香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 00308)

Annual Report **2007**

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CONTENTS

CORPORATE INFORMATION

DIRECTORS

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager)*
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (appointed on 8 April 2008)
Mr. Wei Qing (appointed on 31 August 2007 and resigned on 8 April 2008)
Mr. Zheng Hongqing (resigned on 8 June 2007)
Mr. Ng Chi Man, Michael (resigned on 31 May 2007)
Mr. Liu Li (resigned on 31 August 2007)
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee* (appointed on 21 August 2007)
Dr. Yeh Meou Tsen, Geoffrey* (resigned on 15 July 2007)
Mr. Yeh V Nee* *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)* (resigned on 15 July 2007)

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Wong Man Kong, Peter *(Chairman)*
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee (appointed on 21 August 2007)
Dr. Yeh Meou Tsen, Geoffrey (resigned on 15 July 2007)
Mr. Yeh V Nee *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)* (resigned on 15 July 2007)

REMUNERATION COMMITTEE

Mr. Wong Man Kong, Peter *(Chairman)*
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee (appointed on 21 August 2007)
Dr. Yeh Meou Tsen, Geoffrey (resigned on 15 July 2007)
Mr. Yeh V Nee *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)* (resigned on 15 July 2007)

COMPANY SECRETARY

Ms. Woo Wai See, Alice

AUDITORS

Ernst & Young

LEGAL ADVISORS

JSM
Woo, Kwan, Lee & Lo

REGISTERED OFFICE

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas, Hong Kong Branch
Calyon, Hong Kong Branch
Hang Seng Bank Limited
Societe Generale, Hong Kong Branch

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2007 Final Results		8 April 2008
Announcement of 2007 Interim Results		3 September 2007
Announcement of 2006 Final Results		12 April 2007
Announcement of 2006 Interim Results		5 September 2006
Dividends	**2007 Final**	HK 3 cents per share payable on 16 June 2008
	2007 Interim	HK 3 cents per share paid on 4 October 2007
	2006 Final	HK 1 cent per share paid on 28 June 2007
	2006 Interim	HK 2 cents per share paid on 20 October 2006
Closure of Register of Members for 2007 Final Dividend		Period from 15 May 2008 to 20 May 2008
Annual General Meeting in 2008		20 May 2008
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,695,355,525 (as at 31 December 2007)
Website address		irasia.com/listco/hk/ctii
Stock Code		00308
Board Lot		2,000 shares
Financial Year End		31 December
Par Value		HK$0.10

MAJOR OPERATIONS

TRAVEL, LEISURE & ENTERTAINMENT

Travel Agency and Related Operations

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

Resorts

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.	100%
Xianyang Guanzhong Hotspring Co., Ltd.	51%

Theme Parks

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

Golf Club

港中旅聚豪（深圳）高爾夫球會有限公司 (CTS Tycoon (Shenzhen) Golf Club Company Limited*) (formerly Shenzhen Tycoon Golf Club Co., Ltd.)	100%

Arts Performance

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

HOSPITALITY

Hotels

Metropark Hotel Mongkok	100%
Metropark Hotel Wanchai	100%
Metropark Hotel Kowloon	100%
Metropark Hotel Causeway Bay	100%
Metropark Hotel Macau	100%

TRANSPORTATION

Passenger Transportation Services

China Travel Tours Transportation Services Hong Kong Limited	100%
Shun Tak-China Travel Shipping Investments Limited	29%
China Travel Express Limited	70%

Freight Forwarding and Transportation Services (to be discontinued in 2008)

China Travel Service (Cargo) Hong Kong Limited	100%
Shenzhen China Travel Service (Cargo) Hong Kong Ltd.	100%
CTS International Transportation Co., Ltd.	76%

INFRASTRUCTURE

Shaanxi Weihe Power Co., Ltd.	51%

* *English name of the Company is unofficial English translation and is for identification purposes only.*

FINANCIAL RATIOS HIGHLIGHTS

	2007	2006	2007	2006	2005
	(Continuing operations)		(Including discontinuing operations)		
Profit & loss account ratios					
Interest coverage ratio	**23.55**	6.60	**25.58**	7.68	14.73
Earnings per share (HK cents)	**9.80**	4.90	**11.13**	6.10	12.02
Dividend per share (HK cents)	**6.00**	3.00	**6.00**	3.00	6.00
Dividend payout ratio (%)	**61.22**	61.22	**53.91**	49.18	49.92
Balance sheet ratios					
Current ratio	**2.25**	1.91	**2.21**	1.83	1.99
Quick ratio	**2.23**	1.90	**2.20**	1.82	1.98
Net assets value per share (HK$)	**1.87**	1.76	**1.95**	1.83	1.84
Net bank and other borrowings to equity	**(0.15)**	(0.12)	**(0.16)**	(0.14)	(0.02)
Debt to adjusted captial ratio (%)	**16.91**	17.64	**21.12**	21.64	39.33
Rate of return ratios					
Return on average equity (%)	**5.57**	3.24	**6.41**	4.05	7.28
Return on total capital and borrowings (%)	**5.54**	3.87	**6.14**	4.47	5.91
Market price ratios					
Dividend yield					
Year low (%)	**0.97**	1.14	**0.97**	1.14	2.31
Year high (%)	**2.48**	1.76	**2.48**	1.76	4.05
Price to earning ratio					
Year low	**24.69**	34.69	**21.74**	27.87	12.31
Year high	**63.27**	53.67	**55.71**	43.11	21.63

Formula for financial ratios:

Interest coverage ratio	(Profit before tax + Finance costs)/(Finance costs + Capitalised Interest)
Net assets value per share	Net assets attributable to equity holders of the parent/ Number of shares as at the balance sheet date
Net bank and other borrowings to equity	(Bank and other borrowings – Cash and cash equivalents)/ Total equity
Debt to adjusted capital ratio	Debt/(Equity attributable to equity holders of the parent – Proposed final dividend)
Return on average equity	Profit for the year/Average total equity
Return on total capital and borrowings	(Profit before tax + Finance costs)/ (Total liabilities + Total equity)

FIVE YEAR FINANCIAL SUMMARY

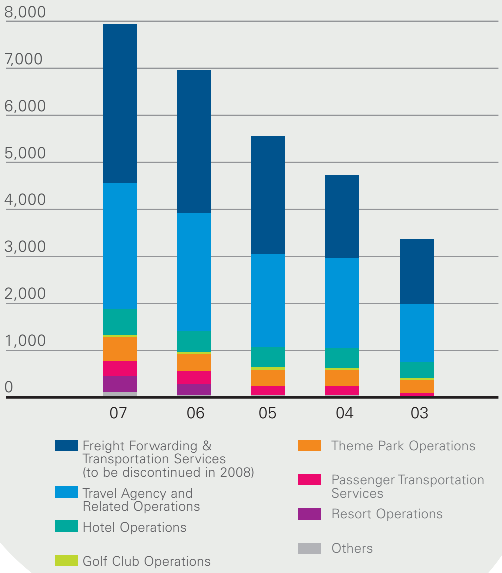
A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	2007 HK$'000	2006 HK$'000 (Restated)	2005 HK$'000 (Restated)	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)
Results					
CONTINUING OPERATIONS					
REVENUE	**4,417,195**	4,062,251	3,065,524	2,937,097	2,012,075
Cost of sales	**(2,687,137)**	(2,565,133)	(1,816,259)	(1,782,293)	(1,123,166)
Gross profit	**1,730,058**	1,497,118	1,249,265	1,154,804	888,909
Other income and gains	**112,618**	122,246	84,574	87,956	53,950
Selling and distribution costs	**(483,263)**	(447,047)	(286,489)	(299,961)	(214,492)
Administrative expenses	**(909,834)**	(840,227)	(661,870)	(516,042)	(672,136)
Net gain from a fair value adjustment in investment properties and impairment of items of property, plant and equipment, net	**13,947**	6,887	25,762	24,573	(207,442)
Fair value gains on derivative financial instruments	**–**	–	99,204	–	–
Impairment of goodwill	**–**	(16,591)	–	–	–
Finance costs	**(32,713)**	(77,793)	(55,159)	(51,863)	(30,820)
Share of profits and losses of:					
Jointly-controlled entities	**248,751**	133,354	175,616	251,863	251,228
Associates	**67,702**	57,588	45,751	53,224	1,261
PROFIT BEFORE TAX	**747,266**	435,535	676,654	704,554	70,458
Tax	**(120,626)**	(102,352)	(90,914)	(91,997)	(25,864)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**626,640**	333,183	585,740	612,557	44,594
DISCONTINUING OPERATION					
Profit for the year from a discontinuing operation	**94,272**	82,834	71,637	53,392	11,395
PROFIT FOR THE YEAR	**720,912**	416,017	657,377	665,949	55,989
Attributable to:					
Equity holders of the parent	**633,974**	333,452	584,905	598,087	21,464
Minority interests	**86,938**	82,565	72,472	67,862	34,525
	720,912	416,017	657,377	665,949	55,989
Assets, liabilities and deferred income and minority interests					
Total assets	**14,554,297**	13,672,176	13,808,051	11,442,399	11,376,500
Total liabilities and deferred income	**(2,913,967)**	(2,808,154)	(4,131,111)	(3,070,843)	(3,709,154)
Minority interests	**(534,344)**	(443,482)	(405,520)	(386,313)	(334,755)
	11,105,986	10,420,540	9,271,420	7,985,243	7,332,591

FINANCIAL REVIEW

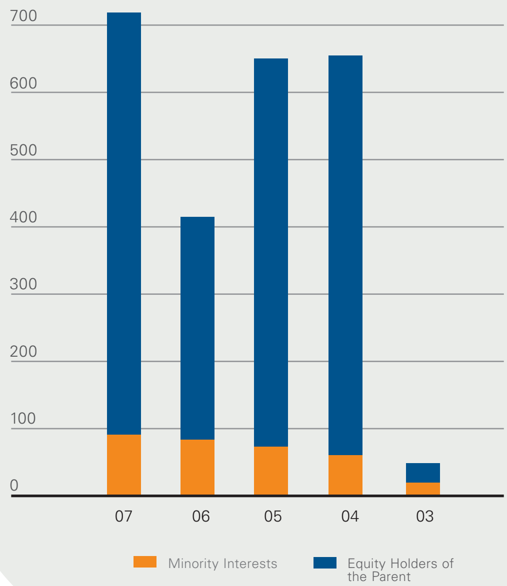
Turnover by Principal Activities

HK$ million



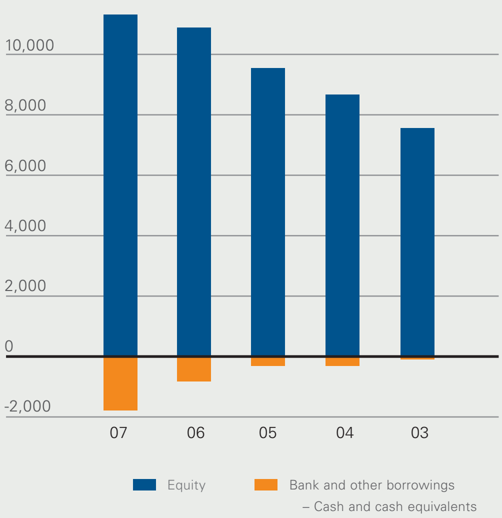
Profit for the year

HK$ million



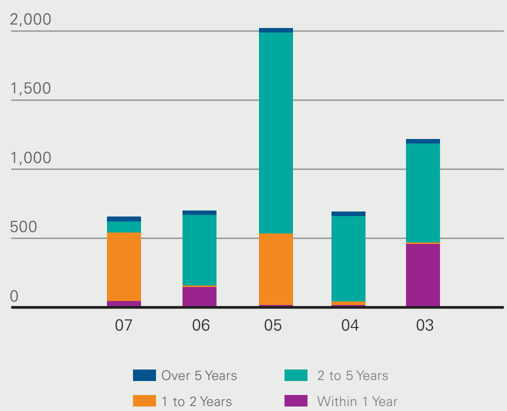
Net bank and other borrowings to Equity

HK$ million



Debt Maturity Profile

HK$ million



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

MR. ZHANG XUEWU *Chairman & Executive Director*

Aged 53, appointed in 2001, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company and is also a director of a number of subsidiaries of the Company. Mr. Zhang is a qualified Senior Economist and has extensive experience in corporate management in Mainland of China and overseas. He was the Executive Vice President and Director of Minmetals UK Limited (China), the Senior Vice President of China National Metals & Minerals Import and Export Corp., and the President of Minmetals Development Co., Ltd., a listed company. Mr. Zhang is a National Committee member of the Eleventh Chinese People's Political Consultative Conference, a committee member of the Chinese General Chamber of Commerce. He was a member of the Tourism Strategy Group of the HKSAR Government. Mr. Zhang holds a master's degree in Business Administration.

MR. XIONG WEIPING *Vice Chairman, General Manager & Executive Director*

Aged 51, appointed in 2006, is the Vice Chairman and General Manager of CTS (Holdings) and the Chairman and a director of a number of subsidiaries of the Company. Prior to joining the Group, he was the Vice-Chancellor and Dean of the Faculty of Management, Professor and Instructor of PhD. students of Central South Industrial University. Mr. Xiong subsequently was the Deputy General Manager of China Copper, Lead and Zinc Group Company and Aluminum Corporation of China. Mr. Xiong was an Executive Director and the President of Aluminum Corporation of China Limited which is a main board listed company in New York & Hong Kong. Mr. Xiong obtained a PhD. in Mining Engineering from Central South Industrial University in China and completed post-doctoral research in economics from Peking University. He is currently a part-time Professor and Instructor of PhD. students of Guanghua School of Management of Peking University.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 57, appointed in 1998, is a Director of CTS (Holdings) and the Chairman and a director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Zheng has over 20 years' experience in economic development. He graduated from Xiamen University in China.

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

Aged 57, appointed in 2000, is a Director of CTS (Holdings) and is also a director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Lo is the Chairman of China Travel Service (Hong Kong) Limited. Mr. Lo has over 30 years of operation and management experience in the tourism industry. Mr. Lo is a Deputy of the Eleventh National People's Congress of the PRC, a member of Hong Kong Tourism Board, a member of The Selection Committee for the Second & Third Government of the HKSAR, the Chairman of Committee on Tourism of The Hong Kong Chinese Enterprises Association and the President of Hong Kong Association of China Travel Organisers Limited. In addition, Mr. Lo was appointed as a

Director of the Travel Industry Council of Hong Kong, a member of the Tourism Strategy Group of the HKSAR Government and a member of Central Policy Unit Panel on Pan-Pearl River Delta.

MS. JIANG YAN *Executive Director*
Aged 51, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings). Prior to joining CTS (Holdings), Ms. Jiang worked in State Oceanic Administration and All-China Women's Federation. She was also the Senior Assistant of the Director General of Personnel Office and Division Chief of The Liaison Office of the Central People's Government in HKSAR. Ms. Jiang obtained a Master's degree in Business Administration from University of South Australia.

MR. MAO JIANJUN *Executive Director*
Aged 58, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings) and is also a director of a number of subsidiaries of the Company. Prior to joining CTS (Holdings), Mr. Mao was the Chief of General Office of Ministry of Construction P.R. China, the Assistant of Mayor of Xiamen Municipal Government and the Deputy General Manager of China Construction International Corporation. Mr. Mao graduated from Tongji University with a Master's Degree in Business Management.

MR. FANG XIAORONG *Executive Director*
Aged 55, appointed in April 2008, is the Director and Deputy General Manager of CTS (Holdings) and the Standing Director of China Tourism Association. Mr. Fang has extensive experience in tourism and hospitality management. He was the General Manager of China Travel Service (Holdings) Corporation of China, the Chairman of LIDO Hotel Co. Ltd., the Chairman of Oriental Arts Building Ltd. and a Deputy General Manager of its subsidiary – Hilton Beijing Hotel, and the General Manager of China Travel Service Hotel Corporation. He graduated from Beijing International Studies University.

MR. ZHANG FENGCHUN *Executive Director*
Aged 43, appointed in 2000, is the Director and Chief Financial Officer of CTS (Holdings), the Vice Chairman of Shaanxi Weihe Power Co., Ltd., the Vice Chairman of Committee on Financial & Accounting Affairs Steering of The Hong Kong Chinese Enterprises Association and director of a number of subsidiaries of the Company. He is a Certified Public Accountant in China and has extensive experience in investment planning, financial operation and business management. Mr. Zhang graduated from the Accounting Department of Renmin University of China and obtained a Bachelor's degree in Economics in 1987. In January 2006, he graduated from the School of Economics and Management of Tsinghua University with an Executive Master Degree of Business Administration (EMBA).

MR. XU MUHAN *Executive Director and Standing Deputy General Manager*
Aged 47, appointed in April 2008, is the Deputy General Manager of CTS (Holdings), the Chairman of CTS HK Metropark Hotels Management Co. Ltd. and is also a director of a number of subsidiaries of the Company. Mr. Xu has extensive career in tourism and hospitality management. He obtained his master degree in travel and hotel management from The Hong Kong Polytechnic University and the certificate of GMP program from Cornell University.

DR. FONG YUN WAH *S.B.S., J.P Independent Non-Executive Director*

Aged 83, appointed in 1998, is the Chairman of The Hip Shing Hong Group, Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is also the director of the Real Estate Developers Association of Hong Kong and the council member of United College at the Chinese University of Hong Kong. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC and has also served as the chairman and council member of many charitable organisations in Hong Kong. He was a member of the Selection Committee for the First Government of the HKSAR and was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR.

MR. WONG MAN KONG, PETER *B.B.S.,J.P., BSc, F.C.I.T., MRINA, Independent Non-Executive Director*

Aged 59, appointed in 1998, is the Chairman of Audit Committee and Remuneration Committee of the Company. Mr. Wong has over 25 years of experience in industrial, commercial and public service. He is the Chairman of M.K. Corporation Ltd. and North West Development Ltd., as well as the director of Hong Kong Ferry (Holdings) Co. Ltd., Glorious Sun Enterprises Limited, Sun Hung Kai & Co., Limited and Chinney Investments, Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Ltd. and New Times Group Holdings Ltd. Mr. Wong serves as a deputy of the Eleventh National People's Congress of the PRC. He graduated from the University of California at Berkeley in U.S.A. with a Bachelor of Science degree in Mechanical Engineering (Naval Architecture).

MR. SZE, ROBERT TSAI TO *Independent Non-Executive Director*

Aged 67, appointed in 2005, is a member of Audit Committee and Remuneration Committee of the Company. Mr. Sze is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He was a partner in an international firm of accountants with which he practised for over 20 years. He is also a director of a number of Hong Kong listed companies.

MR. CHAN WING KEE *GBS, OBE, JP, Independent Non-Executive Director*

Aged 61, appointed in 2007, is a member of Audit Committee and Remuneration Committee of the Company, Managing Director of Yangtzekiang Garment Limited, Director of YGM Trading Limited, Director of Hong Kong Knitters Limited, Vice Chairman of Asia Television Limited, as well as the Independent Non-Executive Director of China Construction Bank (Asia) Corporation Limited and Times Ltd.

