Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

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

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The principal changes in accounting policies are as follows:

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

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

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

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

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

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

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

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

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

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 entity 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/registered 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 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. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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.

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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill previously eliminated against consolidated retained profits

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

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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, however 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 impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 its holding company;

(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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than hotel properties, are stated at cost less accumulated depreciation and any impairment losses. 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Hotel properties are stated at valuation. Valuations of hotel properties are performed on an annual basis. Changes in the values of hotel properties are dealt with as movements in the hotel property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	Over the shorter of the lease terms and 40 years
Hotel properties	Over the shorter of the lease terms and 75 years
Scenic spots establishment	3.6% to 19%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	20%
Furniture, fixture and equipment	9% to 30%
Motor vehicles	14.3% 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 or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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 balance sheet date.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Properties under development are carried at cost less any impairment losses, and are not depreciated. Cost includes all construction expenditure, capitalised borrowing costs on related borrowed funds during the period of construction and other direct costs attributable to the construction of such properties. Properties under development are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. 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. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

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. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

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

Available-for-sale financial assets

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 transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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.

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 where:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset 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. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, amounts due to the ultimate holding company and fellow subsidiaries, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest 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 amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include 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 sale in the near term. Derivatives, including 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.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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.

Derivative financial instruments and hedging

The derivative financial instruments are initially recognised at fair value on the date at 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedging *(Continued)*

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 a 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 equity, while the ineffective portion is recognised immediately in the income statement.

Inventories

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

Deferred income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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 balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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.

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. The capitalisation rate is based on the actual cost of the related borrowings.

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

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year and prior years by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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.

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

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)*

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 balance sheet date 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.

Revenue recognition

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

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

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

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

(d) income related to scenic spots, when the admission tickets are sold;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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 balance sheet date, 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. The carrying amount of goodwill at 31 December 2006 was HK$1,244,769,000 (2005: HK$1,260,837,000). Further details are given in note 18.

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. The carrying value of deferred tax assets relating to recognised tax losses available for offset against future taxable profit at 31 December 2006 was HK$25,405,000 (2005: HK$23,787,000). The amount of unrecognised cumulative tax losses at 31 December 2006 was HK$316,960,000 (2005: HK$303,865,000). Further details are contained in note 34 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 business 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 business segments. Summary details of the business segments are as follows:

(a) the passenger transportation segment engages in the provision of ground transportation services to individuals between Hong Kong and Mainland China;

(b) the tourist attraction operations segment is the operation of theme parks in Shenzhen;

(c) the freight forwarding and transportation segment engages in the provision of export, re-export freight and logistic services between Hong Kong and Mainland China; and sea and air freight forwarding to overseas;

(d) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong and Macau;

(e) the travel and travel-related operations segment engages in the provision of travel and travel-related services in Hong Kong, Mainland China, South East Asia, the United States of America and countries in the European Union;

(f) the golf club operations segment is to provide comprehensive facilities to individuals or corporate members of the Group's golf club in Shenzhen;

(g) the power generation segment engages in the provision of generation of electricity in Mainland China;

(h) the hot spring resort segment is the operation of Zhuhai Ocean Spring Resort; and

(i) the corporate and others segment comprises the Group's management services business, which provides management services to Group companies together with corporate income and expense items.

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4. SEGMENT INFORMATION *(Continued)*

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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.

(a) Business segments

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

	Passenger transportation services 2006 HK$'000	Tourist attraction operations 2006 HK$'000	Freight forwarding and trans- portation services 2006 HK$'000	Hotel operations 2006 HK$'000	Travel and travel- related operations 2006 HK$'000	Golf club operations 2006 HK$'000	Power generation 2006 HK$'000	Hot spring resort 2006 HK$'000	Corporate and others 2006 HK$'000	Eliminations 2006 HK$'000	Consolidated 2006 HK$'000
Segment revenue:											
Sales to external customers	270,345	414,703	2,917,295	423,381	2,554,308	49,993	–	332,203	17,318	–	6,979,546
Intersegment revenue	958	3,809	–	4,885	13,227	–	–	1,756	30,339	(54,974)	–
Other income and gains	5,382	1,100	2,421	4,301	15,000	1,873	13,779	(1,288)	12,948	–	55,516
Total	276,685	419,612	2,919,716	432,567	2,582,535	51,866	13,779	332,671	60,605	(54,974)	7,035,062
Segment results	39,361	136,459	95,428	73,694	89,021	(6,768)	12,488	(49,773)	(2,838)	–	387,072
Interest income											71,161
Finance costs											(79,561)
Share of profits and losses of:											
Jointly-controlled entities	–	–	723	–	2,815	–	130,539	–	–	–	134,077
Associates	58,002	–	(155)	–	–	–	–	–	(414)	–	57,433
Profit before tax											570,182
Tax											(112,613)
Profit for the year											457,569

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Passenger transportation services 2006 HK$'000	Tourist attraction operations 2006 HK$'000	Freight forwarding and trans-portation services 2006 HK$'000	Hotel operations 2006 HK$'000	Travel and travel-related operations 2006 HK$'000	Golf club operations 2006 HK$'000	Power generation 2006 HK$'000	Hot spring resort 2006 HK$'000	Corporate and others 2006 HK$'000	Eliminations 2006 HK$'000	Consolidated 2006 HK$'000
Segment assets	122,966	578,544	698,385	3,484,775	2,770,688	283,565	–	2,106,981	99,351	–	10,145,255
Interests in jointly-controlled entities	–	–	203	–	50,092	–	1,100,207	–	1,415	–	1,151,917
Interests in associates	425,705	–	–	–	(7,642)	–	–	–	933	–	418,996
Unallocated assets											2,176,286
Total assets											13,892,454
Segment liabilities	27,477	85,558	389,572	50,252	638,755	194,701	929	299,937	24,388	–	1,711,569
Unallocated liabilities											1,087,478
Total liabilities											2,799,047
Other segment information:											
Capital expenditure	24,593	60,298	38,479	48,996	55,781	4,571	–	78,229	2,316	–	313,263
Depreciation and amortisation	22,273	65,977	16,159	74,610	42,275	17,970	–	124,457	3,072	–	366,793
Impairment losses recognised in the income statement	–	299	–	–	–	–	–	–	16,591	–	16,890
Other non-cash expenses	391	–	1,541	–	2,543	1,997	–	–	504	–	6,976
Surplus on revaluation recognised in the income statement	–	–	5,851	17,345	4,340	–	–	–	–	–	27,536
Surplus on revaluation recognised directly in equity	–	–	–	2,066	–	–	–	1,152	–	–	3,218

