29(a)*	**(568)**	–
Disposals		**(4,194)**	–
Amortised during the year	*7*	**(65,335)**	(67,026)
Transfer from investment properties, net	*16*	**19,518**	–
Exchange realignment		**(3,008)**	19,709
Carrying amount at 31 December		**3,161,194**	3,142,882
Current portion included in prepayments, deposits and other receivables		**(66,133)**	(68,078)
Non-current portion		**3,095,061**	3,074,804

The Group's prepaid land lease payments are under the following lease terms:

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Long term leases	2,145,230	1,055	2,146,285
Medium term leases	504,879	510,030	1,014,909
	2,650,109	511,085	3,161,194

18. GOODWILL

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Cost at 1 January, net of accumulated impairment		**1,244,769**	1,244,769
Acquisition of minority interests		**–**	7,381
Acquisition of subsidiaries	*37*	**36,461**	–
Impairment during the year	*7*	**–**	(7,381)
Net carrying amount at 31 December		**1,281,230**	1,244,769

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated retained profits. The amount of goodwill remaining in consolidated retained profits, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$959,000,000 as at 31 December 2009 and 2008. The amount of goodwill is stated at cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the travel agency and related operations cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the travel agency and related operations cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 16% (2008: 11%) and due to the uncertainty, cash flows beyond the five-year period are extrapolated without growth.

Key assumptions were used in the value in use calculation of the travel agency and related operations cash-generating unit for the years ended 31 December 2009 and 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the travel agency and related operations cash-generating unit.

19. OTHER INTANGIBLE ASSETS

	Group		
	Trademarks	Passenger service licences and quota	Total
	HK$'000	HK$'000	HK$'000
Carrying amount at 1 January 2008	–	2,168	2,168
Additions	–	960	960
Acquisition of subsidiaries *(note 37(b))*	34,291	–	34,291
Carrying amount at 31 December 2008 and at 1 January 2009	34,291	3,128	37,419
Additions	**–**	**8,162**	**8,162**
Carrying amount at 31 December 2009	**34,291**	**11,290**	**45,581**

20. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**4,642,888**	4,740,588
Capital contribution in respect of employee share-based compensation	**115,348**	119,674
	4,758,236	4,860,262
Less: Impairment for investment costs#	**(539,832)**	(539,832)
	4,218,404	4,320,430
Amounts due from subsidiaries – current portion	**7,109,008**	7,307,929
Less: Impairment for amounts due from subsidiaries#	**(745,931)**	(745,931)
	6,363,077	6,561,998
Amounts due to subsidiaries – current portion	**(1,587,496)**	(1,575,211)

20. INTERESTS IN SUBSIDIARIES *(Continued)*

An impairment was recognised for certain subsidiaries and for the amounts due from subsidiaries. During the year, no additional impairment (2008: HK$404,589,000) was charged to the income statement as the present value of estimated cash flows, discounted at the effective interest rate, is higher than their carrying amounts.

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out in note 39 to the financial statements.

21. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Unlisted investment, at cost		–	–	–	1,415
Share of net assets	*(a)*	**801,287**	1,126,027	–	–
Goodwill on acquisition	*(b)*	–	10,877	–	–
Amounts due from jointly-controlled entities	*(c)*	**11,882**	17,432	–	–
Amount due to a jointly-controlled entity	*(c)*	**(57,935)**	(260)	–	–
		755,234	1,154,076	–	1,415

21. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes:

(a) The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2009	2008
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities (excluding the interests in jointly-controlled entities included in a disposed group):		
Non-current assets	**244,283**	416,980
Current assets	**912,816**	1,207,352
Current liabilities	**(347,702)**	(487,338)
Non-current liabilities	**(8,110)**	(10,967)
Net assets	**801,287**	1,126,027
Share of the jointly-controlled entities' results:		
Revenue	**1,544,429**	1,542,855
Other income and gains	**14,832**	14,465
	1,559,261	1,557,320
Total expenses	**(1,469,751)**	(1,482,167)
Income tax expense	**(29,059)**	(14,144)
Profit after tax	**60,451**	61,009

(b) The amount of goodwill included in the interests in jointly-controlled entities is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Cost and net carrying amount:		
At 1 January	**10,877**	10,877
Assets reclassified as assets held for sale	**(10,877)**	–
At 31 December	**–**	10,877

The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001 was HK$3,693,000 as at the end of the reporting period (2008: HK$3,693,000).

21. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

(c) The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

(d) Particulars of the principal jointly-controlled entities are as follows:

Name	Particulars of issued shares held	Place of registration and operations	Percentage of equity and profit sharing attributable to the Group 2009	2008	Principal activities
Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe Power")*	Registered capital of RMB1,800,000,000	PRC/Mainland China	51	51	Generation and sale of electricity
Tibet Shengdi Heaven Creation Entertainment Co., Ltd.#*	Registered capital of RMB16,000,000	PRC/Mainland China	38	38	Arts performances

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* Held indirectly through subsidiaries.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

22. INTERESTS IN ASSOCIATES

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Share of net assets	*(a)*	**408,282**	331,351
Goodwill	*(b)*	**12,597**	–
Amounts due from associates	*(c)*	**42,585**	7,209
Amounts due to associates	*(c)*	**(1,860)**	(4,353)
		461,604	334,207
Impairment		**(210)**	(210)
		461,394	333,997

Notes:

(a) The following table illustrates the summarised financial information, on a 100% basis, of the Group's associates:

	2009	2008
	HK$'000	HK$'000
Total assets	**2,197,740**	1,959,711
Total liabilities	**(772,290)**	(817,244)
Revenue	**1,873,107**	2,295,500
Loss after tax	**(3,710)**	(145,815)

(b) The amount of goodwill included in the interests in associates is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Cost and carrying amount:		
At 1 January	**–**	–
Acquisition	**12,597**	–
At 31 December	**12,597**	–

22. INTERESTS IN ASSOCIATES *(Continued)*

(b) *(Continued)*

The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001 was HK$49,089,000 as at the end of the reporting period (2008: HK$49,089,000).

