香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 308)

Annual Report
2010

CONTENTS

Corporate Information	2
Financial Calendar and Investor Relation Information	3
Major Operations	4
Financial Ratios Highlights	6
Five Year Financial Summary	7
Financial Review	8
Biographies of Directors and Senior Management	9
Chairman's Statement	12
Management's Discussion and Analysis	16
Report of the Directors	25
Corporate Governance Report	43
Independent Auditors' Report	53
Consolidated Income Statement	55
Consolidated Statement of Comprehensive Income	56
Consolidated Statement of Financial Position	57
Consolidated Statement of Changes in Equity	59
Consolidated Statement of Cash Flows	61
Statement of Financial Position	64
Notes to Financial Statements	65
Particulars of Principal Hotel Properties	187
Particulars of Principal Investment Properties	188

CORPORATE INFORMATION

DIRECTORS

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

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 Paribas
Chong Hing Bank

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2010 Final Results		30 March 2011
Announcement of 2010 Interim Results		26 August 2010
Announcement of 2009 Final Results		8 April 2010
Announcement of 2009 Interim Results		14 September 2009
Dividends	2010 Final	HK1 cent per share payable on 16 June 2011
	2010 Interim	Nil
	2009 Final	Nil
	2009 Interim	Nil
Closure of Register of Members for 2010 Final Dividend		Period from 18 May 2011 to 23 May 2011
Annual General Meeting in 2011		23 May 2011
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,695,355,525 (as at 31 December 2010)
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 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 Metropark Hotel	60%

Scenic Spots Operations

Splendid China	51%
China Folk Culture Villages	51%
Window of the World	51%
CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd	51%
Trump Return Limited	100%

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

	2010	2009*
Income statement ratios		
Interest coverage ratio	25.49	19.24
Earnings per share (HK cents)	2.66	0.49
Dividend per share (HK cents)	1.00	–
Dividend payout ratio (%)	37.59	–
Financial position ratios		
Current ratio	2.15	1.71
Quick ratio	2.13	1.69
Net assets value per share (HK$)	2.09	2.03
Net bank and other borrowings to equity	(0.17)	(0.14)
Debt to capital ratio (%)	14.02	15.53
Rate of return ratios		
Return on average equity (%)	1.77	0.54
Return on total capital and borrowings (%)	2.77	1.38
Market price ratios		
Dividend yield		
Year low (%)	0.40	–
Year high (%)	0.68	–
Price to earnings ratio		
Year low	55.26	206.12
Year high	94.74	504.08

Formula for financial ratios:

Interest coverage ratio	(Profit before tax + Finance costs)/Finance costs
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.*

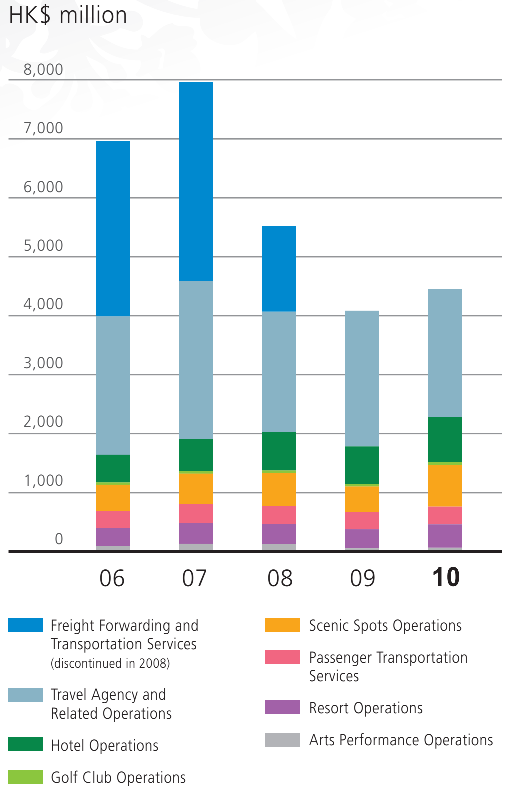
FIVE YEAR FINANCIAL SUMMARY

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

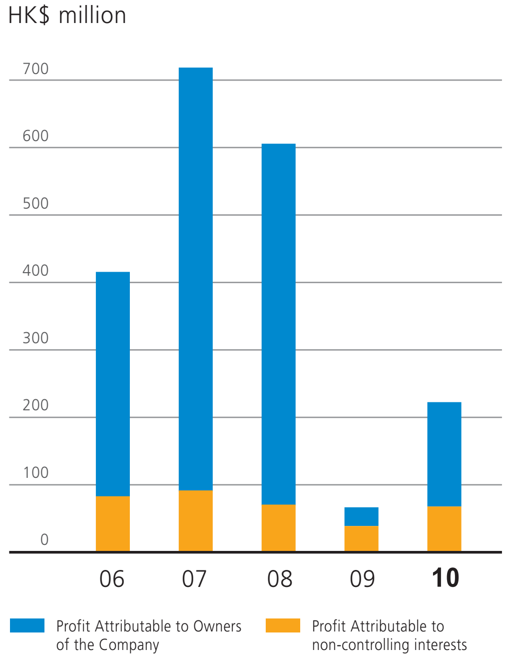
	2010 HK$'000	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)	2007 HK$'000 (Restated)	2006 HK$'000 (Restated)
Results					
CONTINUING OPERATIONS					
REVENUE	**4,464,727**	4,090,498	4,388,443	4,417,195	4,062,251
Cost of sales	**(2,544,736)**	(2,523,207)	(2,684,534)	(2,676,898)	(2,555,040)
Gross profit	**1,919,991**	1,567,291	1,703,909	1,740,297	1,507,211
Other income and gains	**241,982**	139,426	211,507	112,618	122,246
Selling and distribution costs	**(612,340)**	(552,303)	(524,236)	(537,331)	(499,260)
Administrative expenses	**(1,203,965)**	(1,124,211)	(1,057,071)	(866,005)	(798,107)
Changes in fair value of investment properties	**180,845**	189,806	(70,609)	13,947	6,887
Other expenses	**(229,400)**	(80,287)	(22,435)	–	(16,591)
Finance costs	**(16,353)**	(10,346)	(12,013)	(32,713)	(77,793)
Share of profits and losses of:					
Jointly-controlled entities	**107,576**	60,451	61,009	248,751	133,354
Associates	**12,075**	(1,096)	(42,339)	67,702	57,588
PROFIT BEFORE TAX	**400,411**	188,731	247,722	747,266	435,535
Income tax expense	**(183,073)**	(123,128)	(75,062)	(120,626)	(102,352)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**217,338**	65,603	172,660	626,640	333,183
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	428,139	94,272	82,834
PROFIT FOR THE YEAR	**217,338**	65,603	600,799	720,912	416,017
Attributable to:					
Owners of the Company	**151,666**	28,100	531,309	633,974	333,452
Non-controlling interests	**65,672**	37,503	69,490	86,938	82,565
	217,338	65,603	600,799	720,912	416,017
Assets, liabilities and non-controlling interests					
Total assets	**15,037,476**	14,460,643	14,320,551	14,554,297	13,672,176
Total liabilities	**(2,510,082)**	(2,409,559)	(2,267,191)	(2,913,967)	(2,808,154)
Non-controlling interests	**(621,016)**	(483,659)	(538,713)	(534,344)	(443,482)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**11,906,378**	11,567,425	11,514,647	11,105,986	10,420,540

FINANCIAL REVIEW

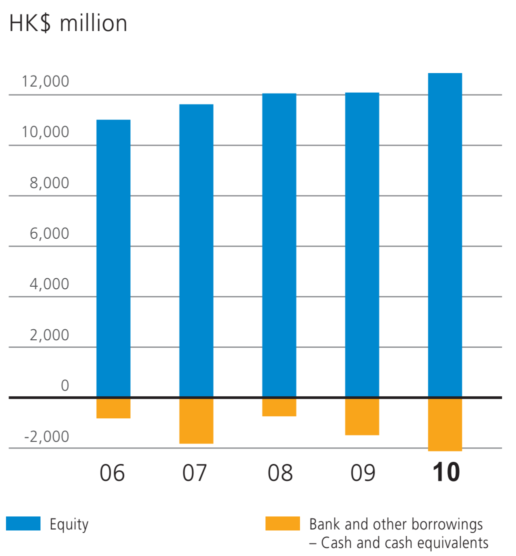
TURNOVER BY PRINCIPAL ACTIVITIES



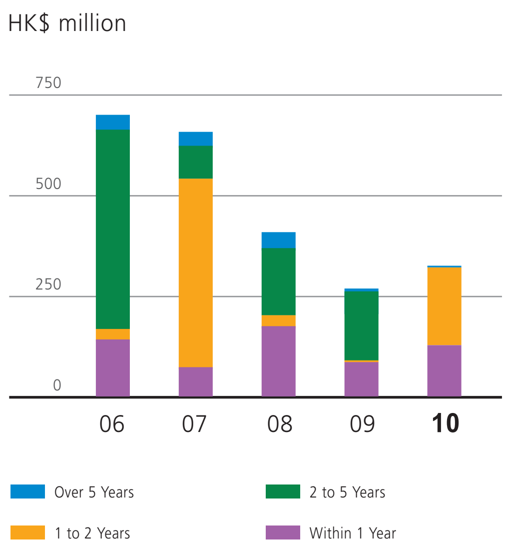
PROFIT FOR THE YEAR



NET BANK & OTHER BORROWINGS TO EQUITY



DEBT MATURITY PROFILE



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. ZHANG XUEWU *Chairman & Executive Director*

Aged 56, appointed in 2001, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") and China National Travel Service (HK) Group Corporation, the holding companies of the Company, and is also a director of some 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 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 from the China Europe International Business School.

Mr. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 60, appointed in 1998, is a Director of CTS (Holdings) and China National Travel Service (HK) Group Corporation, 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 60, appointed in 2000, is a Director of CTS (Holdings) and China National Travel Service (HK) Group Corporation, 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 53, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation. 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.

Mr. FANG XIAORONG *Executive Director*

Aged 58, appointed in April 2008, is the Director and Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation 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 46, appointed in 2000, is the Director and Chief Financial Officer of CTS (Holdings) and China National Travel Service (HK) Group Corporation, the Chairman of CTS International Logistics Corporation Limited, a subsidiary of CTS (Holdings) and China National Travel Service (HK) Group Corporation, the Chairman of Shaanxi Weihe Power Company Limited, a member of the Company, a director of some of subsidiaries of the Company, and the Vice Chairman of Committee on Financial & Accounting Affairs Steering of The Hong Kong Chinese Enterprises Association. He is a Certified Public Accountant in China and has extensive experience in investment planning, capital operation, 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 50, 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) and China National Travel Service (HK) Group Corporation, 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.

Mr. FU ZHUOYANG *Executive Director*

Aged 51, appointed in November 2010, is a Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation, and the Chairman of Hong Kong China Travel Service Investment (China) Limited, a wholly-owned subsidiary of CTS (Holdings). Mr. Fu is also a director of Common Bond Investments Limited, a subsidiary of the Company. Mr. Fu has extensive experience in investment management and capital operation. Mr. Fu was the Deputy General Manager of China Travel Service (Holdings) Corporation of China and the General Manager of China National Tourism Trading & Service Corporation. Mr. Fu graduated from Xiamen University with a Bachelor of Arts degree in 1982, and graduated from Graduate School, Chinese Academy of Social Sciences in 1998.

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

Independent Non-Executive Director

Aged 86, 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 62, appointed in 1998, is the Chairman of Audit Committee and Remuneration Committee of the Company. Mr. Wong has over 37 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 70, 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 64, 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, 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 50, 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.

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 2010. The audited profit of the Group attributable to the Shareholders for the year ended 31 December 2010 was HK$152 million, representing an increase of 439.74% from previous year's HK$28 million. The significant growth in operating results was primarily attributable to the further improvement in operation and management of the Group's existing tourism businesses and the relatively strong profit contribution from new investment projects. As at 31 December 2010, net assets value of the Group was HK$12,527 million, representing an increase of 3.95% from previous year's HK$12,051 million. The Board of Directors recommend to pay a final dividend of HK$1 cent per share for 2010, which is expected to be paid on 16 June 2011 upon approval at the annual general meeting.

In 2010, the global economy continued to recover, but there is still a slack economic growth. The economies of both China and Hong Kong have successfully got over from the negative impacts of the international financial crisis and returned to the normal growth track. In face of both opportunities and challenges, and upholding the guiding principles of "focusing on operation, profits and business transformation, and taking the path of 'quality, profits and sustainable development'", the Group focused on the strategic deployment of its tourism businesses, expansion of market share and enhancement of sales efforts, attaining a significant growth in the business scale and economic benefits.

Net assets value of the Group amounted to HK$12,527 million, representing a 3.95% increase as compared to the amount of HK$12,051 million in the last year.

The Group further enhanced system reform and mechanism innovation. Through reducing management layers and head counts, adjusting functionality of departments and optimizing management, a flat and efficient management structure featured with "four-level structure with 3 management layers" was established, realizing the reform goal of "delegation of power, enhancement of management efficiency and strengthening of functionality" of the headquarter, and significantly enhancing operation efficiency and management quality. In addition, the Group further revised and perfected the performance appraisal scheme, with an emphasis on the introduction of EVA assessment model. Focusing on the enhancement of the Company's capabilities of value creation and sustainable development, the Group established performance appraisal system and remuneration management system in respect of the executive officers. In order to establish a medium and long term incentive system for the Company, the Group again adopted a share option scheme, effectively motivating the enthusiasms of the management personnel.

The Group has made great efforts to reinforce marketing and attached great emphasis to improvement of service quality and brand awareness. Our subsidiaries have launched all kinds of promotional activities to effectively promote our brand and products via various channels and multi-media. To identify target consumer groups, the Group has divided the market into various segments and adopted differentiated marketing approaches in respect of different consumer groups. Given that National Tourism Administration of the PRC has decided to make 2010 the "National Tourism Service Quality Improvement Year", the Group has taken the opportunity to launch the "Quality Services for Shanghai World Expo and Guangzhou Asian Games" campaign and has done a good job in reception of visitors to both events. In light of the unhealthy influences of "zero-fee tour", China Travel Service (Hong Kong) Limited vigorously promoted integrity and high quality tours, thus successfully established a brand image of quality and integrity and enhanced its market reputation.

Maintaining a focus on deployment of tourism resources and setup of new outlets, the Group has made heavy investments to improve the core competitiveness of its travel business, boosting its long-term development potential. A joint venture company, CTS (Xinyang) Jigongshan Culture Tourism Development Co., Ltd., has been established for joint operation and development of the Jigongshan Scenic Spot in Xinyang City, Henan Province, further enhancing our mountain leisure tourism brand. The Group has invested to construct Xianyang OSR International Hotel, a complementary facility to Xianyang Ocean Hotspring World. In order to meet its demand for sustainable development and strengthening of its market image, Mangocity.com started to invest in construction of its headquarters building in Shenzhen High-tech Development Zone. As to the hotel operations, the Group continued to reinforce the promotion of the brands "Metropark" and "Traveler Inn", made reasonable deployment of resources across the region and entered into 8 new hotel management projects. Meanwhile, the Group has made strenuous efforts to develop new products and explore new businesses, enhancing its market attractiveness and adding new earnings growth engines. "Flying Over America", a motion simulator theatre project, which was successfully launched to the market, became a new attraction for Window of the World. The golf course of

Tycoon was awarded "Best Golf Course Design" by China Golf Magazine, greatly increasing its appeal to the market. China Heaven has completed its acquisition of the White House Theatre in Branson, the United States and took it as a base for regular performance, being a pioneer of and successful model for the "Going Out" Strategy for China's cultural industry.

Based on in-depth study on the industry development trend, the Group aggressively pushed forward corporate transformation. To conform with the ever-changing situation and market competition, the Group actively forecast future trends, and implemented the strategic corporate transformation of the scenic spots operations and passenger transportation services through adjustments to corporate operation direction, operation pattern and resources deployment. The Group also re-built its corporate competitive strengths to seek new growth momentums. The Group provided a comprehensive package of management services for hotels, hot springs and golf courses to Pingdingshan Scenic Spot in Henan Province, an attempt to seize quality and scarce tourism resources through provision of management services. In addition, focusing on transformation risks control, the Group has carried out substantial and effective work with respect to introduction of external cooperation and strategic investors by Mangocity.com and development of new businesses in the Mainland market by CTTT and Shun Tak China Travel.

In 2010, the Group strengthened strategic decision and planning, and has formulated the new Ten-Year Strategic Development Plan for the period from 2011 to 2020. The new plan provides a relatively scientific and systematic scheme for the Group's strategic development in the next ten years, particularly in terms of strategic positioning, development target, development policies and guarantee measures for the first five years. Furthermore, the new plan makes it clear that the Group will dedicate to build itself into a tourism resource enterprise, to exert comprehensive advantages by seizing quality tourism resources. By 2020, the Group will become the industry leader playing an important role among the listed tourism companies in both Mainland China and Hong Kong.

