香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(Stock Code : 00308)

2008 Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Mr. Zhang Xuewu *(Chairman)*
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong
Mr. Zhang Fengchun
Mr. Xu Muhan
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Ms. Woo Wai See, Alice

AUDITORS

Ernst & Young

LEGAL ADVISOR

DLA Piper Hong Kong

REGISTERED OFFICE

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
BNP Paribas
Calyon

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2008 Final Results		6 April 2009
Announcement of 2008 Interim Results		9 September 2008
Announcement of 2007 Final Results		8 April 2008
Announcement of 2007 Interim Results		3 September 2007
Dividends	**2008 Final**	HK 1 cent per share payable on 22 June 2009
	2008 Interim	HK 5 cents per share paid on 10 October 2008
	2007 Final	HK 3 cents per share paid on 16 June 2008
	2007 Interim	HK 3 cents per share paid on 4 October 2007
Closure of Register of Members for 2008 Final Dividend		Period from 21 May 2009 to 26 May 2009
Annual General Meeting in 2009		26 May 2009
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,695,355,525 (as at 31 December 2008)
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 Agency and Related Operations

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

Hotels Operations

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

Theme Parks Operations

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

Resort Operations

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

MAJOR OPERATIONS

Passenger Transportation Services

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

Golf Club Operations

CTS Tycoon (Shenzhen) Golf Club Company Limited	100%

Performing Arts Operations

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

Power Generation Business

Shaanxi Weihe Power Co., Ltd	51%

FINANCIAL RATIOS HIGHLIGHTS

	Continuing operations		Including discontinued operation		
	2008	2007	**2008**	2007	2006
Income statement ratios					
Interest coverage ratio	**12.66**	23.55	**42.22**	25.58	7.68
Earnings per share (HK cents)	**1.88**	9.80	**9.33**	11.13	6.10
Dividend per share (HK cents)	**3.00**	6.00	**6.00**	6.00	3.00
Dividend payout ratio (%)	**159.57%**	61.22%	**64.31%**	53.91%	49.18%
Balance sheet ratios					
Current ratio	**1.65**	2.25	**1.65**	2.21	1.83
Quick ratio	**1.63**	2.23	**1.63**	2.20	1.82
Net assets value per share (HK$)	**2.02**	1.87	**2.02**	1.95	1.83
Net bank and other borrowings to equity	**(0.11)**	(0.15)	**(0.12)**	(0.16)	(0.14)
Debt to adjusted capital ratio	**14.15%**	16.91%	**14.15%**	21.12%	21.64%
Rate of return ratios					
Return on average equity(%)	**1.46**	5.57	**5.07**	6.41	4.05
Return on total capital and borrowings(%)	**1.81**	5.54	**4.85**	6.14	4.47
Market price ratios					
Dividend yield					
Year low(%)	**0.52**	0.97	**1.05**	0.97	1.14
Year high(%)	**3.45**	2.48	**6.90**	2.48	1.76
Price to earnings ratio					
Year low	**46.28**	24.69	**9.32**	21.74	27.87
Year high	**304.26**	63.27	**61.31**	55.71	43.11