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

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

SENIOR MANAGER

MR. BO BAOHUA *Deputy General Manager*
Aged 47, appointed in 2007. He was the Deputy General Manager and Vice Chairman of China Travel Service (Holdings) Corporation of China for over 10 years, the General Manager of China Travel Service Head Office, the Chairman of CTS Resort Investment & Development Corp., Ltd. and a Director of Lido Hotel Co. Ltd. He was the Deputy Chief, Chief and Deputy Director of Overseas Chinese Affairs Office of the State Council over for 10 years. He graduated from Shaanxi Normal University and is currently enrolled in an EMBA course at HEC Paris.

MR. YI HE *Deputy General Manager*
Aged 53, appointed in 2007. He is a Economist and has extensive experience in corporate and administration management. He was the Deputy Director of Department of General Planning and the Deputy Director of Department of Finance of Ministry of Finance People's Republic of China respectively and the Director and Vice General Manager of Beijing Holdings Limited. Mr. Yi graduated from Dongbei University of Finance & Economics and obtained a Bachelor's degree in Finance.


the world's first class, incomparable in Asia
and the most preferred in China

CHAIRMAN'S STATEMENT

*Net asset value of the Group amounted to **HK$11,106 million**, representing a **6.57% increase** as compared to the amount of **HK$10,421 million** in the last year.*

Zhang Xuewu *Chairman*

On behalf of the Board of Directors (the "Board") of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together the "Group"), I am pleased to announce that the Group has recorded an audited consolidated net profit attributable to shareholders of HK$634 million for the year ended 31 December 2007, representing a 90.39% increase over the previous year. The increase was mainly due to the continuous business growth in travel agency and in our activities of the theme parks in Shenzhen, turnaround of Zhuhai Ocean Spring Resort and the increased power output of Weihe Power Co. Ltd. The Company's effort in strengthening management and strict implementation of cost reduction and result maximization, also contributed to the increase.

As of 31 December 2007, net asset value of the Group amounted to HK$11,106 million, representing a 6.57% increase as compared to the amount of HK$10,421 million in the last year. The Board has proposed to declare dividends of 3 Hong Kong cents, which is expected to be paid on 16 June 2008 following the approval at the Annual General Meeting.

The economy in Mainland China and Hong Kong continued to grow steadily in 2007, leading to the constant and swift development of the tourism market in both places. Grasping these opportunities, the Group devoted more resources to its core business of tourism, proactively expanding the market, strengthening internal management and integrating resources so as to enhance the core competitiveness of its major tourism business and maintain its leading position among the peers in both Mainland China and Hong Kong.

In 2007, the Group endeavoured to strengthen its major tourism business. In accordance with the overall development strategy focusing on "external resource development, internal integration and improvement, online travel platform and ground travel agency network construction, organization and workflow restructuring, brand building strategy and leapfrog growth", the Group actively fostered the integration of travel agencies and sped up the professional management of its major tourism business to strengthen its core competitiveness. Through the smooth completion of swap of its logistics and trade assets with the parent company's hotel assets, the Group has expanded its tourism business and made it obvious and clear that tourism is the Group's major business.

The Group made great efforts to improve its corporate governance. On one hand, the Group launched the campaign of "cost reduction and result maximization", enhancing its profitability and competitiveness. "Cost reduction and result maximization" has become an integral part of its corporate management culture. On the other hand, the Group actively launched "Quality Service Year" activities to improve the quality of its tourism service and the service quality awareness of its employees through "on-job training and competition". With the efforts of all its staff, the Group recorded a sustainable and stable growth in its travel agency, hotel, passenger transportation, theme park and art performance businesses. The logistics and electricity business during the year also appeared to maintain a trend of sound growth.

Looking forward into 2008, the economy of mainland China and Hong Kong both still appear to maintain a trend of comparatively faster growth. Tremendous social demand is driving the tourism and leisure industry's development and progress. At present, China ranks number one in the world in term of domestic tourism market and also ranks number four in term of scale of inbound tourism. The Company's travel agency network, hotel layout and theme parks in Hong Kong, Mainland China and overseas will be benefited. The business opportunities brought about by the 2008 Olympic Games will especially create more rooms for expansion and opportunities for the Company's tourism business in Hong Kong, Mainland China and overseas. On the other hand, as the US sub-prime crisis spreads, both the World Bank and the International Monetary Fund have lowered their estimate of the global economy growth rate for 2008. China's increasingly tightened monetary policy and growing inflationary pressure will cause certain cost pressure and market risks to the Group. In view of this, the Board will adhere to the Group's operation policy of "to progress prudently while minimizing risk, to grow with quality while enlarging the scale and to reduce costs unceasingly while maximizing the results" to accomplish all tasks. At the beginning of the year, the Group formulated a number of development strategies and plans, in the hope that deepened innovation and reform of institution, mechanism, operation and profit model of the Group's tourism business aggressively pushing forward such major quality service activities as "cost reduction and result maximization" and "Gold Medal Services for the Olympic Games" will lay a solid foundation for the Group's sustainable growth.

Finally, I would like to extend my heart-felt gratitude to all the members of the Board for their invaluable contributions to the Group in the past year, and to the management and to the entire staff for their diligence. I would also like to deeply appreciate our shareholders for their unwavering support for the Company and their trust in the Board.

By Order of the Board

Zhang Xuewu
Chairman

Hong Kong, 8 April 2008


Management
Transparency
Visibility

*The profit attributable to shareholders was **HK$634 million**, which greatly increased by **90.39%** from HK$333 million (as restated) of last year.*

Xiong Weiping
Vice Chairman, General Manager

BUSINESS REVIEW

In 2007, the Group's consolidated turnover generated from the continuing operations was HK$4,417 million, which represented an increase of 8.74% from HK$4,062 million of last year. The profit attributable to shareholders was HK$634 million, which greatly increased by 90.39% from HK$333 million (as restated) of last year. The significant increase of the profit was attributable to the growing economy in China, which encouraged travellers to make further consumption, pushed the number of visitors to Hong Kong to a new high and enhanced the consumption ability of the public. Moreover, with the great emphasis on "stability, high quality services, innovation, cost saving, efficiency enhancement", each business segment of the Group endeavored to produce innovative and advanced travel products, intensify marketing activities and market development, and constantly enlarge the scale of its core travel business. These were also beneficial to the increase in the profit of the core travel business. During the year, the profits of the Group's travel agency and related operations, theme park operations and hotel operations comprehensively increased by a total of HK$92 million. China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. ("Zhuhai OSR") turned into profit with a profit growth of HK$82 million from last year. The share of profits of Shaanxi Weihe Power Co. Ltd. ("Weihe Power") also increased by a total of HK$116 million by way of cost saving. Furthermore, during the year, the Group entered into agreements to acquire hotel assets from a principal controlling shareholder, China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") and dispose the freight forwarding and transportation operation of its non-core travel business which revealed the Group's confidence in and determination of the development of the core travel business.


Arts Performance


Theme Park – Window of the World

TOUR OPERATION AND LEISURE BUSINESS

The Group's tour operation and leisure business comprised travel agency and related operations, resorts, theme parks, a golf club and arts performance operations. In 2007, the turnover of the Group's tour operation and leisure business increased by 7.48% to HK$3,620 million from HK$3,368 million of last year, which represented about 81.96% of the Group's consolidated turnover generated from the continuing operations during the year. The operating profit of the tour operation and leisure business increased by 91.61% to HK$274 million from HK$143 million of last year, representing about 67.99% of the Group's consolidated operating profit generated from the continuing operations during the year.

Travel agency and related operations

The Group has travel agency and related operations across Hong Kong, Mainland China and overseas countries. Last year, the Group also established an on-line travel consolidator, Mangocity.com, which has provided a platform for electronic transactions. In 2007, the turnover of the travel agency and related operations increased by 6.30% to HK$2,715 million from HK$2,554 million of last year, which represented about 61.47% of the Group's consolidated turnover generated from the continuing operations during the year. The operating profit of the travel agency and related operations increased by 26.97% to HK$113 million from HK$89 million of last year, representing about 28.04% of the Group's consolidated operating profit generated from the continuing operations during the year. In which, apart from ensuring a stable visa business, the Group also attracted a wide range of overseas travellers, assured the quality of its travel team and develop special travel products for its travel agency and related business in Hong Kong. Its tour business recorded a double-digit growth with an increasing market share despite the strong competition in the market. The ten travel agencies in Mainland China including Beijing, Shanghai, Suzhou, Hangzhou and Shandong fully utilized their internal tourism resources to develop outbound, inbound, corporate and MICE (meetings, incentives, conference, and events) travel products and served over 1 million person time of visitors during the year. Moreover, with their respective unique advantages, the 11 overseas branches made flexible resource allocation for their inbound and outbound travel business and recorded superior business results. The membership of the Group's on-line travel consolidator, Mangocity.com, increased to over 2.5 million from more than 1.6 million of last year. It has entered into contracts which are subject to agreed quota with about 4,500 inland hotels and has entered into contracts with over 80 airlines. It has also produced more than a thousand of travel package products. The network of Mangocity.com has covered over a hundred of inland and overseas popular travel destinations. These further enhanced the comprehensiveness of the Group's travel network.

Infrastructure – Shaanxi Weihe Power Co., Ltd

Resorts

The revenue of Zhuhai OSR mainly came from room sales and ticket sales. In 2007, the turnover of Zhuhai OSR increased by 6.63% to HK$354 million from HK$332 million of last year, which represented about 8.01% of the Group's consolidated turnover generated from the continuing operations during the year. Zhuhai OSR commenced its operation in early 2006. Despite the great initial investment, Zhuhai OSR turned into profit during the year. It recorded an operating profit of HK$8 million this year, as compared with a loss of HK$74 million last year. Zhuhai OSR maintained as the "leading" hot spring resort in Mainland China and was awarded as the first "National Demonstration Base of Vacational Tourism" in Mainland China by China National Tourism Administration in April 2007. During the year, Zhuhai OSR also completely undertook the seminar for central enterprises organized by the State-owned Assets Supervision and Administration Commission, which was firstly held outside Beijing. The hot spring construction and development of Zhuhai OSR were then greatly respected and well-recognized in the travel market. Apart from emphasizing on effective advertisements, Zhuhai OSR also seized each opportunity to improve its projects and develop new products, so as to meet the market demand. For example, Zhuhai OSR newly produced series of golf products and developed conference and MICE market, which attracted many well-known enterprises to hold their conferences at Zhuhai OSR and Zhuhai OSR was then strongly publicized in the market.

Shenzhen Tycoon Golf Club

Xianyang Guanzhong Hotspring Company Limited ("Guanzhong Hotspring") is yet another main investment in the hot spring resort industry after Zhuhai OSR. Guanzhong Hotspring is a sino-foreign equity joint venture company. In March 2008, the Group increased the total investment of Guanzhong Hotspring from RMB300 million to RMB855 million. The hot spring center of Guanzhong Hotspring measures a construction area of about 46,000 square meters. The main construction of Guanzhong Hotspring was already completed on 10 December 2007. It is expected that Guanzhong Hotspring will commence business operation before the National Day in October 2008. We believe that Guanzhong Hotspring will strengthen our business of spring products.

diversified tourism business

Theme parks

Shenzhen The World Miniature Co., Ltd. ("Window of the World") and Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") endeavored to develop new projects, strictly control its overall cost and provide distinctive theme activities at different festivals. Under the strong competition among theme parks in China, both Window of the World and Splendid China still recorded steady growth. In 2007, the turnover of these theme parks in Shenzhen increased by 12.05% to HK$465 million from HK$415 million of last year, which represented about 10.53% of the Group's consolidated turnover generated from the continuing operations during the year. The operating profit of these theme parks in Shenzhen increased by 12.50% to HK$153 million from HK$136 million of last year, representing about 37.97% of the Group's consolidated operating profit generated from the continuing operations during the year. These theme parks in Shenzhen served a total of 4 million person time in 2007. The "Snowy World" in Window of the World was unveiled on 7 July 2007 and successfully organized many theme skiing activities with high appreciation in the market. During the year, with its target to provide a theme park of Chinese culture for the new generation, Splendid China constantly upgraded its product categories and improved the effect of its performances, so as to attract travellers in higher consumption level.

Golf club

In 2007, the turnover of CTS Tycoon (Shenzhen) Golf Club Company Limited ("Tycoon") was HK$57 million, which represented an increase of about 14.00% from HK$50 million of last year. A total of about 85,000 person time of visitors were recorded at Tycoon during the year. Tycoon endeavored to innovate new services, extend sale network, fully utilize the resources of the golf course, broaden the sources of income and strictly control the costs. Moreover, the golf course of Tycoon is being reconstructed and expanded to an international level now.

Arts performance operations

China Heaven Creation International Performing Art Co., Ltd. ("China Heaven") strived to become a highly effective and competitive arts performance segment in the commercial market. In 2007, "The Legend of Kung Fu" was supported by the Beijing Cultural And Creatively Industry Special Fund (北京市文化創意產業專項資金), and also received many rewards from the state competent authority by representing China in cultural exchange performances. "The White Snake", a Beijing opera, was even designated by The Beijing Organizing Committee for the Games of the Olympiad ("BOCOG") as one of the performances at Olympic Games. These were significantly beneficial to the development of the inland and overseas arts performance business of China Heaven.

HOTELS

In 2007, the turnover of the Group's five hotels in Hong Kong and Macau increased by 18.68% to HK$502 million from HK$423 million of last year, which represented about 11.37% of the Group's consolidated turnover generated from the continuing operations during the year. The operating profit of the five hotels significantly increased to HK$111 million from HK$60 million (as restated) of last year, representing about 27.54% of the Group's consolidated operating profit generated from the continuing operations during the year. In 2007, due to the growth of the overall travel and investment activities driven by the increasing number of visitors to Hong Kong and the rapid development of amusement industry and real estate industry in Macau, the Group also grasped the opportunities to develop new market when new hotels were completed one after another. After a comprehensive structural analysis on the source of clients, the Group implemented a flexible sale strategy. The average occupation rate of the hotels reached 90% and the average hotel room rate increased by 12%.

PASSENGER TRANSPORTATION SERVICES

Regarding the passenger transportation services, the turnover of China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries ("CTTT") increased by 8.89% to HK$294 million in 2007 from HK$270 million of last year, which represented about 6.66% of the Group's consolidated turnover of the continuing operations during the year. CTTT efficiently allocated its vehicle team to strive for the greatest results, improved the standard and quality of its services, undertook the transportation services in relation to celebration activities for the 10th anniversary of Hong Kong's handover to China, and manifested the quality passenger transportation services of "CTS". However, the operation of MTRC's Lok Ma Chau spur line, the renovation of the Shenzhen-Guangzhou Highway and the high oil price adversely affected the number of passengers and increased the operating cost of CTTT. During the year, the operating profit of CTTT was HK$34 million, representing a decrease of 12.82% from HK$39 million of last year.

Shun Tak-China Travel Shipping Investments Limited ("Shun Tak") is an associate of the Group. Due to the growth of the tourism market in Macau, the number of passengers of Hong Kong-Macau line constantly increased. Despite of the unexpected significant increase in the prices of fuel and oil, the Group shared the profit of Shun Tak reached HK$68 million in 2007, which represented an increase of 17.24% from HK$58 million of last year.

INFRASTRUCTURE

Weihe Power is a jointly-controlled entity of the Group. In 2007, the attributable profit of Weihe Power was HK$247 million, representing an increase of 88.55% from HK$131 million of last year. The increase was mainly due to the raise of electricity consumption, the completion of the depreciation provision for certain fixed assets, and the strict implementation of cost saving and efficiency enhancement, which resulted in good control in consumption rate of fuel and oil and other expenses.

DISPOSAL AND ACQUISITION

On 7 December 2007, upon the approval on extraordinary general meeting, China Travel Service (Cargo) Hong Kong Limited and its subsidiaries ("CTS Cargo"), together with Common Well Limited and the net amount of shareholder's loan owed by Common Well to the Group were sold to CTS (Holdings), at a consideration of approximately HK$854 million. Meanwhile, the Group acquired the shares of three hotels from CTS (Holdings) in Shanghai, Beijing and Yangzhou, CTS H.K. Metropark Hotels Management Company Limited and the respective shareholder's loans owed by the abovementioned companies at a consideration of approximately HK$1,107 million. The disposal and acquisition will be settled entirely by cash on completion date. For detailed information, please refer to the circular dated 21 November 2007. As at the date of the report, the disposal and acquisition have not been completed. CTS Cargo is separately disclosed as a discontinuing operation.

DISCONTINUING OPERATION – FREIGHT FORWARDING AND TRANSPORTATION SERVICES

In 2007, the turnover of CTS Cargo was HK$3,518 million, which represented an increase of 20.60% from HK$2,917 million of last year. The operating profit of CTS Cargo was HK$111 million, representing an increase of 16.84% from HK$95 million of last year. During the year, the operation of CTS Cargo was similar with that of last year. Despite the significant growth in the supply of freight forwarding and transportation services and there was excessive supply in the market, CTS Cargo still increased its market share by the measure of small profit but quick turnover during the year.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 31 December 2007, the Group had approximately 12,600 employees. The employees were remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees were periodically reviewed by the management. Apart from the pension funds and in-house training programs, discretionary bonuses and share options were awarded to certain employees according to the assessment of individual performance.

On 9 July 2007, the Company granted 97,110,000 share options to qualified employees and directors at an exercise price of HK$4.65 per share. The exercise period of those share options is from 9 July 2009 to 2 June 2012.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group was strong. As at 31 December 2007, the cash and cash equivalents of the Group's continuing operations amounted to HK$2,272 million whereas the interest bearing bank borrowings amounted to HK$580 million. The debt to adjusted capital ratio was 16.91%.

As at 31 December 2007, the Group had bank loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant tenders according to the respective terms and conditions thereof. The details of the utilized loan facilities are as follows:

Amount outstanding as at 31 December 2007	Final maturity date of the loan facilities
HK$500 million	2 January 2009

Interest is charged on the outstanding balance at 0.25% per annum over the Hong Kong Interbank Offered Rate for the applicable loan period. The loans are secured by the corporate guarantee given by the Company.

As at 31 December 2007, the Group did not hold any material fixed assets in the form of finance lease and lease and purchase contract.

As at 31 December 2007, the Group has a pledged time deposit of approximately HK$11 million and pledged assets of approximately HK$86 million. The capital commitments of the Group were approximately HK$1,013 million and the contingent liabilities were approximately HK$15 million.

FUTURE PROSPECTS

In 2008, China and Hong Kong Governments and people from all walks of life will actively develop and promote tourism and the hotel and tourism industries will be continuously benefited from the expected economic growth. However, uncertain factors and market risks have brought about many new challenges to the Group. These include worsening of the international economy as affected by the subprime mortgage credit crisis, implementation of macroeconomic measures by the Chinese government in view of its radical economic growth, the fluctuation in exchange rate and interest rate affected by currency policies, and the rapid increase in the fuel and raw materials prices. Nevertheless, the Olympic Games 2008 to be held in Beijing will certainly drive the tourism industry, the Group will seize this good opportunity to develop its business. Following the capital operation of disposing its non-core travel business in 2007, the Group will devote itself to develop core travel business, seek for suitable investment projects, make mergers and acquisitions and foster strategic cooperation.