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Passenger transportation services 2005 HK$'000	Tourist attraction operations 2005 HK$'000	Freight forwarding and trans-portation services 2005 HK$'000	Hotel operations 2005 HK$'000	Travel and travel-related operations 2005 HK$'000	Golf club operations 2005 HK$'000	Power generation 2005 HK$'000	Hot spring resort 2005 HK$'000	Corporate and others 2005 HK$'000	Eliminations 2005 HK$'000	Consolidated 2005 HK$'000
Segment revenue:											
Sales to external customers	229,650	379,669	2,568,916	389,085	2,014,644	43,617	–	203	9,959	–	5,635,743
Intersegment revenue	1,578	3,335	160	9,776	9,288	–	–	–	28,982	(53,119)	–
Other income and gains	4,513	7,636	3,938	7,148	13,674	–	9,525	–	–	–	46,434
Total	235,741	390,640	2,573,014	406,009	2,037,606	43,617	9,525	203	38,941	(53,119)	5,682,177
Segment results	35,594	129,419	83,628	82,687	251,714	(5,792)	8,542	(52,338)	45,768	(814)	578,408
Interest income											43,587
Finance costs											(55,453)
Share of profits and losses of:											
Jointly-controlled entities	–	–	–	–	701	–	174,897	–	–	–	175,598
Associates	45,847	–	–	–	–	–	–	–	(96)	–	45,751
Profit before tax											787,891
Tax											(102,759)
Profit for the year											685,132

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Passenger transportation services 2005 HK$'000	Tourist attraction operations 2005 HK$'000	Freight forwarding and trans-portation services 2005 HK$'000	Hotel operations 2005 HK$'000	Travel and travel-related operations 2005 HK$'000	Golf club operations 2005 HK$'000	Power generation 2005 HK$'000	Hot spring resort 2005 HK$'000	Corporate and others 2005 HK$'000	Eliminations 2005 HK$'000	Consolidated 2005 HK$'000
Segment assets	133,096	566,867	607,740	3,538,161	2,650,697	296,394	308	2,057,995	63,882	–	9,915,140
Interests in jointly-controlled entities	–	–	(505)	–	49,994	–	1,324,517	–	1,415	–	1,375,421
Interests in associates	417,877	–	–	–	(267)	–	–	–	1,303	–	418,913
Unallocated assets											2,280,182
Total assets											13,989,656
Segment liabilities	23,548	77,288	365,657	59,934	443,306	198,395	779	521,036	25,866	–	1,715,809
Unallocated liabilities											2,410,828
Total liabilities											4,126,637
Other segment information:											
Capital expenditure	51,584	21,414	20,866	13,019	157,133	20,668	–	1,634,040	1,743	–	1,920,467
Depreciation and amortisation	18,626	59,900	13,465	73,554	29,181	16,865	–	1,130	1,943	–	214,664
Impairment losses recognised in the income statement	–	3,029	–	–	4,852	–	–	–	–	–	7,881
Other non-cash expenses	4,471	20	929	–	1,084	–	–	–	–	–	6,504
Fair value gains on derivative financial instruments	–	–	–	–	–	–	–	–	99,204	–	99,204
Surplus on revaluation recognised in the income statement	–	–	3,620	29,620	27,667	–	–	–	4,700	–	65,607
Surplus on revaluation recognised directly in equity	–	–	–	6,249	–	–	–	–	–	–	6,249

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

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

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5. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Revenue		
Freight forwarding and transportation services	**2,917,295**	2,568,916
Travel and travel-related operations	**2,554,308**	2,014,644
Hotel operations	**423,381**	389,085
Tourist attraction operations	**414,703**	379,669
Hot spring resort operations	**332,203**	203
Passenger transportation services	**270,345**	229,650
Golf club operations	**49,993**	43,617
Others	**17,318**	9,959
	6,979,546	5,635,743
Other income		
Interest income	**71,161**	43,587
Gross rental income	**9,246**	16,693
Reinvestment tax credit	**14,636**	–
Others	**14,373**	15,893
	109,416	76,173
Gains		
Exchange gains, net	**13,163**	7,982
Write-back of long outstanding payables	**2,958**	3,771
Gain on disposal of items of property, plant and equipment, net	**1,140**	754
Gain on disposal of available-for-sale investments	**–**	1,341
	17,261	13,848
Other income and gains	**126,677**	90,021

6. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**79,561**	48,489
Interest on convertible bonds	**–**	6,964
	79,561	55,453

7. PROFIT BEFORE TAX

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

		Group	
	Notes	**2006** **HK$'000**	2005 HK$'000
Depreciation	*14*	**306,397**	157,269
Recognition of prepaid land lease payments	*16*	**60,396**	57,395
Auditors' remuneration:			
Current year		**9,892**	10,228
Under/(over) provision in the prior year		**(1,322)**	614
		8,570	10,842
Staff costs (including directors' remuneration *(note 8)*):			
Wages and salaries		**887,472**	729,979
Pension scheme contributions		**61,169**	43,423
Less: Forfeited contributions		**(815)**	(1,364)
Net pension scheme contributions (i)		**60,354**	42,059
Total staff costs		**947,826**	772,038
Minimum lease payments under operating leases:			
Land and buildings		**65,249**	54,790
Plant and machinery and motor vehicles		**39,091**	31,939
Write-off of properties under development	*17*	**1,073**	–
Provision for slow-moving inventories		**–**	20
Provision for doubtful debts, net		**6,976**	6,484
Impairment of available-for-sale investments (ii)		**299**	381
Impairment of goodwill	*18*	**16,591**	–
Loss on deemed disposal of a subsidiary		**690**	–
Loss/(gain) on disposal of available-for-sale investments		**1,757**	(1,341)
Impairment/(reversal of impairment) of items of property, plant and equipment		**(259)**	7,500
Revaluation surplus of investment properties		**(11,516)**	(36,882)
Revaluation surplus of hotel properties		**(16,020)**	(28,725)
Reversal of impairment of interests in jointly-controlled entities		**(2,708)**	–
Net rental income		**(5,774)**	(12,245)
Fair value gains on derivative financial instruments (iii)		**–**	(99,204)

7. PROFIT BEFORE TAX *(Continued)*

Notes:

(i) At 31 December 2006, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

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

(iii) The fair value gains on derivative financial instruments related to the conversion options of the United States Dollar denominated convertible bonds issued in 2003. The derivative financial instruments are included in the balance sheet as liabilities and transferred to share premium account upon conversion of the convertible bonds. The changes in fair value of the derivative financial instruments are recognised in the 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	
	2006	2005
	HK$'000	HK$'000
Fees:		
Executive directors	**2,350**	2,070
Independent non-executive directors	**940**	920
	3,290	2,990
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**5,709**	7,761
Performance related bonuses	**2,255**	2,152
Pension scheme contributions	**156**	199
	8,120	10,112
	11,410	13,102

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Dr. Yeh Meou Tsen, Geoffrey	**235**	230
Dr. Fong Yun Wah	**235**	230
Mr. Wong Man Kong, Peter	**235**	230
Mr. Sze, Robert Tsai To	**235**	230
	940	920