(c) The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

(d) Particulars of the principal associates, all of which are held indirectly through subsidiaries, are as follows:

Name	Particulars of issued shares held	Place of incorporation operations	Percentage of equity interest attributable to the Group 2009	2008	Principal activities
All China Express Limited#*	Ordinary shares of HK$1 each	Hong Kong	**30**	30	Passenger transportation
Changsha Colorful World Company Limited#*	Registered capital of RMB242,859,428	PRC/Mainland China	**26**	–	Scenic spot operations
Huangshan Taiping Cable Car Co. Ltd.#*	Registered capital of US$6,975,000	PRC/Mainland China	**30**	–	Cable car operations
Huangshan Yuping Cable Car Company Limited#*	Registered capital of RMB19,000,000	PRC/Mainland China	**20**	–	Cable car operations
Shun Tak-China Travel Shipping Investments Limited#*	Ordinary shares of US$1 each	British Virgin Islands ("BVI")/ Hong Kong	**29**	29	Shipping operations

\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

* Held indirectly through subsidiaries.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equity investments, at cost	**25,849**	18,033	**13,949**	13,949

The above investments consist of investments in equity securities which are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The unlisted equity investments, which fair value cannot be measured reliably, have been stated at cost less impairment.

24. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Food and beverages	**12,937**	12,782
Spare parts and consumables	**2,475**	3,280
General merchandise	**10,096**	9,503
	25,508	25,565

25. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**177,697**	246,477
Impairment	**(6,804)**	(15,632)
	170,893	230,845

25. TRADE RECEIVABLES *(Continued)*

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. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of the provision for impairment of trade receivables, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**146,797**	206,050
3 to 6 months	**21,196**	17,927
6 to 12 months	**2,400**	6,868
1 to 2 years	**500**	–
	170,893	230,845

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**15,632**	8,583
Acquisition of subsidiaries	**56**	892
Reclassified as held for sale	**(5,089)**	–
Impairment losses recognised	**4,750**	6,505
Impairment losses reversed/written-off	**(8,434)**	(593)
Exchange realignment	**(111)**	245
At 31 December	**6,804**	15,632

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

25. TRADE RECEIVABLES *(Continued)*

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**143,206**	138,952
Past due:		
Less than 3 months	**24,417**	78,990
3 to 6 months	**2,770**	9,223
6 to 12 months	**–**	3,680
1 to 2 years	**500**	–
	170,893	230,845

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other debtors	**184,702**	319,194	**4,493**	4,229
Amounts due from minority shareholders	**–**	40	**–**	–
	184,702	319,234	**4,493**	4,229

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**585,855**	764,147	**26,070**	85,077
Time deposits	**1,209,592**	1,080,514	**829,433**	633,620
	1,795,447	1,844,661	**855,503**	718,697
Less: Pledged time deposits	**(32,661)**	(49,782)	**–**	–
Cash and cash equivalents	**1,762,786**	1,794,879	**855,503**	718,697

The Group has pledged bank deposits to banks to secure: (i) a short term bank loan, (ii) certain credit facilities granted by suppliers to the Group's subsidiaries; and (iii) certain bank guarantees given in lieu of utility and rental deposits.

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$967,279,000 (2008: HK$1,371,428,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The balances with the immediate holding company and fellow subsidiaries mainly represent trade receivables and payables.

Except for the balance with the immediate holding company regarding the provision of travel permit administration services which is repayable within three business days in the month following the transactions, other balances with the immediate holding company and fellow subsidiaries are unsecured, interest-free and repayable on demand.

28. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES *(Continued)*

An aged analysis of the balances with the immediate holding company and fellow subsidiaries is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from the immediate holding company				
Within 1 year	**31,880**	27,688	**–**	–
1 to 2 years	**235**	133	**–**	–
Over 2 years	**86**	401	**–**	–
	32,201	28,222	**–**	–
Amount due to the immediate holding company				
Within 1 year	**1,171**	400	**673**	201
Amounts due from fellow subsidiaries				
Within 1 year	**25,470**	23,549	**–**	473
1 to 2 years	**11,379**	8,170	**473**	–
Over 2 years	**1,032**	807	**–**	–
	37,881	32,526	**473**	473
Amounts due to fellow subsidiaries				
Within 1 year	**11,320**	2,418	**–**	–
1 to 2 years	**1,050**	696	**–**	–
Over 2 years	**696**	892	**–**	–
	13,066	4,006	**–**	–

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

29. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The assets and liabilities related to the 100% equity interest in China Travel International Limited ("CTIL") and 25% equity interest in China Travel International (Hangzhou) Ltd. (collectively the "CTIL Group") have been presented as held for sale following the approval by the Company's shareholders on 20 July 2009 to dispose of the CTIL Group at a consideration of HK$205 million. The CTIL Group is part of the travel agency and related operation business and operates travel agencies in Mainland China. The transaction is expected to complete in 2010.