Meanwhile, the Group will continue to introduce innovation to the operation and profit-making methods for its travel segment, actively accelerate the integration of internal tourism resources, give full play to the synergistic effect, enlarge the operation scale of its core travel business and enhance the profit-making ability and sustainable development ability. The Group will also further develop the Mainland market, consolidate the Hong Kong market and modulate the overseas market, as well as readjust the overall arrangement of the travel agencies. With the construction of the Hong Kong-Zhuhai-Macau Bridge, the Group will accelerate the development of the Zhuhai OSR Phase II, and provide ancillary facilities for Zhuhai OSR Phase I. Furthermore, the Group will put greater emphasis on the reconstruction of Guanzhong Hotspring and golf course, so as to ensure the construction quality of these projects.

Besides, in 2008, apart from making acquisitions and mergers of suitable travel related projects, the Group will strengthen its competency, renovate its hotels, renew and reconstruct the scenic areas and scenic views, expand its golf courses and perfect the ancillary facilities of Zhuhai OSR. In the same time, the Group will further intensify its cost saving and efficiency enhancement to complete its year operation targets, so as to stride forward to the target of developing itself into one of the leading travel business groups in Mainland China as well as in Asia, and one of the most prominent companies in the world travel industry.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the principal activities of the Group's principal subsidiaries are set out in note 40 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year. During the year, the Board of Directors (the "Board") announced its decision to sell the Group's cargo business.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 64 to 168.

An interim dividend of HK3 cents per ordinary share was paid on 4 October 2007. The Board recommends the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders on the register of members on 20 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

DONATIONS

During the year, the Group made charitable donations amounting to HK$1,016,685.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 6. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 16 and 17 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 36 and 37 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$464,438,000 of which HK$170,861,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$8,357,579,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager)*
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (Appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (Appointed on 8 April 2008)
Mr. Wei Qing (Appointed on 31 August 2007 and Resigned on 8 April 2008)
Mr. Zheng Hongqing (Resigned on 8 June 2007)
Mr. Ng Chi Man, Michael (Resigned on 31 May 2007)
Mr. Liu Li (Resigned on 31 August 2007)

Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey (Resigned on 15 July 2007)
Mr. Yeh V Nee *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)* (Resigned on 15 July 2007)
Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee (Appointed on 21 August 2007)

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

In accordance with Article 101 of the Company's Articles of Association (the "Articles"), Messrs. Zhang Xuewu, Zhang Fengchun, Sze, Robert Tsai To will retire by rotation, being eligible, Messrs. Zhang Xuewu, Zhang Fengchun, Sze, Robert Tsai To offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

In accordance with Article 92 of the Articles, Messrs. Chan Wing Kee, Fang Xiaorong and Xu Muhan who were appointed by the Board on 21 August 2007, 8 April 2008 and 8 April 2008 respectively, will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

RETIREMENT SCHEMES

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

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year of 2007 and up to the date of this annual report, the Group had the following connected transactions and continuing connected transactions, details of which are as follows:

Connected Transactions

(i) On 30 July 2007, Chadwick Developments Limited ("Chadwick"), a wholly-owned subsidiary of the Company, Northwest China Grid Company Limited ("Xibei Power") and Shaanxi Qinlong Electric Power Co., Ltd. ("Shaanxi Qinlong") (collectively, the "Weihe Shareholders") entered into a transfer agreement (the "Transfer Agreement") with Shaanxi Weihe Power Co., Ltd. ("Weihe Power") pursuant to which the Weihe Shareholders agreed to purchase from Weihe Power its entire equity interest in Xianyang Guanzhong Hotspring Co., Ltd. ("Guanzhong Hotspring") for an aggregate consideration of RMB100 million (the "Transfer"). Upon completion of the Transfer, Guanzhong Hotspring would be owned as to 51%, 30% and 19% by Chadwick, Xibei Power and Shaanxi Qinlong respectively, and the Group would have control over the board of Guanzhong Hotspring and treat Guanzhong Hotspring as a subsidiary of the Company.

On the same date, the Weihe Shareholders also entered into a shareholders agreement (the "Shareholders Agreement") to govern the management and operations of Guanzhong Hotspring pursuant to which the Weihe Shareholders might be required to contribute an additional funding of RMB200 million to Guanzhong Hotspring in proportion to their respective interest herein of 51%, 30% and 19% upon completion of the Transfer.

On 6 June 2007, Weihe Power and Guanzhong Hotspring entered into an entrustment loan arrangement (the "Entrustment Loan Arrangement") with Western Trust & Investment Co., Ltd. ("Western Trust", a financial institution in the PRC) for a term of 5 years commencing from 6 June 2007 pursuant to which Weihe Power agreed to provide a cash deposit in the amount of RMB150 million as security to Western Trust to facilitate the making of a loan of up to RMB150 million by Western Trust to Guanzhong Hotspring. The Entrustment Loan Agreement would continue following completion of the Transfer. Weihe Power and Guanzhong Hotspring subsequently changed the intermediate financial institution of the Entrustment Loan Arrangement to the Bank of Communications in PRC during the year of 2007 for lower finance cost.

As Xibei Power was a substantial shareholder of both Weihe Power and Guanzhong Hotspring, Xibei Power, Weihe Power and Guanzhong Hotspring were therefore connected persons of the Company, and the Transfer and the transactions contemplated under the Shareholders Agreement and the Entrustment Loan Arrangement constituted connected transactions for the Company under the Listing Rules.

As each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules is less than 2.5% and there are no other prior transactions or relationship that require aggregation under Rules 14.22 and 14A.25, the above connected transactions are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirements.

For detailed information in this regard, please refer to the announcement issued by the Company on 30 July 2007.

(ii) On 1 November 2007, the Company, Allied Well Holdings Ltd. and United Capital Management Limited, being wholly-owned subsidiaries of the Company (collectively, the "Purchasers"), entered into a conditional sale and purchase agreement (the "Acquisition Agreement") with CTS (Holdings), China Travel Building Contractors Hong Kong Limited and China Travel Investments Hong Kong Limited, being wholly-owned subsidiaries of CTS (Holdings) (collectively, the "Vendors"), pursuant to which the Vendors conditionally agreed to sell and the Purchasers conditionally agreed to acquire the entire issued share capital or registered capital of CTS H.K. Metropark Hotels Management Company Limited (previously known as China Travel Hotel Management Hong Kong Limited, "CTS Hotels Management"), Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, Ruskin Overseas Limited and Wisepak Enterprises Limited (collectively, the "Hotel Group") and the respective shareholder's loan owned by the abovementioned companies to the Vendors, which as at 31 August 2007, amounted to approximately HK$1,086,038,000, at a consideration of HK$1,107,260,000 (the "Acquisition"), which would be settled entirely by cash funded by the internal resources of the Group.

Pursuant to the Acquisition Agreement, upon completion of the Acquisition, CTS (Holdings) will grant a first right of refusal to the Company for the Company or its subsidiaries to acquire any hotel-related assets currently or in the future owned or controlled by CTS (Holdings).

On the same date, the Company, China Travel Service (Hong Kong) Limited, Add-Well Investments Limited and Noteman Investments Limited, being wholly-owned subsidiaries of the Company (collectively, the "Disposal Vendors") entered into a conditional sale and purchase agreement with CTS (Holdings) and CTS Logistics Corporation, being a wholly-owned subsidiary of CTS (Holdings), pursuant to which the Disposal Vendors conditionally agreed to sell and CTS Logistics Corporation conditionally agreed to acquire the entire issued share capital of Common Well Limited and China Travel Service (Cargo) Hong Kong Limited and the net amount of shareholder's loan owed by Common Well Limited to the Company and/or its associates at a consideration of HK$853,640,000 (the "Disposal"), which would be settled entirely in cash.

The Acquisition and the Disposal constituted a discloseable transaction and a major transaction for the Company under Rule 14.06(2) and Rule 14.06(3) of the Listing Rules respectively. CTS (Holdings) is a substantial shareholder of the Company, and thus a connected person of the Company. Therefore the Acquisition and the Disposal constituted connected transactions for the Company under Rule 14A.13(1)(a) of the Listing Rules.

On 7 December 2007, the Acquisition and the Disposal were both approved by the Independent Shareholders at an EGM under Rule 14A.17 and Rule 14.44 of the Listing Rules, in which CTS (Holdings) and its associates abstained from voting in relation to the ordinary resolutions.

CTS Hotels Management currently provides hotel management services to certain subsidiaries of CTS (Holdings). Upon completion of the above-said Acquisition, CTS Hotels Management shall become a wholly-owned subsidiary of the Company and thus the continuous provision of hotel management services to CTS (Holdings) and its associates shall constitute continuous connected transactions for the Company under the Listing Rules. On completion of the Acquisition, the Company and CTS (Holdings) shall enter into the hotel management services master agreement (the "HMS Master Agreement") to govern such continuing connected transactions. Details of the HMS Master Agreement are set out as below:

Date to be entered into :	Date of completion of the Acquisition
Parties involved :	(1) CTS (Holdings), as hotel owner (2) The Company, as hotel manager
Services provided :	Hotel management services to be provided by the Company and its subsidiaries to CTS (Holdings) and its associates
Fees :	Hotel management fees shall be charged at a certain percentage (1.5%-2%) of total revenue of the hotel under management, a certain percentage (2%-6%) of its gross operating profit and as the case maybe, 1% of its room revenue, the aggregate of which shall be comparable to fees charged by independent third parties.
Term :	From the date of signing of the agreement to 31 December 2015

Since one or more of the applicable percentage ratios in respect of the annual hotel management fees under the HMS Master Agreement exceed 0.1% but are all less than 2.5%, the continuing connected transactions are only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules and do not require independent shareholders' approval.

The maximum annual caps for the hotel management fees payable by CTS (Holdings) and its associates to the Group under the HMS Master Agreement for the three years ending 31 December 2010 are approximately HK$9,764,000, HK$11,326,000 and HK$13,138,000 respectively.

For detailed information in this regard, please refer to the announcement and circular respectively issued by the Company on 1 November 2007 and 21 November 2007.

(iii) On 4 March 2008, Chadwick, a wholly-owned subsidiary of the Company, together with Xibei Power and Shaanxi Qinlong (collectively, the "JV Partners") entered into agreements to replace the Shareholders Agreement and articles of association in respect of Guanzhong Hotspring (the "Replacement Agreements") pursuant to which the JV Partners agreed to increase (i) the registered capital of Guanzhong Hotspring from RMB100 million to RMB301 million; and (ii) the total investment amount of Guanzhong Hotspring from RMB300 million to RMB855 million. As the full amount of the increase in registered capital of RMB201 million was to be contributed in cash by Chadwick solely, the Group's interest in Guanzhong Hotspring would increase from 51% to approximately 83.72%, and the interests of Xibei Power and Shaanxi Qinlong would be diluted from 30% and 19% to approximately 9.97% and 6.31%, respectively.

As mentioned above, Guanzhong Hotspring was a connected person of the Company and thus the capital injection by the Group to Guanzhong Hotspring constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the transactions under the Transfer Agreement, the Entrustment Loan Agreement and the Replacement Agreements formed part of a series of transactions arising from the overall joint venture arrangement described above, these transactions were aggregated for the purpose of classification under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Replacement Agreements and the transactions contemplated thereunder (the "Transaction") when so aggregated are more than 0.1% but all of them are less than 2.5%, the Transaction is subject to the reporting and announcement requirements but is exempt from the independent shareholder's approval requirement of Chapter 14A of the Listing Rules.

For detailed information in this regard, please refer to the announcement issued by the Company on 4 March 2008.

The set of transactions is also disclosed as a post balance sheet event in note 46 to the financial statements.

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

Continuing Connected Transactions

(i) Weihe Power, a 51% owned subsidiary of the Company for the purposes of the Listing Rules (since the Company controls a majority of the issued equity shares in Weihe Power) but a jointly-controlled entity for the preparation of financial accounts, entered into certain ongoing connected transactions with Shaanxi Electric Power Corporation ("Shaanxi Power") and its subsidiaries (collectively, the "Shaanxi Power Group") and Shaanxi Zheng Yuan Electric Power Industrial Development Co. ("Shaanxi Zhengyuan") and its subsidiaries (collectively, the "Shaanxi Zhengyuan Group") in the following categories:

(a) Sale of electricity to the Shaanxi Power Group;
(b) Purchase of raw coal for power generation from the Shaanxi Zhengyuan Group;
(c) Provision of raw materials for power generation by the Shaanxi Zhengyuan Group;
(d) Provision of waste water and ash handling services by the Shaanxi Zhengyuan Group;
(e) Purchase of steel balls from the Shaanxi Zhengyuan Group; and
(f) Provision of machinery repair and maintenance services by Shaanxi Zhengyuan Group.

(1) On 16 March 2007, Weihe Power entered into the power supply agreement with Shaanxi Power (the "Shaanxi Power Supply Agreement") to govern the continuing connected transactions in relation to electricity supply between the Group and Shaanxi Power Group (the "Shaanxi Power CCT") for a term commencing from 1 January 2007 and ending on 31 December 2007. As China State Power Grid Corporation owns 100% interest in Shaanxi Power and 100% interest in Xibei Power, and Xibei Power owns 30% in Weihe Power and is therefore a substantial shareholder of Weihe Power. Accordingly, Xibei Power and members in Shaanxi Power Group are connected persons of the Company. The transactions contemplated under the Shaanxi Power Supply Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since one or more of the relevant percentage ratios under the Listing Rules for the annual cap on the consideration receivable by the Group under the Shaanxi Power Supply Agreement (the "Shaanxi Power CCT Cap") exceed 2.5%, the Shaanxi Power CCT is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Since none of the shareholders of the Company ("Shareholders") is required to abstain from voting in the Shaanxi Power CCT, the aforesaid transactions and agreement have been approved by a written approval of a closely allied group of Shareholders in lieu of an approval from the independent Shareholders at a shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules.

The Shaanxi Power CCT Cap for the year ended 31 December 2007 was RMB1,764,000,000.

For detailed information, please refer to the announcement and circular respectively issued by the Company on 5 September 2007 and 18 September 2007.

(2) On 17 August 2007 and 31 December 2007, the Company entered into two master agreements (the "Shaanxi Zhengyuan Master Agreements") with Shaanxi Zhengyuan to govern the continuing connected transactions referred to in (b) to (e) mentioned above and (f) mentioned above respectively between the Group and the Shaanxi Zhengyuan Group (collectively, the "Shaanxi Zhengyuan CCT") for a term commencing from 1 January 2007 and ending on 31 December 2008. As Shaanxi Zhengyuan is a wholly owned subsidiary of Xibei Power and therefore a connected person of the Company, the above-said transactions as described in the Shaanxi Zhengyuan Master Agreements constitute continuing connected transactions of the Company under the Listing Rules.

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

The maximum annual caps for the above-said transactions for the two years ending 31 December 2008 and the actual amounts of such transactions for the year ended 31 December 2007 are set out as follows:

	Caps for the year ended/ending 31 December 2007 RMB'000	Caps for the year ended/ending 31 December 2008 RMB'000	Approximate actual amounts for the year ended 31 December 2007 RMB'000
I. *Continuing connected transactions with Shaanxi Zhengyuan Group under the master agreement entered into on 17 August 2007*			
(a) Provision of electricity to the Shaanxi Power Group (excluding VAT of 17%)	1,764,000 (approximately HK$1,799,280,000)	–	1,757,674 (approximately HK$1,811,323,000)
(b) Purchase of raw coal for power generation from the Shaanxi Zhengyuan Group	113,430 (approximately HK$115,699,000)	128,180 (approximately HK$130,744,000)	97,226 (approximately HK$100,193,000)
(c) Purchase of raw materials for power generation from the Shaanxi Zhengyuan Group	15,170 (approximately HK$15,473,000)	16,700 (approximately HK$17,034,000)	10,996 (approximately HK$11,331,000)
(d) Provision of waste water and ash handling services to the Group (excluding VAT of 17%)	16,600 (approximately HK$16,932,000)	18,500 (approximately HK$18,870,000)	11,253 (approximately HK$11,596,000)
(e) Purchase of steel balls from the Shaanxi Zhengyuan Group (excluding VAT of 17%)	2,710 (approximately HK$2,764,000)	3,000 (approximately HK$3,060,000)	2,340 (approximately HK$2,411,000)
II. *Continuing connected transactions with Shaanxi Zhengyuan Group under the master agreement entered into on 31 December 2007*			
(f) Provision of machinery repair and maintenance services by Shaanxi Zhengyuan Group	10,272	11,299	8,789 (approximately HK$9,058,000)

For detailed information relating to the above transactions, please refer to the announcements issued by the Company on 5 September 2007 and 31 December 2007 and the circular issued by the Company on 18 September 2007 respectively.

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

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

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

The Huaqiaocheng CCT Cap for the three years ending 31 December 2009 is RMB10.89 million per year. The Huaqiaocheng CCT for the year ended 31 December 2007 amounted to approximately RMB10.56 million.

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

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

(a) Provision of Travel Permission Administration on behalf of CTS (Holdings);
(b) Provision of insurance brokerage services by CTS (Holdings) Group;
(c) Lease arrangements with CTS (Holdings) Group as lessor;
(d) Provision of Application Service Provider ("ASP") related services to CTS (Holdings) Group; and
(e) Provision of travel related services to China CTS (HK) Group

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

    CTSHK has continued to provide the Travel Permit Administration during its ordinary and usual course of business and in accordance with the terms of the Agency Agreement. At the extraordinary general meeting held on 22 December 2006, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$400 million for the Travel Permit Administration for each of the three financial years ending 31 December 2009.

(2) The Company entered into a master agreement with CTS (Holdings) on 29 December 2006 to govern the continuing connected transactions referred to in (b), (c) and (d) above for a term commencing from 1 January 2007 and ending on 31 December 2009.

    On the same date, the Company also entered into a master agreement with China National Travel Service (HK) Group Corporation ("China CTS (HK)") to govern the continuing connected transactions referred to in (e) above between the Group and China CTS (HK) Group for a term commencing from 1 January 2007 and ending on 31 December 2009.

    As CTS Holdings is a substantial shareholder of the Company, members of the CTS Holdings Group are connected persons of the Company. China CTS (HK) is the sole shareholder of CTS (Holdings), and accordingly members of the China CTS (HK) Group are also connected persons of the Company.

The maximum aggregate annual consideration for the above-said continuing connected transactions for the three years ending 31 December 2009 and the actual amounts of such transactions for the year ended 31 December 2007 are as follows:

	Caps for the three years ended / ending 31 December 2007 HK$'000	2008 HK$'000	2009 HK$'000	Approximate actual amounts for the year ended 31 December 2007 HK$'000
I. *Continuing connected transactions with CTS (Holdings) Group*				
(a) Provision of travel permit administration on behalf of CTS (Holdings)	400,000	400,000	400,000	308,457
(b) Provision of insurance brokerage services by CTS (Holdings) Group	7,490	7,870	8,270	5,191
(c) Lease arrangements with CTS (Holdings) Group as lessor	16,660	18,260	20,010	15,409
(d) Provision of ASP related services to CTS (Holdings) Group	14,230	14,230	14,230	14,013
II. *Continuing connected transactions with China CTS (HK) Group*				
(e) Provision of travel related services to China CTS (HK) Group	11,090	17,500	13,730	5,749

For detailed information relating to the above transactions, please refer to the announcements issued by the Company on 27 November 2006 and 29 December 2006 and the circular issued by the Company on 5 December 2006.

(iv) On 29 December 2006, the Company and U.S. China Travel Service Inc. ("USCTS"), a subsidiary of the Company, entered into a travel services agreement for a term of three years commencing from 1 January 2007, pursuant to which the Company and USCTS agreed to provide travel related services to each other's customers for fees no less favorable than those charged by independent third parties.