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

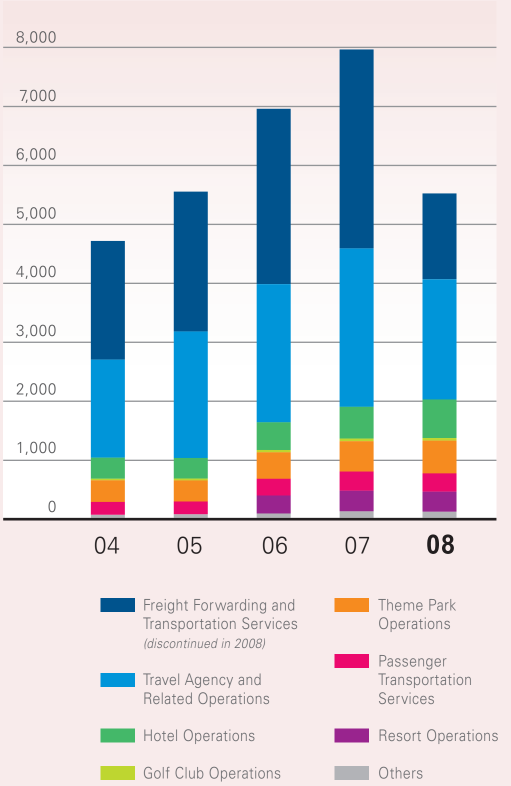
A summary of the published results and of the assets, liabilities and deferred income and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Results					
CONTINUING OPERATIONS					
REVENUE	**4,388,443**	4,417,195	4,062,251	3,065,524	2,937,097
Cost of sales	**(2,664,108)**	(2,687,137)	(2,565,133)	(1,816,259)	(1,782,293)
Gross profit	**1,724,335**	1,730,058	1,497,118	1,249,265	1,154,804
Other income and gains	**211,507**	112,618	122,246	84,574	87,956
Selling and distribution costs	**(481,450)**	(483,263)	(447,047)	(286,489)	(299,961)
Administrative expenses	**(1,120,283)**	(909,834)	(840,227)	(661,870)	(516,042)
Changes in fair value of investment properties	**(70,609)**	13,947	6,887	25,762	24,573
Fair value gains on derivative financial instruments	**–**	–	–	99,204	–
Other expenses	**(22,435)**	–	(16,591)	–	–
Finance costs	**(12,013)**	(32,713)	(77,793)	(55,159)	(51,863)
Share of profits and losses of:					
Jointly-controlled entities	**61,009**	248,751	133,354	175,616	251,863
Associates	**(42,339)**	67,702	57,588	45,751	53,224
PROFIT BEFORE TAX	**247,722**	747,266	435,535	676,654	704,554
Tax	**(75,062)**	(120,626)	(102,352)	(90,914)	(91,997)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**172,660**	626,640	333,183	585,740	612,557
DISCONTINUED OPERATION					
Profit for the year from/gain on disposal of a discontinued operation	**428,139**	94,272	82,834	71,637	53,392
PROFIT FOR THE YEAR	**600,799**	720,912	416,017	657,377	665,949
Attributable to:					
Equity holders of the parent	**531,309**	633,974	333,452	584,905	598,087
Minority interests	**69,490**	86,938	82,565	72,472	67,862
	600,799	720,912	416,017	657,377	665,949
Assets, liabilities and deferred income and minority interests					
Total assets	**14,320,551**	14,554,297	13,672,176	13,808,051	11,442,399
Total liabilities and deferred income	**(2,267,191)**	(2,913,967)	(2,808,154)	(4,131,111)	(3,070,843)
Minority interests	**(538,713)**	(534,344)	(443,482)	(405,520)	(386,313)
	11,514,647	11,105,986	10,420,540	9,271,420	7,985,243