As at 31 December 2010, cash and cash equivalents held by the Group amounted to HK$2,422 million and the net cash was HK$2,105 million. The debt to equity ratio was 14%. The overall operation and financial position of the Group are sound and stable, laying a sound foundation for steady operation and seizing development opportunities.

In 2011, the economies of countries around the world are gradually walking out of the shadow of the financial crisis, with China still growing at a relatively rapid rate. Although the recent earthquake and tsunami hitting Japan may slow down the global economy recovery, the impact is limited, so the general picture for the tourism economy will remain positive. Facing with the complicated situation, the Group will uphold the main theme of scientific development, focusing on the transformation of business model and enhancement of development quality. Upholding the guiding principles of "focusing on operation, profits and business transformation, and taking the path of 'quality, profits and sustainable development'", the Group will innovate its profit model and nurture long-term development potential by reinforcing the overall system reform and mechanism innovation, providing powerful growth engine and competitive edge to support the Group's sustainable development.

The Group will work on market development and product innovation, to further improve our marketing capability and profitability. Always adhering to the aim of seeking for profitability and growth from market development, the Group will conduct in-depth study and formulate detailed marketing schemes that are complementary to and in line with our operation plan. For central co-ordination of sales efforts, the Group will establish the Tourism Marketing Committee, so as to further enhance product innovation and quality assurance, co-ordinate the deployment of tourism resources for the peak and low seasons and implement effective marketing strategies, as well as to facilitate the implementation of innovative marketing management mechanism.

The Group will accelerate the deployment of tourism elements and seize quality tourism resources, to further improve our competitiveness and sustainable growth capabilities so as to achieve our strategic development targets. With an aim to improve its competitive position in the industry, the Group will improve its foresight and forward-thinking capability in making development decisions. To achieve a big leap of development in a more efficient way, the Group will make capital market transactions through merger & acquisition and reorganization to reach our goal with the strength of such entities. The Group will expedite the product upgrade of Mangocity.com, Zhuhai OSR and Xianyang OSR, expand its market share and strengthen brand development. Meanwhile, the Group will focus on the implementation and commencement of construction of the Phase II tourism and real-estate oriented projects of Zhuhai OSR and Xianyang OSR and the property projects of Tycoon. The Group will also aggressively accelerate the overall upgrade and reconstruction of Splendid China, focusing on the Phase I reconstruction project of the "Tea Horse Trail" section, so as to achieve product replacement and upgrade for the scenic spot. The Group will be committed to the development of the Jigongshan Scenic Spot and merger and acquisition of famous mountain scenic spots to further enhance our mountain leisure tourism brand. Under the development strategy consisting of self-construction, provision of management services and merger & acquisition, the hotel operations will further increase the number of hotels that employ our management services. Through integration and transformation of internal resources, CTTT will develop bus service and charter businesses in Hong Kong while developing intercity passenger transportation services and tourist shuttle bus services in Mainland China.

In respect of existing assets, the Group will improve the efficiency and profitability of such assets and strive to strengthen operation and development quality, so as to enhance our capabilities of value creation. Through implementation of accountability system, optimization of structure and enhancement of standard management, the Group aims to explicitly specify the relevant rules and duties, making it a sustainable and regular task to improve the efficiency of our existing assets. The Group will further improve our refined management on the principle of "exactness, accurateness, fineness and strictness", generating more powerful management effectiveness to improve our profitability and development quality. Based on the achievements accomplished in 2010, the Group will further improve return on total assets and gradually reduce the number of entities making loss in the future.

According to the World Tourism Organization, the global tourism economy will grow at an average annual rate of 4.4% for the period from 2010 to 2020, making a contribution of 9.6% to the global GDP. During the Twelfth Five-Year Plan period, China's tourism industry will see a new boom. It is expected that China's tourism industry will grow at an average annual rate of 9.2% for the next 10 years, and the total revenue of tourism industry will achieve a sum of RMB2.3 trillion. In face of huge business opportunities, the Group will reinforce internal strengths and focus on development and innovation, with an aim to achieve the first-mover advantage, take initiative and finally win over our competitors in the new run of competition, and develop into a multinational 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 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, 30 March 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2010, the global economy experienced a slow and unstable recovery in a complex and ever-changing environment, with China's economy growing at a relatively rapid rate and tourism industry growing with a relatively strong momentum. Further facilitated by favorable factors such as the hosting of the Shanghai World Expo and Guangzhou Asian Games as well as the number of visitors to Hong Kong reaching new high, the Group's tourism businesses attained recovery growth. The Group upheld taking the path of "quality, profitability and sustainable development", under which it fostered the integration of internal resources, focused on market development, sales and marketing, innovation and cost control, and attained definite achievement in enhancing the profitability of its existing assets. In addition, to meet the needs of deploying tourism resources and enhancing core competitiveness, the Group undertook new investments, especially the mergers and acquisitions of quality scenic spot, in an orderly and prudent manner, and further expanded the scenic spot operations through provision of management services, hence improving the sustainability of future development.

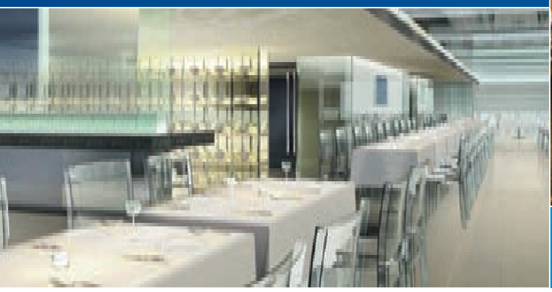
Xu Muhan
Executive Director and General Manager

The profit attributable to shareholders of the Company was HK$152 million, which increased by 439.74% from HK$28 million of last year.

In 2010, the consolidated revenue of the Group was HK$4,465 million, an increase of 9.15% from last year; the profit attributable to shareholders was HK$152 million, an increase of 439.74% from the same period last year; excluding the provision for impairment of investment in Shun Tak China Travel in the amount of HK$175 million, the profit attributable to shareholders was HK$327 million, an increase of 1,686% from the same period last year. The above increases were mainly attributable to the significant growth in operating results brought by further improvement in the operation and management of the Group's existing tourism businesses, and the relatively strong profit contribution from new investment projects. For the year, basic earnings per share was HK$2.66 cents, an increase of 439.74% from the same period last year. At the end of 2010, the equity attributable to shareholders was HK$11,906 million, an increase of 2.93% from the end of 2009. The financial position of the Group was strong with the cash and cash equivalents of the Group at the end of 2010 amounting to HK$2,422 million, an increase of 37.37% from the end of last year. The strong financial position laid down a solid foundation for the future development of the Group.

TRAVEL AGENCY AND RELATED OPERATIONS

The Group's travel agency and related operations comprised China Travel Service (Hong Kong) Limited ("CTSHK") and Mangocity.com, the Group's on-line travel consolidator. The revenue of the Group's travel agency and related operations for 2010 was HK$2,191 million, a decrease of 5.44% from last year. The decrease was mainly attributable to the completion of disposal of the Group's travel agency business in Mainland China on 30 June 2010. Profit attributable to shareholders was HK$211 million, an increase of 63.18% from the same period last year. Excluding the gain on disposal of travel agency business in Mainland China and of property owned by the U.K. travel agency branch of HK$40 million in total, and the net attributable investment property revaluation surplus of HK$29 million, profit attributable to shareholders increased by 29.34% to HK$142 million as compared to the same period last year. This was mainly attributable to the economic recovery and the increase in travel and business activities, the continuation of peak period of travel permit renewal and the improvement in the performance of Mangocity.com.



During the year, CTSHK's outbound travel, inbound travel, local tour and agency businesses all recorded growth from the same period last year. As the general ticketing agency and licensed product agency of the Shanghai World Expo in Hong Kong, CTSHK developed various related travel products, which enjoyed a satisfactory sales performance. It also organized the national education activity "Passing on the Torch" sponsored by the HKSAR Government, and arranged a total of approximately 8,700 Hong Kong students to participate in exchange tour to cities in Mainland China for the year. To counter the unhealthy practice of "zero-fee tour" in the tourism industry, CTSHK made great effort to promote quality tours. CTSHK was conferred a license to use Hong Kong Top Brand Mark by the Hong Kong Brand Development Council.

Focusing on customer experience, enhancement of operating efficiency, upgrade of online platform and expansion of market share, Mangocity.com achieved continual improvement in its operating results. During the year, Mangocity.com reported double-digit growth in revenue of air-ticketing and hotel agency business over last year and also recorded high double-digit growth in revenue of business travel unit, while Young Mango, which focuses on developing medium-to-low end hotel agency business, doubled its revenue over last year. In response to the development trend of leisure holiday travel, Mangocity.com made great efforts to promote product innovation and launched car rental channel, ticketing channel and cruise line channel to enrich its travel product offerings and to leverage on the unique advantage of collaboration between travel agencies and Mangocity.com. As of the end of 2010, there were more than 5,000 online travel product offerings. During the year, Mangocity.com received over 20 awards and honors, including the "Outstanding Online Shopping Platform – Tourism" award granted by China E-Commerce Research Center. Construction of the headquarters building of Mangocity.com located in Shenzhen has commenced and is expected to be completed in 2013.

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. In 2010, the Group's hotel operations recorded a revenue of HK$765 million, an increase of 19.1% over last year, and profit attributable to shareholders of HK$220 million, an increase of 1.13% over the same period last year.

Benefiting from increases in the number and spending power of visitors to Hong Kong and Macau, especially the number of visitors to Hong Kong reaching new high, the revenue of the five hotels in Hong Kong and Macau amounted to HK$550 million, an increase of 22.2% over the same period last year. Profit attributable to shareholders was HK$82 million, an increase of 3.93% over the same period last year. Excluding the loss from one-off written off of fixed assets and the net attributable investment property revaluation surplus, profit attributable to shareholders would have been HK$115 million, an increase of 48.38% over the same period last year. Average occupancy rate and average room rate increased by 6% and 20% respectively from the same period last year. The Group's hotels in Mainland China and CTS Metropark recorded a revenue of HK$216 million, an increase of 11.85% over the same period last year. Profit attributable to shareholders was HK$138 million, a slight decrease of 0.45% over the same period last year. Excluding the net attributable investment property revaluation surplus, profit attributable to shareholders would have been HK$32 million, an increase of 30.72% over the same period last year.

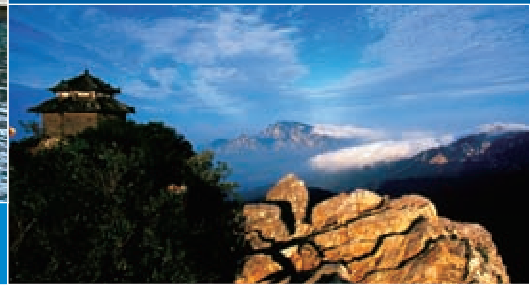
CTS Metropark and its hotels strengthened marketing and management efforts, especially the management of major clients; enhanced centralized procurement, increased the categories and quantities of procurement; and strengthened provision of management services, securing 8 additional hotel management contracts.

SCENIC SPOTS OPERATIONS

The Group's scenic spots operations comprise Shenzhen The World Miniature Co., Ltd. ("Window of the World"), Shenzhen The Splendid China Development Co., Ltd. ("Splendid China"), CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. ("Songshan Scenic Spot") and Trump Return Limited (investment in other scenic spots). In 2010, the segment revenue amounted to HK$714 million, an increase of 62.77% over last year. Profit attributable to shareholders was HK$144 million, an increase of 198.55% over the same period last year. Such growth was attributable, among others, to the growth of spending of travelers, resumption of growth in existing scenic spots and good performance of business operations newly acquired.

Number of visitors at Window of the World amounted to 2.7 million, the new record in 10 years, representing an increase of approximately 15% over the same period last year. It contributed a revenue of HK$350 million, the second highest since its operation, representing an increase of 17.9% over the same period last year. Profit attributable to shareholders of HK$53 million, representing an increase of 19.11% over the same period last year. Window of the World divided the market into various segments, so as to design customized promotions that cater to the demands of specific market segments, contributing to a year-on-year increase of 37.5% in tourist groups received. Festival events has produced great brand effects that attracted more and more visitors, and the number of visitors has been making new highs. "Flying Over America", a motion simulator theatre project with an investment of approximately HK$100 million, was launched to the market on 23 June 2010, and adjustment to fare was under smooth transition. This project was awarded the first "Leisure Innovation Prize of China (中國休閒創新獎)"organized by China Tourism Association and National Technical Committee on Leisure of Standardization Administration of China, etc. With the increase of participatory and entertaining projects, Window of the World is changing from a static sightseeing theme park to a modern theme park with tourist participation, culture and entertainment.

Number of visitors at Splendid China amounted to 1.45 million, representing an increase of approximately 27% over the same period last year. It contributed a revenue of HK$161 million, representing an increase of 13.96% over the same period last year, and profit attributable to shareholders of HK$12 million, an increase of 190.22% over the same period last year. Splendid China renovated its villages and improved the quality of its performances, environment and facilities, meanwhile actively carried out promotions focusing on target markets, leading to a substantial increase in student groups, enterprise groups and networking groups. In response to the ageing problem of the scenic spot, Splendid China has initiated the overall renovation planning work, and the conceptual design scheme for the first renovated theme area "Tea Horse Trail" with an area of 100,000m^2 has been approved. This project will commence construction in 2011 and the Phase I project is expected to be launched before the National Day of 2011.



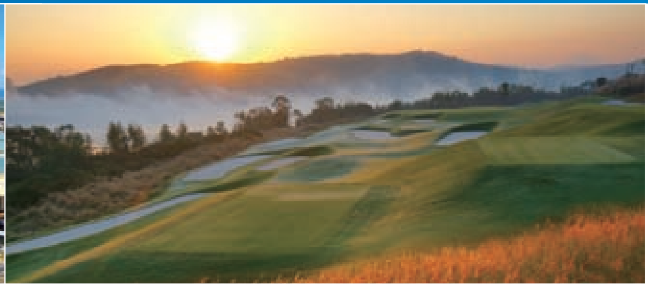
The operation of the newly acquired Songshan Scenic Spot and Trump Return Limited has continued for a whole year, and contributed a revenue of HK$202 million. Profit attributable to shareholders was HK$80 million. Excluding the gain on bargain purchase arising from recognition at fair value in respect of the newly acquired interests in scenic spots, profit attributable to shareholders was HK$41 million. In the first year of the joint venture, Songshan Scenic Spot received over 2.6 million visitors, representing a high double-digit growth compared to that before the joint venture. It mainly focused on improving operations and management, strengthening marketing and promotion efforts, enhancing brand image through successful application for Intangible Cultural Heritage for Songshan Scenic Spot and reinforcing cooperation with travel agencies to significantly increase the number of group tour visitors.

RESORT OPERATIONS

The Group's resort operations comprise Zhuhai Ocean Spring Resort ("Zhuhai OSR") in Zhuhai, Guangdong Province and Xianyang Ocean Spring Resort ("Xianyang OSR") in Xianyang, Shaanxi Province. In 2010, the segment recorded a revenue of HK$398 million, an increase of 22.81% from last year, and a reduced loss attributable to shareholders amounting to HK$328 million (loss attributable to shareholders of HK$449 million for last year), attributable to increase in consumer spending from leisure travel in Mainland China, despite still being affected by the depreciation expense of approximately HK$174 million arising from shortening of estimated useful life of certain fixed assets.

In 2010, Zhuhai OSR received 2.62 million visitors, representing an increase of approximately 9% over last year. While consolidating its market share in the Pearl River Delta region, Zhuhai OSR actively expanded its operations in the neighbouring markets. It strived to attract tourists by promoting product innovation and product packages and enriching festival events. In the meantime, it continued to expand its conference market, and revenue from conference-related activities grew by approximately 28% over last year. In 2010, Zhuhai OSR received nearly 10 honors and awards, including the "Leisure Innovation Prize of China", "Top 10 Leisure Resorts in Lingnan" and listed among the first group of "Demonstrative Scenic Spots for Seaside Tourist Resort" of Guangdong Province. Certain fixed assets in Zhuhai OSR, whose estimated useful life had been shortened, were fully depreciated in 2010. Preliminary work for the Phase II tourism and real estate project progressed smoothly, and the construction work is expected to commence gradually in 2011.

Seizing the opportunities brought by the integration of Xi'an and Xianyang, Xianyang OSR has positioned itself to target the medium-to-high end markets and made great effort to significantly increase visitor traffic and average consumption by providing quality and diversified products and services. During the year, the revenue and number of visitors received recorded a substantial increase of approximately 80% and 81% over last year respectively. The performance show "The Love Story" presented by the resort was rated the first place in the competition of "Beauty of Shaanxi – Favorite Tourism & Culture Performance Shows by Readers". The hot spring center was awarded the second place in the competition of "Beauty of Shaanxi– Favorite Tourism & Leisure Recreation Projects by Readers". The five-star conference hotel complementary to the hot spring center has already topped out and will strive to commence operation by the end of 2011. The tourism real estate project was also under preliminary preparation.