(a) Assets of a disposal group classified as held for sale

	Notes	2009 HK$'000
Property, plant and equipment	*15*	**48,839**
Prepaid land lease payments	*17*	**568**
Interests in jointly-controlled entities		**58,328**
Inventories		**570**
Trade receivables		**59,819**
Prepayments, deposits and other receivables		**107,125**
Cash and bank balances		**109,261**
Non-pledged time deposits with original maturity of three months or less when acquired		**5,680**
Non-pledged time deposits with original maturity of more than three months when acquired		**51,119**
Amounts due from immediate holding company		**59**
Amounts due from fellow subsidiaries		**70,860**
Total		**512,228**

29. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

(b) Liabilities directly associated with the assets classified as held for sale

	2009 HK$'000
Trade payables	60,270
Tax payables	1,636
Other payables and accruals	185,852
Amounts due to fellow subsidiaries	364
Deferred tax liabilities	264
Total	248,386

(c) Cumulative income or expense recognised directly in equity relating to a disposal group classified as held for sale

	2009 HK$'000
Exchange fluctuation reserve	36,110

30. TRADE PAYABLES

The aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 3 months	**249,993**	275,677
3 to 6 months	**17,395**	18,608
6 to 12 months	**3,602**	5,386
1 to 2 years	**7,421**	18,292
Over 2 years	**7,329**	13,624
	285,740	331,587

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

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities	**615,842**	423,359	**10,128**	15,137
Employee benefits	**200,889**	207,273	**17,346**	15,795
Receipts in advance	**114,066**	229,436	**–**	–
Amounts due to minority shareholders	**876**	1,335	**–**	–
	931,673	861,403	**27,474**	30,932

Other payables are non-interest-bearing and are normally settled on terms of 30 to 180 days.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group		2009			2008		
	Notes	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Finance lease and hire purchase contract payables				–	4.84	2009	11
Bank loan – secured	*(i)*	1-Year PBOC Lending Rate + 0.35	2010	7,952			–
Bank loans – unsecured		HIBOR + 0.6	2010	60,000*	3.05	2009	392
Syndicated bank loan – unsecured				–	HIBOR + 0.25	2009	220,000 *
Other borrowings – unsecured	*(ii)*	1-Year PBOC Lending Rate	On demand	20,902	1-Year PBOC Lending Rate	On demand	22,904
Other loans – unsecured		Interest-free	On demand	1,136	Interest-free	On demand	1,145
Golf club debentures				–	Interest-free	2009	200
				89,990			244,652
Non-current							
Bank loan – secured	*(i)*	EURIBOR + 0.12	2011	2,778	EURIBOR + 0.12	2011	2,731
Bank loans – unsecured		4.30	2011	419	4.30	2011	598
Entrustment loans		4.41	2012	170,396	6.48	2012	171,782
Golf club debentures		Interest-free	2013 – 2024	3,957	Interest-free	2013-2024	3,957
				177,550			179,068
Total interest-bearing bank and other borrowings				267,540			423,720

Notes:

(i) The Group's long term bank loan is secured by the Group's bank deposits amounting to HK$2,778,000 (2008: HK$2,731,000), while the short term bank loan is secured by certain buildings with a net book value of HK$12,442,000 (2008: Nil).

(ii) The Group's other borrowings represent borrowings from minority shareholders and are unsecured, bear interest at the one-year People's Bank of China Base Lending Rate and repayable on demand.

* The loans are secured by corporate guarantees given by the Company.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group	
	2009	2008
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**67,952**	220,392
In the second year	**3,197**	–
In the third to fifth years, inclusive	**170,396**	175,111
	241,545	395,503
Other borrowings repayable:		
Within one year	**22,038**	24,260
In the second year	**–**	–
In the third to fifth years, inclusive	**–**	–
Beyond five years	**3,957**	3,957
	25,995	28,217
Total interest-bearing bank and other borrowings	**267,540**	423,720

The carrying amounts of the Group's current and floating rate borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current fixed rate borrowings are as follows:

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other bank loans-secured	**170,396**	171,782	**172,537**	174,579
Other bank loans-unsecured	**419**	598	**443**	609
Golf club debentures	**3,957**	3,957	**3,646**	3,253
	174,772	176,337	**176,626**	178,441

The fair values of these borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowances in excess of related depreciation HK$'000	Surplus/ (deficit) on revaluation of properties HK$'000	Losses available for offsetting against future taxable profits HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Withholding tax HK$'000	Total HK$'000
At 1 January 2008	55,705	64,951	(20,843)	273,795	–	373,608
Acquisition of subsidiaries	–	40,115	–	32,835	–	72,950
Deferred tax charged/ (credited) to the income statement during the year	(2,416)	(19,052)	2,378	(15,477)	5,960	(28,607)
Disposal of subsidiaries	(173)	–	–	–	–	(173)
Exchange realignment	–	(143)	–	–	–	(143)
At 31 December 2008 and at 1 January 2009	53,116	85,871	(18,465)	291,153	5,960	417,635
Deferred tax charged/ (credited) to the income statement during the year	**4,225**	**43,966**	**(14,558)**	**(5,413)**	**4,216**	**32,436**
Exchange realignment	**–**	**(231)**	**–**	**–**	**–**	**(231)**
At 31 December 2009	**57,341**	**129,606**	**(33,023)**	**285,740**	**10,176**	**449,840**
Deferred tax liabilities reported in the statement of financial position						449,576
Deferred tax liabilities directly associated with the assets classified as held for sale						264
						449,840

33. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance	Losses available for offsetting against future taxable profits	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2008	–	(250)	(250)
Acquisition of subsidiaries	(570)	–	(570)
Deferred tax charged to the income statement during the year	–	250	250
Exchange realignment	(11)	–	(11)
At 31 December 2008 and at 1 January 2009	(581)	–	(581)
Acquisition of subsidiaries	**(825)**	**–**	**(825)**
Deferred tax charged to the income statement during the year	**4**	**–**	**4**
At 31 December 2009	**(1,402)**	**–**	**(1,402)**