FINANCIAL REVIEW

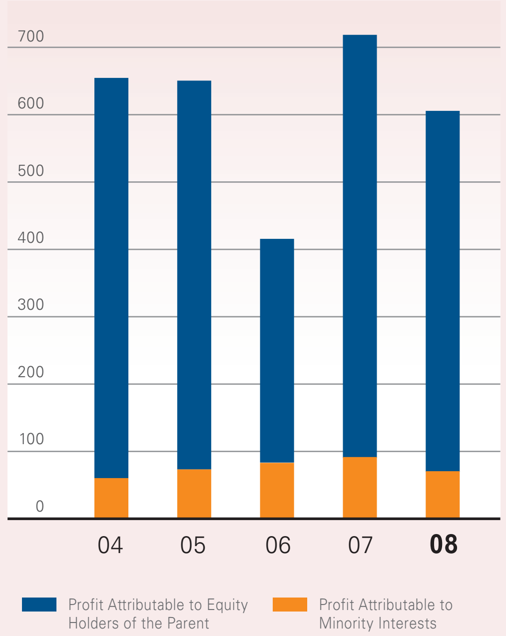
Turnover by Principal Activities

HK$ million



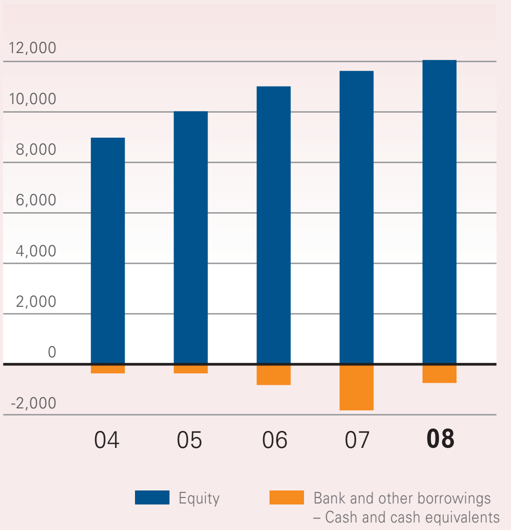
Profit for the year

HK$ million



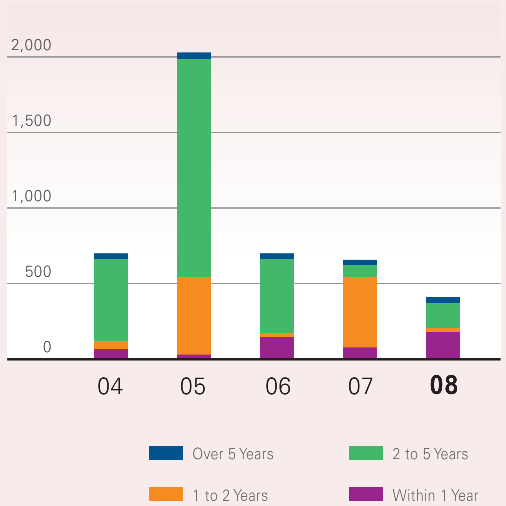
Net Bank & Other Borrowings to Equity

HK$ million



Debt Maturity Profile

HK$ million



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

MR. ZHANG XUEWU *Chairman & Executive Director*
Aged 54, appointed in 2001, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company and is also a director of a number of subsidiaries of the Company. Mr. Zhang is a qualified Senior Economist and has extensive experience in corporate management in Mainland of China and overseas. He was the Executive Vice President and Director of Minmetals UK Limited (China), the Senior Vice President of China National Metals & Minerals Import and Export Corp., and the President of Minmetals Development Co., Ltd., a listed company. Mr. Zhang is a National Committee member of the Eleventh Chinese People's Political Consultative Conference, chairman of The Hong Kong Chinese Enterprises Association, a committee member of the Chinese General Chamber of Commerce. He was a member of the Tourism Strategy Group of the HKSAR Government. Mr. Zhang holds a master's degree in Business Administration.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*
Aged 58, appointed in 1998, is a Director of CTS (Holdings) and director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Zheng has over 20 years' experience in economic development. He graduated from Xiamen University in China.

MR. LO SUI ON *Vice Chairman & Executive Director*
Aged 58, appointed in 2000, is a Director of CTS (Holdings) and is also a director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Lo has over 30 years of operation and management experience in the tourism industry. Mr. Lo is a Deputy of the Eleventh National People's Congress of the PRC, a member of Hong Kong Tourism Board, a member of The Selection Committee for the Second & Third Government of the HKSAR, the Chairman of Committee on Tourism of The Hong Kong Chinese Enterprises Association and the President of Hong Kong Association of China Travel Organisers Limited. In addition, Mr. Lo was appointed as a Director of the Travel Industry Council of Hong Kong, a member of the Tourism Strategy Group of the HKSAR Government and a member of Central Policy Unit Panel on Pan-Pearl River Delta.

MS. JIANG YAN *Executive Director*
Aged 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 59, 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 56, 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 44, 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 48, appointed in April 2008, is the Deputy General Manager of CTS (Holdings), the Chairman of China Travel Service (Hong Kong) Limited and is also a director of a number of subsidiaries of the Company. Mr. Xu has extensive career in tourism and hospitality management. He obtained his master degree in travel and hotel management from The Hong Kong Polytechnic University and the certificate of GMP program from Cornell University.

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

Independent Non-Executive Director

Aged 84, appointed as an Independent Non-Executive Director of the Company in 1998, is the Chairman of The Hip Shing Hong Group, Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is also the director of the Real Estate Developers Association of Hong Kong and the council member of United College at the Chinese University of Hong Kong. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC and has also served as the chairman and council member of many charitable organizations in Hong Kong. He was a member of the Selection Committee for the First Government of the HKSAR and was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR.

MR. WONG MAN KONG, PETER

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

Independent Non-Executive Director

Aged 60, appointed as an Independent Non-Executive Director of the Company in 1998, is the Chairman of Audit Committee and Remuneration Committee of the Company. Mr. Wong has over 35 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.

MR. SZE, ROBERT TSAI TO

Independent Non-Executive Director

Aged 68, appointed as an Independent Non-Executive Director of the Company 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 62, appointed as an Independent Non-Executive Director of the Company in 2007, is a member of Audit Committee and Remuneration Committee of the Company, Managing Director of Yangtzekiang Garment Limited, Director of YGM Trading Limited, Director of Hong Kong Knitters Limited, Director of Asia Television Limited, as well as the Independent Non-Executive Director of China Construction Bank (Asia) Corporation Limited 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, Deputy Chairman 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 MANAGEMENT

MR. BO BAOHUA *Deputy General Manager*

Aged 48, 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 54, 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.

CHAIRMAN'S STATEMENT

Equity attributable to shareholders amounted to ***HK$11,515 million****, representing a* ***3.7% increase*** *as compared to the amount of* ***HK$11,106 million*** *in the last year.*

Zhang Xuewu
Chairman

On behalf of the Board of Directors of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries, I hereby announce that the Company has recorded an audited profit attributable to shareholders of HK$531 million for the year ended 31 December 2008, representing a 16.2% decrease from HK$634 million for the previous year. The main reason for the decrease consisted of the substantial drop in the Company and its subsidiaries' share of profit from its power generation and shipping business which resulted from a substantial rise in fuel prices. As at 31 December 2008, the equity attributable to shareholders of the Company and its subsidiaries was HK$11,515 million, representing an increase of 3.7% from HK$11,106 million for the previous year. The Board of Directors has proposed to declare a dividend of 1 Hong Kong cent which is expected to be paid on 22 June 2009 following approval at the general meeting.