On the same date, Pacific Travel and Trade Corporation ("Pacific Travel") and USCTS entered into a ticketing services agreement for a term of three years commencing from 1 January 2007, pursuant to which Pacific Travel has agreed to provide airline ticketing related services and technical support services in respect of the maintenance of USCTS's computer system to USCTS for fees no less favorable than those charged by independent third parties. The fees payable by USCTS to Pacific Travel in respect of the ticketing related services shall be the price of the airline tickets charged at the airline contract rates of Pacific Travel plus a fixed fee of US$5 for each ticket issued. For the technical support services, USCTS shall pay a monthly fee of US$1,500 to Pacific Travel in 2007 and such monthly fee shall increase by 5% in each of 2008 and 2009.

The maximum aggregate annual values for the above-said continuing connected transactions for the three years ending 31 December 2009 and the actual amounts of such transactions for the year ended 31 December 2007 are as follows:

	Caps for the three years ended / ending 31 December			Approximate actual amounts for the year ended 31 December
	2007	2008	2009	2007
I. *Continuing connected transactions under the travel services agreement*				
(a) Travel related service fees payable by the Group to USCTS	HK$5,303,000	HK$6,364,000	HK$7,636,000	HK$4,889,932
(b) Travel related service fees payable by USCTS to the Group	HK$7,470,000	HK$9,711,000	HK$11,653,000	HK$6,932,906
II. *Fees payable by USCTS to Pacific Travel under the ticketing services agreement*				
(a) Ticketing related services	US$1,712,500 (approximately HK$13,271,875)	US$2,467,500 (approximately HK$19,123,125)	US$2,961,000 (approximately HK$22,947,750)	US$1,027,582 (approximately HK$8,006,188)
(b) Technical support services	US$18,000 (approximately HK$139,500)	US$18,900 (approximately HK$146,475)	US$19,845 (approximately HK$153,799)	US$16,651 (approximately HK$129,700)
Total for II	US$1,730,500 (approximately HK$13,411,375)	US$2,486,400 (approximately HK$19,269,600)	US$2,980,845 (approximately HK$23,101,549)	US$1,044,233 (approximately HK$8,135,888)

USCTS is owned as to 49% by Pacific Travel and Pacific Travel is wholly owned by a director of USCTS. Therefore, both of Pacific Travel and USCTS are connected persons of the Company.

Details of this transaction were set out in the announcement of the Company dated 29 December 2006.

(v) The Group engaged CTS Hotels Management to manage certain of its hotels, particulars of which are set out as below.

(1) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Metrocity Hotel Limited which are the owners of Metropark Hotel Kowloon Hong Kong, Metropark Hotel Mongkok Hong Kong and Metropark Hotel Wanchai Hong Kong respectively, entered into hotel management agreements with CTS Hotels Management.

CTS Hotels Management is a wholly-owned subsidiary of CTS (Holdings) and is therefore a connected person of the Company. Pursuant to these hotel management agreements, CTS Hotels Management was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term of eight years from 1 January 2000 to 31 December 2007 with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of such hotels for the year. The aggregate hotel management fees under these hotel management agreements for the year ended 31 December 2007 amounted to approximately HK$9,178,000. The maximum aggregate annual value on the hotel management fees payable by the Group to CTS Hotels Management under these hotel management agreements for the year ended 31 December 2007 was HK$10,000,000.

(2) On 11 September 2006, two wholly-owned subsidiaries of the Company, Well Done Enterprises Inc. and Sociedade De Fomento Predial Fu Wa (Macau) Limitada which are owners of Metropark Hotel Causeway Bay Hong Kong and Metropark Hotel Macau respectively entered into the hotel management agreements with CTS Hotels Management.

Pursuant to these hotel management agreements, CTS Hotels Management was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term from 1 September 2006 to 31 December 2007 with an option of automatic renewal for further 3 years provided that the shareholders of these companies approved such renewal, unless a party gives no less than six months prior written notice to the other party that it will not renew such an agreement, and at an annual remuneration, which is calculated at 2% of the total revenue and 5% of the gross profit of such hotels for the year. The hotel management fees under these hotel management agreements in respect of Metropark Hotel Causeway Bay Hong Kong and Metropark Hotel Macau for the year ended 31 December 2007 amounted to approximately HK$4,232,000 and HK$3,241,000 respectively. The maximum annual values of the hotel management fees payable by the Group to CTS Hotels Management under these hotel management agreements in respect of Metropark Hotel Causeway Bay Hong Kong and Metropark Hotel Macau for the year ended 31 December 2007 were HK$5,000,000 and HK$3,500,000 respectively.

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

The auditors of the Company have confirmed that the above continuing connected transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Group (where the transactions involve provision of goods or services by the Group); (iii) have been entered into in accordance with the relevant agreements governing the transactions; and (iv) have not exceeded the cap disclosed in previous announcements.

The details of certain connected transactions conducted during the year were set out in note 44 to the financial statements under the heading of "Related Party Transactions".

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

DIRECTORS' INTERESTS IN THE SHARES AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the Directors and the Company's chief executives in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long position in ordinary shares of the Company

ordinary shares of HK$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	% of the issued share capital
Dr. Fong Yun Wah	Interest of controlled corporations *(Note)*	50,000	0.000878%

Note: These shares were beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah was taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

(ii) Long position in share options of the Company

Name of Directors	Number of options directly beneficially owned
Zhang Xuewu	2,130,000
Xiong Weiping	2,130,000
Zheng Heshui	1,770,000
Lo Sui On	1,770,000
Jiang Yan	1,770,000
Mao Jianjun	1,770,000
Zhang Fengchun	1,770,000
Wei Qing	800,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, or subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 37 to the financial statements.

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

	Number of share options						
Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	At 31 December 2007	Date of grant of share options*	Exercise period of share options**	Exercise price per share option HK$
Directors, chief executive and their associates							
Zhang Xuewu	–	2,130,000	–	2,130,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Xiong Weiping	–	2,130,000	–	2,130,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Zheng Heshui	–	1,770,000	–	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Lo Sui On	–	1,770,000	–	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Jiang Yan	–	1,770,000	–	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Mao Jianjun	–	1,770,000	–	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Zhang Fengchun	–	1,770,000	–	1,770,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
Wei Qing	–	800,000	–	800,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
	–	13,910,000	–	13,910,000			
Other employees							
In aggregate	–	83,200,000	–	83,200,000	9 July 2007	9 July 2009 to 2 June 2012	4.65
	–	97,110,000	–	97,110,000			

Notes:

* Pursuant to the Scheme, upon an offer being accepted by a grantee, the share option will be deemed to have been granted on the date of the offer. The date of acceptance of grant of share option for directors is 8 September 2007.

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

Maximum proportion of options exercisable including the proportion of options previously exercised	*Exercise period*
30%	9 July 2009 to 2 June 2012
60%	9 July 2010 to 2 June 2012
100%	9 July 2011 to 2 June 2012

The closing price of the shares of the Company immediately before the date on which the options referred to above were granted as quoted on the Stock Exchange's daily quotation sheets was HK$4.65.

The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The Directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	**Number of options granted during the year**	**Theoretical value of share options**
		HK$
Zhang Xuewu	2,130,000	3,542,829
Xiong Weiping	2,130,000	3,542,829
Zheng Heshui	1,770,000	2,944,041
Lo Sui On	1,770,000	2,944,041
Jiang Yan	1,770,000	2,944,041
Mao Jianjun	1,770,000	2,944,041
Zhang Fengchun	1,770,000	2,944,041
Wei Qing	800,000	1,330,640
	13,910,000	23,136,503

The binomial model is a generally accepted method of valuing options. The binomial model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. The significant assumptions used in the calculation of the values of the share options were risk-free interest rate, expected volatility and expected dividend. The measurement date used in the valuation calculations was the date at which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance inputs to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option. Accordingly, the Binomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above, as at 31 December 2007, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Substantial Shareholders

As at 31 December 2007, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register of interest required to be kept by the Company under section 336 of the SFO:

(i) Long position in the ordinary shares of the Company

ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of shares held	% of the issued share capital
China CTS (HK)	Interest of controlled corporation *(Note 1)*	2,993,632,728	52.56%
CTS (Holdings)	Interest of controlled corporation and beneficial owner *(Notes 1 and 3)*	2,993,632,728	52.56%
Foden International Limited ("FIL")	Beneficial owner *(Note 2)*	20,700,000	0.36%
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	398,966,000	7.01%

Notes:

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

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

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

Messrs. Zhang Xuewu, Xiong Weiping, Zheng Heshui, Lo Sui On, Mao Jianjun, Zhang Fengchun and Ms. Jiang Yan are directors of the Company, CTS (Holdings) and China (CTS) HK. None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries.

Save as the aforesaid and as disclosed under the heading "Directors' Interests in the Shares and Short Positions in Shares and Underlying Shares" above, as at 31 December 2007, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Particulars of interest-bearing bank and other borrowings of the Group as at 31 December 2007 are set out in note 33 to the financial statements.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 2007, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. In the case of such a breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities outstanding as at 31 December 2007 are as follows:

Amount outstanding as at 31 December 2007	Final maturity of the loan facilities
HK$500 million	2 January 2009

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 49 to 61.

AUDIT COMMITTEE

The Company's Audit Committee was established in 1999 for the purposes of assisting the Board in monitoring the financial reporting matters, internal controls, internal audit and external audit of the Group.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee (Appointed on 21 August 2007). During the year, Dr. Yeh Meou Tsen, Geoffrey (resigned on 15 July 2007) (and his alternate, Mr. Yeh V Nee, resigned on 15 July 2007) ceased to be a member of the Audit Committee.

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee (Appointed 21 August 2007). During the year, Dr. Yeh Meou Tsen, Geoffrey (resigned on 15 July 2007) (and his alternate, Mr. Yeh V Nee, resigned on 15 July 2007) ceased to be a member of the Remuneration Committee.

COMPENSATION POLICY

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

POST BALANCE SHEET EVENTS

Details of the significant events subsequent to the balance sheet date are set out in note 46 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD

Xiong Weiping
Vice Chairman & General Manager
Hong Kong, 8 April 2008

CORPORATE GOVERNANCE REPORT

The Board of Directors ("the Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2007. The Group considers that good corporate governance is vital to the healthy and sustainable development of the Group. To ensure a high standard of corporate governance, the Group shall strive to enhance the standard of corporate governance continuously, strictly comply with the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and actively apply the principles of the Code.

The Code sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

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

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

The Company has complied with all the Code Provisions throughout the accounting period for the year ended 31 December 2007 except for the following deviation:

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

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

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

THE BOARD

Responsibilities

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

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

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

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

Composition

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

The Directors of the Board of Directors of the Company during 2007 and up to the date of this report were as follows:

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager)*
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (Appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (Appointed on 8 April 2008)
Mr. Wei Qing (Appointed on 31 August 2007 and Resigned on 8 April 2008)
Mr. Zheng Hongqing (Resigned on 8 June 2007)
Mr. Ng Chi Man, Michael (Resigned on 31 May 2007)
Mr. Liu Li (Resigned on 31 August 2007)

Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey (Resigned on 15 July 2007, a member of Audit Committee and Remuneration Committee)
Mr. Yeh V Nee *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)*
(Resigned at the same time with Dr. Yeh Meou Tsen)
Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter *(Chairman of Audit Committee and Remuneration Committee)*
Mr. Sze, Robert Tsai To *(a member of Audit Committee and Remuneration Committee)*
Mr. Chan Wing Kee *(Appointed on 21 August 2007, a member of Audit Committee and Remuneration Committee)*

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

The relationships among the members of the Board are disclosed under "Biographies of Directors and Senior Management" on pages 8 to 11.

During the year ended 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

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

Appointment and Succession Planning of Directors

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

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

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

To enable the Company's Articles of Association (the "Articles") to be in line with Code Provisions A.4.1 and A.4.2, a special resolution was proposed and passed at the annual general meeting of the Company held on 12 May 2006 to amend the Articles so that all Directors would be subject to retirement by rotation once every three years.

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

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

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

The Board completed the following works for selection and appointment of new Directors during 2007:

- discussed and provided advices on the appointments of new Directors with reference to the criteria mentioned above; and

- reviewed the independence of the independent non-executive Directors.

During the year, two Executive Board meetings in relation to Directors' nomination related matters were held on 21 August 2007 and 31 August 2007 respectively, at which Mr. Chan Wing Kee was appointed as an independent non-executive Director of the Company on 21 August 2007 and Mr. Wei Qing was appointed as an executive Director of the Company on 31 August 2007. Mr. Zhang Xuewu, Mr. Xiong Weiping and Mr. Zheng Heshui attended the meetings. Mr. Wei Qing resigned as executive Director of the Company with effect from 8 April 2008. Mr. Fang Xiaorong and Mr. Xu Muhan were appointed as executive Directors with effect from 8 April 2008.

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

The Company's circular dated 24 April 2008 contains detailed information of the Directors standing for re-election.

Training for Directors

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

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

BOARD MEETINGS

Number of Meetings and Directors' Attendance

During the year ended 31 December 2007, the Board met four times. On 12 April 2007, the Board met to review the annual results, the report from the first Audit Committee meeting, retirement and re-election of Directors and re-appointment of auditors. On 3 September 2007, the Board met to review the interim results, the report from the second Audit Committee meeting and connected transactions. On 30 October 2007, the Board met to review connected transactions. On 27 December 2007, the Board met to discuss issues including investment projects. The attendance rate at each meeting was 85%, 75%, 67% and 83% respectively.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2007 is set out below:

	Attendance/Number of Meetings		
Name of Directors	Board	Audit Committee	Remuneration Committee
Zhang Xuewu	4/4	Not applicable	Not applicable
Xiong Weiping	4/4	Not applicable	Not applicable
Zheng Heshui	3/4	Not applicable	Not applicable
Lo Sui On	3/4	Not applicable	Not applicable
Jiang Yan	4/4	Not applicable	Not applicable
Mao Jianjun	3/4	Not applicable	Not applicable
Zhang Fengchun	0/4	Not applicable	Not applicable
Wei Qing*	3/3	Not applicable	Not applicable
Fong Yun Wah	4/4	Not applicable	Not applicable
Wong Man Kong, Peter	4/4	3/3	1/1
Sze Robert Tsai To	3/4	3/3	1/1
Chan Wing Kee*	1/3	2/2	1/1
Zheng Hongqing**	0/1	Not applicable	Not applicable
Ng Chi Man, Michael**	1/1	Not applicable	Not applicable
Liu Li**	1/1	Not applicable	Not applicable
Yeh Meou Tsen, Geoffrey***	1/1	1/1	0/0
Yeh V Nee***	Not applicable	Not applicable	Not applicable

* Mr. Wei Qing was appointed as an executive Director of the Company with effect from 31 August 2007. During the period from 31 August 2007 to 31 December 2007, three Board meetings were held.

* Mr. Chan Wing Kee was appointed as an independent non-executive Director of the Company with effect from 21 August 2007. During the period from 21 August 2007 to 31 December 2007, three Board meetings, two Audit Committee meetings and one Remuneration Committee meeting were held.

** Mr. Zheng Hongqing resigned from the office of executive Director of the Company with effect from 8 June 2007. During the period from 1 January 2007 to 8 June 2007, one Board meeting was held; Mr. Ng Chi Man, Michael resigned from the office of executive Director of the Company with effect from 31 May 2007. During the period from 1 January 2007 to 31 May 2007, one Board meeting was held; Mr. Liu Li resigned from the office of executive Director of the Company with effect from 31 August 2007. During the period from 1 January 2007 to 31 August 2007, one Board meeting was held.

*** Dr. Yeh Meou Tsen, Geoffrey resigned from the office of independent non-executive Director of the Company with effect from 15 July 2007. During the period from 1 January 2007 to 15 July 2007, one Board meeting and one Audit Committee meeting were held. Mr. Yeh V Nee is an alternate Director to Dr. Yeh Meou Tsen, Geoffrey, and resigned at the same time with, Dr. Yeh Meou Tsen, Geoffrey.

Practices and Conduct of Meetings

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

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

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

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

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

CHAIRMAN AND GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

The Company supports the division of responsibility between the Chairman and the General Manager/Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and General Manager/Chief Executive Officer are held by Mr. Zhang Xuewu and Mr. Xiong Weiping respectively. Their respective responsibilities are clearly defined and set out in writing.

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

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

BOARD COMMITTEES

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

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

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

Remuneration Committee

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

One Remuneration Committee meeting was held on 18 December 2007 to review matters mainly concerning a review on remuneration and performance of executive Directors and senior management of the Company, as well as the Share Option Scheme for the senior management, with a discussion over the issues to be raised at the following Remuneration Committee meeting.

Audit Committee

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

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held three meetings during the year ended 31 December 2007 to consider independent opinions of external auditors on the Company and to review the financial results and reports, financial reporting and process of compliance and the report of the internal audit department on the Company's internal control and risk management review, and the re-appointment of the external auditors.

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

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

The Company's annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all Directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2007.

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

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

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 62 to 63.

Save as disclosed in note 8 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2007, other fees payable for significant non-audit service assignments for the year include:

	Fees (HK$'000)
1. Taxation services	463
2. Professional consultation services on the new Chinese Accounting Standard	925
3. Services on the issuance of comfort letters for the Group on major and connected transactions as required under Listing Rules	600
Total	1,988

INTERNAL CONTROLS

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

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

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

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

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

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

In strict compliance with the requirements of Code Provision C.2.1, the Directors kept reviewing the internal control system of the Group and further improved the system in 2007 with respect to financial control, operational control, compliance control and risk management on top of the comprehensive review of the internal control system conducted under the guidance of the Board in 2006.