33. DEFERRED TAX *(Continued)*

For presentation purpose, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balance of the Group for financial reporting purposes:

	2009 HK$'000	2008 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(1,402)**	(581)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**449,576**	417,635
Net deferred tax liabilities included in the disposal group classified as held for sale *(note 29(b))*	**264**	–
	448,438	417,054

The Group has tax losses arising in Hong Kong of HK$82,447,000 (2008: HK$207,184,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$709,122,000 (2008: HK$565,735,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares

	2009	2008
	HK$'000	HK$'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

Share options

Details of the Company's share option scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the Company on 3 June 2002.

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

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

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

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

35. SHARE OPTION SCHEME *(Continued)*

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 shares of the Company (the "Shares") as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheet at the date of grant; (ii) the average closing price of the shares of the Company 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 fair value of the share options granted during the year ended 31 December 2007 was HK$161,523,000 (HK$1.6633 each) of which the Group recognised a share option expense of HK$130,550,000 during the year ended 31 December 2008.

The following share options were outstanding under the Share Option Scheme during the year ended 31 December 2008:

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2008	4.65	97,110
Forfeited during the year	4.65	(2,250)
Cancelled during the year	4.65	(94,860)
At 31 December 2008	–	–

At the end of the reporting period, the Company had no share options outstanding under the Share Option Scheme.

36. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 63 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008		8,357,579	27,231	350	464,438	8,849,598
Profit for the year		–	–	–	912,583	912,583
Equity-settled share option arrangements	*35*	–	130,550	–	–	130,550
Cancellation of equity-settled share option arrangements		–	(157,781)	–	157,781	–
2007 final dividend approved		–	–	–	(170,861)	(170,861)
2008 interim dividend declared	*13*	–	–	–	(284,768)	(284,768)
At 31 December 2008 and at 1 January 2009		8,357,579	–	350	1,079,173	9,437,102
Profit for the year		**–**	**–**	**–**	**68,380**	**68,380**
2008 final dividend approved	*13*	**–**	**–**	**–**	**(56,954)**	**(56,954)**
At 31 December 2009		**8,357,579**	**–**	**350**	**1,090,599**	**9,448,528**

37. BUSINESS COMBINATION

(a) On 18 November 2009, the Company entered into a conditional sale and purchase agreement with Dean Glory Development Limited ("Dean Glory"), a wholly-owned subsidiary of CTS (Holdings), to acquire the entire issued share capital of Trump Return Limited ("Trump Return") and the respective shareholder's loan owed by Trump Return to Dean Glory. The transaction was completed on 31 December 2009.

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

	Notes	**Provisional fair value and carrying amount** HK$'000
Property, plant and equipment	*15*	23,972
Prepaid land lease payments	*17*	5,976
Interests in associates		102,430
Available-for-sale investment		7,850
Deferred tax assets		825
Inventories		246
Trade receivables, prepayments, deposits and other receivables		1,768
Cash and bank balances		94,422
Amount due from a fellow subsidiary		27
Tax payable		(2,355)
Trade payables, other payables and accruals		(3,987)
Amounts due to intermediate holding companies		(230,433)
Minority interests		(1,141)
		(400)
Provisional goodwill	*18*	36,461
		36,061

37. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

	HK$'000
Satisfied by:	
Cash paid for acquisition of Trump Return	275,000
Debts assigned to the Group	(238,939)
	36,061

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

	HK$'000
Cash consideration	275,000
Cash and bank balances acquired	(94,422)
Net outflow of cash and cash equivalents in respect of the acquisition of Trump Return	180,578

Goodwill arising on the acquisition of Trump Return during the year is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional value only. The Company is in the process of obtaining independent valuation to assess the fair value. It may be adjusted upon the completion of the initial accounting.

Since its acquisition, Trump Return has not contributed to the Group's revenue and to the Group's consolidated results for the year ended 31 December 2009.

Had the combination taken place at the beginning of the current year, the revenue and the profit of the Group for the year ended 31 December 2009 would have been HK$4,116,041,000 and HK$94,608,000, respectively.

37. BUSINESS COMBINATION *(Continued)*

(b) 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 CTS (Holdings), China Travel Building Contractors Hong Kong Ltd. and China Travel Investments Hong Kong Ltd. (collectively the "Vendors") to acquire the entire issued share capital of CTS H.K. Metropark Hotels Management Company Limited, Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, Ruskin Overseas Limited and Wisepak Enterprises Limited (collectively the "Hotel Group") and the respective shareholders' loans 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:

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	*15*	454,183	399,220
Investment properties	*16*	618,383	618,383
Prepaid land lease payments	*17*	89,213	46,523
Trademarks	*19*	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)
Minority interests		(33,912)	(19,712)
		(21,447)	(106,356)
Excess over the cost of a business combination		(521)	
		(21,968)	

37. BUSINESS COMBINATION *(Continued)*

(b) *(Continued)*

	Notes	HK$'000
Satisfied by:		
Cash paid for acquisition of the Hotel Group		1,107,260
Cash received on the disposal of the Cargo Business	*38(b)*	(853,640)
Net cash		253,620
Debts assigned to the Group		(1,144,772)
Fair value of the Cargo Business on assets swap	*38(b)*	869,184
		(21,968)

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$159,166,000 to the Group's revenue and a loss of HK$13,363,000 to the Group's consolidated results for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year ended 31 December 2008, the revenue from the continuing operations of the Group and the profit of the Group for the year ended 31 December 2008 would have been HK$4,465,553,000 and HK$170,387,000, respectively.