CHAIRMAN'S STATEMENT

2008 represented an exceptional year in the Company's development history. We underwent various uncommon challenges and tests one after another, such as the extreme low-temperature snowstorms, Wenchuan earthquake and global financial crisis. In particular, as the global financial crisis is raging across many parts of the world, it has severely hit the world economy and the tourism industry. The Company's various business developments were also subject to negative effects to a varying degree.

In view of the drastic changes in the global and Chinese domestic economic situations and the business environment, the Company in 2008 continued to implement its business policy aimed at "seeking improvement in stability while guarding against risks; seeking efficiency in good performance while achieving larger scale; and reducing costs and maximizing results consistently", and to execute "three stringent control" strategies which are "stringent control over funds and volume of credit, stringent control over costs and expenses and stringent control over investment projects". As the financial crisis ran deeper, the Company also adopted the "one assurance and three squeezes" effective initiative aimed at assuring survival as the focus and squeezing account receivables, product and materials inventories as well as costs and expenses. This initiative proved to be effective in ensuring the liquidity of business capital, controlling operating risks and further maintaining the safe and stable operation of the Company.

In 2008, the Company focused on committing more resources to new tourism projects and developing new products, with a view to enhancing the core competitiveness of its principal tourism business. Xianyang Ocean Hotspring World was completed successfully and commenced operation in October 2008; CTSHK Metropole International Travel Service (Shenzhen) Co., Ltd. was established in Shenzhen to operate exclusive bus services to the Disneyland. The travel agency under this company started a new business for PRC citizens to visit the US and Taiwan after the travel ban was lifted, and new competitive products were launched; at Zhuhai Ocean Spring Resort, planning was made for a campsite for self-drive tours by hosting the "Self-drive Tour Festival" to attract new tourists to the resort; the "Legend of Kung Fu", a Heaven Creation production rated as a national premier cultural product exported to the overseas, was showcased successfully together with the "Forbidden Love" at the Beijing Olympic Games. During the Beijing Olympic Games, the Company undertook a huge amount of reception projects which were the largest in size, covering the most extensive varieties of service with the longest service hours, and all these major reception projects were accomplished successfully and the Company's brand image was enhanced. The development of an array of innovative businesses in a proactive and effective approach has enabled the Company's principal tourism business to maintain a satisfactory growth under the prevailing challenging conditions.

The Company was keen to push forward the integration of its internal resources and the reform program in 2008. The company in the travel agency segment identified a network structure as the centre and all-round networking as the direction. By means of integration of brands, restructuring of offices, redesign of operation flow and redevelopment of business model, the Company carried out the reform orientation towards the integration of strategic objectives, corporate brands, business operations, financial control, human resources management and management information platform, ensuring the availability of market and customers for the comprehensive development of its principal tourism business. The companies in the hotel segment carried out the integration of resources inside and outside our system, built a centralized procurement platform and stepped up marketing and sales efforts, making itself rank among "Top 300 World Hotel Groups 2008" and "Top 30 Largest in China Hotel Industry". The integration of the principal tourism business will contribute to the further enhancement of the Company's overall scale of operation and economic benefits.

Given the unfavourable environment, the Company strengthened internal management by aggressively pushing forward the launch of system reform programs for rational staffing, remunerations and recruitment, and the establishment of an internal control system. Through these reform programs, functional positioning was further defined; relations with regard to each other's responsibilities, rights and interests were smoothened; and control system and corporate risk prevention were reinforced, thus laying a solid management foundation for the healthy development of the Company in the long run. While focusing on the internal reform programs, the Company also continued with further cost reduction result maximization. In the light of its own characteristics, each subsidiary launched various detailed initiatives for cost reduction, generating good results and making itself prominent among competitors in terms of low product costs.

As at 31 December 2008, cash and cash equivalents held by the Company amounted to HK$1,795 million and the debt to adjusted capital ratio of 14%. The Company was in a net cash position and in a stable and sound operation and development state as a whole, thus laying a sound foundation for maintaining its steady operation and identifying better development opportunities.

Looking forward to 2009, the world economic growth will tend to decline and the tourism industry will be severely hit as a result of the impact of the financial crisis. In its analysis report on the current situation, the World Tourism Organization predicts the global tourism industry will see a "weak total demand" and is likely to slide in 2009. The National Tourism Administration of the PRC forecasts the demand for inbound tourism will slide; the occupancy rates of top hotels, star-grade hotels and commercial hotels will continue to drop. Specialists also predict the number of tourists visiting Hong Kong will fall by 1.6% as well. Travel agencies will be encountering more obstacles and challenges in their operation and development. However, it should be noted that the Chinese government's efforts to ensure growth, expand domestic demand and increase employment as a central task of economic development, and to develop the domestic tourism industry as a major initiative to fuel domestic demand through the launch of the "Resident Travel Leisure Scheme" on a trial basis and the expansion of the "Shenzhen Individual Travel Scheme" will bring about more opportunities for the tourism industry.