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Zhang Xuewu	**290**	**–**	**–**	**–**	**290**
Mr. Xiong Weiping	**260**	**–**	**–**	**–**	**260**
Mr. Zheng Heshui	**225**	**–**	**–**	**–**	**225**
Mr. Lo Sui On	**225**	**760**	**195**	**95**	**1,275**
Mr. Zheng Hongqing	**225**	**–**	**–**	**–**	**225**
Ms. Jiang Yan	**225**	**–**	**–**	**–**	**225**
Mr. Mao Jianjun	**225**	**–**	**–**	**–**	**225**
Mr. Zhang Fengchun	**225**	**–**	**–**	**–**	**225**
Mr. Ng Chi Man, Michael	**225**	**3,714**	**1,350**	**12**	**5,301**
Mr. Liu Li	**225**	**481**	**250**	**12**	**968**
Mr. Che Shujian	**–**	**–**	**–**	**–**	**–**
Mr. Shen Zhuying	**–**	**754**	**460**	**37**	**1,251**
	2,350	**5,709**	**2,255**	**156**	**10,470**
2005					
Executive directors:					
Mr. Che Shujian	280	–	–	–	280
Mr. Zhang Xuewu	250	–	–	–	250
Mr. Shen Zhuying	220	2,130	464	93	2,907
Mr. Zheng Heshui	220	–	–	–	220
Mr. Lo Sui On	220	972	–	94	1,286
Mr. Zheng Hongqing	220	–	–	–	220
Mr. Zhang Fengchun	220	–	–	–	220
Mr. Ng Chi Man, Michael	220	3,647	1,352	12	5,231
Mr. Liu Li	220	1,012	336	–	1,568
	2,070	7,761	2,152	199	12,182

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2005: four) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,014**	1,585
Pension scheme contributions	**40**	12
	6,054	1,597

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

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**2**	1
	4	1

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	**67,134**	63,093
Under/(over) provision in prior years	**1,512**	(1,204)
Current – Elsewhere		
Charge for the year	**42,690**	40,993
Overprovision in prior years	**(401)**	(576)
Overseas – Current tax charge for the year	**940**	556
Deferred tax *(note 34)*	**738**	(103)
Total tax charge for the year	**112,613**	102,759

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using 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, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	372,736		198,169		(723)		570,182	
Tax at the applicable tax rate	65,229	17.5	65,396	33.0	(289)	40.0	130,336	22.9
Lower tax rate for specific provinces or local authority	–		(33,871)		64		(33,807)	
Adjustments in respect of current tax of previous periods	1,512		(401)		–		1,111	
Profits and losses attributable to jointly-controlled entities and associates	(10,150)		(20,591)		–		(30,741)	
Income not subject to tax	(4,319)		(1,691)		–		(6,010)	
Expenses not deductible for tax	25,634		1,532		1,353		28,519	
Tax losses utilised from previous periods	(4,795)		(27)		–		(4,822)	
Tax losses not recognised	7,087		20,940		–		28,027	
Tax charge at the Group's effective rate	80,198	21.5	31,287	15.8	1,128	(156.0)	112,613	19.8

10. TAX *(Continued)*

Group – 2005

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	466,359		326,711		(5,179)		787,891	
Tax at the applicable tax rate	81,613	17.5	107,815	33.0	(2,072)	40.0	187,356	23.8
Lower tax rate for specific provinces or local authority	–		(57,720)		(44)		(57,764)	
Adjustments in respect of current tax of previous periods	(1,204)		(576)		–		(1,780)	
Effect on opening deferred tax of decrease in rates	–		(6,959)		–		(6,959)	
Profits and losses attributable to jointly–controlled entities and associates	(8,023)		(26,325)		–		(34,348)	
Income not subject to tax	(33,254)		(2,497)		(222)		(35,973)	
Expenses not deductible for tax	25,068		19,601		2,588		47,257	
Tax losses utilised from previous periods	(1,059)		–		(355)		(1,414)	
Tax losses not recognised	5,955		374		55		6,384	
Tax charge at the Group's effective rate	69,096	14.8	33,713	10.3	(50)	1.0	102,759	13.0

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$62,296,000 (2005: HK$391,916,000) which has been dealt with in the financial statements of the Company (note 37).

12. DIVIDENDS

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

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$375,004,000 (2005: HK$612,660,000), and the weighted average of 5,465,769,483 (2005: 4,867,459,714) ordinary shares in issue during the year.

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel properties HK$'000	Buildings HK$'000	Scenic spots establishment HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
31 December 2006						
At 1 January 2006:						
Cost or valuation	1,492,250	1,578,435	1,076,990	–	1,498,589	5,646,264
Accumulated depreciation and impairment	–	(249,691)	(506,796)	–	(547,228)	(1,303,715)
Net carrying amount	1,492,250	1,328,744	570,194	–	951,361	4,342,549
At 1 January 2006, net of accumulated depreciation and impairment	1,492,250	1,328,744	570,194	–	951,361	4,342,549
Additions	33,556	40,512	57	95,942	132,965	303,032
Disposals and write-off	(619)	(15)	(38)	–	(6,106)	(6,778)
Deficit on revaluation	(20,981)	–	–	–	–	(20,981)
Reversal of impairment	–	–	259	–	–	259
Depreciation provided during the year	(40,219)	(55,620)	(43,657)	–	(166,901)	(306,397)
Transfer from properties under development	–	107	–	–	2,206	2,313
Transfer to investment properties, net	–	(129)	–	–	–	(129)
Transfer	–	10,620	17,283	(51,943)	24,040	–
Reclassification	307,678	(255,416)	(130,622)	–	78,360	–
Write-back of depreciation	40,219	–	–	–	–	40,219
Exchange realignment	15,216	47,678	19,542	–	27,628	110,064
At 31 December 2006, net of accumulated depreciation and impairment	1,827,100	1,116,481	433,018	43,999	1,043,553	4,464,151
At 31 December 2006:						
Cost or valuation	1,827,100	1,421,471	1,001,502	43,999	1,676,583	5,970,655
Accumulated depreciation and impairment	–	(304,990)	(568,484)	–	(633,030)	(1,506,504)
Net carrying amount	1,827,100	1,116,481	433,018	43,999	1,043,553	4,464,151
Analysis of cost or valuation:						
At cost	–	1,421,471	1,001,502	43,999	1,676,583	4,143,555
At 31 December 2006 valuation	1,827,100	–	–	–	–	1,827,100
	1,827,100	1,421,471	1,001,502	43,999	1,676,583	5,970,655