PASSENGER TRANSPORTATION SERVICES

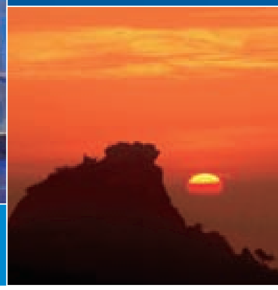
The Group's passenger transportation services include China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries ("CTTT") and the Group's associated company, Shun Tak – China Travel Shipping Investments Limited ("Shun Tak China Travel"). In 2010, the Group's passenger transportation services recorded a revenue of HK$303 million, an increase of 3.56% over last year, and loss attributable to shareholders of HK$172 million, compared to a profit of HK$19 million from the same period last year. It was mainly due to the provision for impairment of investment in Shun Tak China Travel in the amount of HK$175 million.

During the year, CTTT received 5.88 million passengers, representing a slight increase over last year. It recorded a revenue of HK$303 million, an increase of 3.56% over last year. Profit attributable to shareholders was HK$18 million, a decrease of 10.02% over last year. Excluding the gain on bargain purchase arising from recognition at fair value in respect of the newly acquired projects by CTTT in 2009, an increase of 22.34% over last year. In response to high oil price and fierce competition of the cross-border passenger transportation market, CTTT enhanced collaboration in marketing and adjusted the allocation of capacity, which in turn brought in a growth of 5.6% in the long-haul transportation business. More stops have been added along short-haul "Hong Kong-Shenzhen Border" routes and the ticket fares have been adjusted, so as to maintain its operating revenue. The Macau arm of CTTT achieved new record highs in terms of business volume and profit by optimizing route operation strategy, increasing services during festivals and holidays and adjusting fares. In light of market competition and changing market conditions, CTTT will actively explore new development opportunities, so as to transform itself from a cross-border passenger transportation service provider into a comprehensive passenger transportation service provider.

The operation of Shun Tak China Travel was affected by the high global oil price and the keen competition in the route between Hong Kong and Macau. Since 2008, the operating condition of Shun Tak China Travel did not meet the Group's expectation. Taking a prudent stance, the Group made a provision for impairment of investment in Shun Tak China Travel in the amount of HK$175 million during the year, which resulted in an increase in the Group's share of loss of Shun Tak China Travel to HK$190 million. Netting out the effect of provision for impairment, the Group's share of loss was HK$15 million, compared to share of loss of HK$0.895 million last year. The impairment was made with reference to the operation of the investment. Nevertheless, the shareholders of Shun Tak China Travel will strive for further improving the operating results of Shun Tak China Travel, and actively seeking for new development opportunities.

GOLF CLUB OPERATIONS

Still operating while the reconstruction works were in progress, the revenue of the CTS Tycoon (Shenzhen) Golf Club ("Tycoon") in 2010 was HK$50 million, an increase of 15.58% over the previous year. The loss attributable to shareholders was HK$20 million, compared to a loss of HK$68 million last year which included an asset write-off. At the end of February, the 27-hole "Dye" course commenced operation upon completion of the reconstruction works. Tycoon adhered to the high-end approach by increasing the golfing fees. Membership upgrading and sales of new membership started. Service quality and brand awareness were enhanced and Tycoon was rated as one of "2010 Top 10 New Golf Courses in China". The construction project for the 18-hole "Hurdzan" golf course and the new club house has been completed. The 45-hole course commenced operation on 18 March 2011, while seeking for opportunities to initiate a small-scale real estate development project.


ARTS PERFORMANCE OPERATIONS

The revenue of arts performance operations in 2010 was HK43 million, an increase of 35.27% over last year. The profit attributable to shareholders was HK$49,000. China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven") continued to work on the regular performance in Mainland China and the creative planning work, while actively developed the overseas market. "The Legend of Kung Fu" was brought to performance at the self-owned White House Theatre in Branson, Missouri, the United States of America from 1 July 2010 onwards, with 236 performances during the period receiving wide acclaims. The performance show "The Legend of Kung Fu" was voted as "2010 Branson's Best New Show" by the audience through Twitter, the largest microblog website in the world. Meanwhile, work has been expedited in fostering cooperation with Vienna Holding Group, Austria to facilitate the introduction of "The Legend of Kung Fu" to the European markets.

POWER GENERATION BUSINESS

In 2010, the Group's share of profit of the jointly-controlled entity, Shaanxi Weihe Power Co., Ltd. ("Weihe Power"), amounted to HK$105 million, representing an increase of 84.53% over last year. In response to the oversupply of electricity, shortage in coal supply and rising coal price, Weihe Power strived to maintain electricity output, controlled cost and ensured safety, attaining stable operation.

COMPLETION OF DISPOSAL

The disposal of the Group's travel agency business in Mainland China at a cash consideration of HK$205 million pursuant to the conditional sale and purchase agreement entered into between the Group, CTS (Holdings) and Fame Harvest (Hong Kong) Limited, a wholly-owned subsidiary of CTS (Holdings), on 22 June 2009 was completed on 30 June 2010. For detailed information, please refer to the circular of the Company dated 3 July 2009.

FORMATION OF THE JOINT VENTURE AND PROVISION OF MANAGEMENT SERVICES

On 21 October 2010, the Group and Henan Jigongshan Culture Tourism Group Co., Ltd. (河南雞公山文化旅遊集團有限公司) formed the joint venture company, CTS (Xinyang) Jigongshan Culture Tourism Development Co., Ltd. (the "JV Company") in Xinyang City, Henan Province, for the joint operation and development of the Jigongshan Scenic Spot. The Group held 65% equity interest of the JV Company by contributing RMB167 million in cash. Mount Jigongshan, one of China's four major destinations for summer getaways, is a national 4A scenic spot. The joint venture partners aim to build Mount Jigongshan into a new attraction of mountain tourism and leisure resort in China.

On 29 September 2010, the Company entered into a cooperation framework agreement with Tianrui Group Co., Ltd. to license its "Ocean Spring Resort" brand name and provide associated management services. Professional management teams were sent to assist the owners to develop and operate the comprehensive tourism resources of Pingdingshan, including hotels and hot springs.

CORPORATE SOCIAL RESPONSIBILITY

In 2010, CTSHK started to organize a national education activity "Passing on the Torch" sponsored by the HKSAR Government, under which CTSHK will arrange a total of

30,000 Hong Kong students to participate in exchange tour to cities in Mainland China during the period from 2010 to 2012. It arranged a total of approximately 8,700 students during the year, and was highly praised by the HKSAR Government. CTSHK organized group tours to visit the poverty-stricken areas in Guizhou for poverty and disaster relief, and to make donation to local governments based on the criteria of "CTSHK to donate five dollars for every participant in the group tours". CTSHK also organized the Tea Horse Trail trip initiated by Sowers Action, an education development organization in Hong Kong, for raising tuition fees for poor students in Mainland China. For promoting environmental awareness and energy saving at its hotels, CTS Metropark compiled a Manual on Energy Saving and Waste Reduction. Response was enthusiastic among the Group's staff in donating money and presenting their good wishes to victims of the earthquake in Yushu, Qinghai Province and mudslide in Zhouqu, Gansu Province.

NUMBER AND REMUNERATIONS OF EMPLOYEES

As at 31 December 2010, the Group had approximately 13,447 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.

On 18 June 2010, the Company granted 129,510,000 share options to qualified employees and directors at an exercise price of HK$1.70 per share. The exercise period of those share options ranged from 18 June 2012 to 17 June 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group was strong. As at 31 December 2010, the cash and cash equivalents of the Group amounted to HK$2,422 million whereas the interest bearing bank and other borrowings amounted to HK$316 million. The debt to equity ratio was 14%.

As at 31 December 2010, 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 2010	Maturity date of the loan facilities
HK$100 million	21 January 2011

Interest is charged on the outstanding balance at 0.86786% per annum. The loans are supported by the corporate guarantee given by the Company.

As at 31 December 2010, the Group did not hold any material fixed assets in the form of finance leases and hire purchase contracts.

As at 31 December 2010, the Group has a pledged time deposit of HK$67 million and pledged assets of HK$23 million. The capital commitments of the Group were HK$430 million and the Group has no material contingent liabilities as at 31 December 2010.

BUSINESS PROSPECTS

According to the forecast by the International Monetary Fund, the global economy will continue to recover slowly but unevenly in 2011, with China still growing at a relatively rapid rate. The period of the Twelfth Five-Year Plan presents a golden time to foster and develop the tourism industry as the strategic pillar industry of national economy. China's economy is expected to continue to grow steadily at a relatively fast speed. With the optimization of development environment for the tourism industry thanks to the great support from government policies and continuous improvement of the infrastructures, travel will become more convenient. Improvement in consumption pattern and increase of income shall generate stronger demand for tourism. On the other hand, there also exist some negative factors, such as inflation expectation and the aftermath of the international financial crisis, which may impose adverse impacts on the industry. However, from a general perspective, opportunities for the tourism industry will outweigh challenges.

Although our tourism businesses have bottomed out, the development of various operations is unbalanced, with certain businesses still facing great challenges. The Group will continue to focus on the operation enhancement of certain business units including Zhuhai OSR and Xianyang OSR, to promote product upgrade and expand market share, as well as to expedite the steady development of the tourism and real estate projects at Zhuhai OSR and Xianyang OSR, so as to facilitate healthy development of our businesses. Splendid China has initiated the overall upgrade and reconstruction program, which will drive growth in profitability in the future. In 2011, Splendid China will focus on the implementation of the "Tea Horse Trail" project, and the Phase I project is targeting to be launched before the National Day of 2011. Maintaining its focus on the deployment of tourism resources, the Group will seize more mountain scenic resources through mergers and acquisitions and provision of management services, so as to develop and grow the CTS mountain tourism brand as well as to improve its profitability and achieve long-term asset appreciation. Meanwhile, the Group will expedite the implementation of expansion projects complementary to the Songshan Scenic Spot and the renovation of villas and hotels within the Jigongshan Scenic Spot. In terms of passenger transportation business, the Group will actively seek for new development opportunities, with an aim to promote business upgrade and transformation. Leveraging on the listing platform, the Group will grasp opportunities to implement strategies of capital market transaction and means of financing in line with the development direction of the Group, for achieving a big leap of development.

In response to the aftermath of the international financial tsunami, the Group acted calmly and focused on its operations, attaining recovery growth in its businesses. Although in general the macro economic condition and business environment for the tourism industry remain positive, the aftermath impacts of the recent earthquake and tsunami hitting eastern Japan on the region have yet to unfold. In view of the above, the Group remains cautiously optimistic on its near term business outlook. In the medium and long term, the orderly development of the tourism and real estate projects will provide impetus for the development of the Group. The Group will grasp the development opportunities of the tourism industry during the period of the Twelfth Five-Year Plan, striving for better return for its 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 2010.

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 38 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 2010 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 55 to 186.

The Directors recommends the payment of a final dividend of HK1 cent per ordinary share in respect of the year to shareholders on the register of members on 23 May 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

DONATIONS

During the year, the Group made charitable donations amounting to HK$77,000 (2009: HK$58,000).

SUMMARY FINANCIAL INFORMATION

A summary of the Group's results and assets and liabilities for the last five financial years, 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 14 and 15 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 187 and 188, respectively. These summaries do not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 33 and 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 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, 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$2,526,902,000, of which HK$56,954,000 has been proposed as a final dividend for the year. 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.

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. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun *(Retired on 29 November 2010)*
Mr. Fang Xiaorong
Mr. Zhang Fengchun
Mr. Xu Muhan *(General Manager)*
Mr. Fu Zhuoyang *(Appointed on 29 November 2010)*

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 from each Independent Non-Executive Director a confirmation of his independence pursuant to the independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company considers all the Independent Non-Executive Directors to be independent.

In accordance with Article 101 of the Company's Articles of Association, Mr. Zhang Xuewu, Mr. Zhang Fengchun, Mr. Xu Muhan and Mr. Sze, Robert Tsai To shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 92 of the Company's Articles of Association, Mr. Fu Zhuoyang who was appointed by the Board on 29 November 2010, will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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 and senior management of the Company are set out on pages 9 to 11 of the annual report.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes information of Directors of the Company subsequent to the date of the 2010 Interim Report of the Company are set out below:

- From 21 October 2010, Mr. Xu Muhan was appointed the Chairman and Director of CTS (Xinyang) Jigongshan Culture Tourism Co., Ltd (港中旅(信陽)雞公山文化旅遊發展有限公司), a 65%-owned subsidiary of the Company.

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.

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.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the and of 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 2010 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 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)"), a wholly-owned subsidiary of CTS (Holdings), entered into a design agreement pursuant to which China Heaven agreed to provide theatre concept design proposal, interior craft design requirements and technical standards of stage equipment for the theatre of Qingdao Ocean 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 a 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 contemplated under the design agreement and the production agreement 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 will be aggregated with the transaction contemplated under the production agreement and treated as if they were one transaction. For detailed information, please refer to the announcement of the Company dated 7 April 2010.

(2) On 21 April 2010, Mangocity.com (Shenzhen) Limited ("Shenzhen Mangocity"), a wholly-owned subsidiary of the Company, and Hongkong China Travel Service Investment (China) Limited ("CTS (China)"), a wholly-owned subsidiary of CTS (Holdings), entered into an entrusted construction agreement pursuant to which Shenzhen Mangocity entrusted CTS (China) to manage the construction of the headquarters of Shenzhen Mangocity for an entrustment fee of RMB8.9 million. As CTS (Holdings) is a substantial shareholder of the Company, CTS (China), being a subsidiary of CTS (Holdings), is a connected person of the Company. Therefore, the transactions contemplated under the entrusted construction agreement constitute a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. For detailed information, please refer to the announcement of the Company dated 21 April 2010.

(3) On 26 January 2011, China Heaven, a non wholly-owned subsidiary of the Company, and the Export-Import Bank of China (the "Bank") entered into a loan agreement pursuant to which China Heaven applied for a RMB30 million loan from the Bank for its investment in the newly acquired White House Theatre in Branson, Missouri, the United States. Pursuant to the requirements of the Bank, a guarantee from a company incorporated in the PRC (with asset of not less than RMB1 billion and annual profits of not less than RMB80 million) to secure the repayment obligations of China Heaven is required for the loan application. Therefore, on 26 January 2011, China National Travel Service (HK) Group Corporation ("China CTS (HK)"), the sole shareholder of CTS (Holdings), the controlling shareholder of the Company, provided a credit guarantee in favour of the Bank to secure the repayment obligations of China Heaven under the loan agreement. At the same time, in consideration of China CTS (HK)'s request, the Company provided a counter guarantee of equivalent value in favour of China CTS (HK).

    As China CTS (HK) is the sole shareholder of CTS (Holdings), the controlling shareholder of the Company, China CTS (HK) is a connected person of the Company and the provision of the counter guarantee to China CTS (HK) constitutes the provision of financial assistance and a connected transaction of the Company under Rule 14A.13(2)(a)(i) of the Listing Rules. For detailed information, please refer to the announcement of the Company dated 26 January 2011.

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 (the "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 (the "third rental period"). 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, representing an increment rate of 10% on the rent for the third rental period. On 24 May 2010, Window of the World entered into a new supplemental agreement with Huaqiaocheng to supplement the Lease Agreement and to govern the lease transaction with Huaqiaocheng (the "Huaqiaocheng CCT") for the period commenced on 28 April 2010 and ending on 5 May 2012 at an annual rent of RMB11.385 million, representing an increment rate of 15% on the rent for the third rental period.

Huaqiaocheng owns approximately a 56.36% interest in Shenzhen Overseas Chinese Town Company Limited ("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.

The Huaqiaocheng CCT's cap for the three years ending 31 December 2012 was RMB11.385 million per year. The actual amount of the transactions for the year ended 31 December 2010 was RMB11.22 million.

For detailed information in this regard, please refer to the announcements issued by the Company on 24 May 2010.

(ii) On 20 August 2010, Window of the World, a 51% owned subsidiary of the Company, Industrial and Commercial Bank of China Limited ("ICBC") and Overseas Chinese Town, which owns 49% equity interest in Window of the World, entered into an entrustment loan agreement (the "First Entrustment Loan Agreement") for a term of three years commencing from 20 August 2010 pursuant to which ICBC has, at the request of and acting as an agent to Window of the World, agreed to provide an entrustment loan with a maximum amount of RMB70 million to Overseas Chinese Town. On the same date, Shenzhen Splendid China Development Co. Ltd. ("Splendid China"), a 51% owned subsidiary of the Company, ICBC and Overseas Chinese Town, which owns 49% equity interest in Splendid China, entered into an entrustment loan agreement (the "Second Entrustment Loan Agreement") for a term of three years commencing from 20 August 2010 pursuant to which ICBC as, at the request of and acting as an agent to Splendid China, agreed to provide an entrustment loan with a maximum amount of RMB150 million to Overseas Chinese Town.

Overseas Chinese Town is a substantial shareholder of each of Window of the World and Splendid China, being 51% owned subsidiaries of the Company, and is, therefore, a connected person of the Company. Therefore, the transactions contemplated under the First Entrustment Loan Agreement and the Second Entrustment Loan Agreement (the "Financial Assistance") constitutes continuing connected transactions for the Company under Listing Rules. Pursuant to Rule 14A.25 of the Listing Rules, the transactions contemplated under the First Entrustment Loan Agreement will be aggregated with the transaction contemplated under the Second Entrustment Loan Agreement and treated as if they were one transaction. The annual cap for the Financial Assistance for each of the three financial year ending 31 December 2012 was RMB220 million. The actual amount of the transactions for the year ended 31 December 2010 was RMB168 million. For detailed information, please refer to the announcement of the Company dated 20 August 2010.