To maintain its ongoing operation, the Company will capitalize on market opportunities by accelerating the development of new products and initiating a modern trend in tourism consumption; accelerate the integration and upgrade of the travel agency segment and the hotel business segment to enhance the sustainability of the principal tourism business; push forward the integration of its internal tourism resources, procurement and sales channels and client resources by the development of an information system; step up investment in the principal tourism business and identify an opportunity for carry out a low-cost expansion against the backdrop of a low level of economic activities so as to scramble for scarce tourism resources; and continue with further cost reduction and result maximization as well.

The development cycle of the tourism industry itself suggests that the tourism industry is anticipated to be one of the industries making the fastest recovery. The World Tourism Organization believes although the tourism industry cannot be immune to the prevailing financial crisis, yet it is a resilient industry compared with other industries. Once the impact of the financial crisis begins to subside, the tourism industry is able to recover and revitalize faster. It is our firm belief that as the impact of the global financial crisis begins to subside, the tourism industries in the PRC and Hong Kong and the tourism business of the Company will swiftly return to the right and fast development track.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

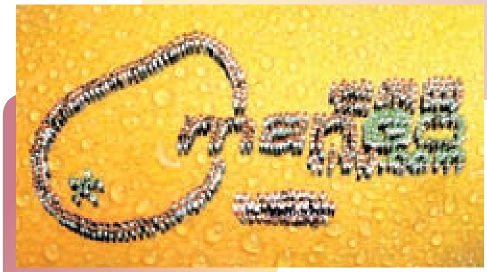
In 2008, negative factors such as natural disasters in Mainland China and sharp contraction of global economy directly depressed both business and leisure travel spending, which inevitably brought adverse impacts on the Group's performance. In response to the stiff economic situation, the Group continuously developed its core travel businesses, promptly reinforced cost control measures by reducing budgeted overhead expenses by 7% and freezing expenditure, discreetly reviewed all investment plans to reduce capital expenditures and strengthened financial management as well as cash flow control. Through adopting these measures, the Group was able to maintain stable operations and healthy financial position in 2008.

*The profit attributable to shareholders was **HK$531 million**, which decreased by **16.2%** from HK$634 million of last year*

For the year ended 31 December 2008, the Group's audited consolidated turnover from continuing operations was HK$4,388 million, representing a decrease of 0.65% from last year. The profit attributable to shareholders was HK$531 million, a decrease of 16.2% from last year. Basic earnings per share was 9.33 Hong Kong Cents, a decrease of 16.2% from last year. The equity attributable to shareholders was HK$11,515 million, representing an increase of 3.7% from last year. Although the Group's overall turnover of core travel business declined during the year, the theme park operations and hotel operations sustained sound growth. The decline in the profit attributable to shareholders was also partly attributable to a sharp decrease of the Group's share of profit from the power generation business and a share of loss from the ferry operations.

TRAVEL AGENCY AND RELATED OPERATIONS

The turnover of the travel agency and related operations in 2008 was HK$2,499 million, representing a decrease of 8% from last year. The segment result was HK$71 million, a decrease of 37.2% from last year. Driven by the effect of the Beijing Olympics Game, the package tour operation rose by 30%. However, the group tour operation to Mainland China saw a decline of approximately 20% affected by the impact of Sichuan earthquake. During the year, the United States and Taiwan opened up group tours markets to Mainland China travelers. The Group's travel agencies in Mainland China seized these historic business opportunities to organize the first group tours of Mainland China residents to the United States and Taiwan. China Travel Service (Hong Kong) Ltd. worked closely with Mainland China government authorities and was granted the sole chartered franchise to organize designated Hong Kong Disneyland



group tours operations for those eligible temporary residents in Shenzhen. All these new businesses had rapidly become the growth engines for our travel agency operations. Performance of Mangocity.com, the Group's on-line travel consolidator, sustained growth in a weak market. The productivity of Mangocity.com's sales team rose by 60% over last year, and its air ticketing business and web-based transaction volume also exhibited strong growth during the year.