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

Group

	Hotel properties HK$'000	Buildings HK$'000	Scenic spots establishment HK$'000	Other fixed assets HK$'000	Total HK$'000
31 December 2005					
At 1 January 2005:					
Cost or valuation	1,025,132	734,488	741,463	925,586	3,426,669
Accumulated depreciation and impairment	–	(218,376)	(467,982)	(567,881)	(1,254,239)
Net carrying amount	1,025,132	516,112	273,481	357,705	2,172,430
At 1 January 2005, net of accumulated depreciation and impairment	1,025,132	516,112	273,481	357,705	2,172,430
Additions	1,627	50,296	832	225,947	278,702
Disposals and write-off	(629)	(2,016)	(1,274)	(18,004)	(21,923)
Surplus on revaluation	15,000	–	–	–	15,000
Impairment	–	(4,852)	(2,648)	–	(7,500)
Depreciation provided during the year	(24,121)	(35,152)	(21,975)	(76,021)	(157,269)
Transfer from properties under development	451,120	799,375	306,464	459,420	2,016,379
Transfer from investment properties, net	–	9,447	–	–	9,447
Reclassification	–	(9,061)	9,061	–	–
Write-back of depreciation	24,121	–	–	–	24,121
Exchange realignment	–	4,595	6,253	2,314	13,162
At 31 December 2005, net of accumulated depreciation and impairment	1,492,250	1,328,744	570,194	951,361	4,342,549
At 31 December 2005:					
Cost or valuation	1,492,250	1,578,435	1,076,990	1,498,589	5,646,264
Accumulated depreciation and impairment	–	(249,691)	(506,796)	(547,228)	(1,303,715)
Net carrying amount	1,492,250	1,328,744	570,194	951,361	4,342,549
Analysis of cost or valuation:					
At cost	451,120	1,578,435	1,076,990	1,498,589	4,605,134
At 31 December 2005 valuation	1,041,130	–	–	–	1,041,130
	1,492,250	1,578,435	1,076,990	1,498,589	5,646,264

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

Company

	Leasehold improvements HK$'000	Furniture, fixture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006				
At 1 January 2006:				
Cost	803	2,474	2,808	6,085
Accumulated depreciation	(585)	(1,913)	(2,128)	(4,626)
Net carrying amount	218	561	680	1,459
At 1 January 2006, net of accumulated depreciation	218	561	680	1,459
Additions	–	214	–	214
Depreciation provided during the year	(77)	(286)	(321)	(684)
At 31 December 2006, net of accumulated depreciation	141	489	359	989
At 31 December 2006:				
Cost	803	2,688	2,808	6,299
Accumulated depreciation	(662)	(2,199)	(2,449)	(5,310)
Net carrying amount	141	489	359	989

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

Company

	Building	Leasehold improvements	Furniture, fixture and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2005					
At 1 January 2005:					
Cost	1,430	803	2,317	2,451	7,001
Accumulated depreciation	–	(438)	(1,616)	(1,771)	(3,825)
Net carrying amount	1,430	365	701	680	3,176
At 1 January 2005, net of accumulated depreciation	1,430	365	701	680	3,176
Additions	–	–	189	357	546
Disposals and write-off	–	–	(30)	–	(30)
Depreciation provided during the year	–	(147)	(299)	(357)	(803)
Transfer to investment property	(1,430)	–	–	–	(1,430)
At 31 December 2005, net of accumulated depreciation	–	218	561	680	1,459
At 31 December 2005:					
Cost	–	803	2,474	2,808	6,085
Accumulated depreciation	–	(585)	(1,913)	(2,128)	(4,626)
Net carrying amount	–	218	561	680	1,459

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

Particulars of the hotel properties held by the Group as at 31 December 2006 were as follows:

Location	Attributable interest of the Group	Lease term
Metropark Hotel Mongkok Hong Kong (previously "Hotel Concourse") 20-46 Lai Chi Kok Road Mongkok Kowloon Hong Kong	100%	Medium
Metropark Hotel Wanchai Hong Kong (previously "Hotel New Harbour") 41-49 Hennessy Road 4 and 6 Fenwick Road Wanchai Hong Kong	100%	Long
Metropark Hotel Kowloon Hong Kong (previously "The Metropole Hotel") 75 Waterloo Road Kowloon Hong Kong	100%	Long
Metropark Hotel Causeway Bay Hong Kong (previously "Metropark Hotel") 148 Tung Lo Wan Road Causeway Bay Hong Kong	100%	Long
Metropark Hotel Macau (previously "Hotel Grandeur") 199 Rua de Pequim Macau	100%	Medium
Ocean Spring Hotel Pingsha Town Jinwan District Zhuhai City Guangdong Province China	100%	Medium

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

The Group's hotel properties were revalued at 31 December 2006 by RHL Appraisal Ltd., independent professionally qualified valuers, on an open market value based on their existing use.

Had these hotel properties been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$1,877,173,000 (2005: HK$1,147,220,000).

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

15. INVESTMENT PROPERTIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January	**223,605**	189,076	**1,950**	–
Additions	**4,202**	–	**–**	–
Net profit from a fair value adjustment	**11,516**	36,882	**–**	520
Transfer from/(to) property,				
plant and equipment, net	**129**	(9,447)	**–**	1,430
Transfer from prepaid land lease payments, net	**64**	7,259	**–**	–
Exchange realignment	**569**	(165)	**–**	–
Carrying amount at 31 December	**240,085**	223,605	**1,950**	1,950

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	46,220	9,081	55,301
Medium term leases	149,750	18,707	168,457
Short term leases	–	16,327	16,327
	195,970	44,115	240,085
Company			
Medium term leases	–	1,950	1,950

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15. INVESTMENT PROPERTIES *(Continued)*

The Group and Company's investment properties were revalued on 31 December 2006 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK$240,085,000 and HK$1,950,000 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.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**3,168,094**	3,128,586
Transfer to investment properties, net	**(64)**	(7,259)
Transfer from properties under development	**–**	89,985
Additions	**6,029**	8,332
Recognised during the year	**(60,396)**	(57,395)
Exchange realignment	**3,805**	5,845
Carrying amount at 31 December	**3,117,468**	3,168,094
Current portion included in prepayments, deposits and other receivables	**(60,483)**	(58,542)
Non-current portion	**3,056,985**	3,109,552

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

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Long term leases	2,228,523	1,895	2,230,418
Medium term leases	500,959	386,091	887,050
	2,729,482	387,986	3,117,468

Notes to Financial Statements

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17. PROPERTIES UNDER DEVELOPMENT

Group

	1 January 2006	Write-off	Transfer to property, plant and equipment	Exchange realignment	31 December 2006
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Buildings and plant	178	–	(185)	7	**–**
Scenic spots establishment	2,849	(1,073)	(1,878)	102	**–**
Golf course	243	–	(250)	7	**–**
	3,270	(1,073)	(2,313)	116	**–**

Upon completion, the balances are transferred to the appropriate category of property, plant and equipment.

18. GOODWILL

Group

	HK$'000
Cost at 1 January 2005, net of accumulated impairment	1,259,479
Acquisition of minority interests	942
Exchange realignment	416
Net carrying amount at 31 December 2005 and at 1 January 2006	**1,260,837**
Impairment during the year	**(16,591)**
Exchange realignment	**523**
Net carrying amount at 31 December 2006	**1,244,769**

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated retained profits.