(iii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its associates (collectively, the "CTS (Holdings) Group") and 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 tour group services to China CTS (HK) Group (note (4)); and
(g) 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 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.

(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 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 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. For detailed information, please refer to the announcement of the Company dated 1 November 2007.

As the caps approved for the HMS Master Agreement are only up to the financial year ended 31 December 2010, on 29 November 2010, the Company determined new caps for the HMS Master Agreement for the three years ending 31 December 2013 to comply with the Listing Rules. For detailed information, please refer to the announcement of the Company dated 29 November 2010.

(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 ended 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. For detailed information, please refer to the Company's announcement dated 19 August 2008.

As mentioned in the Company's announcement dated 22 June 2009 and circular dated 3 July 2009, China Travel Service Head Office (Beijing) Co., Ltd. ("CTSH"), formerly known as China Travel International Limited, shall cease to be a wholly owned subsidiary of the Company on completion of the disposal of the Group's travel agency business in Mainland China (the "Disposal") and the continuing provision of tour group services between the Group and CTSH 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. The Disposal has been completed on 30 June 2010.

The maximum aggregate annual consideration for the above-said continuing connected transactions for the year ended 31 December 2010 and the years ending 31 December 2011 and 31 December 2012 and the actual amounts of such transactions for the year ended 31 December 2010 are as follows:

		Caps for the three years ended/ending December		Actual amounts for the year ended 31 December
	2010	**2011**	**2012**	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000
I. Continuing connected transactions with CTS (Holdings) Group				
(a) Provision of Travel Permit Administration by CTSHK	420,000	420,000	420,000	368,982
(b) Provision of insurance brokerage services by CTS (Holdings) Group	5,400	6,200	7,200	3,952
(c) Lease arrangements with CTS (Holdings) Group as lessor	24,500	29,500	35,500	20,802
(d) Provision of ASP related services to CTS (Holdings) Group	16,000	23,000	18,000	15,219
(e) Provision of hotel management services to CTS (Holdings) Group	13,138	9,000	13,000	7,803
II. Continuing connected transactions with China CTS (HK) Group				
(f) Provision of tour group services to China CTS (HK) Group	140,000	230,000	–	9,757
(g) Provision of tour group services by China CTS (HK) Group to the Group	150,000	200,000	–	69,692

(iv) 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 (the "Acquisition") as at the date of completion of the Acquisition at an aggregate consideration of HK$275,000,000. On 18 November 2009, 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"), 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. The Acquisition has been completed on 31 December 2009. 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 on 31 December 2009. 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. The actual amount of the transactions for the year ended 31 December 2010 was HK$4,791,000. For detailed information, please refer to the Company's announcement dated 18 November 2009 and the circular dated 3 December 2009.

(v) Reference was made the announcement of the Company dated 24 December 2009 in relation to the formation of a joint venture company, CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. (the "CTS (Dengfeng)"), and the related continuing connected transaction. On 4 January 2010, CTS (Dengfeng) and Henan Province Songshan Scenic Spot Management Committee ("Songshan Management") entered into a franchise agreement pursuant to which CTS (Dengfeng) will be authorized to exclusively manage and operate the ticket sales, sales proceeds collection and the car parks of the Shaolin Scenic Spot, Zhong Yue Scenic Spot and Song Yang Scenic Spot under the Songshan Scenic Spot from 25 December 2009 for a term of 40 years. The Company owns 51% equity interest in CTS (Dengfeng) and CTS (Dengfeng) is 49% owned by Songshan Management. Songshan Management is therefore a connected person of the Company and the transactions contemplated under the franchise agreement shall constitute continuing connected transactions for the Company under the Listing Rules. The caps for the three years ending 31 December 2012 in respect of the franchise fee payable by the CTS (Dengfeng) to Songshan Management are RMB79.991 million, RMB84.015 million and RMB88.241 million, respectively. The actual amount of the transactions for the year ended 31 December 2010 was RMB73.29 million.

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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements *3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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 2010, 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 shares and underlying shares of the Company:

	Number of shares held		Equity derivatives		% of the issued
Name of Directors	**Corporate interest**	**Family interest**	**(share options)**	**Total**	**share capital**
Mr. Zhang Xuewu	–	–	2,130,000	2,130,000	0.0374%
Mr. Zheng Heshui	–	–	1,770,000	1,770,000	0.0311%
Mr. Lo Sui On	–	–	1,770,000	1,770,000	0.0311%
Ms. Jiang Yan	–	–	1,770,000	1,770,000	0.0311%
Mr. Fang Xiaorong	–	–	1,770,000	1,770,000	0.0311%
Mr. Zhang Fengchun	–	–	1,770,000	1,770,000	0.0311%
Mr. Xu Muhan	–	2,000 *(Note 1)*	1,850,000	1,852,000	0.0325%
Mr. Fu Zhuoyang	–	–	1,770,000	1,770,000	0.0311%
Dr. Fong Yun Wah	50,000 *(Note 2)*	–	–	50,000	0.000878%

Note 1: Mr. Xu Muhan is deemed to be interested in these shares of the Company held by his spouse.

Note 2: 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.

The interests of the Directors and chief executives of the Company in the share option of the Company are detailed in "Share Option Scheme" section below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme" below, 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 34 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options								
Name or category of participant	Balance as at 1 January 2010	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Reclassified during the year	Balance as at 31 December 2010	Date of grant *(Note 3)*	Exercise period *(Note 4)*	Exercise price (HK$)
Directors, chief executives and their associates									
Zhang Xuewu	–	2,130,000	–	–	–	2,130,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Zheng Heshui	–	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Lo Sui On	–	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Jiang Yan	–	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Mao Jianjun *(Note 1)*	–	1,770,000	–	–	(1,770,000)	–	18 June 2010	18 June 2012 to 17 June 2020	1.70
Fang Xiaorong	–	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Zhang Fengchun	–	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Xu Muhan	–	1,850,000	–	–	–	1,850,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Fu Zhuoyang *(Note 2)*	–	–	–	–	1,770,000	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Sub-Total	–	14,600,000	–	–	–	14,600,000			
Other employees in aggregate	–	114,910,000	–	(3,850,000)	–	111,060,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand Total	–	129,510,000	–	(3,850,000)	–	125,660,000			

Notes:

(1) Mr. Mao Jianjun retired as a Director of the Company on 29 November 2010.

(2) Mr. Fu Zhuoyang was appointed as a Director of the Company on 29 November 2010.

(3) Pursuant to the Share Option Scheme, upon an offer accepted by a grantee, the share option will be deemed to have been granted on the date of the offer. The date of acceptance of share option for directors is 18 June 2010.

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

The proportion of options exercisable	**Exercise period**
First 30% of the share options	18 June 2012 to 17 June 2020
Second 30% of the share options	18 June 2013 to 17 June 2020
Remaining 40% of the share options	18 June 2014 to 17 June 2020

(5) The closing market price per Shares as at the date preceding the date on which the share options were granted was HK$1.73.

(6) The accounting policies on Share Option Scheme are set out in note 2.4 to the financial statements. Since the option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 *(Note1)*	3,018,744,728	53%
CTS (Holdings)	Interest of controlled corporation and beneficial owner *(Notes 1 and 4)*	3,018,744,728	53%
Foden International Limited ("FIL")	Beneficial owner *(Note 2)*	20,700,000	0.36%
China Travel Finance & Investment (H.K.) Limited ("CTS Finance")	Beneficial owner *(Note 3)*	25,112,000	0.44%

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

4. Of these 3,018,744,728 shares, 2,972,932,728 shares are held by CTS (Holdings) directly. 20,700,000 shares are held by FIL and 25,112,000 shares are held by CTS Finance, 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, 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 2010, 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 2010 are set out in note 31 to the financial statements.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 2010, the Group 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 2010 were as follows:

Amount outstanding as at 31 December 2010	**Maturity date of the loan facilities**
HK$100 million	21 January 2011

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 43 to 52.

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 Company and discussed the auditing, internal controls and financial reporting matters including a review of the final results of the Company for the year ended 31 December 2010.

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, 30 March 2011

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 2010. 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 2010 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.

– Code Provision E.1.2 specifies that the chairman of the Board should attend the annual general meeting. The chairman of the Board of the Company has not attended the Company's annual general meeting held on 25 May 2010 because of other business commitment.

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 2010 and up to the date of this report were as follows:

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun *(Retired on 29 November 2010)*
Mr. Fang Xiaorong
Mr. Zhang Fengchun
Mr. Xu Muhan *(General Manager)*
Mr. Fu Zhuoyang *(Appointed on 29 November 2010)*

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 11.

During the year ended 31 December 2010, 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 2010.

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 18 April 2011 contains detailed information of the Directors standing for re-election.

Training for Directors

Each newly appointed Director receives 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 2010, the Board met four times. On 8 April 2010, the Board met to review the annual results, financial budget for 2011, the report from the first Audit Committee meeting, retirement and re-election of Directors, re-appointment of auditors and connected transactions. On 26 August 2010, the Board met to review the interim results, the report from the second Audit Committee meeting and interim dividend. On 29 November 2010, the Board met to approve director's retirement and appointment and renewal and revision of continuing connected transactions. On 17 December 2010, the Board met to review the financial projection for the year 2010 and operating conditions of its subsidiaries. The attendance rate at each meeting was 83%, 58%, 75% and 42% 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 2010 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Zhang Xuewu	4/4	Not applicable	Not applicable
Zheng Heshui	2/4	Not applicable	Not applicable
Lo Sui On	3/4	Not applicable	Not applicable
Jiang Yan	0/4	Not applicable	Not applicable
Mao Jianjun*	0/2	Not applicable	Not applicable
Fang Xiaorong	4/4	Not applicable	Not applicable
Zhang Fengchun	2/4	Not applicable	Not applicable
Xu Muhan	4/4	Not applicable	Not applicable
Fu Zhuoyang*	1/2	Not applicable	Not applicable
Fong Yun Wah	2/4	Not applicable	Not applicable
Wong Man Kong, Peter	2/4	1/2	1/1
Sze Robert Tsai To	4/4	2/2	1/1
Chan Wing Kee	3/4	2/2	1/1

* Mr. Mao Jianjun has retired as the Executive Director of the Company with effect from 29 November 2010.

* Mr. Fu Zhuoyang has been appointed as the Executive Director of the Company with effect from 29 November 2010.

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.

On 31 March 2010, the Remuneration Committee met mainly to review the directors' fees of the Company. The Remuneration Committee also review and approve the grant of share options in June 2010 by written resolution.

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 2010 mainly to consider 2009 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, 2010 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 2010 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 2010.

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 2010.

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 53 to 54.

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 2010, other fees payable for significant non-audit service assignments for the year include:

		Fees (HK$'000)
1.	Taxation services	165
2.	Professional consultation services on special group restructuring project	2,938
Total		3,103

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 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 operation management, internal control and financial management of each business unit 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. As a result of the annual review, the Board confirms that the Group's internal control systems are adequate and effective and have complied with the Code Provisions in internal control throughout the year and up to the date of this annual report.

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 2009 annual results and 2010 interim results announcement.

The Company also participated in a large international investor conference in Beijing 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 2010, the Company received over 100 investors and analysts.

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 consolidated financial statements of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 186, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

30 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
REVENUE	4,5	**4,464,727**	4,090,498
Cost of sales		**(2,544,736)**	(2,523,207)
Gross profit		**1,919,991**	1,567,291
Other income and gains	5	**241,982**	139,426
Selling and distribution costs		**(612,340)**	(552,303)
Administrative expenses		**(1,203,965)**	(1,124,211)
Changes in fair value of investment properties		**180,845**	189,806
Other expenses		**(229,400)**	(80,287)
Finance costs	6	**(16,353)**	(10,346)
Share of profits and losses of:			
Jointly-controlled entities		**107,576**	60,451
Associates		**12,075**	(1,096)
PROFIT BEFORE TAX	7	**400,411**	188,731
Income tax expense	10	**(183,073)**	(123,128)
PROFIT FOR THE YEAR		**217,338**	65,603
Attributable to:			
Owners of the Company	11	**151,666**	28,100
Non-controlling interests		**65,672**	37,503
		217,338	65,603
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY (HK CENTS)	13		
Basic		**2.66**	0.49
Diluted		**2.66**	0.49

Details of the dividend for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**217,338**	65,603
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		**80,667**	–
Income tax effect		**(15,000)**	–
		65,667	–
Share of hedging reserve of an associate		**8,392**	24,455
Exchange fluctuation reserve:			
Release of exchange difference upon disposal of subsidiaries	*37(a)*	**(37,784)**	–
Exchange differences on translation of foreign operations		**153,107**	54,499
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**189,382**	78,954
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**406,720**	144,557
Attributable to:			
Owners of the Company	*11*	**322,236**	109,732
Non-controlling interests		**84,484**	34,825
		406,720	144,557

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	*14*	**7,502,721**	7,686,382	7,806,585
Investment properties	*15*	**1,280,092**	967,800	762,470
Prepaid land lease payments	*16*	**488,031**	492,815	474,336
Goodwill	*17*	**1,278,574**	1,278,574	1,244,769
Other intangible assets	*18*	**174,697**	45,581	37,419
Investments in jointly-controlled entities	*20*	**644,905**	755,234	1,154,076
Investments in associates	*21*	**295,100**	458,941	333,997
Available-for-sale investments	*22*	**12,572**	25,849	18,033
Prepayments		**65,338**	26,926	45,654
Deferred tax assets	*32*	**2,438**	1,611	581
Total non-current assets		**11,744,468**	11,739,713	11,877,920
CURRENT ASSETS				
Inventories	*23*	**26,214**	25,508	25,565
Trade receivables	*24*	**203,159**	170,893	230,845
Tax recoverable		**2,203**	5,233	3,926
Prepayments, deposits and other receivables	*25*	**478,164**	141,539	276,886
Pledged time deposits	*26*	**67,303**	32,661	49,782
Cash and cash equivalents	*26*	**2,421,606**	1,762,786	1,794,879
Amounts due from the immediate holding company	*27*	**42,855**	32,201	28,222
Amounts due from fellow subsidiaries	*27*	**51,504**	37,881	32,526
		3,293,008	2,208,702	2,442,631
Assets of a disposal group classified as held for sale	*28*	**–**	512,228	–
Total current assets		**3,293,008**	2,720,930	2,442,631
CURRENT LIABILITIES				
Trade payables	*29*	**376,932**	285,740	331,587
Tax payable		**57,865**	47,404	64,032
Other payables and accruals	*30*	**959,260**	931,673	861,403
Interest-bearing bank and other borrowings	*31*	**124,221**	89,990	244,652
Amounts due to the immediate holding company	*27*	**90**	1,171	400
Amounts due to fellow subsidiaries	*27*	**16,234**	13,066	4,006
		1,534,602	1,369,044	1,506,080
Liabilities directly associated with the assets classified as held for sale	*28*	**–**	248,386	–
Total current liabilities		**1,534,602**	1,617,430	1,506,080
NET CURRENT ASSETS		**1,758,406**	1,103,500	936,551
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,502,874**	12,843,213	12,814,471

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT LIABILITIES				
Deferred income		**227,809**	159,963	164,408
Interest-bearing bank and other borrowings	*31*	**191,987**	177,550	179,068
Deferred tax liabilities	*32*	**554,744**	454,616	417,635
Other liabilities		**940**	–	–
Total non-current liabilities		**975,480**	792,129	761,111
Net assets		**12,527,394**	12,051,084	12,053,360
EQUITY				
Equity attributable to owners of the Company				
Share capital	*33*	**569,536**	569,536	569,536
Reserves	*35(a)*	**11,336,842**	10,997,889	10,945,111
		11,906,378	11,567,425	11,514,647
Non-controlling interests		**621,016**	483,659	538,713
Total equity		**12,527,394**	12,051,084	12,053,360