HOTEL OPERATIONS

The Group's hotel operations comprise CTS HK Metropark Hotels Management Company Limited ("CTS Metropark"), five hotels in Hong Kong and Macau and three hotels in Mainland China. The turnover of the hotel operations in 2008 was HK$684 million, representing an increase of 36.1% from last year. The segment result was HK$101 million, down 8.6% from last year. Excluding a revaluation deficit of investment property, the segment result actually increased by 56.5% from last year. Performance of the five hotels in Hong Kong and Macau was satisfactory. The average revenue per available room (RevPAR) rose by approximately 10% over last year. During the Beijing Olympic Games, CTS Metropark was appointed by The Beijing Olympic Organizing Committee to manage athlete apartments in the Olympic Village. During the year, CTS Metropark was ranked the 51st in the "2008 top 300 global hotel management groups" by "HOTELS" magazine, the official publication of the International Hotel & Restaurant Association, which significantly promoted Metropark's brand name.

THEME PARK OPERATIONS

In 2008, Shenzhen The World Miniature Co., Ltd. ("Window of the World") and Shenzhen The Splendid China Development Co., Ltd. ("Splendid China") achieved a turnover of HK$486 million, up 4.5% from last year. The segment result was HK$169 million, up 10.4% from last year. Number of visitors amounted to 3.92 million in 2008, representing a slight decrease from last year. The two theme parks implemented differentiated marketing strategies. Window of the World continued to invest in new interactive attractions which brought fresh experience for its visitors. On the other hand, Splendid China positioned itself on the theme of Chinese folk and festival culture. They had launched a series of featured events and performances with a mixture of exhilarating themes throughout the year to boost the parks traffic and the visitors' average spending. Their active efforts harvested sound results despite adverse business environment.

RESORT OPERATIONS

In 2008, the turnover of the Group's resort operations was HK$340 million, representing a decrease of 4% from last year. The segment loss was HK$62 million, attributable to a charge of start-up expenses of Xianyang Guanzhong Hot Spring Co., Ltd. ("Xianyang OSR") as well as the deteriorating business environment. To cope with weakening consumer confidence, Zhuhai Ocean Spring Resort ("Zhuhai OSR") introduced new leisure and entertaining attractions and promoted diversified tour packages to offer more choices to customers. In order to grasp more MICE (meetings, incentives, conferences, events) business and provide high quality service for its MICE customers, Zhuhai OSR had expanded its conference facilities to be capable of hosting grand events.

Xianyang OSR is the Group's second hot spring resort project after Zhuhai OSR. The hot spring project of Xianyang OSR, with a construction area of 46,000 square meters, commenced soft opening as scheduled in October 2008. Guest attendance amounted to 33,000 by the end of 2008. The rest of the Xianyang OSR project is still under construction.

PASSENGER TRANSPORTATION SERVICES

In 2008, turnover for China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries ("CTTT") was HK$299 million, a slight increase of 1.7% over last year. The segment result was HK$9 million, a decrease of 73.8% from last year. Number of passengers carried amounted to 4.71 million during the year, down 8.5% from last year. Despite fierce market competition, CTTT's crossborder inter-city bus service operation sustained steady growth, driven by increase of new destinations in Guangdong Province and the expansion of service network. The shuttle bus service operation between Hong Kong and Shenzhen border saw a 20% decline in number of passengers carried, impacted by diversion of passengers to MTRC's Lok Ma Chau line. The segment result was also adversely affected by soaring fuel price and the increase of depreciation expense.

For the year of 2008, the Group recorded a share of loss of HK$42 million, versus a share of profit of HK$68 million last year, from its associated company, Shun Tak-China Travel Shipping Investment Limited. The loss was attributable to rising operating cost and decrease of number of passengers.

GOLF CLUB OPERATIONS

The turnover of the CTS Tycoon (Shenzhen) Golf Club ("Tycoon") was HK$57 million in 2008, representing a slight decrease of 0.3% from last year. The segment loss was approximately HK$49.7 million. Tycoon set off a major reconstruction of its golf courses in the fourth quarter of 2008, which had resulted in a temporary curtailing of operating area and facilities, provision for related assets and accelerated depreciation. Tycoon also incurred significantly higher operating cost after the local government authority started to levy land use tax on golf course in 2008. The reconstruction project was expected to be completed by the end of 2009. The opening of the new golf course and grandeur club house facilities will greatly enhance Tycoon's service standard and market competitiveness.

ARTS PERFORMANCE OPERATIONS

In 2008, China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven") continued to modify its flagship performance show, "The Legend of Kung Fu", to audience's fondness. Due to the show's popularity among local and international audience, China Heaven was awarded a government grant to renovate the stage and theatre for the show. China Heaven's newly created novel Beijing Opera, "Forbidden Love", a legendary love story in ancient Chinese fairy tales, was successfully performed at the national theatre during the Beijing Olympic Games, demonstrating that China Heaven had become one of the leading players of its kind in the art performance industry in Mainland China. "Forbidden love" had started regular performance in the Culture Palace of Nationalities in Beijing since December 2008. The initial market response was encouraging.