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18. GOODWILL *(Continued)*

The amounts of goodwill remaining in consolidated retained profits, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were approximately HK$959 million as at 31 December 2006 and 2005. The amount of goodwill is stated at its cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Travel and travel-related operations cash-generating unit; and
- Passenger transportation services operations cash-generating unit.

Travel and travel-related operations cash-generating unit

The recoverable amount of the travel and travel-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 11% and due to the uncertainty, cash flows beyond the five-year period are extrapolated using a growth rate ranging from 2% to 3%.

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

	Travel and travel-related operations		Passenger transportation services operations		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**1,244,769**	1,253,463	**–**	7,374	**1,244,769**	1,260,837

18. GOODWILL *(Continued)*

Key assumptions were used in the value in use calculation of the travel and travel-related operations cash-generating units for the year ended 31 December 2006 and 31 December 2005. 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 budgeted year, increased for expected efficiency improvements.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**4,979,595**	4,479,595
Due from subsidiaries	**4,270,466**	3,752,994
Loans to subsidiaries	**2,372,662**	2,172,663
Due to subsidiaries	**(2,705,602)**	(2,355,186)
	8,917,121	8,050,066
Impairment	**(307,954)**	(307,954)
	8,609,167	7,742,112

The balances due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

All loans to subsidiaries are interest-free and unsecured. Except for the loans amounted to HK$900,000,000 which are repayable within 1 year, the remaining balance have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair value.

Particulars of the Company's principal subsidiaries are set out in note 38 to the financial statements.

Notes to Financial Statements

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investment, at cost	**–**	–	**1,415**	1,415
Share of net assets	**1,029,071**	1,150,221	**–**	–
Goodwill on acquisition*	**10,877**	10,877	**–**	–
Due from jointly-controlled entities	**115,340**	219,146	**–**	–
Due to jointly-controlled entities	**(3,371)**	(2,115)	**–**	–
	1,151,917	1,378,129	**1,415**	1,415
Impairment	**–**	(2,708)	**–**	–
	1,151,917	1,375,421	**1,415**	1,415

* *The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001, was HK$3,693,000 as at the balance sheet date (2005: HK$3,693,000).*

Except for the balances of HK$52,211,000 (2005: HK$172,615,000) which is interest-bearing at 1.44% per annum, the remaining balances with the jointly-controlled entities are interest-free, unsecured and have no fixed terms of repayment. The carrying amounts of the amounts due from/to jointly-controlled entities approximate to their fair values.

Notes to Financial Statements

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

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity and profit sharing attributable to the Group		Principal activities
			2006	2005	
China Travel International (Hangzhou) Travel Service Co., Ltd.#**	Corporate	PRC	**62.5**	62.5	Tour operations
Gansu Lida International Co., Ltd.#*	Corporate	PRC	**40**	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd.*	Corporate	PRC	**51**	51	Generation and sale of electricity
Shanghai China Travel International Limited*	Corporate	PRC	**50**	50	Tour operations
Xianyang Guanzhong Ocean Spring Co., Ltd.#*	Corporate	PRC	**51**	–	Hot spring resort operations

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* *They are held indirectly through subsidiaries.*

** *The Company's direct interest in this jointly-controlled entity is 25%. The effective indirect interest of 37.5% is held by Shanghai China Travel International Limited.*

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

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

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**612,596**	897,038
Current assets	**771,862**	652,880
Current liabilities	**(323,487)**	(397,790)
Non-current liabilities	**(31,900)**	(1,907)
Net assets	**1,029,071**	1,150,221
Share of the jointly-controlled entities' results:		
Revenue	**1,192,955**	1,097,340
Other income and gains	**8,424**	2,074
Total revenue	**1,201,379**	1,099,414
Total expenses	**(1,039,169)**	(895,659)
Tax	**(28,133)**	(28,157)
Profit after tax	**134,077**	175,598

21. INTERESTS IN ASSOCIATES

	Group	
	2006 HK$'000	2005 HK$'000
Share of net assets	**406,552**	400,580
Due from associates	**20,296**	18,543
Due to associates	**(7,642)**	–
	419,206	419,123
Impairment	**(210)**	(210)
	418,996	418,913

21. INTERESTS IN ASSOCIATES *(Continued)*

The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001 was HK$49,089,000 as at the balance sheet date (2005: HK$49,089,000).

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/to associates approximate to their fair values.

Particulars of the associates, all of which are held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity interest attributable to the Group 2006	2005	Principal activities
Shun Tak-China Travel Shipping Investments Limited#	Corporate	British Virgin Islands/ Hong Kong	**29**	29	Shipping operations
Dreamlike Lijiang Showbiz Co., Ltd.#*	Corporate	PRC	**27**	27	Production of art performances

\# *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

* *Dreamlike Lijiang Showbiz Co., Ltd. is an associate of China Heaven Creation International Performing Acts Co., Ltd. ("China Heaven").*

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

	2006 HK$'000	2005 HK$'000
Total assets	**2,070,715**	2,016,641
Total liabilities	**(669,121)**	(635,356)
Revenue	**2,259,801**	1,996,079
Profit after tax	**198,770**	159,038

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Listed equity investments outside Hong Kong, at fair value	**370**	357	**–**	–
Unlisted equity investments, at cost	**18,528**	19,652	**13,949**	13,949
	18,898	20,009	**13,949**	13,949

	Group	
	2006	2005
	HK$'000	HK$'000
Current		
Unlisted equity investments, at fair value	**–**	1,427

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

The fair value of the listed equity investments is based on quoted market prices.

The unlisted equity investments were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

23. HELD-TO-MATURITY INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted debt investments, at amortised cost	**15,547**	15,477

24. INVENTORIES, AT COST

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**9,110**	11,623
Spare parts and consumables	**6,381**	3,975
General merchandise	**2,340**	3,584
	17,831	19,182

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25. TRADE RECEIVABLES

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

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

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

Trade receivables are non-interest bearing.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred borrowing costs	**1,611**	2,923	**–**	–
Prepayments, deposits and other debtors	**353,926**	308,512	**3,151**	5,463
Amounts due from minority shareholders	**718**	1,731	**–**	–
	356,255	313,166	**3,151**	5,463

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27. PLEDGED TIME DEPOSITS

The Group has pledged bank deposits of approximately HK$4,176,000 (2005: HK$4,306,000) (note 28) to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and certain bank guarantees given in lieu of utility and rental deposits.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**847,528**	1,046,051	**29,322**	253,551
Time deposits	**1,313,945**	1,216,910	**361,608**	225,494
	2,161,473	2,262,961	**390,930**	479,045
Less: Pledged time deposits *(note 27)*	**(4,176)**	(4,306)	**–**	–
Cash and cash equivalents	**2,157,297**	2,258,655	**390,930**	479,045