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

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

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

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of China Travel International Investment Hong Kong Limited set out on pages 64 to 168, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

8 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	6	**4,417,195**	4,062,251
Cost of sales		**(2,687,137)**	(2,565,133)
Gross profit		**1,730,058**	1,497,118
Other income and gains	6	**112,618**	122,246
Selling and distribution costs		**(483,263)**	(447,047)
Administrative expenses		**(909,834)**	(840,227)
Net gain from a fair value adjustment in investment properties		**13,947**	6,887
Impairment of goodwill		**–**	(16,591)
Finance costs	7	**(32,713)**	(77,793)
Share of profits and losses of:			
Jointly-controlled entities		**248,751**	133,354
Associates		**67,702**	57,588
PROFIT BEFORE TAX	8	**747,266**	435,535
Tax	11	**(120,626)**	(102,352)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**626,640**	333,183
DISCONTINUING OPERATION			
Profit for the year from a discontinuing operation	13	**94,272**	82,834
PROFIT FOR THE YEAR		**720,912**	416,017
Attributable to:			
Equity holders of the parent	12	**633,974**	333,452
Minority interests		**86,938**	82,565
		720,912	416,017
DIVIDENDS	14		
Interim		**170,861**	113,907
Proposed final		**170,861**	56,954
Adjustments to 2005 final dividend		**–**	15,809
		341,722	186,670
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CENTS)	15		
Basic			
– For profit for the year		**11.13**	6.10
– For profit from continuing operations		**9.80**	4.90
Diluted			
– For profit for the year		**11.12**	N/A
– For profit from continuing operations		**9.79**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**4,418,186**	4,255,187
Investment properties	17	**200,049**	240,085
Prepaid land lease payments	18	**3,036,028**	3,056,985
Goodwill	19	**1,244,769**	1,244,769
Passenger service licences	20	**2,168**	–
Interests in jointly-controlled entities	22	**1,176,160**	1,151,917
Interests in associates	23	**438,293**	418,996
Available-for-sale investments	24	**17,977**	18,898
Held-to-maturity investments	25	**15,691**	15,547
Deferred tax assets	35	**250**	525
Total non-current assets		**10,549,571**	10,402,909
CURRENT ASSETS			
Inventories	26	**18,377**	17,831
Trade receivables	27	**283,823**	704,253
Tax recoverable		**2,967**	2,974
Prepayments, deposits and other receivables	28	**370,878**	356,255
Pledged time deposits	29	**11,169**	4,176
Cash and cash equivalents	29	**2,272,346**	2,157,297
Amount due from the immediate holding company	30	**28,230**	23,202
Amounts due from fellow subsidiaries	30	**21,676**	3,279
		3,009,466	3,269,267
Assets of a disposal group classified as held for sale	13	**995,260**	–
Total current assets		**4,004,726**	3,269,267
CURRENT LIABILITIES			
Trade payables	31	**402,841**	731,617
Tax payable		**69,203**	45,093
Other payables and accruals	32	**858,975**	822,234
Interest-bearing bank and other borrowings	33	**5,385**	179,733
Amount due to the immediate holding company	30	**902**	1,421
Amounts due to fellow subsidiaries	30	**2,623**	3,138
		1,339,929	1,783,236
Liabilities directly associated with the assets classified as held for sale	13	**473,546**	–
Total current liabilities		**1,813,475**	1,783,236
NET CURRENT ASSETS		**2,191,251**	1,486,031
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,740,822**	11,888,940

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,740,822**	11,888,940
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		**148,108**	149,002
Interest-bearing bank and other borrowings	*33*	**578,949**	504,843
Deferred tax liabilities	*35*	**373,435**	371,073
Total non-current liabilities and deferred income		**1,100,492**	1,024,918
Net assets		**11,640,330**	10,864,022
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	*36*	**569,536**	569,536
Reserves	*38*	**10,365,589**	9,794,050
Proposed final dividend	*14*	**170,861**	56,954
		11,105,986	10,420,540
Minority interests	*38*	**534,344**	443,482
Total equity		**11,640,330**	10,864,022

Zhang Xuewu
Director

Xiong Weiping
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Total equity at 1 January:			
As previously reported		**10,649,925**	9,457,499
Prior year adjustments	*4(a)(ii)*	**(229,385)**	(186,079)
As restated		**10,420,540**	9,271,420
Exchange differences on translation of the financial statements of foreign entities	*38*	**240,433**	112,182
Total income and expense for the year recognised directly in equity		**240,433**	112,182
Profit for the year	*38*	**633,974**	333,452
Total income and expense for the year		**874,407**	445,634
Share of reserve of an associate	*38*	**11,623**	(5,652)
Dividends paid		**(227,815)**	(280,881)
Issue of new shares	*36*	**–**	65,651
Premium on issue of new shares	*36, 38*	**–**	924,368
Equity-settled share option arrangements	*38*	**27,231**	–
Total equity at 31 December		**11,105,986**	10,420,540

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**747,266**	435,535
From a discontinuing operation	*13*	**111,294**	96,238
Adjustments for:			
Finance costs	*7*	**34,513**	79,561
Interest income		**(62,455)**	(71,161)
Gain on disposal of investment properties and items of property, plant and equipment, net		**(4,399)**	(1,140)
Write-back of long outstanding payables		**–**	(2,958)
Loss/(gain) on disposal of available-for-sale investments	*8*	**(3,941)**	1,757
Depreciation	*8*	**317,069**	328,786
Amortisation of prepaid land lease payments	*8*	**66,643**	60,396
Impairment/(reversal of impairment) of trade and other receivables, net	*8*	**(2,353)**	6,976
Impairment of available-for-sale investments	*8*	**853**	299
Reversal of impairment of items of property, plant and equipment	*8*	**–**	(259)
Impairment of goodwill	*8*	**–**	16,591
Reversal of impairment of interests in jointly-controlled entities	*8*	**–**	(2,708)
Write-off of properties under development	*8*	**–**	1,073
Net gain from a fair value adjustment in investment properties	*17*	**(21,251)**	(11,516)
Share of profits and losses of jointly-controlled entities		**(248,751)**	(134,077)
Share of profits and losses of associates		**(67,702)**	(57,433)
Equity-settled share option expense	*37*	**27,231**	–
		894,017	745,960
Decrease/(increase) in inventories		**(548)**	1,351
Increase in trade receivables, prepayments, deposits and other receivables		**(225,228)**	(179,463)
Decrease/(increase) in balances with the immediate holding company		**(5,542)**	6,105
Decrease/(increase) in amounts due from fellow subsidiaries		**(18,404)**	1,987
Increase in trade payables, other payables and accruals		**121,194**	251,782
Decrease in amounts due to fellow subsidiaries		**(466)**	(1,371)
Increase/(decrease) in deferred income		**(894)**	3,276
Decrease/(increase) in amounts due from jointly-controlled entities		**34,050**	(13,975)
Increase/(decrease) in amounts due to jointly-controlled entities		**(1,831)**	1,256
Decrease in amounts due from associates		**11,230**	8,687
Increase in amounts due to associates		**1,275**	7,642
Effect of foreign exchange rate changes, net		**46,381**	11,864
Cash generated from operations		**855,234**	845,101
Hong Kong, PRC and Macau profits taxes paid		**(97,778)**	(97,051)
Overseas taxes paid		**(765)**	(751)
Net cash inflow from operating activities		**756,691**	747,299

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**62,311**	71,161
Dividends received from an associate		**47,560**	35,380
Dividends received from jointly-controlled entities		**138,585**	267,080
Proceeds from disposal of available-for-sale investments		**4,310**	571
Purchases of items of property, plant and equipment		**(322,562)**	(559,469)
Purchases of investment properties	*17*	**–**	(4,202)
Investment in a jointly-controlled entity		**(7,700)**	–
Proceeds from disposal of items of property, plant and equipment		**18,996**	7,965
Proceeds from disposal of investment properties		**5,429**	–
Additions to land lease payments	*18*	**–**	(6,029)
Additions to passenger service licences	*20*	**(2,168)**	–
Acquisition of a subsidiary	*39*	**49,878**	–
Return of capital from a jointly-controlled entity		**10,241**	105,700
Decrease/(increase) in pledged time deposits		**(6,993)**	130
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**175,509**	(333,666)
Net cash inflow/(outflow) from investing activities		**173,396**	(415,379)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(34,916)**	(79,561)
Dividends paid		**(227,815)**	(280,881)
Dividends paid to minority shareholders		**(100,413)**	(63,918)
Contributions from minority shareholders		**22,943**	4,943
Proceeds from shares issued upon exercise of bonus warrants	*36*	**–**	990,019
New bank loans		**45,027**	1,538,937
Repayment of bank loans		**(182,815)**	(2,876,283)
Capital element of finance lease and hire purchase contract payments		**(36)**	(200)
Net cash outflow from financing activities		**(478,025)**	(766,944)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**452,062**	(435,024)
Cash and cash equivalents at beginning of year		**1,487,979**	1,923,003
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,940,041**	1,487,979
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*29*	**1,113,018**	847,528
Non-pledged time deposits with original maturity of less than three months when acquired		**665,519**	640,451
Cash and cash equivalents attributable to a discontinuing operation	*13*	**161,504**	–
		1,940,041	1,487,979

BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	**633**	989
Investment property	*17*	**2,000**	1,950
Investments in subsidiaries	*21*	**4,501,131**	4,979,595
Amounts due from subsidiaries	*21*	**700,000**	–
Investment in a jointly-controlled entity	*22*	**1,415**	1,415
Available-for-sale investment	*24*	**13,949**	13,949
Total non-current assets		**5,219,128**	4,997,898
CURRENT ASSETS			
Amounts due from subsidiaries	*21*	**5,368,344**	6,335,174
Prepayments, deposits and other receivables	*28*	**7,233**	3,151
Cash and cash equivalents	*29*	**818,201**	390,930
Total current assets		**6,193,778**	6,729,255
CURRENT LIABILITIES			
Amounts due to subsidiaries	*21*	**1,972,497**	2,705,602
Other payables and accruals	*32*	**16,767**	22,713
Amount due to the immediate holding company	*30*	**897**	1,343
Tax payable		**3,611**	–
Total current liabilities		**1,993,772**	2,729,658
NET CURRENT ASSETS		**4,200,006**	3,999,597
Net assets		**9,419,134**	8,997,495
EQUITY			
Share capital	*36*	**569,536**	569,536
Reserves	*38*	**8,678,737**	8,371,005
Proposed final dividend	*14*	**170,861**	56,954
Total equity		**9,419,134**	8,997,495

Zhang Xuewu
Director

Xiong Weiping
Director

1. CORPORATE INFORMATION

China Travel International Investment Hong Kong Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.

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

- travel agency and related operations
- theme park operations
- hotel operations
- resort operations
- passenger transportation services
- golf club operations
- power generation (conducted through a jointly-controlled entity)
- freight forwarding and transportation services (to be discontinued in 2008)
- investment holding

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain equity investments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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. Acquisition of minority interest is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 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.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Presentation of Financial Statements – Capital Disclosures*
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*

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

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

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 45 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 2 (Revised)	*Share-based Payments – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 January 2008

5 Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 has been revised to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to detennine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised the reported results in the period that an acquisition occurs, and future reported results.

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

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owner, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it represents all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether which option should they adopt.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have a material financial impact on the Group.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by HKFRS 3 and HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11 requires the arrangements whereby an employee is granted rights to the Group's equity instrument to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

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 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 that are not classified as held for sale in accordance with HKFRS 5 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities *(Continued)*

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

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's 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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Goodwill

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

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

Goodwill arising on acquisition is recognised in the consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

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

In prior years, hotel properties were stated at valuation. Valuations of hotel properties were performed on an annual basis. Changes in the values of hotel properties were dealt with as movements in the hotel property revaluation reserve. As further detailed in note 4(a), the Group has changed its accounting policy for hotel properties which are now stated at cost less accumulated depreciation and any impairment losses. The change in accounting policy has been applied retrospectively with comparatives restated as shown in note 4(a).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Hotel properties	Over the shorter of the lease terms and 75 years
Buildings	Over the shorter of the lease terms and 40 years
Scenic spots establishments	3.6% to 19%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	20%
Furniture, fixtures and equipment	9% to 33.3%
Motor vehicles	14.3% to 33.3%

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

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

Non-current assets and disposal groups held for sale

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

Non-current assets and disposal groups (other than investment properties, deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Passenger service licences

The useful life of passenger service licences are assessed to be indefinite. They are not amortised and are tested for impairment annually at the cash-generating unit level. They are reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

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

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

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

Investments and other financial assets

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 less any allowance for impairment. 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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. Interest earned are reported as interest income and is recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets".

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.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost *(Continued)*

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

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 a 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 less 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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)*

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 services have been rendered;

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

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

(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.

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the 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 current and prior years by the employees and carried forward.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

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

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

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)*

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.

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 with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than Hong Kong dollar. As at the 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

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

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

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

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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 2007 was HK$1,244,769,000 (2006: HK$1,244,769,000). Further details are given in note 19 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 35 to the financial statements.

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Impact of change in the accounting policy for hotel properties

In accordance with HKAS 16 *Property, Plant and Equipment*, hotel properties can either be accounted for using the cost model or the valuation model and the Group has accounted for its hotel properties using the revaluation model in previous years.

Given the fact that most of the hotel properties held by listed companies in the hotel industry in Hong Kong are accounted for using the cost model, during the year, the Group aligned its accounting policy with the industry norm and stated its hotel properties at cost less accumulated depreciation and any impairment losses. The Group's hotel properties are not expected to be sold in the normal course of business, instead, the future economic benefits embodied in their properties will be recovered principally through use in the Group's operation. In the opinion of the directors, this change in the accounting policy enables the Group to provide more relevant information in the financial statements about its performance.

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(Continued)

(a) Impact of change in the accounting policy for hotel properties *(Continued)*

The effects of this change in the accounting policy on the results for the Group for the current and prior years are as follows:

(i) Consolidated income statement for the year ended 31 December

	2007	2006
	HK$'000	HK$'000
Decrease in cost of sales	**20,142**	16,097
Decrease/(increase) in tax expense	**1,351**	(3,143)
Increase in administrative expenses	**(38,343)**	(38,486)
Decrease in net gain from a fair value adjustment in hotel properties	**(8,284)**	(16,020)
	(25,134)	(41,552)
Decrease in basic earnings per share (cents)	**(0.44)**	(0.76)

The cumulative effects as at 1 January and 31 December are summarised below:

(ii) Consolidated balance sheet and statement of changes in equity at 1 January

	2007	2006
	HK$'000	HK$'000
Decrease in property, plant and equipment	**(208,964)**	(168,267)
Decrease in deferred tax assets	**(11,314)**	(13,338)
Increase in deferred tax liabilities	**(9,107)**	(4,474)
	(229,385)	(186,079)
Decrease in hotel property revaluation reserve	**(183,703)**	(181,019)
Increase in exchange fluctuation reserve	**930**	–
Decrease in retained profits	**(46,612)**	(5,060)
	(229,385)	(186,079)

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(Continued)

(a) Impact of change in the accounting policy for hotel properties *(Continued)*

(iii) Consolidated balance sheet and statement of changes in equity at 31 December

	2007	2006
	HK$'000	HK$'000
Decrease in property, plant and equipment	**(236,779)**	(208,964)
Decrease in deferred tax assets	**(11,624)**	(11,314)
Increase in deferred tax liabilities	**(7,781)**	(9,107)
	(256,184)	(229,385)
Decrease in hotel property revaluation reserve	**(182,785)**	(183,703)
Increase/(decrease) in exchange fluctuation reserve	**(1,653)**	930
Decrease in retained profits	**(71,746)**	(46,612)
	(256,184)	(229,385)

(b) Impact of changes in presentation of the income statement

In prior years, a subsidiary engaged in travel agency and related operations had included staff costs and other expenses incurred by the marketing department in cost of sales and administrative expenses, respectively. During the year, these expenses were recorded as selling and distribution costs. In the opinion of the directors, this change in classification of expenses results in a more appropriate presentation of the financial statements and provides more relevant information about the performance of the Group.

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Impact of changes in presentation of the income statement *(Continued)*

The effects of this change in presentation of the income statement for the current and prior years are as follows:

Consolidated income statement for the year ended 31 December

	2007 HK$'000	2006 HK$'000
Decrease in cost of sales	130,323	123,268
Increase in selling and distribution costs	(214,160)	(203,090)
Decrease in administrative expenses	83,837	79,822
	–	–

5. 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 travel agency and related operations segment engages in the provision of travel agency and related services in Hong Kong, Mainland China, South East Asia, Australasia, the United States of America and countries in the European Union;

(b) the theme park operations segment engages in the operation of theme parks in Shenzhen;

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

5. SEGMENT INFORMATION *(Continued)*

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

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

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

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

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

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

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.

5. SEGMENT INFORMATION *(Continued)*

(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 2007 and 2006.

	Continuing operations										Discontinuing operation	
	Travel agency and related operations 2007 HK$'000	Theme park operations 2007 HK$'000	Hotel operations 2007 HK$'000	Resort operations 2007 HK$'000	Passenger transportation services 2007 HK$'000	Golf club operations 2007 HK$'000	Power generation 2007 HK$'000	Corporate and others 2007 HK$'000	Eliminations 2007 HK$'000	Total 2007 HK$'000	Freight forwarding and transportation services 2007 HK$'000	Consolidated 2007 HK$'000
Segment revenue:												
Sales to external customers	2,714,968	464,900	502,274	354,474	294,267	56,838	–	29,474	–	4,417,195	3,517,957	7,935,152
Intersegment revenue	9,961	5,727	6,333	13,958	2,649	–	–	32,373	(71,001)	–	–	–
Other income and gains	14,774	686	5,392	15,440	7,878	–	–	8,252	–	52,422	15,827	68,249
Total	2,739,703	471,313	513,999	383,872	304,794	56,838	–	70,099	(71,001)	4,469,617	3,533,784	8,003,401
Segment results	113,464	153,347	110,763	8,155	34,330	(5,532)	(1,587)	(9,610)		403,330	110,835	514,165
Interest income										60,196	2,259	62,455
Finance costs										(32,713)	(1,800)	(34,513)
Share of profits and losses of:												
Jointly-controlled entities	2,989	–	–	–	–	–	246,596	(834)	–	248,751	–	248,751
Associates	–	–	–	–	67,940	–	–	(238)	–	67,702	–	67,702
Profit before tax										747,266	111,294	858,560
Tax										(120,626)	(17,022)	(137,648)
Profit for the year										626,640	94,272	720,912
Segment assets	2,768,127	609,678	3,368,878	2,387,808	145,149	297,487	–	80,724	–	9,657,851	833,400	10,491,251
Interests in jointly-controlled entities	61,043	–	–	–	(249)	–	1,107,166	8,200	–	1,176,160	347	1,176,507
Interests in associates	(8,917)	–	–	–	446,441	–	–	769	–	438,293	–	438,293
Unallocated assets									–	2,286,733	161,513	2,448,246
Total assets										13,559,037	995,260	14,554,297
Segment liabilities	670,331	102,282	59,604	324,967	34,488	202,670	701	18,406	–	1,413,449	420,027	1,833,476
Unallocated liabilities									–	1,026,972	53,519	1,080,491
Total liabilities									–	2,440,421	473,546	2,913,967
Other segment information:												
Capital expenditure	32,570	64,388	34,960	189,718	27,773	15,753	–	1,022	–	366,184	9,762	375,946
Depreciation and amortisation	49,802	69,553	74,816	127,623	23,005	19,283	–	1,511	–	365,593	18,119	383,712
Impairment losses recognised in the income statement	–	853	–	–	–	–	–	–	–	853	–	853
Other non-cash expenses/ (income), net	642	–	(180)	–	(2,914)	204	–	–	–	(2,248)	(105)	(2,353)
Net gain from a fair value adjustment in investment properties	13,107	–	840	–	–	–	–	–	–	13,947	7,304	21,251

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Continuing operation										Discontinuing operations	
	Travel agency and related operations 2006 HK$'000	Theme park operations 2006 HK$'000	Hotel operations 2006 HK$'000 (Restated)	Resort operations 2006 HK$'000 (Restated)	Passenger transportation services 2006 HK$'000	Golf club operations 2006 HK$'000	Power generation 2006 HK$'000	Corporate and others 2006 HK$'000	Eliminations 2006 HK$'000	Total 2006 HK$'000 (Restated)	Freight forwarding and transportation services 2006 HK$'000	Consolidated 2006 HK$'000 (Restated)
Segment revenue:												
Sales to external customers	2,554,308	414,703	423,381	332,203	270,345	49,993	–	17,318	–	4,062,251	2,917,295	6,979,546
Intersegment revenue	13,227	3,809	4,885	1,756	958	–	–	30,339	(54,974)	–	–	–
Other income and gains	15,000	1,100	4,301	(1,288)	5,382	1,873	13,779	12,948	–	53,095	2,421	55,516
Total	2,582,535	419,612	432,567	332,671	276,685	51,866	13,779	60,605	(54,974)	4,115,346	2,919,716	7,035,062
Segment results	89,021	136,459	59,836	(74,324)	39,361	(6,768)	12,488	(2,838)		253,235	95,428	348,663
Interest income										69,151	2,010	71,161
Finance costs										(77,793)	(1,768)	(79,561)
Share of profits and losses of:												
Jointly-controlled entities	2,815	–	–	–	–		130,539	–	–	133,354	723	134,077
Associates	–	–	–	–	58,002	–	–	(414)	–	57,588	(155)	57,433
Profit before tax										435,535	96,238	531,773
Tax										(102,352)	(13,404)	(115,756)
Profit for the year										333,183	82,834	416,017
Segment assets	2,770,688	578,544	3,301,514	2,081,278	122,966	283,565	–	99,351	–	9,237,906	698,385	9,936,291
Interests in jointly-controlled entities	50,092	–	–	–	–	–	1,100,207	1,415	–	1,151,714	203	1,151,917
Interests in associates	(7,642)	–	–	–	425,705	–	–	933	–	418,996	–	418,996
Unallocated assets									–	2,001,511	163,461	2,164,972
Total assets									–	12,810,127	862,049	13,672,176
Segment liabilities	638,755	85,558	50,252	299,937	27,477	194,701	929	24,388	–	1,321,997	389,572	1,711,569
Unallocated liabilities									–	1,060,448	36,137	1,096,585
Total liabilities									–	2,382,445	425,709	2,808,154
Other segment information:												
Capital expenditure	55,781	60,298	48,996	78,229	24,593	4,571	–	2,316	–	274,784	38,479	313,263
Depreciation and amortisation	42,275	65,977	72,448	149,008	22,273	17,970	–	3,072	–	373,023	16,159	389,182
Impairment losses recognised in the income statement	–	299	–	–	–	–	–	16,591	–	16,890	–	16,890
Other non-cash expenses	2,543	–	–	–	391	1,997	–	504	–	5,435	1,541	6,976
Net gain from a fair value adjustment in investment properties	4,340	–	1,325	–	–	–	–	1,222	–	6,887	4,629	11,516

5. 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 2007 and 2006.