38. DISPOSAL OF SUBSIDIARIES

(a) On 23 December 2009, China Heaven, a 85.3%-owned subsidiary, entered into a sale and purchase agreement with the minority shareholders of 北京歌華天創演藝有限公司 ("Gehua-China Heaven") to dispose of the 1% equity interest in Gehua-China Heaven for a cash consideration of RMB350,000. Upon disposal, China Heaven owns as to a 50% equity interest in Gehua-China Heaven and has joint control in Gehua-China Heaven. Accordingly, the Group's interest in Gehua-China Heaven was accounted for as an interest in a jointly-controlled entity upon completion of the disposal. The transaction was completed on 31 December 2009.

	Notes	**2009** **HK$'000**
Net assets disposed of:		
Property, plant and equipment	*15*	**12,166**
Prepayments, deposits and other receivables		**24**
Cash and bank balances		**12,077**
Other payables		**(60)**
Minority interests		**(16,027)**
		8,180
Reclassified to interest in a jointly-controlled entity		**(7,853)**
Gain on disposal	*5*	**71**
		398
Satisfied by cash		**398**

An analysis of the net outflow of cash and cash equivalents in respect of the disposal in the 1% equity interest in Gehua-China Heaven is as follows:

	2009 **HK$'000**
Cash consideration	**398**
Cash and bank balances disposed of	**(12,077)**
Net outflow of cash and cash equivalents in respect of the disposal	**(11,679)**

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 1 November 2007, the Company announced the decision of its board of directors to dispose of its entire interests in China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") and Common Well Limited (collectively the "Cargo Business"). The Cargo Business engages in freight forwarding and transportation services. The disposal of the Cargo Business was completed on 9 May 2008.

	Notes	2008 HK$'000
Net assets disposed of:		
Property, plant and equipment		130,832
Investment properties		40,750
Prepaid land lease payments		53,237
Interest in a jointly-controlled entity		279
Available-for-sale investments		44
Inventories		2
Trade receivables, prepayments, deposits and other receivables		602,943
Tax recoverable		9
Cash and bank balances		219,157
Amounts due from fellow subsidiaries		9,533
Trade and other payables		(387,996)
Tax payables		(8,442)
Interest-bearing bank borrowings		(77,931)
Amount due to the immediate holding company		(12,395)
Deferred tax liabilities		(173)
Minority interests		(74,494)
		495,355
Exchange fluctuation reserve realised		(41,934)
Gain on disposal of the Cargo Business	*12*	397,440
		850,861
Satisfied by:		
Fair value of the Cargo Business on assets swap	*37(b)*	869,184
Debts assigned from the Group		(12,271)
Transaction costs on disposal		(6,052)
		850,861

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the Cargo Business is as follows:

	Note	2008 HK$'000
Cash consideration	*37(b)*	853,640
Cash and bank balances disposed of		(219,157)
Transaction costs paid		(6,052)
Net inflow of cash and cash equivalents in respect of the disposal of the Cargo Business		628,431

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	**100**	100	Travel and air ticketing agency
Aldington International Ltd.#	Western Samoa	1,000,000 ordinary shares of US$1 each	**100**	–	Investment holding
Beijing CTS (Hong Kong) Grand Metropark Hotel Co., Ltd.#***	PRC/Mainland China	US$12,000,000	**100**	100	Property investment holding and hotel operations
Chadwick Developments Limited ("Chadwick") *(Note)*	Hong Kong	1,000 ordinary shares of HK$1 each 10,000 non-voting deferred shares of HK$1 each	**100**	100	Investment holding

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
China Heaven Creation International Performing Arts Co., Ltd.#***	PRC/Mainland China	RMB10,000,000	**85.3**	85.3	Production of art performances
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK$1 each	**100**	100	Tour operations
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Provision of printing and advertising agency services
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**100**	100	Air ticketing agency
China Travel and Trading (Deutschland) GmbH#	Germany	EUR380,000	**100**	100	Travel and air ticketing agency
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Passenger transportation
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100**	100	Trading of computer equipment, provision of computer service and investment holding

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** *(Note)*	PRC/Mainland China	US$141,000,000	**100**	100	Hot spring resort operations
China Travel International Ltd.#** *(Note)*	PRC/Mainland China	RMB177,300,000	**100**	100	Tour operations
China Travel International (Chengdu) Ltd.#*	PRC/Mainland China	RMB4,220,000	**51**	51	Tour operations
China Travel International (Shandong) Ltd.#*	PRC/Mainland China	RMB5,000,000	**51**	51	Tour operations
China Travel International (Shanxi) Travel Service Co., Ltd.#*	PRC/Mainland China	RMB5,000,000	**51**	51	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.#*	PRC/Mainland China	RMB6,000,000	**51**	51	Tour operations
China Travel International (Xian) Ltd.#*	PRC/Mainland China	RMB3,570,000	**100**	51	Tour operations
China Travel International (Xinjiang) Ltd.#*	PRC/Mainland China	RMB4,000,000	**51**	51	Tour operations
China Travel Service (Australia) Pty Ltd.	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agency
China Travel Service (Canada) Inc.#	Canada	CAD3,162,750	**100**	100	Travel and air ticketing agency