POWER GENERATION BUSINESS

In 2008, the on-grid electricity volume of Shaanxi Weihe Power Co. Ltd. ("Weihe Power") decreased by 1.3% compared to last year. The Group's share of profit from the jointly-controlled entity reduced to HK$59 million, a decrease of 76.3% from last year, attributable to a 50% rise of thermo coal cost. During the year, Weihe Power had adopted rigorous cost control measures and further improved its operating efficiency. Weihe Power will continue to invest in environmental protection facilities and improve operating efficiency going forward.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been highly committed to corporate social responsibility and public welfare undertaking. The Group has long been one of the active supporters of Hong Kong Community Chest. During the snow storm disaster in southern Mainland China at the beginning of the year, the Group took the initiative to cancel all confirmed group tours scheduled to the affected areas and offer alternative tour destinations to the customers, demonstrating its caring for the customers. During the period of riot breakout in Tibet last March, the Group made all efforts to ensure the safe retreat of its customers in Lhasa. The Group's safety measures taken were highly appreciated and acclaimed by the public at large. The Group's staff around the world joined hands to participate in the Sichuan earthquake disaster relief activities and made significant donations, demonstrating their strong sense of social responsibility. During the period of the Olympics Games, the Group's travel agencies and hotels in Beijing and Hong Kong provided numerous community services, which contributed to the successful hosting of the Beijing Olympic Games. CTS Metropark has set up college scholarship programs in two universities in Mainland China to honor those students in hospitality management with academic excellence and high morality.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 31 December 2008, the Group had approximately 16,000 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group was strong. As at 31 December 2008, the cash and cash equivalents of the Group's continuing operations amounted to HK$1,795 million whereas the interest bearing bank and other borrowings amounted to HK$424 million. The debt to adjusted capital ratio was 14.15%.

As at 31 December 2008, the Group had bank loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the utilized loan facilities are as follows:

Amount outstanding as at 31 December 2008	**Final maturity date of the loan facilities**
HK$220 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 2008, the Group did not hold any material fixed assets in the form of finance lease and hire purchase contracts.

As at 31 December 2008, the Group has a pledged time deposit of approximately HK$50 million and pledged assets of approximately HK$5.7 million. The capital commitments of the Group were approximately HK$660 million and the Group has no material contingent liabilities as at 31 December 2008.

BUSINESS PROSPECTS

It is envisioned the overall economy will continue to be turbulent in 2009, and the business environment for the tourism industry will remain challenging. Yet the Group believes that crisis bears opportunity. The Group's healthy financial position and favorable net cash-flow situation have further strengthened its risk management capability. The enormous economic stimulus policies from governments worldwide will eventually come to effect in global economy. In particular, the Mainland China authorities are drawing strength from the tourism industry to boost domestic consumption. The tourism industry is expected to recover gradually in the second half of the year. In 2009 the Group will reinforce business integration between Mangocity.com and its traditional travel agency operation, enhance business synergy and sharing resources between the Group's different segments along the tourism industry chain and optimize operational process and management efficiency by investing in management information systems and customer database systems. The Group will intensify its cost control effort to further reduce overhead expenses and freeze payroll. The Group will redesign its performance management system and policies, with a clear focus on shareholders' return, customer satisfaction, process efficiency, staff development and corporate social responsibility, so as to strengthen its sustainable competitiveness. Leveraging on its healthy financial position, the Group will actively seek cost-effective merge and acquisition opportunities in the principal tourism industry in 2009 to underpin its long term earnings growth potential.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

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 except for the disposal of freight forwarding and transportation business.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 177.

An interim dividend of HK2 cents per ordinary share and a special interim dividend of HK3 cents per ordinary share were paid on 10 October 2008. The Board recommends the payment of a final dividend of HK1 cent per ordinary share in respect of the year to shareholders on the register of members on 26 May 2009. 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$2,248,000.

SUMMARY FINANCIAL INFORMATION

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Summaries of the particulars of the Group's hotel properties and principal investment properties are set out on pages 178 and 180, respectively. These summaries do not form part of the audited financial statements.

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 35 and 36 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 37 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$1,079,173,000 of which HK$56,954,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$8,357,579,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

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

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager)* (Resigned on 25 March 2009)
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (Appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (Appointed on 8 April 2008)
Mr. Wei Qing (Resigned on 8 April 2008)

Independent Non-Executive Directors:

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

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

In accordance with Article 101 of the Company's Articles of Association, Mr. Zheng Heshui, Ms. Jiang Yan, Mr. Mao Jianjun and Dr. Fong Yun Wah shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting 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 BENEFITS SCHEMES

Particulars of the retirement benefits 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 2008 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 Transaction

On 3 December 2008, China Travel Service (Hong Kong) Limited ("CTSHK"), Consfit Investment Limited and Gether Ease Investment Limited (collectively, the "Share Purchasers") entered into an agreement with Pacific Travel and Trade Corporation ("Pacific Travel") to acquire 4,638,320 shares of U.S. China Travel Services, Inc. ("USCTS"), representing 49% of the issued shares of USCTS, at an aggregate consideration of US$264,000 (the "Share Acquisition"). Each of the Share Purchasers agreed that it shall receive one-third of the acquired shares of USCTS and all of them are wholly-owned subsidiaries of the Company. The Share Acquisition would enable the Group to have better and more effective management and control over USCTS after it became a wholly-owned subsidiary of the Group upon completion of the Share Acquisition.