Zhang Xuewu
Director

Xu Muhan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital HK$'000 *(note 33)*	Share premium account* HK$'000	Share option reserve* HK$'000 *(note 34)*	Capital redemption reserve* HK$'000	Building revaluation 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$'000	Non-controlling interests HK$'000	Total equity HK$'000
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
Profit for the year	–	–	–	–	–	–	–	–	–	28,100	28,100	37,503	65,603
Other comprehensive income for the year:													
Share of hedging reserve of an associate	–	–	–	–	–	24,455	–	–	–	–	24,455	–	24,455
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	57,177	–	57,177	(2,678)	54,499
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 *(note 36(b))*	–	–	–	–	–	–	–	–	–	–	–	1,141	1,141
Disposal of a subsidiary *(note 37(b))*	–	–	–	–	–	–	–	–	–	–	–	(16,027)	(16,027)
De-registration of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,093)	(1,093)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,793)	(2,793)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(71,107)	(71,107)
2008 final dividend approved	–	–	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital HK$'000 *(note 33)*	Share premium account* HK$'000	Share option reserve* HK$'000 *(note 34)*	Capital redemption reserve* HK$'000	Building revaluation 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$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	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
Profit for the year	–	–	–	–	–	–	–	–	–	151,666	151,666	65,672	217,338
Other comprehensive income for the year:													
Gains on property revaluation, net of tax	–	–	–	–	65,667	–	–	–	–	–	65,667	–	65,667
Share of hedging reserve of an associate	–	–	–	–	–	8,392	–	–	–	–	8,392	–	8,392
Release of exchange difference upon disposal of subsidiaries	–	–	–	–	–	–	–	–	(37,784)	–	(37,784)	–	(37,784)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	134,295	–	134,295	18,812	153,107
Total comprehensive income for the year	–	–	–	–	65,667	8,392	–	–	96,511	151,666	322,236	84,484	406,720
Transfer from retained profits	–	–	–	–	–	–	–	8,546	–	(8,546)	–	–	–
Equity-settled share option arrangement	–	–	14,942	–	–	–	–	–	–	–	14,942	–	14,942
Share of reserve of an associate	–	–	–	–	–	–	–	1,775	–	–	1,775	–	1,775
Acquisition of subsidiaries *(note 36(a))*	–	–	–	–	–	–	–	–	–	–	–	112,622	112,622
Disposal of subsidiaries *(note 37(a))*	–	–	–	–	(14,910)	–	(1)	–	–	14,911	–	(13,569)	(13,569)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(46,180)	(46,180)
At 31 December 2010	569,536	8,357,579	14,942	350	50,757	9,340	(1,031,344)	107,762	787,278	3,040,178	11,906,378	621,016	12,527,394

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$11,336,842,000 (2009: HK$10,997,889,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**400,411**	188,731
Adjustments for:			
Finance costs	6	**16,353**	10,346
Interest income		**(37,054)**	(24,527)
Gain on disposal of subsidiaries		**(22,026)**	(71)
Loss/(gain) on disposal of investment properties, land and buildings, and items of plant and equipment, net		**(15,694)**	1,339
Loss on write-off of items of property, plant and equipment		**40,451**	29,962
Depreciation	14	**643,903**	680,324
Amortisation of prepaid land lease payments	16	**23,298**	22,080
Amortisation of ticketing operation rights	18	**3,077**	–
Impairment of items of property, plant and equipment		**–**	50,325
Impairment of an available-for-sales investment		**13,949**	–
Impairment of an investment in an associate		**175,000**	–
Changes in fair value of investment properties	15	**(180,845)**	(189,806)
Share of profits and losses of jointly-controlled entities		**(107,576)**	(60,451)
Share of profits and losses of associates		**(12,075)**	1,096
Equity-settled share option expense	34	**14,942**	–
Gain on bargain purchase	5	**(39,007)**	(5,332)
Foreign exchange differences on translation of intercompany balances		**(39,706)**	8,536
Exchange gain on return of capital from a jointly-controlled entity		**(13,530)**	(81,168)
		863,871	631,384
Increase in inventories		**(665)**	(267)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables		**(29,150)**	18,893
Increase in balances with the immediate holding company		**(11,735)**	(3,311)
Decrease/(increase) in amounts due from fellow subsidiaries		**13,653**	(76,188)
Increase in trade payables, other payables and accruals		**151,020**	71,119
Increase in amounts due to fellow subsidiaries		**3,168**	17,974
Increase/(decrease) in deferred income, net of sales tax		**62,297**	(2,734)
Decrease/(increase) in amounts due from jointly-controlled entities		**(1,546)**	5,306
Increase in amounts due to jointly-controlled entities		**2,000**	65,945
Decrease in amounts due from associates		**1,191**	883
Decrease in amounts due to associates		**(1,860)**	(2,493)
Cash generated from operations		**1,052,244**	726,511
Hong Kong, PRC and Macau profits taxes paid		**(121,550)**	(95,645)
Overseas taxes paid		**(2,644)**	(365)
Net cash flows from operating activities		**928,050**	630,501

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Net cash flows from operating activities		**928,050**	630,501
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**37,054**	24,527
Dividends received from an associate		**16,126**	–
Dividends received from jointly-controlled entities		**161,338**	65,672
Purchases of items of property, plant and equipment		**(453,540)**	(542,808)
Prepayment of land lease payments		**(1,869)**	(36,940)
Investment in a jointly-controlled entity		**–**	(2,427)
Proceeds from disposal of subsidiaries, net	*37*	**107,208**	(11,679)
Proceeds from disposal of investment properties, land and buildings and items of plant and equipment		**50,388**	29,488
Additions to passenger service licences and quota	*18*	**(9,135)**	(8,162)
Acquisition of subsidiaries	*36*	**75,114**	(180,578)
Return of capital from a jointly-controlled entity		**76,290**	427,973
Increase in entrustment loan receivables		**(197,431)**	–
Decrease/(increase) in pledged time deposits		**(33,152)**	17,276
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**500,492**	(94,242)
Net cash flows from/(used in) investing activities		**328,883**	(311,900)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Net cash flows from/(used in) investing activities		**328,883**	(311,900)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(16,353)**	(10,346)
Dividends paid		**–**	(56,954)
Dividends paid to non-controlling shareholders		**(46,180)**	(71,107)
New bank loans		**100,000**	67,952
Repayment of bank loans		**(288,758)**	(222,569)
Acquisition of non-controlling interests		**–**	(1,988)
Net cash flows used in financing activities		**(251,291)**	(295,012)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,005,642**	23,589
Cash and cash equivalents at beginning of year		**1,345,018**	1,305,870
Effect of foreign exchange rate changes, net		**37,015**	15,559
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,387,675**	1,345,018
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**1,040,031**	585,855
Non-pledged time deposits with original maturity of less than three months when acquired		**1,347,644**	644,222
Non-pledged time deposits with original maturity of more than three months		**33,931**	532,709
Cash and cash equivalents as stated in the consolidated statement of financial position	26	**2,421,606**	1,762,786
Cash and bank balances held for sale	28	**–**	109,261
Non-pledged time deposits held for sale with original maturity of less than three months when acquired	28	**–**	5,680
Non-pledged time deposits with original maturity of more than three months		**(33,931)**	(532,709)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**2,387,675**	1,345,018

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**924**	911
Investment property	15	**2,550**	2,220
Investments in subsidiaries	19	**4,609,381**	4,218,404
Available-for-sale investment	22	**–**	13,949
Total non-current assets		**4,612,855**	4,235,484
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**4,135**	4,493
Cash and cash equivalents	26	**1,353,605**	855,503
Amounts due from subsidiaries	19	**6,720,260**	6,363,077
Amount due from the immediate holding company	27	**1,806**	–
Amounts due from fellow subsidiaries	27	**12,432**	473
		8,092,238	7,223,546
Assets of a disposal group classified as held for sale		**–**	174,677
Total current assets		**8,092,238**	7,398,223
CURRENT LIABILITIES			
Tax payable		**1,089**	–
Other payables and accruals	30	**37,174**	27,474
Amounts due to subsidiaries	19	**1,196,861**	1,587,496
Amount due to the immediate holding company	27	**–**	673
Amounts due to fellow subsidiaries	27	**660**	–
Total current liabilities		**1,235,784**	1,615,643
NET CURRENT ASSETS		**6,856,454**	5,782,580
Net assets		**11,469,309**	10,018,064
EQUITY			
Share capital	33	**569,536**	569,536
Reserves	35(b)	**10,899,773**	9,448,528
Total equity		**11,469,309**	10,018,064

Zhang Xuewu
Director

Xu Muhan
Director

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

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

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

(b) *(Continued)*

The Group has reassessed its leases in Hong Kong, Macau and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Macau and Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land lease payments" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below:

	2010	2009
	HK$'000	HK$'000
Consolidated income statement for the year ended 31 December		
Decrease in amortisation of prepaid land lease payments	**(43,116)**	(43,255)
Increase in depreciation of property, plant and equipment	**43,116**	43,255
	–	–
Consolidated statement of financial position as at 31 December		
Decrease in prepaid land lease payments	**(2,578,879)**	(2,650,109)
Increase in property, plant and equipment	**2,578,879**	2,650,109
	–	–
Consolidated statement of financial position as at 1 January		
Decrease in prepaid land lease payments		(2,642,816)
Increase in property, plant and equipment		2,642,816
		–

Due to the retrospective application of the amendments which has resulted in the restatement of items in the statement of financial position, a statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these financial statements.

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 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* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Amendments to HKAS 12 were issued in December 2010 which introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in HKAS 40 should be determined on the basis that its carrying amount will be recovered through sale. The amendments also require that deferred tax on non-depreciable assets measured using the revaluation model in HKAS 16 should always be measured on a sale basis. As a result of the amendments, HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-depreciable Assets*, will be superseded once the amendments become effective. The Group expects to adopt the Amendments to HKAS 12 retrospectively from 1 January 2012. The Group has previously provided deferred tax on the fair value gains on its investment properties assuming that the carrying amount of these properties will be recovered through use. The Group expects the adoption of these amendments will result in changes in the accounting policy and the Group's deferred tax liabilities and income tax charges will be reduced respectively.

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 investments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 investments 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 is included as part of the Group's investments in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 investments 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.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Business combinations from 1 January 2010 (Continued)

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(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:

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
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:	
Leasehold improvements	4.5% to 20%
Furniture, fixtures and equipment	6% to 33.3%
Motor vehicles	12.9% to 20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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. It 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 when completed and ready for use.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. All assets and liabilities of a subsidiary classified as a disposal group are classified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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.

Other 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 ticketing operation rights, passenger service licences, quota and trademarks.

Ticketing operation rights are stated at cost less any impairment losses and are amortised on the straight-line basis over the life of the operation for 40 years. The amortisation period and the amortisation method are reviewed at least at each financial year end.

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 the 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, including prepaid land lease payments under 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 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 investments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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

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 by taking into account any discount or premium on acquisition and includes 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 other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 other expenses.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

The Group evaluates its available-for-sale financial assets to assess 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. 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.

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; or

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

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.

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 a 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; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised 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 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:

- 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 passenger transportation services; travel-related services, hotel services and resort-related 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 scenic spots operations, when the admission tickets are sold;

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

(f) income from art performances, when the performance shows have been performed;

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

(h) 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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 34 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 benefit 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

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.

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

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 17 to the financial statements.

Depreciation

The net book value of the Group's property, plant and equipment as at 31 December 2010 was HK$7,502,721,000 (2009 (restated): HK$7,686,382,000). 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. The 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 Group's 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 32 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 are included in note 15 and 36 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, Oceania, 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 resort services in Mainland China;

(e) the passenger transportation services segment engages in the provision of ground transportation services to individuals travelling 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; and

(h) the power generation segment engages in the generation of electricity in Mainland China which is conducted through a jointly-controlled entity.

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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, and other unallocated head office and 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 head office and corporate liabilities 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.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	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	2,190,773	765,416	713,651	398,101	303,330	50,043	43,413	–	4,464,727
Intersegment revenue	7,408	7,724	5,816	2,890	4,293	32	56	–	28,219
	2,198,181	773,140	719,467	400,991	307,623	50,075	43,469	–	4,492,946
Elimination of intersegment sales									(28,219)
Revenue									4,464,727
Segment results	263,202	284,425	260,608	(328,767)	(166,949)	(19,950)	(156)	114,861	407,274
Interest income									37,054
Finance costs									(16,353)
Corporate and other unallocated expenses									(27,564)
Profit before tax									400,411
Income tax expense									(183,073)
Profit for the year									217,338
Segment assets	2,493,500	4,689,974	1,167,629	2,277,840	372,517	601,111	64,900	610,428	12,277,899
Corporate and unallocated assets									2,759,577
Total assets									15,037,476
Segment liabilities	554,931	124,153	159,655	355,713	29,655	311,733	4,592	534	1,540,966
Corporate and unallocated liabilities									969,116
Total liabilities									2,510,082

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010 *(Continued)*

	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
Other segment information:									
Capital expenditure*	56,307	24,411	267,483	79,960	50,018	192,875	10,767	–	681,821
Add: Capital expenditure relating to corporate									489
									682,310
Depreciation and amortisation	55,126	125,175	78,565	360,697	25,237	22,605	2,376	–	669,781
Add: Depreciation and amortisation relating to corporate									497
									670,278
Impairment losses/(reversal of impairment losses) recognised in the income statement	(282)	938	32	–	174,516	–	5	–	175,209
Add: Impairment relating to corporate									15,503
									190,712
Investments in jointly -controlled entities	–	–	–	–	26,959	–	7,523	610,423	644,905
Investments in associates	297	–	115,512	–	178,763	–	528	–	295,100
Share of profits and losses of:									
Jointly-controlled entities	(158)	–	–	–	4,447	–	(1,794)	105,081	107,576
Associates	–	–	27,059	–	(14,926)	–	(58)	–	12,075
Other non-cash expenses	11,276	23,891	–	5,284	–	–	–	–	40,451

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

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$'000 (Restated)	Resort operations HK$'000	Passenger transportation services HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation business HK$'000	Consolidated HK$'000 (Restated)
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 sales									(25,419)
Revenue									4,090,498
Segment results	178,020	260,905	111,589	(446,619)	24,386	(68,285)	4,261	133,633	197,890
Interest income									24,527
Finance costs									(10,346)
Corporate and other unallocated expenses									(23,340)
Profit before tax									188,731
Income tax expense									(123,128)
Profit for the year									65,603
Segment assets	2,751,354	4,614,345	827,275	2,563,354	501,831	383,222	63,438	722,198	12,427,017
Corporate and unallocated assets									2,033,626
Total assets									14,460,643
Segment liabilities	663,457	101,772	116,272	460,809	35,880	227,771	8,099	536	1,614,596
Corporate and unallocated liabilities									794,963
Total liabilities									2,409,559

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009 *(Continued)*

	Travel agency and related operations HK$'000	Hotel operations HK$'000	Scenic spots operations HK$'000 (Restated)	Resort operations HK$'000	Passenger transportation services HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation business HK$'000	Consolidated HK$'000 (Restated)
Other segment information:									
Capital expenditure*	96,181	31,129	112,719	398,566	37,843	118,756	28,024	–	823,218
Add: Capital expenditure relating to corporate									428
									823,646
Depreciation and amortisation	49,427	118,673	66,680	419,810	26,774	18,427	2,072	–	701,863
Add: Depreciation and amortisation relating 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 relating to corporate									404
									49,364
Investments in jointly-controlled entities	58,813	–	–	–	20,665	–	11,886	722,198	813,562
Less: Investments in jointly-controlled entities included in assets classified as held for sale									(58,328)
									755,234
Investments in associates	(2,016)	–	99,977	–	360,411	–	569	–	458,941
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, prepaid land lease, other intangible assets, investment properties and including assets from acquisition of the subsidiaries.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2010 **HK$'000**	2009 HK$'000
Hong Kong	**1,700,204**	1,591,117
Mainland China (including Macau)	**2,174,752**	2,202,928
Overseas	**589,771**	296,453
	4,464,727	4,090,498

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

	2010 **HK$'000**	2009 HK$'000 (Restated)
Hong Kong	**5,400,682**	5,425,870
Mainland China (including Macau)	**6,249,056**	6,223,820
Overseas	**79,720**	62,563
	11,729,458	11,712,253

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

Information about major customers

There are no revenue from any single external customer that contributed over 10% of the total sales of the Group during the years ended 31 December 2010 and 2009.

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:

	Note	2010 HK$'000	2009 HK$'000
Revenue			
Travel agency and related operations		2,190,773	2,316,913
Hotel operations		765,416	642,677
Scenic spots operations		713,651	438,453
Resort operations		398,101	324,173
Passenger transportation services		303,330	292,893
Golf club operations		50,043	43,296
Arts performance operations		43,413	32,093
		4,464,727	4,090,498
Other income			
Bank interest income		37,054	24,527
Gross rental income		23,470	11,184
Government grants received*		12,272	6,062
Others		26,133	23,212
		98,929	64,985
Gains			
Foreign exchange differences, net		66,326	69,038
Gain on bargain purchase		39,007	5,332
Gain on disposal of subsidiaries	37	22,026	71
Gain on disposal of items of property, plant and equipment, net		15,694	–
		143,053	74,441
		241,982	139,426

* Various government grants have been received in respect of developing online internet business and organising performances that promoted the Chinese traditional culture. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2010.

6. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**16,353**	10,346

7. PROFIT BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Depreciation	*14*	**643,903**	680,324
Amortisation of prepaid land lease payments	*16*	**23,298**	22,080
Amortisation of intangible assets *(note (i))*	*18*	**3,077**	–
Auditors' remuneration:			
Current year		**6,800**	6,900
Underprovision/(overprovision) in the prior year		**(47)**	88
		6,753	6,988
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**990,144**	928,687
Equity-settled share option expense	*34*	**14,942**	–
Pension scheme contributions		**70,794**	74,527
Less: Forfeited contributions		**–**	–
Net pension scheme contributions *(note (ii))*		**70,794**	74,527
Total employee benefit expenses		**1,075,880**	1,003,214

7. PROFIT BEFORE TAX *(Continued)*

	Note	2010 HK$'000	2009 HK$'000
Minimum lease payments under operating leases:			
Land and buildings		**69,211**	78,562
Plant and machinery and motor vehicles		**50,894**	48,237
Impairment of an available-for-sale investment *(note (iii))*		**13,949**	–
Impairment of an investment in an associate *(note (iii))*		**175,000**	–
Impairment/(reversal of impairment) of trade and other receivables, net		**1,763**	(961)
Impairment of items of property, plant and equipment *(note (iii))*	*14*	**–**	50,325
Loss on write-off of items of property, plant and equipment *(note (iii))*		**40,451**	29,962
Loss/(gain) on disposal of investment properties, land and buildings, and items of plant and equipment, net		**(15,694)**	1,339
Rental income on investment properties less direct operating expenses of HK$373,000 (2009: HK$165,000)		**(23,097)**	(11,019)
Foreign exchange differences, net		**(66,326)**	(69,038)
Bank interest income		**(37,054)**	(24,527)

Notes:

(i) The amortisation of intangible assets for the year is included in "Administrative expenses" in the consolidated income statement.

(ii) At 31 December 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

(iii) The impairments of an available-for-sale investment, an investment in an associate, items of property, plant and equipment, and the loss on write-off of items of property, plant and equipment are included in "Other expenses" on the face of the consolidated income statement.

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	
	2010	2009
	HK$'000	HK$'000
Fees:		
Executive directors	**2,010**	2,010
Independent non-executive directors	**1,040**	1,040
	3,050	3,050
Other emoluments:		
Executive directors:		
Equity-settled share option expense	**1,733**	–
	4,783	3,050

During the year, 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 34 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.

(a) Independent non-executive directors

	Group	
	2010	2009
	HK$'000	HK$'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 (2009: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees	Equity-settled share option expense	Total remuneration
	HK$'000	HK$'000	HK$'000
2010			
Mr. Zhang Xuewu	330	253	583
Mr. Zheng Heshui	240	210	450
Mr. Lo Sui On	240	210	450
Ms. Jiang Yan	240	210	450
Mr. Mao Jianjun	219	175	394
Mr. Fang Xiaorong	240	210	450
Mr. Zhang Fengchun	240	210	450
Mr. Xu Muhan	240	220	460
Mr. Fu Zhuoyang	21	35	56
	2,010	1,733	3,743

	Fees
	HK$'000
2009	
Mr. Zhang Xuewu	330
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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include directors of the Company (2009: Nil). Details of the remuneration of the five non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,819**	4,428
Equity-settled share option expense	**428**	–
Pension scheme contributions	**183**	85
	6,430	4,513

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**5**	1
	5	5

During the year, share options were granted to the five non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 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 included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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.

	Group	
	2010	2009
	HK$'000	HK$'000
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	**59,906**	56,786
Underprovision/(overprovision) in prior years	**2,718**	(2,701)
Current – Elsewhere		
Charge for the year	**66,020**	31,242
Underprovision/(overprovision) in prior years	**(820)**	4,267
Overseas – Current tax charge for the year	**2,168**	1,094
Deferred tax *(note 32)*	**53,081**	32,440
Total tax charge for the year	**183,073**	123,128

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 is as follows:

Group – 2010

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	304,025		103,044		(6,658)		400,411	
Tax at the applicable tax rate	50,164	16.5	25,761	25.0	(2,663)	40.0	73,262	18.3
Lower tax rates for specific provinces or enacted by local authority	–		(2,846)		2,453		(393)	
Adjustments in respect of current tax of previous periods	2,718		(820)		–		1,898	
Profits and losses attributable to jointly–controlled entities and associates	1,729		(32,175)		–		(30,446)	
Income not subject to tax	(24,019)		(18,771)		(6,377)		(49,167)	
Expenses not deductible for tax	50,647		77,442		8,755		136,844	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries, jointly-controlled entities and associates	12,456		–		–		12,456	
Tax losses utilised from previous periods	(174)		(3,340)		–		(3,514)	
Tax losses not recognised	9		42,124		–		42,133	
Tax charge at the Group's effective rate	93,530	30.8	87,375	84.8	2,168	(32.6)	183,073	45.7

10. INCOME TAX *(Continued)*

Group – 2009

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
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, jointly-controlled entities and associates	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

The share of tax attributable to jointly-controlled entities and associates amounting to HK$46,690,000 (2009: HK$29,059,000) and HK$10,187,000 (2009: HK$3,481,000), 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 2010 includes a profit of HK$1,436,303,000 (2009: HK$68,380,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDEND

	2010	2009
	HK$'000	HK$'000
Final dividend proposed subsequent to the reporting period		
– HK1 cent (2009: Nil) per ordinary share	**56,954**	–

The final dividend proposed subsequent to the reporting period has 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.

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

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

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

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

(Continued)

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

	2010	2009
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary owners of the Company	**151,666**	28,100

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,695,355,525**	5,695,355,525
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,417,657**	–
	5,699,773,182	5,695,355,525

No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Hotel properties HK$'000	Land and buildings HK$'000	Scenic spots establishments HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
31 December 2010							
At 31 December 2009 and at 1 January 2010:							
Cost (restated)		5,492,870	2,757,833	1,233,096	249,875	1,841,792	11,575,466
Accumulated depreciation and impairment (restated)		(1,456,552)	(631,761)	(719,261)	–	(1,081,510)	(3,889,084)
Net carrying amount (restated)		4,036,318	2,126,072	513,835	249,875	760,282	7,686,382
At 1 January 2010, net of accumulated depreciation and impairment (restated)		4,036,318	2,126,072	513,835	249,875	760,282	7,686,382
Additions		8,332	19,891	141	305,615	126,857	460,836
Acquisition of subsidiaries	36(a)	–	75,883	–	–	15,635	91,518
Disposals and write-off		(687)	(63,381)	–	(8,756)	(98,015)	(170,839)
Surplus on revaluation at date of transfer to investment properties		–	60,787	–	–	–	60,787
Depreciation provided during the year	7	(280,964)	(107,783)	(35,196)	–	(219,960)	(643,903)
Transfer to investment properties, net	15	–	(100,650)	–	–	–	(100,650)
Transfers		(47,635)	21,662	26,661	(278,187)	277,499	–
Exchange realignment		25,786	43,950	17,541	8,153	23,160	118,590
At 31 December 2010, net of accumulated depreciation and impairment		3,741,150	2,076,431	522,982	276,700	885,458	7,502,721
At 31 December 2010:							
Cost		5,499,704	2,761,111	1,301,583	276,700	2,112,909	11,952,007
Accumulated depreciation and impairment		(1,758,554)	(684,680)	(778,601)	–	(1,227,451)	(4,449,286)
Net carrying amount		3,741,150	2,076,431	522,982	276,700	885,458	7,502,721

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

Group *(Continued)*

	Notes	Hotel properties HK$'000 (Restated)	Land and buildings HK$'000 (Restated)	Scenic spots establishments HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000 (Restated)
31 December 2009							
At 1 January 2009:							
Cost		5,476,908	2,233,940	1,213,715	100,305	2,064,504	11,089,372
Accumulated depreciation and impairment		(1,169,342)	(527,627)	(678,266)	–	(907,552)	(3,282,787)
Net carrying amount		4,307,566	1,706,313	535,449	100,305	1,156,952	7,806,585
At 1 January 2009, net of accumulated depreciation and impairment		4,307,566	1,706,313	535,449	100,305	1,156,952	7,806,585
Additions		8	287,795	–	289,684	161,168	738,655
Acquisition of subsidiaries	*36(b)*	19,937	4,527	–	676	4,071	29,211
Assets included as held for sale	*28*	–	(42,586)	–	–	(6,253)	(48,839)
Disposal of subsidiaries	*37(b)*	–	–	–	–	(12,166)	(12,166)
Disposals and write-off		(3,243)	(12,190)	(132)	(975)	(44,249)	(60,789)
Depreciation provided during the year	*7*	(281,007)	(104,841)	(46,189)	–	(248,287)	(680,324)
Impairment	*7*	–	(50,325)	–	–	–	(50,325)
Transfer from/(to) investment properties, net	*15*	(42,305)	28,300	–	–	–	(14,005)
Transfers		43,986	313,033	29,004	(138,932)	(247,091)	–
Exchange realignment		(8,624)	(3,954)	(4,297)	(883)	(3,863)	(21,621)
At 31 December 2009, net of accumulated depreciation and impairment		4,036,318	2,126,072	513,835	249,875	760,282	7,686,382
At 31 December 2009:							
Cost		5,492,870	2,757,833	1,233,096	249,875	1,841,792	11,575,466
Accumulated depreciation and impairment		(1,456,552)	(631,761)	(719,261)	–	(1,081,510)	(3,889,084)
Net carrying amount		4,036,318	2,126,072	513,835	249,875	760,282	7,686,382

14. 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 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 and at 1 January 2010:				
Cost	803	3,933	1,921	6,657
Accumulated depreciation	(803)	(3,108)	(1,835)	(5,746)
Net carrying amount	–	825	86	911
At 1 January 2010, net of accumulated depreciation	–	825	86	911
Additions	120	370	–	490
Depreciation provided during the year	(11)	(380)	(86)	(477)
At 31 December 2010, net of accumulated depreciation	109	815	–	924
At 31 December 2010:				
Cost	923	3,977	1,921	6,821
Accumulated depreciation	(814)	(3,162)	(1,921)	(5,897)
Net carrying amount	109	815	–	924

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

The Group's land included in property, plant and equipment with net carrying amounts as listed below are situated in Hong Kong and is held under the following lease terms:

	2010	2009
	HK$'000	HK$'000
Long term leases	**2,099,755**	2,145,230
Medium term leases	**479,124**	504,879
	2,578,879	2,650,109

Included in the Group's construction in progress at 31 December 2010 amounting to HK$184,984,000 (2009: HK$122,159,000) was the construction of certain buildings and golf courses on a parcel of land of which the Group was in the progress of applying for the land use right certificate as at the end of the reporting period.

At 31 December 2010, certain of the Group's buildings with an aggregate value of HK$9,182,000 (2009: HK$18,076,000) were pledged to secure a bank guarantee given to a supplier in connection with a credit facility granted and to secure bank loans.

During the year ended 31 December 2009, an impairment loss of HK$50,325,000 in respect of the Group's property, plant and equipment was recognised because the Group suspended the use of the respective golf courses for reconstruction.

Further particulars of the principal hotel properties held by the Group as at 31 December 2010 are included on page 187.

15. INVESTMENT PROPERTIES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000
Carrying amount at 1 January		**967,800**	762,470	**2,220**	2,080
Net profit from a fair value adjustment		**180,845**	189,806	**330**	140
Transfer from property, plant and equipment, net	*14*	**100,650**	14,005	**–**	–
Transfer from prepaid land lease payments, net	*16*	**–**	6,216	**–**	–
Exchange realignment		**30,797**	(4,697)	**–**	–
Carrying amount at 31 December		**1,280,092**	967,800	**2,550**	2,220

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

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Group:			
Long term leases	–	530,927	530,927
Medium term leases	318,500	430,665	749,165
	318,500	961,592	1,280,092
Company:			
Medium term leases	–	2,550	2,550

The Group's and the Company's investment properties were revalued on 31 December 2010 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK$1,280,092,000 (2009: HK$967,800,000) and HK$2,550,000 (2009: HK$2,220,000), 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 40(a) to the financial statements.

Further particulars of the Group's principal investment properties are included on page 188.

16. PREPAID LAND LEASE PAYMENTS

	Notes	Group 2010 HK$'000	2009 HK$'000 (Restated)
Carrying amount at 1 January		**515,786**	500,067
Additions		**1,869**	36,940
Acquisition of subsidiaries	*36(b)*	**–**	10,678
Assets included as held for sale	*28*	**–**	(568)
Amortised during the year	*7*	**(23,298)**	(22,080)
Transfer to investment properties, net	*15*	**–**	(6,216)
Exchange realignment		**16,997**	(3,035)
Carrying amount at 31 December		**511,354**	515,786
Current portion included in prepayments, deposits and other receivables		**(23,323)**	(22,971)
Non-current portion		**488,031**	492,815

The leasehold land is situated outside Hong Kong and is under the following lease terms as at 31 December 2010:

	Macau HK$'000	Elsewhere HK$'000	Total HK$'000
Long term leases	–	1,071	1,071
Medium term leases	113,675	396,608	510,283
	113,675	397,679	511,354

17. GOODWILL

	Note	Group 2010 HK$'000	2009 HK$'000 (Restated)
At 1 January:			
Cost		**1,584,707**	1,554,162
Accumulated impairment		**(306,133)**	(309,393)
		1,278,574	1,244,769
Cost at 1 January, net of accumulated impairment		**1,278,574**	1,244,769
Acquisition of subsidiaries	*36(b)*	**–**	33,805
Net carrying amount at 31 December		**1,278,574**	1,278,574
At 31 December:			
Cost		**1,584,707**	1,584,707
Accumulated impairment		**(306,133)**	(306,133)
Net carrying amount		**1,278,574**	1,278,574

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, for impairment testing.

- Travel agency and related operations
- Scenic spots operations

Travel agency and related operations cash-generating unit

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 17% (2009: 16%) and due to the uncertainty, cash flows beyond the five-year period are extrapolated without growth.

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Scenic spots operations cash-generating unit

During the year, the recoverable amount of the scenic spots cash-generating unit was 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 the cash flow projections was 17% and cash flows beyond the five-year period are extrapolated without growth.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Travel agency and related operations		Scenic spots operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)		(Restated)
Carrying amount of goodwill	**1,244,769**	1,244,769	**33,805**	33,805	**1,278,574**	1,278,574

Key assumptions were used in the value in use calculation of the travel agency and related operations and scenic spots operations cash-generating units for the years ended 31 December 2010 and 2009. 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 rates – The discount rate used is before tax and reflects specific risks relating to the travel agency and related operations and scenic spots operations cash-generating units, respectively.

18. OTHER INTANGIBLE ASSETS

		Group			
	Notes	Ticketing operation rights HK$'000	Trademarks HK$'000	Passenger service licences and quota HK$'000	Total HK$'000
Carrying amount at 1 January 2009		–	34,291	3,128	37,419
Additions		–	–	8,162	8,162
Carrying amount at 31 December 2009 and at 1 January 2010		–	34,291	11,290	45,581
Additions		–	–	9,135	9,135
Acquisition of a subsidiary	*36(a)*	118,952	–	–	118,952
Amortisation provided during the year	*7*	(3,077)	–	–	(3,077)
Exchange realignment		4,106	–	–	4,106
Carrying amount at 31 December 2010		119,981	34,291	20,425	174,697
At 31 December 2010:					
Cost		123,058	34,291	20,425	177,774
Accumulated amortisation		(3,077)	–	–	(3,077)
Net carrying amount		119,981	34,291	20,425	174,697

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**5,018,980**	4,642,888
Capital contribution in respect of employee share-based compensation	**130,233**	115,348
	5,149,213	4,758,236
Less: Impairment for investment costs #	**(539,832)**	(539,832)
	4,609,381	4,218,404
Amounts due from subsidiaries – current portion	**7,466,191**	7,109,008
Less: Impairment for amounts due from subsidiaries #	**(745,931)**	(745,931)
	6,720,260	6,363,077
Amounts due to subsidiaries – current portion	**(1,196,861)**	(1,587,496)

An impairment was recognised for certain subsidiaries and for the amounts due from subsidiaries in prior years. There was no change in the impairment account during the current and prior years based on the present values of estimated cash flows, discounted at the effective interest rate.

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 38 to the financial statements.

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Unlisted investment, at cost		**–**	–	**–**	–
Share of net assets	*(a)*	**691,411**	801,287	**–**	–
Goodwill on acquisition	*(b)*	**–**	–	**–**	–
Amounts due from jointly-controlled entities	*(c)*	**13,428**	11,882	**–**	–
Amount due to a jointly-controlled entity	*(c)*	**(59,934)**	(57,935)	**–**	–
		644,905	755,234	**–**	–

Notes:

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

	2010	2009
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities (excluding the interests in jointly-controlled entities included in a disposal group):		
Non-current assets	**199,363**	244,283
Current assets	**860,192**	912,816
Current liabilities	**(359,753)**	(347,702)
Non-current liabilities	**(8,391)**	(8,110)
Net assets	**691,411**	801,287

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

	2010 HK$'000	2009 HK$'000
Share of the jointly-controlled entities' results:		
Revenue	**1,137,356**	1,544,429
Other income and gains	**15,147**	14,832
	1,152,503	1,559,261
Total expenses	**(998,237)**	(1,469,751)
Income tax expense	**(46,690)**	(29,059)
Profit after tax	**107,576**	60,451

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

	Group 2010 HK$'000	 2009 HK$'000
Cost and net carrying amount:		
At 1 January	**–**	10,877
Assets reclassified as assets held for sale	**–**	(10,877)
At 31 December	**–**	–

(c) The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The financial assets included in the above balances relate to receivables for which there was no recent history of default. The carrying amounts of these balances are approximate to their fair values.