	Hong Kong		Mainland China (including Macau)		Overseas		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)
Segment revenue:								
Sales to external customers	2,004,196	1,835,767	5,294,415	4,670,639	636,541	473,140	7,935,152	6,979,546
Other income and gains	45,069	30,337	19,949	20,061	3,231	5,118	68,249	55,516
Attributable to a discontinuing operation	(123,479)	(116,352)	(3,270,809)	(2,592,232)	(139,496)	(211,132)	(3,533,784)	(2,919,716)
Revenue from continuing operations	1,925,786	1,749,752	2,043,555	2,098,468	500,276	267,126	4,469,617	4,115,346
Other segment information:								
Segment assets	7,059,128	6,478,573	6,900,231	6,645,243	594,938	548,360	14,554,297	13,672,176
Capital expenditure	80,670	88,566	293,950	222,830	1,326	1,867	375,946	313,263

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

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

	Group	
	2007	2006
	HK$'000	HK$'000
		(Restated)
Revenue		
Travel agency and related operations	**2,714,968**	2,554,308
Theme park operations	**464,900**	414,703
Hotel operations	**502,274**	423,381
Resort operations	**354,474**	332,203
Passenger transportation services	**294,267**	270,345
Golf club operations	**56,838**	49,993
Others	**29,474**	17,318
Attributable to continuing operations reported in the consolidated income statement	**4,417,195**	4,062,251
Freight forwarding and transportation services attributable to a discontinuing operation *(note 13)*	**3,517,957**	2,917,295
	7,935,152	6,979,546
Other income		
Interest income	**60,196**	69,151
Gross rental income	**6,393**	8,349
Reinvestment tax credit	**–**	14,636
Others	**17,941**	14,051
	84,530	106,187
Gains		
Foreign exchange differences, net	**27,956**	12,532
Write-back of long outstanding payables	**–**	2,604
Gain on disposal of items of property, plant and equipment, net	**132**	923
	28,088	16,059
Other income and gains		
Attributable to a discontinuing operation	**18,086**	4,431
Attributable to continuing operations reported in the consolidated income statement	**112,618**	122,246
	130,704	126,677

7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
		(Restated)
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**34,916**	79,561
Less: Interest capitalised	**(403)**	–
	34,513	79,561
Attributable to a discontinuing operation *(note 13)*	**1,800**	1,768
Attributable to continuing operations reported in the consolidated income statement	**32,713**	77,793
	34,513	79,561

8. PROFIT BEFORE TAX

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

	Notes	Group 2007 HK$'000	Group 2006 HK$'000 (Restated)
Depreciation	*16*	**317,069**	328,786
Amortisation of prepaid land lease payments	*18*	**66,643**	60,396
Auditors' remuneration:			
Current year		**6,618**	9,892
Over-provision in the prior year		**(605)**	(1,322)
		6,013	8,570
Employee benefits expenses (including directors' remuneration *(note 9)*):			
Wages and salaries		**904,809**	887,472
Equity-settled share option expense		**27,231**	–
Pension scheme contributions		**63,984**	61,169
Less: Forfeited contributions		**–**	(815)
Net pension scheme contributions *(note (i))*		**63,984**	60,354
Total employee benefits expenses		**996,024**	947,826
Minimum lease payments under operating leases:			
Land and buildings		**57,699**	65,249
Plant and machinery and motor vehicles		**42,576**	39,091
Write-off of properties under development		**–**	1,073
Impairment of available-for-sale investments *(note (ii))*		**853**	299
Impairment of goodwill	*19*	**–**	16,591
Loss on deemed disposal of a subsidiary		**–**	690
Impairment/(reversal of impairment) of trade and other receivables, net		**(2,353)**	6,976
Loss/(gain) on disposal of available-for-sale investments		**(3,941)**	1,757
Gain on disposal of investment properties		**(2,929)**	–
Gain on disposal of items of property, plant and equipment		**(1,470)**	(1,140)
Net gain from a fair value adjustment in investment properties	*17*	**(21,251)**	(11,516)
Reversal of impairment of interests in jointly-controlled entities		**–**	(2,708)
Reversal of impairment of items of property, plant and equipment	*16*	**–**	(259)
Net rental income		**(5,978)**	(5,774)
Foreign exchange differences, net		**(25,470)**	(13,163)

8. PROFIT BEFORE TAX *(Continued)*

Notes:

(i) At 31 December 2007, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

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

9. 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	
	2007	2006
	HK$'000	HK$'000
Fees:		
Executive directors	**2,273**	2,350
Independent non-executive directors	**1,022**	940
	3,295	3,290
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**4,410**	5,709
Performance related bonuses*	**2,742**	2,255
Employee share option benefits	**4,122**	–
Pension scheme contributions	**116**	156
	11,390	8,120
	14,685	11,410

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

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	Group	
	2007	2006
	HK$'000	HK$'000
Fee:		
Dr. Yeh Meou Tsen, Geoffrey	**127**	235
Dr. Fong Yun Wah	**260**	235
Mr. Wong Man Kong, Peter	**260**	235
Mr. Sze, Robert Tsai To	**260**	235
Mr. Chan Wing Kee	**115**	–
	1,022	940

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007						
Executive directors:						
Mr. Zhang Xuewu	330	–	–	597	–	927
Mr. Xiong Weiping	300	–	–	597	–	897
Mr. Zheng Heshui	240	–	–	496	–	736
Mr. Lo Sui On	240	814	982	496	95	2,627
Ms. Jiang Yan	240	–	–	496	–	736
Mr. Mao Jianjun	240	–	–	496	–	736
Mr. Zhang Fengchun	240	–	–	496	–	736
Mr. Wei Qing	80	617	110	224	12	1,043
Mr. Zheng Hongqing	103	–	–	–	–	103
Mr. Ng Chi Man, Michael	100	2,496	1,350	–	5	3,951
Mr. Liu Li	160	483	300	224	4	1,171
	2,273	4,410	2,742	4,122	116	13,663

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(Continued)*

	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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2006: one) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2006: four) non-director, highest paid employees for the year are as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Salaries, allowances and benefits in kind	**3,255**	6,014
Employee share option benefits	**673**	–
Pension scheme contributions	**28**	40
	3,956	6,054

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees	
	2007	2006
HK$1,000,001 to HK$1,500,000	**3**	2
HK$1,500,001 to HK$2,000,000	**–**	2
	3	4

During the year, share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 37 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	2007 **HK$'000**	2006 HK$'000 (Restated)
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	**74,200**	68,246
Underprovision in prior years	**11,981**	2,317
Current – Elsewhere		
Charge for the year	**30,644**	27,897
Overprovision in prior years	**(127)**	(401)
Overseas – Current tax charge for the year	**626**	940
Deferred tax	**3,302**	3,353
Total tax charge for the year	**120,626**	102,352

11. 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:

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Group – 2007								
Profit before tax (including profit from a discontinuing operation)	422,938		428,382		7,240		858,560	
Tax at the applicable tax rate	74,014	17.5	141,366	33.0	2,896	40.0	218,276	25.4
Lower tax rates for specific provinces or local authority	–		(74,752)		(977)		(75,729)	
Adjustments in respect of current tax of previous periods	11,944		(127)		–		11,817	
Profits and losses attributable to jointly-controlled entities and associates	(11,890)		(37,318)		–		(49,208)	
Income not subject to tax	(16,240)		(209)		(2,312)		(18,761)	
Expenses not deductible for tax	29,662		7,386		1,292		38,340	
Tax losses utilised from previous periods	(1,486)		(7,132)		–		(8,618)	
Tax losses not recognised	3,216		18,315		–		21,531	
Tax charge at the Group's effective rate	89,220	21.1	47,529	11.1	899	12.4	137,648	16.0
Represented by:								
Tax charge attributable to a discontinuing operation *(note 13)*							17,022	
Tax charge attributable to a continuing operations reported in the consolidated income statement							120,626	
							137,648	

11. TAX *(Continued)*

	Hong Kong HK$'000 (Restated)	%	Mainland China (including Macau) HK$'000 (Restated)	%	Overseas HK$'000	%	Total HK$'000 (Restated)	%
Group – 2006								
Profit/(loss) before tax (including profit from a discontinuing operation)	369,443		163,053		(723)		531,773	
Tax at the applicable tax rate	64,652	17.5	53,807	33.0	(289)	40.0	118,170	22.2
Lower tax rates 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	(3,156)		(2,816)		–		(5,972)	
Expenses not deductible for tax	28,191		1,389		1,353		30,933	
Tax losses utilised from previous periods	(4,795)		(27)		–		(4,822)	
Tax losses not recognised	7,087		33,797		–		40,884	
Tax charge at the Group's effective rate	83,341	22.6	31,287	19.2	1,128	(156.0)	115,756	21.8
Represented by:								
Tax charge attributable to a discontinuing operation *(note 13)*							13,404	
Tax charge attributable to continuing operations reported in the consolidated income statement							102,352	
							115,756	

The share of tax attributable to jointly-controlled entities and associates amounting to HK$41,009,000 (2006: HK$28,133,000) and HK$8,810,000 (2006: HK$5,619,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of HK$622,223,000 (2006: HK$62,296,000) which has been dealt with in the financial statements of the Company (note 38).

13. DISCONTINUING OPERATION

On 1 November 2007, the Company announced the decision of its board of directors to dispose of its entire interest in China Travel Service (Cargo) Hong Kong Limited ("CTS Cargo") and Common Well Limited (collectively the "Cargo Business"). Further details of the transaction are included in note 44(b)(i) to the financial statements. CTS Cargo engages in freight forwarding and transportation services. The Group has decided to cease its freight forwarding and transportation business because it plans to focus its resources on its tourism and hotel related businesses. The disposal of the Cargo Business is expected to complete in 2008. As at 31 December 2007, certain conditions for the sale were not fulfiled and hence, the Cargo Business was classified as a disposal group held for sale.

The results of the Cargo Business for the year are presented below:

	2007	2006
	HK$'000	HK$'000
Revenue	**3,517,957**	2,917,295
Expenses	**(3,404,863)**	(2,819,289)
Finance costs	**(1,800)**	(1,768)
Profit before tax	**111,294**	96,238
Tax	**(17,022)**	(13,404)
Profit for the year	**94,272**	82,834
Attributable to:		
Equity holders of the parent	**75,967**	65,771
Minority interests	**18,305**	17,063
	94,272	82,834

13. DISCONTINUING OPERATION *(Continued)*

The major classes of assets and liabilities of the Cargo Business classified as held for sale as at 31 December 2007 are as follows:

	2007 HK$'000
Assets	
Property, plant and equipment	102,060
Investment properties	40,750
Prepaid land lease payments	51,164
Interest in a jointly-controlled entity	347
Available-for-sale investments	30
Inventories	2
Trade receivables	548,582
Tax recoverable	9
Prepayments, deposits and other receivables	90,805
Cash and cash equivalents	161,504
Amounts due from fellow subsidiaries	7
Assets classified as held for sale	995,260
Liabilities	
Trade payables	352,970
Tax payable	13,661
Other payables and accruals	67,009
Interest-bearing bank and other borrowings	39,679
Amount due to the immediate holding company	5
Amounts due to fellow subsidiaries	49
Deferred tax liabilities	173
Liabilities directly associated with the assets classified as held for sale	473,546
Net assets directly associated with the disposal group	521,714

At 31 December 2007, certain of the disposal group's leasehold land and buildings with a net book value of approximately HK$86,235,000 were pledged to secure general banking facilities granted to the disposal group.

13. DISCONTINUING OPERATION *(Continued)*

The net cash flows incurred by the Cargo Business are as follows:

	2007	2006
	HK$'000	HK$'000
Operating activities	**(2,419)**	68,366
Investing activities	**3,643**	(33,167)
Financing activities	**(3,042)**	5,221
Net cash inflow/(outflow)	**(1,818)**	40,420
Earnings per share:		
Basic, from a discontinuing operation	**1.33 cents**	1.20 cents
Diluted, from a discontinuing operation	**1.33 cents**	N/A

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

	2007	2006
Profit attributable to ordinary equity holders of the parent from the discontinuing operation	**HK$75,967,000**	HK$65,771,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,695,355,525**	5,465,769,483
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**5,700,658,130**	N/A

Information on the financial assets and financial liabilities of the discontinuing operation as at the balance sheet date is as follows:

(i) An aged analysis of the discontinuing operation's trade receivables based on the invoice date is provided in note 27 to the financial statements. They were neither past due nor impaired, and were related to customers for whom there was no recent history of default.

(ii) The maturity profile of the discontinuing operation's financial liabilities as at the balance sheet date, based on contractual undiscounted payments, was either on demand or within 12 months.

14. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim – HK3 cents (2006: HK2 cents) per ordinary share	**170,861**	113,907
Proposed final – HK3 cents (2006: HK1 cent) per ordinary share	**170,861**	56,954
Adjustments to 2005 final dividend	**–**	15,809
	341,722	186,670

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

15. 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, and the weighted average number of ordinary shares in issue during the year.

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

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

The calculation of basic earnings per share are based on:

	2007 HK$'000	2006 HK$'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**558,007**	267,681
From a discontinuing operation *(note 13)*	**75,967**	65,771
	633,974	333,452

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

	Number of shares 2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,695,355,525**	5,465,769,483
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,302,605**	–
	5,700,658,130	5,465,769,483

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	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
At 1 January 2007:							
Cost		2,132,386	1,421,471	1,001,502	43,999	1,676,583	6,275,941
Accumulated depreciation and impairment		(514,250)	(304,990)	(568,484)	–	(633,030)	(2,020,754)
Net carrying amount		1,618,136	1,116,481	433,018	43,999	1,043,553	4,255,187
At 1 January 2007, net of accumulated depreciation and impairment		1,618,136	1,116,481	433,018	43,999	1,043,553	4,255,187
Additions		2,523	624	2,823	197,499	119,496	322,965
Disposals and write-off		(13)	(1,464)	(356)	(996)	(14,697)	(17,526)
Depreciation provided during the year	8	(64,502)	(37,247)	(32,984)	–	(182,336)	(317,069)
Reclassification to assets held for sale	13	–	(68,739)	–	–	(33,321)	(102,060)
Acquisition of a subsidiary	39	–	–	–	47,741	2,206	49,947
Transfer from investment properties	17	–	4,000	–	–	–	4,000
Transfer		24,665	35,458	62,554	(183,875)	61,198	–
Exchange realignment		51,814	81,332	30,244	2,986	56,366	222,742
At 31 December 2007, net of accumulated depreciation and impairment		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186
At 31 December 2007:							
Cost		2,215,920	1,517,016	1,122,763	107,354	1,707,287	6,670,340
Accumulated depreciation and impairment		(583,297)	(386,571)	(627,464)	–	(654,822)	(2,252,154)
Net carrying amount		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186

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

Group

	Notes	Hotel properties HK$'000 (Restated)	Buildings HK$'000	Scenic spots establishment HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000 (Restated)
At 1 January 2006:							
Cost		1,775,625	1,578,435	1,076,990	–	1,498,589	5,929,639
Accumulated depreciation and impairment		(451,642)	(249,691)	(506,796)	–	(547,228)	(1,755,357)
Net carrying amount		1,323,983	1,328,744	570,194	–	951,361	4,174,282
At 1 January 2006, net of accumulated depreciation and impairment		1,323,983	1,328,744	570,194	–	951,361	4,174,282
Additions		33,556	40,512	57	95,942	132,965	303,032
Disposals and write-off		(619)	(15)	(38)	–	(6,106)	(6,778)
Reversal of impairment	*8*	–	–	259	–	–	259
Depreciation provided during the year	*8*	(62,608)	(55,620)	(43,657)	–	(166,901)	(328,786)
Transfer from properties under development		–	107	–	–	2,206	2,313
Transfer to investment properties	*17*	–	(129)	–	–	–	(129)
Transfer		–	10,620	17,283	(51,943)	24,040	–
Reclassification		307,678	(255,416)	(130,622)	–	78,360	–
Exchange realignment		16,146	47,678	19,542	–	27,628	110,994
At 31 December 2006, net of accumulated depreciation and impairment		1,618,136	1,116,481	433,018	43,999	1,043,553	4,255,187
At 31 December 2006:							
Cost		2,132,386	1,421,471	1,001,502	43,999	1,676,583	6,275,941
Accumulated depreciation and impairment		(514,250)	(304,990)	(568,484)	–	(633,030)	(2,020,754)
Net carrying amount		1,618,136	1,116,481	433,018	43,999	1,043,553	4,255,187

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

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 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 and 1 January 2007:				
Cost	803	2,688	2,808	6,299
Accumulated depreciation	(662)	(2,199)	(2,449)	(5,310)
Net carrying amount	141	489	359	989
At 1 January 2007, net of accumulated depreciation	141	489	359	989
Additions	–	225	–	225
Disposals and write-off	–	–	(122)	(122)
Depreciation provided during the year	(70)	(263)	(126)	(459)
At 31 December 2007, net of accumulated depreciation	71	451	111	633
At 31 December 2007:				
Cost	803	2,913	2,379	6,095
Accumulated depreciation	(732)	(2,462)	(2,268)	(5,462)
Net carrying amount	71	451	111	633

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

Particulars of the hotel properties held by the Group as at 31 December 2007 were as follows:

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

The net book value of the Group's property, plant and equipment held under a finance lease included in the furniture, fixture and equipment at 31 December 2007 amounted to HK$64,000 (2006: HK$99,000).