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK$100 each 1,000,000 non-voting deferred shares of HK$100 each	**100**	100	Tour operations, PRC entry permit handling agency, investment holding and travel agency
China Travel Service (Korea) Co., Ltd.#	Korea	WON500,000,000	**100**	100	Travel and air ticketing agency
China Travel Service (N.Z.) Limited	New Zealand	NZD30,000	**100**	100	Travel and air ticketing agency
China Travel Service (U.K.) Ltd.#	United Kingdom	486,000 ordinary shares of GBP1 each 1,072,000 preference shares of GBP1 each	**100**	100	Travel and air ticketing agency
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Passenger transportation
Chengdu Huashuiwan China Travel Company Limited#***	PRC/Mainland China	RMB9,000,000	**100**	–	Cable car operations
Chengdu Huashuiwan Sakura Hotel Company Limited#***	PRC/Mainland China	RMB21,547,000	**100**	–	Resort operations

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
CTS H.K. Metropark Hotels Management Company Limited	Hong Kong	HK$100,001	**100**	100	Hotel management
CTS Hotel Management Co., Ltd.***	PRC/Mainland China	HK$5,000,000	**100**	100	Hotel management
CTS Scenery Resort Investment Company Limited#**	PRC/Mainland China	RMB132,250,000	**100**	–	Investment and management of resort hotel and scenic spots
CTS Tycoon (Shenzhen) Golf Club Company Limited**	PRC/Mainland China	RMB326,000,000	**100**	100	Golf club operations
CTS Scandinavia AB	Sweden	SEK100,000	**100**	100	Travel and air ticketing agency
Glading Development Limited	Hong Kong	2 ordinary shares of HK$1 each 2 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding and hotel operations
Guangdong CTS (HK) & Jinhuang Transportation Ltd.#**	PRC/Mainland China	HK$30,000,000	**100**	100	Passenger transportation
Xianyang Guanzhong Hotspring Co., Ltd. ("Guanzhong Hotspring")*	PRC/Mainland China	RMB301,000,000	**83.72**	83.72	Hot spring resort operations

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
Hotel Metropole Holdings Limited	BVI/ Hong Kong	1 share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co. Ltd.#***	PRC/Mainland China	RMB3,800,000	**80**	–	Resort operations
Kinetic Profit Real Estate (Shanghai) Co., Ltd.***	PRC/Mainland China	US$5,000,000	**100**	100	Property investment holding and hotel operations
Mangocity.com Limited	Hong Kong	500,000 ordinary shares of HK$1 each	**100**	100	Sale of travel-related products through an electronic platform
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Metrocity Hotel Limited	BVI/ Hong Kong	1 ordinary share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Mutual Great (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	–	Investment holding
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
Shanghai Weilv Hotel Management Co., Ltd.***	PRC/Mainland China	RMB1,000,000	**100**	100	Hotel management
Shenzhen The Splendid China Development Co., Ltd.* *(Note)*	PRC/Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* *(Note)*	PRC/Mainland China	US$29,500,000	**51**	51	Tourist attraction operations
Singa China Travel Service Pte. Limited#	Singapore	SG$6,740,000	**100**	100	Travel and air ticketing agency
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Triumph King Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Trump Return Limited#	BVI	US$50,000	**100**	–	Investment holding
U.S. China Travel Services, Inc.#	United States of America	US$6,471,639	**100**	100	Travel and air ticketing agency
Well Done Enterprises Inc.	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Property investment holding and hotel operations

39. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2009	2008	Principal activities
Yangzhou Grand Metropole Hotel Co., Ltd.***	PRC/Mainland China	RMB44,000,000	**60**	60	Property investment holding and hotel operations
深圳市港中旅快綫運輸有限公司#***	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation and investment holding
芒果網有限公司#**	PRC/Mainland China	RMB219,595,000	**100**	100	Sale of travel-related products through an electronic platform
港中旅國際商務旅行管理(北京)有限公司#**	PRC/Mainland China	RMB10,000,000	**100**	100	Air ticketing agency
珠海市港中旅快線有限公司#**	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note: Directly owned by the Company

* Sino-foreign equity joint ventures

** Registered as wholly-foreign-owned enterprises under the PRC law

*** Registered as limited liability companies under the PRC law

\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network

40. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company had the following material contingent liabilities:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks granted to subsidiaries in lieu of utility and rental deposits	**–**	–	**1,758**	1,724
Corporate guarantees given to banks in connection with credit facilities granted to subsidiaries	**–**	–	**192,559**	1,037,347
Performance bond given to a customer for due performance of a sales contract	**414**	415	**–**	–
	414	415	**194,317**	1,039,071

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$149,028,000 (2008: HK$259,071,000).

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its equipment and investment properties (notes 15 and 16) 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.

41. OPERATING LEASE ARRANGEMENTS *(Continued)*

(a) As lessor *(Continued)*

At 31 December 2009, the Group's continuing operations had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Investment properties:		
Within one year	**51,292**	39,757
In the second to fifth years, inclusive	**84,485**	25,697
After five years	**720**	–
	136,497	65,454
Equipment:		
Within one year	**45**	401
In the second to fifth years, inclusive	**–**	30
	45	431

(b) As lessee

At 31 December 2009, the Group's continuing operations had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Land and buildings:		
Within one year	**29,562**	63,079
In the second to fifth years, inclusive	**33,788**	42,300
	63,350	105,379
Plant and machinery and motor vehicles:		
Within one year	**3,946**	2,698
In the second to fifth years, inclusive	**68**	988
	4,014	3,686

42. COMMITMENTS

In addition to the operating lease commitments as detailed in note 41(b) above, the Group and the Company had the following commitments at the end of the reporting period:

Capital commitments

	Group	
	2009	2008
	HK$'000	HK$'000
Land and buildings:		
Contracted, but not provided for	**50,952**	112,133
Authorised, but not contracted for	**475,228**	429,487
	526,180	541,620
Plant and equipment and motor vehicles:		
Contracted, but not provided for	**–**	–
Authorised, but not contracted for	**43**	19,250
	43	19,250
Leasehold improvements:		
Contracted, but not provided for	**2,140**	23,093
Authorised, but not contracted for	**1,228**	–
	3,368	23,093
Scenic spots:		
Contracted, but not provided for	**25,026**	37,090
Authorised, but not contracted for	**–**	39,297
	25,026	76,387

At the end of the reporting period, the Company has contracted to acquire 51% equity interest in CTS (Dengfeng) Songshan Shaolin Cultural Tourism Co. Ltd. ("CTS Dengfeng") for a cash consideration of RMB68.85 million (HK$78.24 million). The carrying value of CTS Dengfeng before the enlargement of registered capital as at 31 December 2009 approximates to RMB42 million. Further details are included in the Company's announcement dated 24 December 2009. Apart from the above, the Company has no significant commitments.

43. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2009	2008
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to:			
Immediate holding company			
(1) CTS (Holdings)	Office rental	**16,120**	15,505
Fellow subsidiaries			
(2) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	**4,943**	5,146
(3) 上海天澤房地產有限公司	Office rental	**2,252**	1,001
(4) CTS H.K. Metropark Hotels Management Company Ltd.	Hotel management fees	**–**	6,177
(5) Metropark Hotel Shenzhen Co., Ltd.	Hotel room rental	**1,059**	984
(6) China Merchants International Travel Co., Ltd. Shenzhen	Travel-related service fees	**4,671**	2,880
(7) China Merchants International Travel Co., Guangzhou	Travel-related service fees	**3,026**	8,086
(8) China Travel Head Office	Travel-related service fees	**7,933**	4,146
Jointly-controlled entities			
(9) China Travel International (Hangzhou) Ltd.	Travel-related service fees	**11,622**	8,688
(10) Shanghai China Travel International Limited	Travel-related service fees	**3,408**	4,556
(11) Shaanxi Weihe Power	Finance costs	**7,629**	8,504
Associate			
(12) All China Express Limited	Coach rental	**3,563**	4,828

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2009 HK$'000	Group 2008 HK$'000
Received or receivable from:			
Immediate holding company			
(13) CTS (Holdings)	Hotel room rental	**3,337**	4,246
(14) CTS (Holdings)	Travel permit administration income *(note)*	**348,678**	300,111
(15) CTS (Holdings)	Sales of visa materials	**1,958**	1,303
Fellow subsidiaries			
(16) China Travel Computer Service H.K. Limited	Service income as application service provider	**11,115**	8,970
(17) China Travel Head Office	Package tour income	**8,940**	6,584
(18) China Travel Hong Kong (Qingdao) Ocean Spring Co. Ltd.	Theatre design fee	**4,322**	–
(19) Metropark Hotel Nanjing	Hotel management fees	**3,724**	2,137
(20) Metropark Hotel Hangzhou Co., Ltd.	Hotel management fees	**3,011**	1,871
Jointly-controlled entity			
(21) Shanghai China Travel International Limited	Travel-related service fees	**4,283**	2,415

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2009 HK$'000	Group 2008 HK$'000
Received or receivable from: *(Continued)*			
Associates			
(22) All China Express Limited	Coach rental	**40,431**	42,596
(23) All China Express Limited	Management fees	**17,378**	24,305
(24) All China Express Limited	Quota income	**1,379**	1,373
(25) Shun Tak-China Travel Shipping Investments Ltd.	Ticketing commission	**26,630**	34,396
(26) Shun Tak-China Travel Shipping Investments Ltd.	Management fees	**1,749**	1,758

The above transactions were carried out at market prices 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 parties and was charged at 45% of the gross fee revenue from travel permit applications.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties

(i) On 31 December 2009, the Group completed its acquisition of Trump Return from Dean Glory for a cash consideration of HK$275,000,000. Further details of the transaction are included in note 37(a) and the circular dated 3 December 2009.

(ii) On 9 May 2008, the Group completed its disposal of the Cargo Business and acquisition of the Hotel Group with CTS (Holdings) and its subsidiaries for cash considerations of HK$853,640,000 and HK$1,107,260,000, respectively. Further details of the transactions are included in note 38(b) and note 37(b) respectively to the financial statements.

(c) On 21 August 2007, an entrustment loan arrangement was entered into between Shaanxi Weihe Power, Guanzhong Hotspring and a bank. As at the end of the current reporting period, the arrangement remained effective.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**4,997**	6,547
Post-employment benefits	–	181
Equity-settled share option expense	–	21,345
Total compensation paid to key management personnel	**4,997**	28,073

Except for items (a)(25), (a)(26) and (d), the above transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

44. FINANCIAL INSTRUMENTS BY CATEGORY

Other than available-for-sale investments as disclosed in note 23 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2009 and 2008 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

45. FAIR VALUE HIERARCY

During the year ended 31 December 2009, there were no transfers into or out of Level 3 fair value measurements.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets and liabilities mainly comprise available-for-sale investments, trade receivables, other receivables, pledged time deposits, cash and cash equivalents, trade payables, other payables and accruals, interest-bearing bank and other borrowings, and finance lease and hire purchase contract payables. Details of these financial instruments are disclosed in the respective notes to the financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objective is to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities of the continuing operations as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	2009			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	103,175	197,461	1,791	302,427
Trade payables	285,740	–	–	285,740
Other payables and accruals	931,673	–	–	931,673
Amount due to the immediate holding company	1,171	–	–	1,171
Amounts due to fellow subsidiaries	13,066	–	–	13,066
	1,334,825	197,461	1,791	1,534,077