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

(d) Particulars of the principal jointly-controlled entity is as follows:

Name	Place of incorporation or registration/ operations	Particulars of registered capital	Percentage of equity and profit sharing attributable to the Group 2010	2009	Principal activities
Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe Power")*	PRC/Mainland China	Registered capital of RMB1,800,000,000	**51**	51	Generation and sale of electricity

* Held indirectly through subsidiaries.

The above table lists the jointly-controlled entity of the Group, which, in the opinion of the directors, principally affect 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.

21. INVESTMENTS IN ASSOCIATES

	Notes	Group 2010 HK$'000	2009 HK$'000 (Restated)
Share of net assets	*(a)*	**428,916**	418,426
Amounts due from associates	*(b)*	**41,394**	42,585
Amounts due to associates	*(b)*	**–**	(1,860)
		470,310	459,151
Impairment	*(c)*	**(175,210)**	(210)
		295,100	458,941

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes:

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

	2010 HK$'000	2009 HK$'000 (Restated)
Total assets	**2,154,060**	2,237,972
Total liabilities	**(651,579)**	(781,150)
Revenue	**2,044,801**	1,873,107
Profit/(loss) after tax	**66,175**	(3,710)

(b) The balances with the associates are unsecured, interest-free and have no fixed terms of repayment. 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. The carrying amounts of these balances are approximate to their fair values.

(c) An impairment was recognised for an associate during the year because the operation of Shun Tak – China Travel Shipping Investments Limited ("Shun Tak – China Travel") was affected by the continuous high global oil price and keen competition, in particular, on the route between Hong Kong and Macau since 2008, the operating condition of Shun Tak – China Travel fell short of the Group's expectation. Based on the cash flow projections applied with a 16% discount rate and the financial budgets, the Group made a provision for impairment of investment in Shun Tak – China Travel in the amount of HK$175 million for the year.

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

Name	Place of incorporation or registration/ operations	Particulars of issued shares held	Percentage of equity interest attributable to the Group 2010	2009	Principal activities
All China Express Limited#	Hong Kong	52 ordinary shares of HK$1 each	**30**	30	Passenger transportation
Changsha Colorful World Company Limited#	PRC/Mainland China	Registered capital of RMB26,000,000	**26**	26	Scenic spot operations
Changchun Jingyuetan Youle Co. Ltd.#	PRC/Mainland China	Registered capital of RMB3,020,000	**30**	30	Skiing facilities operations
Huangshan Taiping Cable Car Co. Ltd.#	PRC/Mainland China	Registered capital of US$2,092,500	**30**	30	Cable car operations
Huangshan Yuping Cable Car Company Ltd.#	PRC/Mainland China	Registered capital of RMB3,800,000	**20**	20	Cable car operations
Shun Tak – China Travel#	British Virgin Islands ("BVI")/ Hong Kong	2,900 ordinary shares of US$1 each	**29**	29	Shipping operations

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the associates of the Group, which, in the opinion of the directors, principally affect 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.

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equity investments, at cost	**12,572**	25,849	**–**	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.

During the year ended 31 December 2010, an impairment amounted to HK$13,949,000 was made on one of the Group's available-for-sale investments as the directors consider that the probability in recovering the investment is remote.

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

23. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Food and beverages	**13,438**	12,937
Spare parts and consumables	**3,371**	2,475
General merchandise	**9,405**	10,096
	26,214	25,508

24. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**212,504**	177,697
Impairment	**(9,345)**	(6,804)
	203,159	170,893

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 3 months	**188,422**	146,797
3 to 6 months	**9,622**	21,196
6 to 12 months	**4,735**	2,400
1 to 2 years	**380**	500
	203,159	170,893

24. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**6,804**	15,632
Acquisition of subsidiaries	**–**	56
Reclassified as held for sale	**–**	(5,089)
Impairment losses recognised	**1,781**	4,750
Impairment losses reversed/written off	**(41)**	(8,434)
Exchange realignment	**801**	(111)
At 31 December	**9,345**	6,804

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.

24. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**164,763**	143,206
Past due:		
Less than 3 months	**33,006**	24,417
3 to 6 months	**3,416**	2,770
6 to 12 months	**1,724**	–
1 to 2 years	**250**	500
	203,159	170,893

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.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000
Prepayments, deposits and other debtors		**179,759**	141,539	**4,135**	4,493
Entrustment loans receivables	*(a)*	**197,431**	–	**–**	–
Amount due from a non-controlling shareholder	*(b)*	**100,974**	–	**–**	–
		478,164	141,539	**4,135**	4,493

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.

The carrying amounts of the Group's prepayments, deposits and other receivables approximate to their fair values.

Notes:

(a) The Group entered into entrustment loans arrangements with a non-controlling shareholder of Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") and Shenzhen The World Miniature Co., Ltd. ("WoW"), which are the Group's 51%-owned subsidiaries, during the year. The entrustment loans are unsecured, repayable by the non-controlling shareholder upon one month notice from the Group, and are interest-bearing at the 1-year PBOC Base Lending Rate less 10%.

(b) The amount due from a non-controlling shareholder of CTS (Dengfeng) Songshan Shaolin Culture Tourism Co. Ltd. ("CTS Dengfeng"), a 51%-owned subsidiary of the Group, is unsecured, repayable on demand and is interest-bearing at the 3-month PBOC Base Lending Rate.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,040,031**	585,855	**129,014**	26,070
Time deposits	**1,448,878**	1,209,592	**1,224,591**	829,433
	2,488,909	1,795,447	**1,353,605**	855,503
Less: Pledged time deposits	**(67,303)**	(32,661)	**–**	–
Cash and cash equivalents	**2,421,606**	1,762,786	**1,353,605**	855,503

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$1,293,010,000 (2009: HK$967,279,000). 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.

27. 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.

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from the immediate holding company				
Within 1 year	**37,103**	31,880	**1,545**	–
1 to 2 years	**5,562**	235	**261**	–
Over 2 years	**190**	86	**–**	–
	42,855	32,201	**1,806**	–
Amounts due to the immediate holding company				
Within 1 year	**90**	1,171	**–**	673

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from fellow subsidiaries				
Within 1 year	**31,635**	25,470	**118**	–
1 to 2 years	**18,693**	11,379	**12,314**	473
Over 2 years	**1,176**	1,032	**–**	–
	51,504	37,881	**12,432**	473
Amounts due to fellow subsidiaries				
Within 1 year	**13,034**	11,320	**8**	–
1 to 2 years	**2,833**	1,050	**652**	–
Over 2 years	**367**	696	**–**	–
	16,234	13,066	**660**	–

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

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

These represent assets and liabilities in relation to 100% equity interest in China Travel Service Head office (Beijing) Co., Ltd. (formerly known as China Travel International Limited, "CTIL") and 25% equity interest in China Travel International (Hangzhou) Ltd. (collectively the "CTIL Group"), which had been presented as held for sale as a result of pending disposal of the CTIL Group for a consideration of HK$205 million. The CTIL Group operated travel agencies in Mainland China and was part of the travel agency and related operation business of the Group. The transactions were approved by the Company's shareholders on 20 July 2009 and completed in June 2010.

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

	Notes	2009 HK$'000
Property, plant and equipment	*14*	48,839
Prepaid land lease payments	*16*	568
Investments 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 the immediate holding company		59
Amounts due from fellow subsidiaries		70,860
Total		512,228

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

(ii) 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

(iii) 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

29. TRADE PAYABLES

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 3 months	**333,339**	249,993
3 to 6 months	**21,409**	17,395
6 to 12 months	**3,497**	3,602
1 to 2 years	**10,159**	7,421
Over 2 years	**8,528**	7,329
	376,932	285,740

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

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other payables	**559,132**	615,842	**19,101**	10,128
Employee benefits	**255,343**	200,889	**18,073**	17,346
Receipts in advance	**140,578**	114,066	**–**	–
Amounts due to non-controlling shareholders	**4,207**	876	**–**	–
	959,260	931,673	**37,174**	27,474

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

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group		2010			2009		
	Notes	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current							
Bank loan – secured	*(i)*	EURIBOR+0.12	2011	1,033	1-Year PBOC Lending Rate + 0.35	2010	7,952
Bank loans – unsecured		HIBOR+0.6	2011	100,000*	HIBOR + 0.6	2010	60,000*
Bank loans – unsecured		4.30	2011	390			–
Other borrowings – unsecured	*(ii)*	1-Year PBOC Lending Rate	On demand	21,623	1-Year PBOC Lending Rate	On demand	20,902
Other loans – unsecured		Interest-free	On demand	1,175	Interest-free	On demand	1,136
				124,221			89,990
Non-current							
Bank loan – secured	*(i)*			–	EURIBOR + 0.12	2011	2,778
Bank loan – unsecured		1-year PBOC Lending Rate	2012	11,752	4.30	2011	419
Entrustment loans		4.41	2012	176,278	4.41	2012	170,396
Golf club debentures		Interest-free	2013 – 2024	3,957	Interest-free	2013 – 2024	3,957
				191,987			177,550
Total interest-bearing bank and other borrowings				316,208			267,540

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

Notes:

(i) As at 31 December 2010, the Group's short term bank loan is secured by the Group's bank deposits amounting to HK$1,033,000. As at 31 December 2009, the Group's long term bank loan was secured by the Group's bank deposits amounting to HK$2,778,000, while the prior year short term bank loan was secured by certain buildings with a net book value of HK$12,442,000 in 2009, which was repaid in the current year.

(ii) The Group's other borrowings represent borrowings from non-controlling shareholders of Yangzhou Grand Metropole Hotel Co., Ltd., a 60%-owned subsidiary of the Group, and are unsecured, bear interest at the one-year People's Bank of China Base Lending Rate and are repayable on demand.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**101,423**	67,952
In the second year	**188,030**	3,197
In the third to fifth years, inclusive	**–**	170,396
	289,453	241,545
Other borrowings repayable:		
Within one year	**22,798**	22,038
Beyond five years	**3,957**	3,957
	26,755	25,995
Total interest-bearing bank and other borrowings	**316,208**	267,540

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

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other bank loans – secured	**176,278**	170,396	**176,374**	172,537
Other bank loans – unsecured	**–**	419	**–**	443
Golf club debentures	**3,957**	3,957	**3,712**	3,646
	180,235	174,772	**180,086**	176,626

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

32. 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 (Restated)	Withholding tax HK$'000	Total HK$'000 (Restated)
At 1 January 2009	53,116	85,871	(18,465)	291,153	5,960	417,635
Acquisition of subsidiaries *(note 36(b))*	–	–	–	5,040	–	5,040
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	4,225	43,966	(14,558)	(5,413)	4,216	32,436
Exchange realignment	–	(231)	–	–	–	(231)
At 31 December 2009 and at 1 January 2010	57,341	129,606	(33,023)	290,780	10,176	454,880
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	6,928	42,730	10,833	(6,843)	260	53,908
Deferred tax charged to equity during the year	–	15,000	–	–	–	15,000
Acquisition of subsidiaries *(note 36(a))*	–	–	–	32,852	–	32,852
Disposal of subsidiaries *(note 37(a))*	–	(4,970)	–	–	(264)	(5,234)
Exchange realignment	–	2,973	–	365	–	3,338
At 31 December 2010	64,269	185,339	(22,190)	317,154	10,172	554,744

32. DEFERRED TAX *(Continued)*

Deferred tax assets

Group	Depreciation in excess of related depreciation allowance HK$'000 (Restated)
At 1 January 2009	**(581)**
Acquisition of subsidiaries	**(1,034)**
Deferred tax charged to the income statement during the year *(note 10)*	**4**
At 31 December 2009 and at 1 January 2010	**(1,611)**
Deferred tax credited to the income statement during the year *(note 10)*	**(827)**
At 31 December 2010	**(2,438)**

32. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

For presentation purposes, 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:

	2010 **HK$'000**	2009 HK$'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**(2,438)**	(1,611)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**554,744**	454,616
Net deferred tax liabilities included in the disposal group classified as held for sale *(note 28)*	**–**	264
	552,306	453,269

The Group has tax losses arising in Hong Kong of HK$81,443,000 (2009: HK$82,447,000) 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$871,769,000 (2009: HK$709,122,000) 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.

32. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

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 for 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.

33. SHARE CAPITAL

Shares

	2010	2009
	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 and the share options issued under the scheme are included in note 34 to the financial statements.

34. 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.

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 of the Company.

34. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Share Option Scheme during the year:

	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2010	–	–
Granted during the year	1.70	129,510
Forfeited during the year	1.70	(3,850)
At 31 December 2010	1.70	125,660

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010

Number of options '000	Exercise price HK$ per share	Exercise period
37,670	1.70	18 June 2012 – 17 June 2020
37,670	1.70	18 June 2013 – 17 June 2020
50,320	1.70	18 June 2014 – 17 June 2020
125,660		

The fair value of the share options granted during the year was HK$82,539,000 (HK$0.64 each) (2009: No share options were granted), of which the Group recognised a share option expense of HK$14,942,000 (2009: Nil) during the year ended 31 December 2010.

34. SHARE OPTION SCHEME *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2010
Dividend yield (%)	**3.52%**
Expected volatility (%)	**47.14%**
Risk-free interest rate (%)	**2.44%**
Expected life of options (year)	**10**
Weighted average share price (HK$ per share)	**1.70**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 125,660,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 125,660,000 additional ordinary shares of the Company and additional share capital of HK$12,566,000 and share premium of HK$201,056,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 125,660,000 share options outstanding under the Scheme, which represented approximately 2.21% of the Company's shares in issue as at that date.

35. 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 pages 59 and 60 of the financial statements.

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
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	–	–	–	(56,954)	(56,954)
At 31 December 2009 and at 1 January 2010	8,357,579	350	–	1,090,599	9,448,528
Profit for the year	–	–	–	1,436,303	1,436,303
Equity-settled share option arrangements	–	–	14,942	–	14,942
At 31 December 2010	8,357,579	350	14,942	2,526,902	10,899,773

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

36. BUSINESS COMBINATION

(a) On 22 December 2009, the Company entered into a conditional joint venture agreement to contribute RMB68.85 million (HK$78.24 million) in cash into CTS Dengfeng, in which the Company would own 51% equity interest therein. The transaction was completed on 4 January 2010.

CTS Dengfeng is principally engaged in the development and operation of Shaolin Scenic Spot, Zhong Yue Scenic Spot and Song Yang Scenic Spot under the Songshan Scenic Spot in Henan Province of the PRC ("Songshan Scenic Spot").

In light of the favorable long-term outlook of PRC economy and the rapid increase in the disposable income of PRC consumers, together with the accelerating construction of tourism infrastructure facilities and initiatives to spur tourism spending by the PRC Government, the directors are of the view that the development and operation of Songshan Scenic Spot, has attractive prospects and growth potential and represents an important part of the Company's long-term development strategy.

The fair values of the identifiable assets and liabilities of CTS Dengfeng as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	*14*	91,518
Investments in associates		4,319
Intangible assets	*18*	118,952
Inventories		41
Trade and other receivables		133,071
Cash and bank balances		153,354
Tax payable		(8,585)
Trade payables, other payables and accruals		(1,618)
Other borrowings		(228,331)
Deferred tax liabilities		(32,852)
Non-controlling interests		(112,622)
Total identifiable net assets at fair value		117,247
Gain on bargain purchase recognised in other income and gains in the consolidated income statement	*5*	(39,007)
		78,240
Satisfied by cash		78,240

36. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

The fair values and gross contractual amounts of the trade receivables and other receivables as at the date of acquisition amounted to HK$133,071,000.

The Group incurred transaction costs of HK$184,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of CTS Dengfeng is as follows:

	2010 HK$'000
Cash consideration	78,240
Cash and bank balances acquired	(153,354)
Net inflow of cash and cash equivalents included in cash flows from investing activities	(75,114)
Transaction costs of the acquisition included in cash flows from operating activities	184
	(74,930)

Since its acquisition, CTS Dengfeng has contributed HK$183,688,000 to the Group's revenue and HK$27,334,000 to the Group's consolidated results for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have had no significant difference as compared to the amounts reflected in the consolidated income statement.

36. BUSINESS COMBINATION *(Continued)*

(b) 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.