At 31 December 2006, certain of the disposal group's leasehold land and buildings with a net book value of approximately HK$68,778,000 were pledged to secure general banking facilities granted to the Group.

17. INVESTMENT PROPERTIES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
			(Restated)		
Carrying amount at 1 January		**240,085**	223,605	**1,950**	1,950
Additions		**–**	4,202	**–**	–
Disposals		**(2,500)**	–	**–**	–
Reclassification to assets held for sale	*13*	**(40,750)**	–	**–**	–
Net gain from a fair value adjustment:					
– Attributable to a discontinuing operation		**7,304**	4,629	**–**	–
– Attributable to continuing operations		**13,947**	6,887	**50**	–
Transfer from/(to) property, plant and equipment	*16*	**(4,000)**	129	**–**	–
Transfer from/(to) prepaid land lease payments	*18*	**(15,150)**	64	**–**	–
Exchange realignment		**1,113**	569	**–**	–
Carrying amount at 31 December		**200,049**	240,085	**2,000**	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	22,680	12,919	35,599
Medium term leases	155,100	9,350	164,450
	177,780	22,269	200,049
Company			
Medium term leases	–	2,000	2,000

The Group's and the Company's investment properties were revalued on 31 December 2007 by RHL Appraisal Ltd., the independent professionally qualified valuers, at HK$240,799,000 (including continuing operations of HK$200,049,000 and a discontinuing operation of HK$40,750,000) and HK$2,000,000, 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 42(a) to the financial statements.

18. PREPAID LAND LEASE PAYMENTS

	Notes	Group 2007 HK$'000	2006 HK$'000
Carrying amount at 1 January		**3,117,468**	3,168,094
Additions		**–**	6,029
Acquisition of a subsidiary	*39*	**78,875**	–
Reclassification to assets held for sale	*13*	**(51,164)**	–
Amortised during the year	*8*	**(66,643)**	(60,396)
Transfer from/(to) investment properties	*17*	**15,150**	(64)
Exchange realignment		**7,300**	3,805
Carrying amount at 31 December		**3,100,986**	3,117,468
Current portion included in prepayments, deposits and other receivables		**(64,958)**	(60,483)
Non-current portion		**3,036,028**	3,056,985

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

	Hong Kong HK$'000	**Elsewhere** HK$'000	**Total** HK$'000
Long term leases	2,211,233	1,593	2,212,826
Medium term leases	473,931	414,229	888,160
	2,685,164	415,822	3,100,986

19. GOODWILL

	Note	Group 2007 HK$'000	2006 HK$'000
Cost at 1 January, net of accumulated impairment		**1,244,769**	1,260,837
Impairment during the year	*8*	**–**	(16,591)
Exchange realignment		**–**	523
Net carrying amount at 31 December		**1,244,769**	1,244,769

19. GOODWILL *(Continued)*

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

The 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 2007 and 2006. The amount of goodwill is stated at cost.

Impairment testing of goodwill

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

The recoverable amount of the travel agency and related operations cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 17% (2006: 11%) and due to the uncertainty, cash flows beyond the five-year period are extrapolated without growth.

Key assumptions were used in the value in use calculation of the travel agency and related operations cash-generating unit for the years ended 31 December 2007 and 2006. 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.

20. PASSENGER SERVICE LICENCES

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**–**	–
Additions	**2,168**	–
Carrying amount at 31 December	**2,168**	–

21. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**5,001,131**	4,979,595
Amounts due from subsidiaries – non-current portion	**700,000**	–
Amounts due from subsidiaries – current portion	**5,749,518**	6,643,128
Amounts due to subsidiaries – current portion	**(1,972,497)**	(2,705,602)
	9,478,152	8,917,121
Impairment #		
– Investment cost	**(500,000)**	–
– Amounts due from subsidiaries	**(381,174)**	(307,954)
	8,596,978	8,609,167

An impairment was recognised for certain subsidiaries and for the amounts due from subsidiaries. During the year, additional impairment of HK$573,220,000 was charged to the income statement as the present value of estimated cash flows, discounted at the effective interest rate, is lower than its carrying amount.

Except for the balances amounted to HK$700,000,000 which are repayable within 2 years and interest-bearing at 8.62% per annum and HK$200,000,000 which are repayable within 1 year and interest-free, the remaining balances 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.

Particulars of the Company's principal subsidiaries are set out in note 40 to the financial statements.

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investment, at cost	**–**	–	**1,415**	1,415
Share of net assets	**1,138,538**	1,029,071	**–**	–
Goodwill on acquisition*	**10,877**	10,877	**–**	–
Amounts due from jointly-controlled entities	**26,745**	115,340	**–**	–
Amounts due to jointly-controlled entities	**–**	(3,371)	**–**	–
	1,176,160	1,151,917	**1,415**	1,415

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

* 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 (2006: HK$3,693,000).

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. In 2006, included in the balance amounted to HK$52,211,000 bore interest of 1.44% per annum and the remaining balance was interest-free. The carrying amounts of the amounts due from/to jointly-controlled entities approximate to their fair values.

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 2007	2006	Principal activities
China Travel International (Hangzhou) Travel Service Co., Ltd.#***	Corporate	Mainland China	**62.5**	62.5	Tour operations
Gansu Lida International Co., Ltd.#*	Corporate	Mainland China	**40**	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe Power")*	Corporate	Mainland China	**51**	51	Generation and sale of electricity
Shanghai China Travel International Limited#*	Corporate	Mainland China	**50**	50	Tour operations
Suzhou China Travel International Travel Service Co., Ltd.***	Corporate	Mainland China	**26**	26	Tour operations
Tibet Shengdi Heaven Creation Entertainment Co., Ltd.#*	Corporate	Mainland China	**38**	–	Production of arts performances
Xianyang Guanzhong Hotspring Co., Ltd. ("Guanzhong Hotspring")#*	Corporate	Mainland China	**–**	51	Hot spring resort operations

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* Held indirectly through subsidiaries.

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

*** The Company's interest in this jointly-controlled entity of 26% is held indirectly through Shanghai China Travel International Limited.

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

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

	2007	2006
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**413,439**	612,596
Current assets	**1,097,896**	771,862
Current liabilities	**(372,797)**	(323,487)
Non-current liabilities	**–**	(31,900)
Net assets	**1,138,538**	1,029,071
Share of the jointly-controlled entities' results:		
Revenue	**972,758**	1,192,955
Other income and gains	**18,958**	8,424
Total revenue	**991,716**	1,201,379
Total expenses	**(701,956)**	(1,039,169)
Tax	**(41,009)**	(28,133)
Profit after tax	**248,751**	134,077
Represented by:		
Share of profits of a jointly-controlled entity attributable to a discontinuing operation	**–**	723
Share of profits of jointly-controlled entities attributable to continuing operations reported in the consolidated income statement	**248,751**	133,354
	248,751	134,077

23. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**438,354**	406,552
Amounts due from associates	**9,066**	20,296
Amounts due to associates	**(8,917)**	(7,642)
	438,503	419,206
Impairment	**(210)**	(210)
	438,293	418,996

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 (2006: 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 material 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 2007	2006	Principal activities
All China Express Limited#	Corporate	Hong Kong	**30**	30	Passenger transportation
Shun Tak-China Travel Shipping Investments Limited#	Corporate	British Virgin Islands/ Hong Kong	**29**	29	Shipping operations
Dreamlike Lijiang Showbiz Co., Ltd#*	Corporate	Mainland China	**27**	27	Production of art performances

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

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

23. INTERESTS IN ASSOCIATES *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Total assets	**2,135,528**	2,070,715
Total liabilities	**(624,420)**	(669,121)
Revenue	**2,572,095**	2,259,801
Profit after tax	**233,633**	198,770

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Listed equity investments outside Hong Kong, at fair value	**–**	370	**–**	–
Unlisted equity investments, at cost	**17,977**	18,528	**13,949**	13,949
	17,977	18,898	**13,949**	13,949

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

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

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

25. HELD-TO-MATURITY INVESTMENTS

	Group	
	2007 HK$'000	2006 HK$'000
Unlisted debt investments, at amortised cost	**15,691**	15,547

26. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**11,262**	9,110
Spare parts and consumables	**2,918**	6,381
General merchandise	**4,197**	2,340
	18,377	17,831

27. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**292,406**	725,863
Impairment	**(8,583)**	(21,610)
	283,823	704,253

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**198,571**	646,101
3 to 6 months	**63,084**	45,586
6 to 12 months	**14,569**	7,968
1 to 2 years	**3,184**	3,932
Over 2 years	**4,415**	666
	283,823	704,253

27. TRADE RECEIVABLES *(Continued)*

The trade receivables included in a discontinuing operation (note 13) are aged as follows:

	2007
	HK$'000
Within 3 months	**527,997**
3 to 6 months	**11,720**
6 to 12 months	**6,972**
1 to 2 years	**1,815**
Over 2 years	**78**
	548,582

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**21,610**	17,255
Impairment losses recognised	**647**	6,680
Amount written off as uncollectible	**–**	(2,325)
Impairment losses reversed	**(3,000)**	–
Provision for impairment of trade receivables included in a discontinuing operation	**(10,674)**	–
At 31 December	**8,583**	21,610

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**138,244**	401,485
Past due:		
Less than 3 months	**124,527**	267,235
3 to 6 months	**13,398**	26,427
6 to 12 months	**3,301**	6,614
1 to 2 years	**3,144**	2,230
Over 2 years	**1,209**	262
	283,823	704,253

27. TRADE RECEIVABLES *(Continued)*

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

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

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred borrowing costs	**811**	1,611	**–**	–
Prepayments, deposits and other debtors	**368,904**	353,926	**7,233**	3,151
Amounts due from minority shareholders	**1,163**	718	**–**	–
	370,878	356,255	**7,233**	3,151

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

29. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,113,018**	847,528	**308,497**	29,322
Time deposits	**1,170,497**	1,313,945	**509,704**	361,608
	2,283,515	2,161,473	**818,201**	390,930
Less: Pledged time deposits	**(11,169)**	(4,176)	**–**	–
Cash and cash equivalents	**2,272,346**	2,157,297	**818,201**	390,930

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

29. CASH AND CASH EQUIVALENTS *(Continued)*

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$1,099,224,000 (2006: HK$879,883,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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

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

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

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from the immediate holding company				
Within 1 year	**26,777**	21,772	–	–
1 to 2 years	**98**	117	–	–
Over 2 years	**1,355**	1,313	–	–
	28,230	23,202	–	–
Amount due to the immediate holding company				
Within 1 year	**902**	1,421	**897**	1,343

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from fellow subsidiaries				
Within 1 year	**11,272**	2,107	**–**	–
1 to 2 years	**2,913**	843	**–**	–
Over 2 years	**7,491**	329	**–**	–
	21,676	3,279	**–**	–
Amounts due to fellow subsidiaries				
Within 1 year	**2,484**	2,971	**–**	–
1 to 2 years	**–**	163	**–**	–
Over 2 years	**139**	4	**–**	–
	2,623	3,138	**–**	–

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

31. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**343,156**	660,489
3 to 6 months	**18,487**	35,393
6 to 12 months	**15,784**	8,025
1 to 2 years	**14,197**	13,273
Over 2 years	**11,217**	14,437
	402,841	731,617

31. TRADE PAYABLES *(Continued)*

The trade payables included in a discontinuing operation (note 13) are aged as follows:

	2007 HK$'000
Within 3 months	**324,630**
3 to 6 months	**19,745**
6 to 12 months	**4,709**
1 to 2 years	**2,952**
Over 2 years	**934**
	352,970

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

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Accruals and other liabilities	**507,266**	480,301	**4,317**	9,286
Employee benefits	**201,356**	191,076	**12,450**	13,427
Receipts in advance from customers	**150,286**	148,605	**–**	–
Amounts due to minority shareholders	**67**	2,252	**–**	–
	858,975	822,234	**16,767**	22,713

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

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2007 HK$'000	Group 2006 HK$'000
Current				
Finance lease and hire purchase contract payables *(note 34)*	4.84	2008	**36**	36
Bank loan – secured*	LIBOR + 0.12	2008	**4,590**	4,077
Bank loans – unsecured	2.55 – 5.49	2008	**659**	25,620
Bank loans – unsecured**	HIBOR + 0.28	2007	**–**	150,000
Golf club debentures	Interest-free	2008	**100**	–
			5,385	179,733
Non-current				
Finance lease and hire purchase contract payables *(note 34)*	4.84	2009	**26**	62
Syndicated bank loans – unsecured**	HIBOR + 0.25	2009	**500,000**	500,000
Bank loan – secured***	6.48	2012	**74,866**	–
Bank loans – unsecured	2.55	2008	**–**	624
Golf club debentures	Interest-free	2009 – 2024	**4,057**	4,157
			578,949	504,843
Total interest-bearing bank and other borrowings			**584,334**	684,576

* Secured by the Group's bank deposits amounting to HK$5,844,000.

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

*** Secured by the bank deposit amounting to HK$74,866,000 of Shaanxi Weihe Power.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**5,249**	179,697
In the second year	**500,000**	624
In the third to fifth years, inclusive	**74,866**	500,000
	580,115	680,321
Other borrowings repayable:		
Within one year	**136**	36
In the second year	**126**	147
In the third to fifth years, inclusive	**–**	115
Beyond five years	**3,957**	3,957
	4,219	4,255
Total interest-bearing bank and other borrowings	**584,334**	684,576

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

34. 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 of one to two 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 2007 HK$'000	Minimum lease payments 2006 HK$'000	**Present value of minimum lease payments 2007 HK$'000**	Present value of minimum lease payments 2006 HK$'000
Amounts repayable:				
Within one year	**36**	36	**36**	36
In the second year	**26**	36	**26**	36
In the third to fifth years, inclusive	**–**	26	**–**	26
Total minimum lease payments	**62**	98	**62**	98
Future finance charges	**–**	–		
Total net lease payables	**62**	98		
Portion classified as current liabilities *(note 33)*	**(36)**	(36)		
Non-current portion *(note 33)*	**26**	62		

35. DEFERRED TAX

The movements in deferred tax liabilities/(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	Fair value adjustments arising from acquisition of subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006					
As previously reported	(20,771)	179,185	(6,787)	212,869	364,496
Prior year adjustments	92,700	(111,122)	(11,624)	34,520	4,474
As restated	71,929	68,063	(18,411)	247,389	368,970
Deferred tax charged/(credited) to the income statement during the year	8,924	(351)	(6,470)	–	2,103
At 31 December 2006 and 1 January 2007 (as restated)	**80,853**	**67,712**	**(24,881)**	**247,389**	**371,073**
Deferred tax charged/(credited) to the income statement during the year	**1,258**	**(2,761)**	**4,038**	**–**	**2,535**
At 31 December 2007	**82,111**	**64,951**	**(20,843)**	**247,389**	**373,608**

35. DEFERRED TAX *(Continued)*

Deferred tax assets

Group	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 January 2006				
As previously reported	(33,161)	34,520	(17,000)	(15,641)
Prior year adjustments	36,234	(34,520)	11,624	13,338
As restated	3,073	–	(5,376)	(2,303)
Deferred tax charged/(credited) to the income statement during the year	(3,073)	–	4,851	1,778
At 31 December 2006 and 1 January 2007 (as restated)	**–**	**–**	**(525)**	**(525)**
Deferred tax charged to the income statement during the year	**–**	**–**	**275**	**275**
At 31 December 2007	**–**	**–**	**(250)**	**(250)**

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

	2007 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	**(250)**
Net deferred tax liabilities recognised in the consolidated balance sheet	**373,435**
Net deferred tax liabilities included in the disposal group *(note 13)*	**173**
	373,358

35. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

At 31 December 2007, the Group has cumulative tax losses arising from its operations amounting to HK$698,394,000, including HK$65,802,000 attributable to a discontinuing operation (2006: HK$458,219,000), 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 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled 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.

36. SHARE CAPITAL

Shares

	2007	2006
	HK$'000	HK$'000
Authorised:		
7,000,000,000 ordinary shares of HK$0.10 each	**700,000**	700,000
Issued and fully paid:		
5,695,355,525 ordinary shares of HK$0.10 each	**569,536**	569,536

The movements in share capital in 2006 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.

36. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

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	Share premium account	Total
		HK$'000	HK$'000	HK$'000
At 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, 1 January 2007 and 31 December 2007	**5,695,355,525**	**569,536**	**8,357,579**	**8,927,115**

Share options

Details of the Company's share option scheme are included in note 37 to the financial statements.

37. 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.

37. SHARE OPTION SCHEME *(Continued)*

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

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

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

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

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2007	–	–
Granted during the year	4.65	97,110
At 31 December 2007	4.65	97,110

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
29,133	4.65	9 July 2009 – 2 June 2012
29,133	4.65	9 July 2010 – 2 June 2012
38,844	4.65	9 July 2011 – 2 June 2012
97,110		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

37. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted during the year was HK$161,523,000 (HK$1.6633 each) of which the Group recognised a share option expense of HK$27,231,000 during the year ended 31 December 2007.

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

	2007
Dividend yield (%)	**1.38**
Expected volatility (%)	**37.75**
Risk-free interest rate (%)	**4.65**
Expected life of options (year)	**4.90**
Weighted average share price (HK$)	**4.65**

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

At the balance sheet date, the Company had 97,110,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 97,110,000 additional ordinary shares of the Company and additional share capital of HK$9,711,000 and share premium of HK$441,851,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 97,110,000 share options outstanding under the Scheme, which represented approximately 1.7% of the Company's shares in issue as at that date.