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$879,883,000 (2005: HK$636,774,000). 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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

29. AMOUNTS DUE FROM/TO THE ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

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

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

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from the ultimate holding company				
Within 1 year	**21,772**	26,152	**–**	44
1 to 2 years	**117**	1,690	**–**	–
Over 2 years	**1,313**	44	**–**	–
	23,202	27,886	**–**	44
Amount due to the ultimate holding company				
Within 1 year	**1,421**	–	**1,343**	–
Amounts due from fellow subsidiaries				
Within 1 year	**2,107**	4,002	**–**	–
1 to 2 years	**843**	884	**–**	–
Over 2 years	**329**	380	**–**	–
	3,279	5,266	**–**	–
Amounts due to fellow subsidiaries				
Within 1 year	**2,971**	4,505	**–**	–
1 to 2 years	**163**	4	**–**	–
Over 2 years	**4**	–	**–**	–
	3,138	4,509	**–**	–

30. TRADE PAYABLES

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

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

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

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities	**571,708**	769,919	**22,573**	12,175
Staff bonus and welfare fund	**99,669**	72,344	**140**	7,201
Receipts in advance from customers	**148,605**	109,074	**–**	–
Amounts due to minority shareholders	**2,252**	279	**–**	–
	822,234	951,616	**22,713**	19,376

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

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Finance lease and hire purchase contract payables *(note 33)*	4.84	2007	**36**	200
Other bank loans – unsecured	2.55 – 5.42	2007	**29,697**	13,111
Other bank loans – unsecured*	HIBOR + 0.28	2007	**150,000**	–
			179,733	13,311
Non-current				
Finance lease and hire purchase contract payables *(note 33)*	4.84	2008 – 2009	**62**	98
Syndicated bank loans – unsecured*	HIBOR + 0.25	2009	**500,000**	1,500,000
Other bank loans – unsecured	2.55 – 6.29	2009 – 2014	**624**	3,767
Other bank loans – unsecured*	–	2007	**–**	500,000
Golf club debentures	Interest-free	2008 – 2024	**4,157**	4,157
			504,843	2,008,022
Total interest-bearing bank and other borrowings			**684,576**	2,021,333

* *The loans have corporate guarantee given by the Company.*

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

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**179,697**	13,111
In the second year	**624**	502,353
In the third to fifth years, inclusive	**500,000**	1,501,414
	680,321	2,016,878
Other borrowings repayable:		
Within one year	**36**	200
In the second year	**147**	98
In the third to fifth years, inclusive	**115**	200
Beyond five years	**3,957**	3,957
	4,255	4,455
Total interest-bearing bank and other borrowings	**684,576**	2,021,333

Other interest rate information:

	Group					
	2006			2005		
	Interest-free	**Fixed rate**	**Floating rate**	Interest-free	Fixed rate	Floating rate
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Finance lease and hire purchase contract payables	**–**	**98**	**–**	–	298	–
Syndicated bank loans – unsecured	**–**	**–**	**500,000**	–	–	1,500,000
Other bank loans – unsecured	**–**	**26,244**	**154,077**	–	16,878	500,000
Golf club debentures	**4,157**	**–**	**–**	4,157	–	–

The carrying amounts of the Group's current and non-current borrowings approximate to their fair values.

33. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its business operations. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2006 HK$'000	Minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amounts repayable:				
Within one year	**36**	200	**36**	200
In the second year	**36**	36	**36**	36
In the third to fifth years, inclusive	**26**	62	**26**	62
Total minimum lease payments	**98**	298	**98**	298
Future finance charges	**–**	–		
Total net lease payables	**98**	298		
Portion classified as current liabilities *(note 32)*	**(36)**	(200)		
Non-current portion *(note 32)*	**62**	98		

34. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation in excess of related depreciation allowance	Surplus/ (deficit) on revaluation of properties	Losses available for offset against future taxable profit	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	182,972	171,957	(5,399)	349,530
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	9,126	3,081	(1,388)	10,819
Deferred tax charged to equity during the year	–	4,147	–	4,147
At 31 December 2005 and 1 January 2006	**192,098**	**179,185**	**(6,787)**	**364,496**
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**8,649**	**(8,356)**	**(3,357)**	**(3,064)**
Deferred tax charged to equity during the year	**–**	**534**	**–**	**534**
At 31 December 2006	**200,747**	**171,363**	**(10,144)**	**361,966**

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34. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of subsidiaries	Losses available for offset against future taxable profit	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	(21,335)	34,520	(17,904)	(4,719)
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(11,826)	–	904	(10,922)
At 31 December 2005 and 1 January 2006	**(33,161)**	**34,520**	**(17,000)**	**(15,641)**
Deferred tax charged to the income statement during the year *(note 10)*	**2,063**	**–**	**1,739**	**3,802**
At 31 December 2006	**(31,098)**	**34,520**	**(15,261)**	**(11,839)**

At 31 December 2006, the Group has cumulative tax losses arising from operations in Hong Kong of HK$316,960,000 (2005: HK$303,865,000) which can be used to offset against future taxable profits of the companies in which the losses arose. 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.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures entities as the Group has no liability to additional tax should such amounts be remitted.

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

35. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'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 (2005: 5,038,843,875) ordinary shares of HK$0.10 each	**569,536**	503,885

During the year, the movements in share capital were due to the issuance of 656,511,650 ordinary shares of HK$0.10 each at a subscription price of HK$1.508 per share pursuant to the exercise of the Company's bonus warrants for a total cash consideration of HK$990,019,000 before expenses.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2005	4,467,658,548	446,766	6,312,210	6,758,976
Shares issued upon exercise of bonus warrants	141,138,200	14,114	198,723	212,837
Shares issued upon conversion of the convertible bonds ("Bonds")	431,547,127	43,155	922,278	965,433
Shares cancelled upon repurchase of own shares	(1,500,000)	(150)	–	(150)
At 31 December 2005 and 1 January 2006	**5,038,843,875**	**503,885**	**7,433,211**	**7,937,096**
Shares issued upon exercise of bonus warrants	**656,511,650**	**65,651**	**924,368**	**990,019**
At 31 December 2006	**5,695,355,525**	**569,536**	**8,357,579**	**8,927,115**

35. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option scheme are included in note 36 to the financial statements.

Warrants

On 28 May 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members, resulting in 846,439,695 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$1.508 per share, payable in cash and subject to adjustment, from the date of issue to 31 May 2006.

During the year, 656,511,650 bonus warrants were exercised for 656,511,650 shares of HK$0.10 each at the subscription price of HK$1.508 per share, resulting in the issue of 656,511,650 additional ordinary shares of HK$0.10 each in the Company.

36. 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 New 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.

36. SHARE OPTION SCHEME *(Continued)*

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

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

At 31 December 2006, no share option was outstanding under the Share Option Scheme and none of the Company's directors and none of the Group's employees were granted share options during the year.