During the year ended 31 December 2010, certain provisionally estimated fair values of assets and liabilities acquired on Trump Return in December 2009 have been re-assessed and recalculated. The re-assessed fair values of the identifiable assets and liabilities of Trump Return as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000 (Restated)	**Carrying amount as at date of acquisition** HK$'000
Property, plant and equipment	*14*	29,211	23,972
Prepaid land lease payments	*16*	10,678	5,976
Investments in associates		99,976	102,430
Available-for-sale investment		7,850	7,850
Deferred tax assets		1,034	825
Inventories		246	246
Trade receivables, prepayments, deposits and the receivables		1,768	1,768
Cash and bank balances		94,422	94,422
Amount due from a fellow subsidiary		27	27
Tax payable		(2,355)	(2,355)
Trade payables, other payables and accruals		(3,987)	(3,987)
Amounts due to intermediate holding companies		(230,433)	(230,433)
Deferred tax liabilities		(5,040)	–
Non-controlling interests		(1,141)	(1,141)
Total identifiable net assets at fair value		2,256	(400)
Goodwill on acquisition	*17*	33,805	
		36,061	
Satisfied by:			
Cash paid for acquisition of Trump Return		275,000	
Debts assigned to the Group		(238,939)	
		36,061	

36. BUSINESS COMBINATION *(Continued)*

(b) *(Continued)*

An analysis of the cash flows in respect of the acquisition of Trump Return is as follows:

	2009 HK$'000
Cash consideration	275,000
Cash and bank balances acquired	(94,422)
Net outflow of cash and cash equivalents included in cash flows from investing activities	180,578

37. DISPOSAL OF SUBSIDIARIES

(a) Disposal of the CTIL Group

	2010 HK$'000
Net assets disposal of:	
Property, plant and equipment	24,491
Prepaid land lease payments	568
Investment properties	40,206
Investments in jointly-controlled entities	57,544
Inventories	659
Trade receivables	48,484
Prepayments, deposits and other receivables	199,075
Cash and bank balances	98,135
Amount due from an intermediate holding company	53
Amounts due from fellow subsidiaries	44,238
Trade payables	(37,030)
Tax payable	(1,099)
Other payables and accruals	(194,139)
Interest-bearing bank and other borrowings	(1,718)
Amount due to the immediate holding company	(34,820)
Amounts due to fellow subsidiaries	(4,743)
Deferred tax liabilities	(5,234)
Non-controlling interests	(13,569)
	221,101
Exchange fluctuation reserve realised	(37,784)
Gain on disposal of the CTIL Group *(note 5)*	22,026
	205,343
Satisfied by cash	205,343

37. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) Disposal of the CTIL Group *(Continued)*

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

	2010 HK$'000
Cash consideration	**205,343**
Cash and cash balances disposed of	**(98,135)**
Net inflow of cash and cash equivalents in respect of the disposal of the CTIL Group	**107,208**

(b)

On 23 December 2009, China Heaven Creation International Performing Arts Co. Ltd. ("China Heaven"), a 85.3%-owned subsidiary, entered into a sale and purchase agreement with the non-controlling 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, the equity interest held by China Heaven in Gehua-China Heaven decreased from 51% to 50% and consequently Gehua-China Heaven was jointly controlled by China Heaven and the other shareholders. 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	*14*	12,166
Prepayments, deposits and other receivables		24
Cash and bank balances		12,077
Other payables		(60)
Non-controlling 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

37. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

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. 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 2010	2009	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,300,000	**100**	100	Travel and air ticketing agency
Aldington International Ltd. #	Western Samoa	1,000,000 ordinary shares of US$1 each	**100**	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

38. 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 2010	2009	Principal activities
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
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

38. 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 2010	2009	Principal activities
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
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	Tour operations
China Travel International (Chengdu) Ltd. #*	PRC/Mainland China	RMB4,220,000	**–**	51	Tour operations

38. 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 2010	2009	Principal activities
China Travel International (Shandong) Ltd. #*	PRC/Mainland China	RMB5,000,000	–	51	Tour operations
China Travel International (Shanxi) Travel Service Co., Ltd. #*	PRC/Mainland China	RMB5,000,000	–	51	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd. #*	PRC/Mainland China	RMB6,000,000	–	51	Tour operations
China Travel International (Xian) Ltd. #*	PRC/Mainland China	RMB3,570,000	–	51	Tour operations
China Travel International (Xinjiang) Ltd. #*	PRC/Mainland China	RMB4,000,000	–	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

38. 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 2010	2009	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

38. 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 2010	2009	Principal activities
Chengdu Huashuiwan China Travel Company Limited #***	PRC/Mainland China	RMB9,000,000	**100**	100	Travel slide, recreation facilities services and sales of tourism products
Chengdu Huashuiwan Sakura Hotel Company Limited #***	PRC/Mainland China	RMB21,547,000	**100**	100	Resort operations
CTS (Xinyang) Jigongshan Culture Tourism Co.,Ltd #*	PRC/Mainland China	RMB257,140,000	**65**	–	Tourist attraction operation
CTS Dengfeng *	PRC/Mainland China	RMB100,000,000	**51**	–	Tourist attraction operations
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 Scandinavia AB	Sweden	SEK100,000	**100**	100	Travel and air ticketing agency

38. 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 2010	2009	Principal activities
CTS Scenery Resort Investment Company Limited # **	PRC/Mainland China	RMB132,250,000	**100**	100	Investment in and management of resort hotels and scenic spots
CTS Tycoon (Shenzhen) Golf Club Company Limited **	PRC/Mainland China	RMB326,000,000	**100**	100	Golf club operations
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
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

38. 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 2010	2009	Principal activities
Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co. Ltd. #***	PRC/Mainland China	RMB3,800,000	**80**	80	Cable car operations
Kinetic Profit Real Estate (Shanghai) Co., Ltd. ***	PRC/Mainland China	US$5,000,000	**100**	100	Property investment holding and hotel operations
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	1 ordinary share of HK$1	**100**	100	Investment holding
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation

38. 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 2010	2009	Principal activities
Shanghai Weilv Hotel Management Co., Ltd. ***	PRC/Mainland China	RMB1,000,000	**100**	100	Hotel management
Splendid China * *(Note)*	PRC/Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations
WoW * *(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

38. 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 2010	2009	Principal activities
Trump Return Limited #	BVI/Hong Kong	US$50,000	**100**	100	Investment holding
U.S. China Travel Service 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
Xianyang Guanzhong Hotspring Co, Ltd. ("Guanzhong Hotspring") *	PRC/Mainland China	RMB301,000,000	**83.72**	83.72	Hot spring resort operations
Yangzhou Metropole Hotel Co., Ltd. ***	PRC/Mainland China	RMB44,000,000	**60**	60	Property investment holding and hotel operations
深圳市港中旅快線運輸有限公司 #***	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation and investment holding
芒果網有限公司 #**	PRC/Mainland China	RMB519,595,000	**100**	100	Sale of travel-related products through an electronic platform
珠海市港中旅快線有限公司 #**	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation

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

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 another member firm of the Ernst & Young global network

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2010	2009	**2010**	2009
	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**	1,758
Corporate guarantees given to banks in connection with credit facilities granted to subsidiaries	**–**	–	**450,675**	192,559
Performance bond given to a customer for due performance of a sales contract	**300**	414	**–**	–
	300	414	**452,433**	194,317

As at 31 December 2010, the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$134,915,000 (2009: HK$149,028,000).

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its equipment and investment properties (notes 14 and 15) under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to ten years, and those for equipment for terms no longer than one year. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Investment properties:		
Within one year	**53,666**	51,292
In the second to fifth years, inclusive	**105,263**	84,485
After five years	**30,241**	720
	189,170	136,497
Equipment:		
Within one year	**191**	45

40. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Land and buildings:		
Within one year	**55,583**	29,562
In the second to fifth years, inclusive	**35,256**	33,788
After five years	**37,765**	–
	128,604	63,350
Plant and machinery and motor vehicles:		
Within one year	**4,854**	3,946
In the second to fifth years, inclusive	**–**	68
	4,854	4,014

41. COMMITMENTS

In addition to the operating lease commitments as detailed in note 40(b) above, the Group and the Company had the following commitments at the end of the reporting period:

Capital commitments

	Group	
	2010	2009
	HK$'000	HK$'000
Land and buildings:		
Contracted, but not provided for	**291,214**	50,952
Authorised, but not contracted for	**45,000**	475,228
	336,214	526,180
Plant and equipment and motor vehicles:		
Contracted, but not provided for	**27,797**	–
Authorised, but not contracted for	**–**	43
	27,797	43
Leasehold improvements:		
Contracted, but not provided for	**85**	2,140
Authorised, but not contracted for	**2,306**	1,228
	2,391	3,368
Scenic spots:		
Contracted, but not provided for	**63,328**	25,026

In addition, the Group's share of the jointly-controlled entities own capital commitments, which are not included in the above, is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for	**101,899**	58,672

At the end of the reporting period, the Company has no significant commitments.

42. 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	
Name of company	Nature of transaction	2010 HK$'000	2009 HK$'000
Paid or payable to:			
Immediate holding company			
(1) CTS (Holdings)	Office rental	**16,124**	16,120
Fellow subsidiaries			
(2) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	**3,952**	4,943
(3) 上海天澤房地產有限公司	Office rental	**2,571**	2,252
(4) Metropark Hotel Shenzhen Co., Ltd.	Hotel room rental	**912**	1,059
(5) China Merchants International Travel Co., Ltd. Shenzhen	Travel-related service fees	**8,178**	4,671
(6) China Merchants International Travel Co., Guangzhou	Travel-related service fees	**–**	3,026

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

			Group	
		Nature of	**2010**	2009
Name of company		transaction	**HK$'000**	HK$'000
Paid or payable to: *(Continued)*				
Fellow subsidiaries (Continued)				
(7)	China Travel Head Office	Travel-related service fees	**6,831**	7,933
(8)	中國港中旅資產經營公司	Management fees	**4,791**	–
(9)	港中旅(中國)投資有限公司	Construction service charge	**3,213**	–
(10)	China Travel International (Chengdu) Ltd.*	Travel-related service fees	**3,063**	–
(11)	China Travel International (Shandong) Ltd.*	Travel-related service fees	**1,884**	–
(12)	港中旅(廣東)國際旅行社有限公司*	Travel-related service fees	**10,162**	–
(13)	中國旅行社西北有限公司*	Travel-related service fees	**1,449**	–

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

		Group	
Name of company	Nature of transaction	2010 HK$'000	2009 HK$'000
Paid or payable to: *(Continued)*			
Fellow subsidiaries (Continued)			
(14) China Travel (Cargo) Logistics Centre Ltd	Car parking	**1,403**	817
(15) Shanghai China Travel International Limited*	Travel-related service fees	**14,858**	3,408
Jointly-controlled entities			
(16) China Travel International (Hangzhou) Ltd.*	Travel-related service fees	**19,359**	11,622
(17) Shaanxi Weihe Power	Finance costs	**7,696**	7,629
Associate			
(18) All China Express Limited	Coach rental	**4,156**	3,563
(19) CTS (Holdings)	Hotel room rental	**4,272**	3,337

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2010 HK$'000	2009 HK$'000
Received or receivable from:			
Immediate holding company			
(20) CTS (Holdings)	Travel permit administration income *(note)*	**368,982**	348,678
(21) CTS (Holdings)	Sale of visa materials	**2,063**	1,958
Fellow subsidiaries			
(22) CTIL*	Travel-related service fees	**1,988**	–
(23) China Travel Computer Service H.K. Limited	Service income as application service provider	**14,145**	11,115
(24) China Travel Head Office	Package tour income	**6,706**	8,940
(25) China Travel Hong Kong (Qingdao) Ocean Spring Co. Ltd.	Theatre design fee	**3,787**	4,322
(26) Metropark Hotel Nanjing	Hotel management fees	**3,046**	3,724
(27) 深圳維景京華酒店有限公司	Hotel management fees	**1,211**	861
(28) Metropark Hotel Hangzhou Co., Ltd.	Hotel management fees	**3,347**	3,011

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2010 HK$'000	2009 HK$'000
Received or receivable from: *(Continued)*			
Fellow subsidiaries (Continued)			
(29) Shanghai China Travel International Limited*	Travel-related service fees	**1,537**	4,283
Associates			
(30) All China Express Limited	Coach rental	**39,661**	40,431
(31) All China Express Limited	Management fees	**16,627**	17,378
(32) All China Express Limited	Quota income	**1,374**	1,379
(33) Shun Tak-China Travel	Ticketing commission	**27,525**	26,630
(34) Shun Tak-China Travel	Management fees	**1,749**	1,749

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

* Upon the completion of disposal of CTIL on 30 June 2010 (further details are included in notes 28 and 37(a) to the financial statements), the continuing provision of travel-related services between the Group and CTIL (together with its subsidiaries) constitutes related party transactions from July 2010 onwards. The transactions included above were travel-related services performed between the Group and CTIL and its subsidiaries from July 2010 onwards.

In addition, prior to the disposal of CTIL, CTIL provided travel-related services to CTS (Holdings) and its subsidiaries (collectively "CTS (Holdings) Group") which constituted related party transactions. The list above includes travel-related services provided to CTS (Holdings) Group prior to 30 June 2010.

42. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties

(i) On 30 June 2010, the Group completed its disposal of the CTIL Group to CTS (Holdings) for a consideration of HK$205 million. Details of the disposal are included in note 37(a).

(ii) On 31 December 2009, the Group completed its acquisition of Trump Return from Dean Glory at a cash consideration of HK$275 million. Further details of the transaction are included in note 36(b).

(c) On 21 August 2007, an entrustment loan arrangement was entered into between Shaanxi Weihe Power, a jointly-controlled entity of the Group, Guanzhong Hotspring, a 83.72%-owned subsidiary of the Group, 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	
	2010	2009
	HK$'000	HK$'000
Short term employee benefits	**4,368**	4,997
Equity-settled share option expense	**1,831**	–
Total compensation paid to key management personnel	**6,199**	4,997

Except for items (a)(33), (a)(34) and (d), the above transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

Other than available-for-sale investments as disclosed in note 22 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

44. FAIR VALUE HIERARCHY

During the year ended 31 December 2010, there were no transfers of fair value measurements between Level 1 and Level 2, and no transfers into or out of Level 3 (2009: Nil).

45. 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, and interest-bearing bank and other borrowings. 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 a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

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

Liquidity risk *(Continued)*

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

Group

	2010			
	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	126,371	198,758	1,791	326,920
Trade payables	376,932	–	–	376,932
Other payables and accruals	818,682	–	–	818,682
Amounts due to the immediate holding company	90	–	–	90
Amounts due to fellow subsidiaries	16,234	–	–	16,234
	1,338,309	198,758	1,791	1,538,858

	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	817,607	–	–	817,607
Amounts due to the immediate holding company	1,171	–	–	1,171
Amounts due to fellow subsidiaries	13,066	–	–	13,066
	1,220,759	197,461	1,791	1,420,011

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

Liquidity risk *(Continued)*

Company

	2010			
	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	37,174	–	–	37,174
Amounts due to subsidiaries	1,196,861	–	–	1,196,861
Amounts due to fellow subsidiaries	660	–	–	660
	1,234,695	–	–	1,234,695
The maximum utilised amount of the guarantee given to banks in connection with banking facilities granted to subsidiaries	134,915	–	–	134,915

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

Liquidity risk *(Continued)*

Company *(Continued)*

	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
Amounts 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

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 24 to the financial statements.

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

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 of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity except for retained profits.

	Increase in RMB rate %	Increase in profit before tax HK$'000
2010		
If Hong Kong dollar weakens against RMB	**3**	**49,663**
If Hong Kong dollar weakens against RMB	**5**	**82,772**
2009		
If Hong Kong dollar weakens against RMB	3	48,199
If Hong Kong dollar weakens against RMB	5	80,332

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 2010, 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$1,344,000 (2009: HK$916,000). Similarly, it is estimated that a general increase/decrease in 0.5% of the savings rate, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$12,445,000 (2009: HK$8,977,000).

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

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

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 2010 and 31 December 2009.

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 liabilities associated with the disposal group classified as held for sale. Capital represents equity attributable to owners of the Company.

During 2010, the Group's strategy, which remained unchanged from that of 2009, 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.

Group

	2010 **HK$'000**	2009 HK$'000
Interest-bearing bank and other borrowings	**316,208**	267,540
Trade payables	**376,932**	285,740
Other payables and accruals	**959,260**	931,673
Amount due to the immediate holding company	**90**	1,171
Amounts due to fellow subsidiaries	**16,234**	13,066
Debt	**1,668,724**	1,499,190
Capital	**11,906,378**	11,567,425
Debt-to-capital ratio	**14.02%**	12.96%

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

46. EVENTS AFTER THE REPORTING PERIOD

On 26 January 2011, China Heaven, a 85.3%-owned subsidiary of the Group, applied for a RMB30 million loan from Export-Import Bank of China. Under the loan agreement, China CTS (HK) provided a credit guarantee in favour of the bank to secure the repayment obligations of China Heaven.

On the same date, the Company provided a counter guarantee to China CTS (HK) for the amount of the loan drawn down from the loan agreement together with any interest, penalty, compensation and other related fees and expenses which may be payable by China CTS (HK) contemplated under the credit guarantee provided by China CTS (HK) to the bank.

47. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 January 2009 has been presented.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

PARTICULARS OF PRINCIPAL HOTEL PROPERTIES

31 December 2010

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 Hong Kong 148 Tung Lo Wan Road, Causeway Bay, Hong Kong	100%	Long
Metropark Hotel Kowloon Hong Kong 75 Waterloo Road, Kowloon, Hong Kong	100%	Long
Metropark Hotel Macau 199 Rua de Pequim, Macau	100%	Medium
Metropark Hotel Mongkok Hong Kong 22 Lai Chi Kok Road, Mongkok, Kowloon, Hong Kong	100%	Medium
Metropark Hotel Wanchai Hong Kong 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 2010

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 Xuanwu District, Beijing, PRC	Carpark/ Shop/Office	Medium
Shanghai Metropark Service Apartment No. 48 Lane 610, Yanan West Road Changning District, Shanghai, PRC	Service apartments	Long

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