38. RESERVES

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										
As previously reported	7,433,211	350	1,283	(1,012,196)	181,019	84,679	47,783	2,066,320	8,802,449	405,520
Prior year adjustments *(note 4 (a))*	–	–	–	–	(181,019)	–	–	(5,060)	(186,079)	–
As restated	7,433,211	350	1,283	(1,012,196)	–	84,679	47,783	2,061,260	8,616,370	405,520
Premium on issue of new shares upon exercise of bonus warrants	924,368	–	–	–	–	–	–	–	924,368	–
Share of reserve of an associate	–	–	(5,652)	–	–	–	–	–	(5,652)	–
Exchange realignment (as restated)	–	–	–	–	–	–	112,182	–	112,182	14,372
Transfer from retained profits	–	–	–	–	–	19,816	–	(19,816)	–	–
Profit for the year (as restated)	–	–	–	–	–	–	–	333,452	333,452	82,565
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	4,943
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(63,918)
Additional 2005 final dividend upon exercise of bonus warrants *(note 14)*	–	–	–	–	–	–	–	(15,809)	(15,809)	–
2006 interim dividend *(note 14)*	–	–	–	–	–	–	–	(113,907)	(113,907)	–
Proposed 2006 final dividend *(note 14)*	–	–	–	–	–	–	–	(56,954)	(56,954)	–
At 31 December 2006	8,357,579	350	(4,369)	(1,012,196)	–	104,495	159,965	2,188,226	9,794,050	443,482

Group	Share premium account HK$'000	Share option reserve HK$'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 2007											
As previously reported	8,357,579	–	350	(4,369)	(1,012,196)	183,703	104,495	159,035	2,234,838	10,023,435	443,482
Prior year adjustments *(note 4(a))*	–	–	–	–	–	(183,703)	–	930	(46,612)	(229,385)	–
As restated	8,357,579	–	350	(4,369)	(1,012,196)	–	104,495	159,965	2,188,226	9,794,050	443,482
Share of reserve of an associate	–	–	–	11,623	–	–	–	–	–	11,623	–
Exchange realignment	–	–	–	–	–	–	–	240,433	–	240,433	32,573
Transfer from retained profits	–	–	–	–	–	–	12,129	–	(12,129)	–	–
Profit for the year	–	–	–	–	–	–	–	–	633,974	633,974	86,938
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	–	71,764
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(100,413)
Equity-settled share option arrangement *(note 37)*	–	27,231	–	–	–	–	–	–	–	27,231	–
2007 interim dividend *(note 14)*	–	–	–	–	–	–	–	–	(170,861)	(170,861)	–
Proposed 2007 final dividend *(note 14)*	–	–	–	–	–	–	–	–	(170,861)	(170,861)	–
At 31 December 2007	8,357,579	27,231	350	7,254	(1,012,196)	–	116,624	400,398	2,468,349	10,365,589	534,344

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

38. RESERVES *(Continued)*

Company	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006	7,433,211	–	350	137,450	7,571,011
Premium on issue of new shares upon exercise of bonus warrants	924,368	–	–	–	924,368
Profit for the year	–	–	–	62,296	62,296
Additional 2005 final dividend upon exercise of bonus warrants *(note 14)*	–	–	–	(15,809)	(15,809)
2006 interim dividend *(note 14)*	–	–	–	(113,907)	(113,907)
Proposed 2006 final dividend *(note 14)*	–	–	–	(56,954)	(56,954)
At 31 December 2006 and at 1 January 2007	**8,357,579**	**–**	**350**	**13,076**	**8,371,005**
Equity-settled share option arrangements	**–**	**27,231**	**–**	**–**	**27,231**
Profit for the year	**–**	**–**	**–**	**622,223**	**622,223**
2007 interim dividend *(note 14)*	**–**	**–**	**–**	**(170,861)**	**(170,861)**
Proposed 2007 final dividend *(note 14)*	**–**	**–**	**–**	**(170,861)**	**(170,861)**
At 31 December 2007	**8,357,579**	**27,231**	**350**	**293,577**	**8,678,737**

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

39. BUSINESS COMBINATION

On 30 July 2007, the Group entered into a sales and purchase agreement to acquire 51% interest in Guanzhong Hotspring from its 51% owned jointly-controlled entity, Shaanxi Weihe Power. The purchase consideration for the acquisition was set off against on amount due from Shaanxi Weihe Power. The transaction was completed on 14 November 2007.

The carrying amounts of the identifiable assets and liabilities of Guanzhong Hotspring as at the date of acquisition are as follows. The fair values of these assets and liabilities approximates to their carrying amounts.

		Carrying amount
	Notes	HK$'000
Property, plant and equipment	*16*	49,947
Prepaid land lease payments	*18*	78,875
Prepayments, deposits and other receivables		1,524
Cash and bank balances		49,878
Tax payable		(16)
Trade and other payables		(6,750)
Interest-bearing bank and other borrowings		(73,824)
Minority interest		(48,821)
		50,813
Accounted for and satisfied by:		
Amount due from a jointly-controlled entity		50,813

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash and bank balances acquired	49,878
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	49,878

As Guanzhong Hotspring was still under construction as at the balance sheet date, it has not contributed any turnover nor profit to the Group since acquisition. Had the combination taken place at the beginning of the year, it would have no material impact to the Group's revenue nor profit for the year.

40. 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 2007	2006	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	**100**	100	Travel and air ticketing agent
Allied Well Holdings Ltd.#	British Virgin Islands ("BVI")	1 share of US$1 each	**100**	100	Investment holding
Alton Services Limited#	BVI	6 shares of US$1 each	**100**	100	Investment holding
Chadwick Developments Limited ("Chadwick") *(Note)*	Hong Kong	1,000 ordinary shares of HK$1 each 10,000 non-voting deferred shares of HK$1 each	**100**	100	Investment holding
China Chance Developments Limited# *(Note)*	BVI	1 share of US$1 each	**100**	100	Provision of financial services
China Heaven #***	Mainland China	RMB10,000,000	**85.3**	85.3	Production of arts 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
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	EURO380,000	**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

40. 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 2007	2006	Principal activities
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** *(Note)*	Mainland China	US$141,000,000	**100**	100	Hot spring resort operations
China Travel International Ltd.#** *(Note)*	Mainland China	RMB177,300,000	**100**	100	Tour operations
China Travel International (Chengdu) Ltd.#*	Mainland China	RMB4,220,000	**51**	51	Tour operations
China Travel International (Shandong) Ltd.#*	Mainland China	RMB3,000,000	**51**	51	Tour operations
China Travel International (Datong) Travel Service Co., Ltd.#*	Mainland China	RMB3,000,000	**51**	51	Tour operations
China Travel International (Shanxi) Travel Service Co., Ltd.#*	Mainland China	RMB5,000,000	**51**	71	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.#*	Mainland China	RMB6,000,000	**51**	51	Tour operations
China Travel International (Xian) Ltd.#*	Mainland China	RMB3,570,000	**51**	51	Tour operations
China Travel International (Xinjiang) Ltd.#*	Mainland China	RMB4,000,000	**51**	51	Tour operations
China Travel Service (Australia) Pty Ltd.	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.#	Canada	CAD3,162,750	**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

40. 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 2007	2006	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	Dormant
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.#*	Mainland China	RMB26,287,300	**100**	100	Tour operations
CTS International Transportation Co.,Ltd.*	Mainland China	RMB140,000,000	**76**	76	Freight forwarding
Dalmore Investments Limited#	BVI	1 share of US$1 each	**100**	100	Investment holding

40. 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 2007	2006	Principal activities
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 Ltd.	BVI/Hong Kong	1 share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Invincible Limited#	Western Samoa	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
芒果網有限公司**	Mainland China	RMB219,595,000	**100**	100	Sale of travel-related products through an electronic platform
港中旅國際商務旅行管理(北京)有限公司#**	Mainland China	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	BVI/Hong Kong	1 ordinary share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation

40. 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 2007	2006	Principal activities
Princess Capital Limited *(Note)*	BVI/Hong Kong	1 share of US$1	**100**	100	Securities trading
Rida Investment Company Limited#	Macau	MOP99,000	**100**	100	Property investment holding
Shenzhen China Travel Service (Cargo) Hong Kong Ltd.#*	Mainland China	US$1,500,000	**100**	100	Provision of freight forwarding and cargo transportation services
深圳市港中旅快綫有限公司#***	Mainland China	RMB100,000,000	**100**	100	Provision of freight forwarding and cargo transportation services and investment holding
Shenzhen The Splendid China Development Co., Ltd.* (Note)	Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* *(Note)*	Mainland China	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.**	Mainland China	RMB326,000,000	**100**	100	Golf club operations
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
CTS Scandinavia 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

40. 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 2007	2006	Principal activities
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 Limited	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$6,471,639	**51**	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
Guanzhong Hotspring*	Mainland China	RMB100,000,000	**51**	–	Hot spring resort operations
廣東港中旅金煌運輸有限公司#**	Mainland China	HK$30,000,000	**100**	100	Passenger transportation
珠海市港中旅快線有限公司#**	Mainland China	RMB10,000,000	**100**	100	Passenger transportation

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

Note: Directly owned by the Company

* Sino-foreign equity joint ventures

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

*** Registered as a limited liability company under the PRC law

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

41. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and rental deposits	**5,061**	3,337	**1,724**	1,724
Performance bond given to a customer for due performance of a sales contract	**300**	–	**–**	–
Corporate guarantees given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	**–**	–	**135,549**	188,212
Corporate guarantees given to banks in connection with credit facilities granted to and utilised by subsidiaries	**–**	–	**1,500,000**	2,000,000
Bank guarantee given to a supplier in connection with credit facilities granted	**10,104**	6,914	**–**	–
	15,465	10,251	**1,637,273**	2,189,936

As at 31 December 2007, 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$637,273,000 (2006: HK$650,000,000).

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and equipment (notes 16 and 17) 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 2007, the Group's continuing operations had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Investment properties:		
Within one year	**2,495**	12,149
In the second to fifth years, inclusive	**680**	12,929
After five years	**–**	49
	3,175	25,127
Equipment:		
Within one year	**161**	196

At 31 December 2007, the Group's discontinuing operation had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	HK$'000
Investment properties:	
Within one year	**5,362**
In the second to fifth years, inclusive	**1,227**
	6,589

42. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

At 31 December 2007, the Group's continuing operations had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Land and buildings:		
Within one year	**47,792**	48,009
In the second to fifth years, inclusive	**70,570**	67,506
After five years	**227**	63,701
	118,589	179,216
Plant and machinery and motor vehicles:		
Within one year	**5,140**	6,643
In the second to fifth years, inclusive	**2,163**	1,237
After five years	**215**	–
	7,518	7,880

At 31 December 2007, the Group's discontinuing operation had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	HK$'000
Land and buildings:	
Within one year	**9,749**
In the second to fifth years, inclusive	**8,108**
After five years	**18,069**
	35,926

43. COMMITMENTS

In addition to the operating lease commitments as detailed in note 42(b) above, the Group's continuing operations and the Company had the following commitments at the balance sheet date:

Capital commitments

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land:				
Contracted, but not provided for	**26,067**	143,965	–	–
Authorised, but not contracted for	**308,599**	–	–	–
	334,666	143,965	–	–
Plant and equipment and motor vehicles:				
Contracted, but not provided for	**1,580**	2,566	–	743
Authorised, but not contracted for	**1,194**	34,427	–	–
	2,774	36,993	–	743
Leasehold improvements:				
Contracted, but not provided for	**18,127**	11,437	–	
Authorised, but not contracted for	**134,070**	40,420	–	–
	152,197	51,857	–	–
Scenic spots:				
Contracted, but not provided for	**86,139**	14,395	–	
Authorised, but not contracted for	**409,679**	21,800	–	–
	495,818	36,195	–	–

As at 31 December 2007, the Group's discontinuing operation had a capital commitment in respect of land which was contracted but not provided for amounting to HK$27,273,000.

As at the balance sheet date, the Group had a capital commitment which was contracted but not provided for amounting to HK$1,107 million in respect of the acquisition of the entire issued share capital of CTS H.K. Metropark Hotels Management Company Limited, Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, Ruskin Overseas Limited and Wisepak Enterprises Limited (collectively "Hotel Group"). Further details of the transaction are included in note 44(b)(i) to the financial statements.

44. 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	
		2007	2006
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to:			
Immediate holding company			
(1) CTS (Holdings)	Office rental	**14,041**	11,246
Fellow subsidiaries			
(2) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	**1,368**	1,345
(3) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	**5,173**	5,782
(4) Tai Sun Services Company Limited	Stevedoring services	**1,387**	1,281
(5) CTS H.K. Metropark Hotels Management Company Limited	Hotel management fees	**16,651**	9,236
(6) Metropark Hotel Shenzhen Co., Ltd	Hotel room rental	**1,086**	1,143
(7) Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited	Property management fee	**943**	802
(8) China Merchants International Travel Co., Ltd. Shenzhen	Travel-related services	**5,362**	–
Jointly-controlled entities			
(9) China Travel International (Hangzhou) Service Co., Ltd.	Travel-related services	**10,068**	11,468
(10) Suzhou China Travel International Travel Service Co., Ltd.	Travel-related services	**2,510**	–
(11) Shanghai China Travel International Limited	Travel-related services	**9,162**	6,976
Associate			
(12) All China Express Limited	Coach rental	**5,916**	3,868

44. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company		Nature of transaction	Group 2007 HK$'000	2006 HK$'000
Received or receivable from:				
Immediate holding company				
(13)	CTS (Holdings)	Hotel room rental	**6,292**	1,788
(14)	CTS (Holdings)	Travel permit administration income *(note)*	**308,457**	313,730
(15)	CTS (Holdings)	Sale of visa materials	**2,642**	1,793
(16)	CTS (Holdings)	Sale of food and beverages	**1,052**	970
Fellow subsidiaries				
(17)	China Travel Computer Service H.K. Limited	Application service provider services	**13,103**	12,589
(18)	China Travel Head Office	Package tours	**4,049**	–
(19)	Shanghai Merchants International Transport Agency Co.	Travel-related services	**2,358**	–
(20)	China Merchants International Travel Co., Ltd. Shenzhen	Travel-related services	**2,624**	–
Associate of the ultimate holding company				
(21)	China Travel Service Gongbei Co., Ltd.	Hotspring service Income	**1,631**	–
Jointly-controlled entity				
(22)	Shanghai China Travel International Limited	Travel-related services	**6,185**	2,279
Associates				
(23)	All China Express Limited	Coach rental	**50,166**	49,954
(24)	All China Express Limited	Management fee	**31,888**	31,044
(25)	All China Express Limited	Quota income	**1,373**	1,373
(26)	Shun Tak – China Travel Shipping Investments Limited	Ticketing commission	**38,328**	32,725
(27)	Shun Tak – China Travel Shipping Investments Limited	Management fee	**1,672**	1,584

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

(b) Other transactions with related parties

(i) On 1 November 2007, the Company and its wholly-owned subsidiaries, namely Allied Well Holdings Ltd. and United Capital Management Ltd. entered into a conditional sale and purchase agreement with CTS (Holdings), China Travel Building Contractors Hong Kong Ltd. and China Travel Investments Hong Kong Ltd. (collectively the "Vendors") to acquire the entire issued share capital of Hotel Group (note 43) and the respective shareholders' loan owed by the Hotel Group to the Vendors for a consideration of HK$1,107 million. On the same date, the Company and its wholly-owned subsidiaries, China Travel Service (Hong Kong) Limited, Add-Well Investments Limited and Noteman Investments Limited entered into a conditional sale and purchase agreement with CTS (Holdings) and CTS Logistics Corporation to dispose of the entire issued share capital of Cargo Business (note 13) and the net amount of a shareholder's loan owed by Common Well Limited for a consideration of HK$854 million. Details on the transactions have been included in the Company's circular dated 21 November 2007 and the transactions have been approved by shareholders at the Extraordinary General Meeting on 7 December 2007. The transactions are expected to be completed in 2008.

(ii) During the year, the Group acquired 51% equity interest in Guanzhong Hotspring from a jointly-controlled entity for a consideration of RMB51 million. Further details of the transaction are included in note 39 to the financial statements.

44. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Short term employee benefits	**11,511**	14,796
Post-employment benefits	**128**	194
Employee share option benefits	**4,518**	–
Total compensation paid to key management personnel	**16,157**	14,990

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities of the continuing operations as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group	**2007**			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**5,385**	**574,992**	**3,957**	**584,334**
Trade payables	**402,841**	**–**	**–**	**402,841**
Other payables and accruals	**858,975**	**–**	**–**	**858,975**
Amount due to the immediate holding company	**902**	**–**	**–**	**902**
Amounts due to fellow subsidiaries	**2,623**	**–**	**–**	**2,623**
	1,270,726	**574,992**	**3,957**	**1,849,675**

	2006			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	179,733	500,886	3,957	684,576
Trade payables	731,617	–	–	731,617
Other payables and accruals	822,234	–	–	822,234
Amount due to the immediate holding company	1,421	–	–	1,421
Amounts due to fellow subsidiaries	3,138	–	–	3,138
	1,738,143	500,886	3,957	2,242,986

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

Liquidity risk *(Continued)*

Company

	2007			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**16,767**	**–**	**–**	**16,767**
Amounts due to subsidiaries	**1,972,497**	**–**	**–**	**1,972,497**
Amount due to the immediate holding company	**897**	**–**	**–**	**897**
	1,990,161	**–**	**–**	**1,990,161**

	2006			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other payables and accruals	22,713	–	–	22,713
Amounts due to subsidiaries	2,705,602	–	–	2,705,602
Amount due to the immediate holding company	1,343	–	–	1,343
	2,729,658	–	–	2,729,658

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

Credit risk

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 27 to the financial statements.

Foreign currency risk

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

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

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

Foreign currency risk *(Continued)*

	Increase in RMB rate	Increase in profit before tax	Increase in equity
	%	HK$'000	HK$'000
2007			
If Hong Kong dollar weakens against RMB	**3**	**5,236**	**102,542**
If Hong Kong dollar weakens against RMB	**5**	**8,726**	**170,904**
2006			
If Hong Kong dollar weakens against RMB	3	5,793	92,787
If Hong Kong dollar weakens against RMB	5	9,655	154,645

Interest rate risk

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

At 31 December 2007, it is estimated that a general increase/decrease in 1% of the borrowing rate, with all other variables held constant, would decrease/increase the group's profit before tax by approximately HK$5,046,000 (2006: HK$6,541,000). Similarly, it is estimated that a general increase/decrease in 0.5% of the saving rate, with all other variables held constant, would increase/decrease the group's profit before tax by approximately HK$11,418,000 (2006: HK$10,807,000).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date.

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

Capital management

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

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-adjusted-capital ratio. The debt includes interest-bearing bank and other borrowings, trade and other payables, obligations under finance leases, amounts due to the immediate holding company and fellow subsidiaries, and excludes discontinuing operation for both years. Adjusted capital includes equity attributable to equity holders of the parent, less unaccrued proposed dividends.

During 2007, the Group's strategy, which remained unchanged from 2006, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 10% to 50%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Group

	2007 **HK$'000**	2006 HK$'000
Interest-bearing bank and other borrowings	**584,334**	659,651
Trade payables	**402,841**	401,679
Other payables and accruals	**858,975**	762,705
Amount due to the immediate holding company	**902**	1,421
Amounts due to fellow subsidiaries	**2,623**	3,047
Debt	**1,849,675**	1,828,503
Equity attributable to equity holders of the parent	**11,105,986**	10,420,540
Less: Proposed final dividend	**(170,861)**	(56,954)
Adjusted capital	**10,935,125**	10,363,586
Debt-to-adjusted capital ratio	**16.91%**	17.64%

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

46. POST BALANCE SHEET EVENT

On 4 March 2008, Chadwick, a wholly-owned subsidiary of the Company, together with Northwest China Grid Company Limited ("Xibei Power") and Shaanxi Qinlong Electronic Power Co., Ltd. ("Shaanxi Qinlong") entered into agreements to replace the shareholders agreement and articles of association in respect of Guanzhong Hotspring, pursuant to which Chadwick, Xibei Power, Shaanxi Qinlong agreed to increase (i) the registered capital of Guanzhong Hotspring from RMB100 million to RMB301 million; and (ii) the total investment amount of Guanzhong Hotspring from RMB300 million to RMB855 million. As the full amount of the increase in registered capital will be contributed in cash by Chadwick solely, upon completion of such increase, the Group's interest in Guanzhong Hotspring will increase from 51% to approximately 83.72%, and the interests of Xibei Power and Shaanxi Qinlong will be diluted from 30% and 19% to approximately 9.97% and 6.31% respectively. For details, please refer to the announcement issued by the Company on 4 March 2008.

47. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year and the reasons as detailed in note 4, the accounting treatment and presentation of certain items and balances in the financial statements have been revised. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment. In addition, the comparative income statement has been re-presented as if the operation classified as a discontinuing operation during the current year had been discontinued at the beginning of the comparative period (note 13).

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2008.