37. RESERVES

	Attributable to equity holders of the parent									
Group	Share premium account HK$'000	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Hotel property revaluation reserve HK$'000	Enterprise expansion/ reserve funds (Note) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000
At 1 January 2005	6,312,210	200	–	(1,012,196)	174,770	82,157	13,732	1,787,940	7,358,813	386,313
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	1,121,001	–	–	–	–	–	–	–	1,121,001	–
Share of reserve of an associate	–	–	1,283	–	–	–	–	–	1,283	–
Repurchase of own shares	–	150	–	–	–	–	–	(2,295)	(2,145)	–
Exchange realignment	–	–	–	–	–	–	34,051	–	34,051	8,475
Surplus on revaluation, net of deferred tax	–	–	–	–	6,249	–	–	–	6,249	–
Transfer from retained profits	–	–	–	–	–	2,522	–	(2,522)	–	–
Profit for the year	–	–	–	–	–	–	–	612,660	612,660	72,472
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(53,832)
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(9,323)
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	1,415
Additional 2004 final dividend upon conversion/exercise of the Bonds and share options *(note 12)*	–	–	–	–	–	–	–	(27,094)	(27,094)	–
2005 interim dividend *(note 12)*	–	–	–	–	–	–	–	(151,204)	(151,204)	–
Proposed 2005 final dividend *(note 12)*	–	–	–	–	–	–	–	(151,165)	(151,165)	–
At 31 December 2005	7,433,211	350	1,283	(1,012,196)	181,019	84,679	47,783	2,066,320	8,802,449	405,520

37. RESERVES *(Continued)*

Group	Share premium account HK$'000	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Hotel property revaluation reserve HK$'000	Enterprise expansion/ reserve funds (Note) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000
	Attributable to equity holders of the parent									
At 1 January 2006	7,433,211	350	1,283	(1,012,196)	181,019	84,679	47,783	2,066,320	8,802,449	405,520
Premium on issue of new shares on exercise of bonus warrants	924,368	–	–	–	–	–	–	–	924,368	–
Share of reserve of an associate	–	–	(5,652)	–	–	–	–	–	(5,652)	–
Exchange realignment	–	–	–	–	–	–	111,252	–	111,252	14,372
Surplus on revaluation, net of deferred tax	–	–	–	–	2,684	–	–	–	2,684	–
Transfer from retained profits	–	–	–	–	–	19,816	–	(19,816)	–	–
Profit for the year	–	–	–	–	–	–	–	375,004	375,004	82,565
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	4,943
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(63,918)
Additional 2005 final dividend upon exercise share options *(note 12)*	–	–	–	–	–	–	–	(15,809)	(15,809)	–
2006 interim dividend *(note 12)*	–	–	–	–	–	–	–	(113,907)	(113,907)	–
Proposed 2006 final dividend *(note 12)*	–	–	–	–	–	–	–	(56,954)	(56,954)	–
At 31 December 2006	8,357,579	350	(4,369)	(1,012,196)	183,703	104,495	159,035	2,234,838	10,023,435	443,482

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 the PRC has been transferred to the enterprise expansion fund and reserve fund which are restricted as to use.

37. RESERVES *(Continued)*

Company	Share premium account HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	6,312,210	200	77,292	6,389,702
Additional 2004 final dividend upon conversion/ exercise of the Bonds and share options *(note 12)*	–	–	(27,094)	(27,094)
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds	1,121,001	–	–	1,121,001
Repurchase of own shares	–	150	(2,295)	(2,145)
Profit for the year	–	–	391,916	391,916
2005 interim dividend *(note 12)*	–	–	(151,204)	(151,204)
Proposed 2005 final dividend *(note 12)*	–	–	(151,165)	(151,165)
At 31 December 2005 and at 1 January 2006	**7,433,211**	**350**	**137,450**	**7,571,011**
Additional 2005 final dividend upon exercise of the share options *(note 12)*	**–**	**–**	**(15,809)**	**(15,809)**
Premium on issue of new shares on exercise of bonus warrants	**924,368**	**–**	**–**	**924,368**
Profit for the year	**–**	**–**	**62,296**	**62,296**
2006 interim dividend *(note 12)*	**–**	**–**	**(113,907)**	**(113,907)**
Proposed 2006 final dividend *(note 12)*	**–**	**–**	**(56,954)**	**(56,954)**
At 31 December 2006	**8,357,579**	**350**	**13,076**	**8,371,005**

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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 2006	2005	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	**100**	100	Travel and air ticketing agent
Chadwick Developments Limited *(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 Chance Development Limited *(Note)*	British Virgin Islands	1 share of US$1 each	**100**	100	Provision of financial services
China Heaven	PRC	RMB10,000,000	**85.3**	85.3	Production of art performances
China Travel (Cargo) Logistics Centre Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100**	100	Provision of logistic services
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

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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 2006	2005	Principal activities
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 agent
China Travel and Trading (Deutschland) GmbH#	Germany	EURO125,267	**100**	100	Travel and air ticketing agent
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**70**	70	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	US$128,700,000	**100**	100	Hot spring resort operation
China Travel International Ltd.#** *(Note)*	PRC	RMB177,300,000	**100**	100	Tour operations
China Travel International (Chengdu) Ltd.#*	PRC	RMB4,220,000	**51**	51	Tour operations
China Travel International (Shandong) Ltd.#*	PRC	RMB3,000,000	**51**	51	Tour operations

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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 2006	2005	Principal activities
China Travel International (Shanxi) Travel Service Co., Ltd.#	PRC	RMB5,000,000	**71**	71	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.#*	PRC	RMB6,000,000	**51**	51	Tour operations
China Travel International (Xian) Ltd.#*	PRC	RMB3,570,000	**51**	51	Tour operations
China Travel International (Xinjiang) Ltd.#*	PRC	RMB4,000,000	**51**	51	Tour operations
China Travel Service (Australia) Pty. Ltd.	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.#	Canada	CAD2,922,750	**100**	100	Travel and air ticketing agent
China Travel Service (Cargo) Hong Kong Limited *(Note)*	Hong Kong	2 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**100**	100	Provision of freight forwarding and transportation services
China Travel Service (France) SARL#	France	EURO220,000	**100**	100	Travel and air ticketing agent

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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 2006	2005	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 agent, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.#	Japan	¥95,000,000	**100**	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.#	Korea	WON500,000,000	**100**	100	Travel and air ticketing agent
China Travel Service (N.Z.) Limited	New Zealand	NZD30,000	**100**	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd.	United Kingdom	486,000 ordinary shares of £1 each 1,072,000 preference shares of £1 each	**100**	100	Travel and air ticketing agent
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
Coastline Development Limited	Hong Kong	2 ordinary 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 2006	2005	Principal activities
Common Well Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
CTI Cosco Travel Ltd.#*	PRC	RMB26,287,300	**100**	100	Tour operations
CTS International Transportation Co., Ltd.*	PRC	RMB50,000,000	**76**	76	Freight forwarding
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
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Invincible Limited#	Western Samoa/ Hong Kong	7,200,000 shares of US$1 each	**100**	100	Investment holding
Mangocity.com Limited	Hong Kong	150,000 ordinary shares of HK$1 each	**100**	100	Sale of travel-related products through an electronic platform