	2008			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	266,654	209,494	3,135	479,283
Trade payables	331,587	–	–	331,587
Other payables and accruals	861,403	–	–	861,403
Amount due to the immediate holding company	400	–	–	400
Amounts due to fellow subsidiaries	4,006	–	–	4,006
	1,464,050	209,494	3,135	1,676,679

Notes to Financial Statements

31 December 2009

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

	2009			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**27,474**	**–**	**–**	**27,474**
Amounts due to subsidiaries	**1,587,496**	**–**	**–**	**1,587,496**
Amount due to the immediate holding company	**673**	**–**	**–**	**673**
	1,615,643	**–**	**–**	**1,615,643**
The maximum utilised amount of the guarantee given to banks in connection with banking facilities granted to subsidiaries	**149,028**	**–**	**–**	**149,028**

	2008			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other payables and accruals	30,932	–	–	30,932
Amounts due to subsidiaries	1,575,211	–	–	1,575,211
Amount due to the immediate holding company	201	–	–	201
	1,606,344	–	–	1,606,344
The maximum utilised amount of the guarantee given to banks in connection with banking facilities granted to subsidiaries	259,071	–	–	259,071

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation thereby incurring financial loss to the Group. The Group manages the credit risk by setting up a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, it is the Group's policy to review regularly the recoverable amount of trade receivables to ensure that adequate impairment provisions are made against the irrecoverable amounts. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

Foreign currency risk

The monetary assets and transactions of several subsidiaries of the Group are principally denominated in foreign currencies, which exposes the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk profile. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant and excludes the discontinued operation for both years, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase in RMB rate	**Increase in profit before tax**	**Increase in equity**
	%	HK$'000	HK$'000
2009			
If Hong Kong dollar weakens against RMB	**3**	**48,199**	**37,442**
If Hong Kong dollar weakens against RMB	**5**	**80,332**	**62,403**
2008			
If Hong Kong dollar weakens against RMB	3	58,024	45,794
If Hong Kong dollar weakens against RMB	5	96,708	76,323

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents and banks loans. The Group does not use financial derivatives to hedge against the interest rate risk.

At 31 December 2009, it is estimated that a general increase/decrease in 1% of the borrowing rate, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK$916,000 (2008: HK$2,456,000). Similarly, it is estimated that a general increase/decrease in 0.5% of the saving rate, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$8,977,000 (2008: HK$9,227,000).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the end of the reporting period.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group prices its products and services commensurately with the level of risk and secures access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors its capital structure on the basis of a debt-to-capital ratio. The debt includes interest-bearing bank and other borrowings, trade and other payables and accruals, amounts due to the immediate holding company and fellow subsidiaries, and excludes the discontinued operation for both years. Capital represents equity attributable to owners of the Company.

During 2009, the Group's strategy, which remained unchanged from that of 2008, was to maintain the debt-to-capital ratio at the lower end of the range from 10% to 50%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

Group

	2009 HK$'000	2008 HK$'000
Interest-bearing bank and other borrowings	**267,540**	423,720
Trade payables	**285,740**	331,587
Other payables and accruals	**931,673**	861,403
Amount due to the immediate holding company	**1,171**	400
Amounts due to fellow subsidiaries	**13,066**	4,006
Debt	**1,499,190**	1,621,116
Capital	**11,567,425**	11,514,647
Debt-to-capital ratio	**12.96%**	14.08%

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2010.

Particulars of Principal Hotel Properties

31 December 2009

Location	Attributable interest of the Group	Lease term
CTS (HK) Grand Metropark Hotel Beijing No. 338 Guanganmen Nei Street Xuanwu District Beijing PRC	100%	Medium
Metropark Hotel Causeway Bay Hongkong 148 Tung Lo Wan Road Causeway Bay Hong Kong	100%	Long
Metropark Hotel Kowloon Hongkong 75 Waterloo Road Kowloon Hong Kong	100%	Long
Metropark Hotel Macau 199 Rua de Pequim Macau	100%	Medium
Metropark Hotel Mongkok Hongkong 22 Lai Chi Kok Road Mongkok, Kowloon Hong Kong	100%	Medium

Particulars of Principal Hotel Properties

31 December 2009

Location	Attributable interest of the Group	Lease term
Metropark Hotel Wanchai Hongkong 41-49 Hennessy Road Wanchai Hong Kong	100%	Long
Ocean Spring Hotel Pingsha Town Jinwan District Zhuhai City Guangdong Province PRC	100%	Medium
Yangzhou Grand Metropole Hotel No.1 Wenchang West Road (also known as No. 559 Wenchang Middle Road) Yangzhou City Jiangsu Province PRC	60%	Medium

Particulars of Principal Investment Properties

31 December 2009

Location	Use	Lease term
No. 361-367 Portland Street Mongkok Kowloon Hong Kong	Residential/ Shop/Office	Medium
17th, 18th, 21st Floor, V Heun Building No.138 Queen's Road Central Sheung Wan Hong Kong	Office	Medium
3rd to 9th, 11th, 12th Floor and Basement levels 2 and 3 CTS (HK) Grand Metropark Hotel Beijing No.338 Guanganmen Nei Street Xuan Wu District Beijing PRC	Carpark/ Shop/Office	Medium
Metropark Service Apartment Shanghai No. 48 Lane 610, Yanan West Road Changning District Shanghai PRC	Service apartments	Long

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