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 2006	2005	Principal activities
Mangocity.com Limited**	PRC	RMB1,200,000	**100**	100	Sale of travel-related products through an electronic platform
Mangocity Travel Management Company Ltd.#** (Formerly Known as CTI Business Travel Management Company Limited)	PRC	RMB10,000,000	**100**	100	Air ticketing agent
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	British Virgin Islands/ 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
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation
Princess Capital Limited *(Note)*	British Virgin Islands/ Hong Kong	1 share of US$1	**100**	100	Securities trading

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 2006	2005	Principal activities
Rida Investment Company Limited#	Macau	MOP99,000	**100**	100	Property investment holding
Shenzhen China Travel Service (Cargo) Hong Kong Ltd.#*	PRC	US$1,500,000	**100**	100	Provision of freight forwarding and cargo transportation services
Shenzhen CTS Cargo Transportation Co., Ltd.#***	PRC	RMB5,000,000	**100**	100	Provision of freight forwarding and cargo transportation services and investment holding
Shenzhen The Splendid China Development Co., Ltd.* *(Note)*	PRC	RMB184,000,000	**51**	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* *(Note)*	PRC	US$29,500,000	**51**	51	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.**	PRC	RMB100,000,000	**100**	100	Golf club operations

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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 2006	2005	Principal activities
Singa China Travel Service Pte. Limited	Singapore	SGD6,740,000	**100**	100	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Special Asia Travel AB	Sweden	SEK100,000	**100**	100	Travel and air ticketing agent
Starsoft Computer Services Limited	Hong Kong	4,000 ordinary shares of HK$100 each	**100**	100	Investment holding
Tonkin Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Property investment holding
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
Universal Loyalty Marketing	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Membership program operation
U.S. China Travel Service Inc.#	United States of America	US$4,890,000	**100**	100	Travel and air ticketing agent
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US$1	**100**	100	Property investment holding and hotel operations

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: These subsidiaries are directly owned by the Company.

* *These subsidiaries are Sino-foreign equity joint ventures.*

** *These subsidiaries are registered as wholly-foreign owned enterprises under the PRC law.*

*** *This subsidiary is registered as a limited liability company under the PRC law.*

\# *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and rental deposits	**3,337**	2,141	**1,724**	1,724
Corporate guarantees given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	**–**	–	**188,212**	127,184
Corporate guarantees given to banks in connection with credit facilities granted to and utilised by subsidiaries	**–**	–	**2,000,000**	2,000,000
Guarantee given to a supplier in connection with credit facilities granted	**6,914**	–	**–**	–
	10,251	2,141	**2,189,936**	2,128,908

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$650,000,000 (2005: HK$2,000,000,000).

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Investment properties:		
Within one year	**12,149**	7,853
In the second to fifth years, inclusive	**12,929**	2,471
After five years	**49**	47
	25,127	10,371
Equipment:		
Within one year	**196**	1,081
In the second to fifth years, inclusive	**–**	327
	196	1,408

40. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Land and buildings:		
Within one year	**48,009**	38,454
In the second to fifth years, inclusive	**67,506**	52,498
After five years	**63,701**	68,789
	179,216	159,741
Plant and machinery and motor vehicles:		
Within one year	**6,643**	343
In the second to fifth years, inclusive	**1,237**	712
	7,880	1,055

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 balance sheet date:

Capital commitments

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Properties under development:				
Contracted, but not provided for	**113,783**	29,862	**–**	–
Authorised, but not contracted for	**59,144**	–	**–**	–
	172,927	29,862	**–**	–
Plant and equipment and motor vehicles:				
Contracted, but not provided for	**2,566**	14,889	**743**	743
Authorised, but not contracted for	**34,427**	11,025	**–**	–
	36,993	25,914	**743**	743
Land:				
Contracted, but not provided for	**50,232**	–	**–**	–
Leasehold improvements:				
Contracted, but not provided for	**5,782**	2,169	**–**	–
Authorised, but not contracted for	**3,076**	–	**–**	–
	8,858	2,169	**–**	–
Unpaid capital contribution to jointly-controlled entities:				
Contracted, but not provided for	**–**	775	**–**	–

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	
		2006	2005
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to:			
(1) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	**1,345**	1,358
(2) CTS (Holdings)	Office rental	**11,246**	9,857
(3) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	**5,782**	10,581
(4) Tai Sun Services Company Limited	Stevedoring services and coolie charges	**1,281**	1,313
(5) CTS H.K. Metropark Hotels Management Company Limited (Formerly known as China Travel Hotel Management Services Hong Kong Limited)	Hotel management fees	**9,236**	6,282
(6) 深圳維景京華酒店有限公司 (Formerly known as 深圳溫沙廣場實業有限公司)	Hotel room rental	**1,143**	1,165
(7) 華僑城集團公司	Land use rights fee	**12,434**	12,338

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42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2006 HK$'000	Group 2005 HK$'000
(8) 深圳特區華僑城水電有限公司	Water and electricity charges	**21,252**	20,245
(9) 北京港中旅維景國際大酒店有限公司 (Formerly known as 北京港中旅大廈有限公司)	Property management fee	**802**	4,452
(10) Shenzhen The Splendid China Development Co., Ltd.	Admission tickets cost	**2,437**	2,598
(11) Shenzhen The World Miniature Co., Ltd.	Admission tickets cost	**1,372**	75
(12) U.S. China Travel Service Inc. ("USCTS")	Travel related services	**2,349**	–
(13) Pacific Travel and Trade Corporation	Ticketing related services	**5,800**	–
Received or receivable from:			
(14) CTS (Holdings)	Hotel room rental	**1,788**	222
(15) CTS (Holdings)	Travel permit administration income *(Note)*	**313,730**	318,749
(16) CTS (Holdings)	Sale of visa materials	**1,793**	1,746
(17) China Travel Computer Service H.K. Limited	Application service provider services	**12,589**	12,491
(18) USCTS	Travel related services	**4,781**	–

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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

(b) 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	
	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**14,796**	18,350
Post-employment benefits	**194**	211
	14,990	18,561

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Liquidity risk

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

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31 December 2006

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

Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the result that the Group thereby suffers financial loss. The Group manages the credit risk by set up of a team responsible for 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.

Foreign currency risk

The monetary assets and transactions of several subsidiaries of the Group are principally denominated in foreign currencies, which expose 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.

44. POST BALANCE SHEET EVENT

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

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation. HK$10,877,000 of business tax has been reclassified from cost of sales to turnover, and HK$73,000 of staff costs has been reclassified from administrative expense to cost of sales.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2007.