Before the completion of the Share Acquisition, USCTS, in which the Company held 51% equity interest, was owned as to 49% by Pacific Travel. Pacific Travel is wholly owned by a director of USCTS, who is also the brother of another director of USCTS. Pacific Travel, by virtue of being a substantial of USCTS, a non-wholly-owned subsidiary of the Company, had been regarded as a connected person of the Company. Accordingly, the Share Acquisition constituted a connected transaction of the Company. Upon the completion of the Share Acquisition, USCTS became a wholly-owned subsidiary of the Company and therefore ceased to be a connected person of the Company. Pacific Travel is still a connected person of the Company as it is wholly owned by a director of USCTS.

Since one or more of the applicable percentage ratios in respect of the Share Acquisition were more than 0.1% but were all less than 2.5%, the Share Acquisition was only subject to the reporting and announcement requirements and was exempt from the independent shareholders' approval requirement under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company did not have any other prior transaction with USCTS which required aggregation with the Share Acquisition under Rule 14A.25 of the Listing Rules.

Details of the Share Acquisition were set out in the Company's announcement dated 3 December 2008.

In the opinion of the Company's independent non-executive Directors, the above connected transaction was 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 was fair and reasonable and in the interests of the Company and its shareholders as a whole.

Continuing Connected Transactions

(i) On 24 October 1995, Shenzhen The World Miniature Co. Ltd. ("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 for the period commenced on 28 April 2007 and ending on 27 April 2010 at an annual rent of RMB10.89 million ("Huaqiaocheng CCT"), representing an increment rate of 10% on the rent for the previous period.

Huaqiaocheng owns approximately a 56% interest in Shenzhen Overseas Chinese Town Holding Company ("Overseas Chinese Town"). Overseas Chinese Town in turn owns a 49% interest in 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 a continuing connected transaction of the Company.

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

The Huaqiaocheng CCT's cap for the three years ending 31 December 2009 is RMB10.89 million per year. The actual amount of the transactions for the year ended 31 December 2008 was RMB10.89 million.

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

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

(a) Provision of Travel Permit Administration on behalf of CTS (Holdings) (note (1));

(b) Provision of insurance brokerage services by CTS (Holdings) Group (note (2));

(c) Lease arrangements with CTS (Holdings) Group as lessor (note (2));

(d) Provision of Application Service Provider ("ASP") related services to CTS (Holdings) Group (note (2));

(e) Provision of hotel management fees to CTS (Holdings) Group (note (3));

(f) Provision of travel related services to China CTS (HK) Group (note (2));

(g) Provision of tour group services to China CTS (HK) Group (note (4)); and

(h) Provision of tour group services by China CTS (HK) Group (note (4)).

(1) On 15 May 2001, CTSHK, a wholly-owned subsidiary of the Company, entered into an agreement (the "Agency Agreement") with CTS (Holdings), a controlling shareholder of the Company (and is therefore a connected person of the Company), to document the transactions relating to the general administration services provided in Hong Kong for 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. For details please refer to the Company's announcement dated 27 November 2006 and the circular dated 5 December 2006.

(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 commenced from 1 January 2007 and ending on 31 December 2009.

On the same date, the Company also entered into a master agreement with China CTS (HK) to govern the continuing connected transactions referred to in (f) above between the Group and China CTS (HK) Group for a term commenced from 1 January 2007 and 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. For details please refer to the Company's announcement dated 29 December 2006.

(3) On 1 November 2007, the Company, Allied Well Holdings Ltd. and United Capital Management Limited, being wholly-owned subsidiaries of the Company (collectively, the "Hotel 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 Hotel Purchasers conditionally agreed to acquire the entire issued share capital or registered capital of CTS H.K. Metropark Hotels Management Company 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 shareholders' loans owned by the abovementioned companies to the Vendors at a consideration of HK$1,107,260,000 (the "Hotel Acquisition"), which had been settled entirely by cash funded by the internal resources of the Group. The Hotel Acquisition was completed on 9 May 2008.

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

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

The maximum aggregate annual consideration for the above-said continuing connected transactions for the year ended 31 December 2008 and the two years ending 31 December 2009 and 31 December 2010 and the actual amounts of such transactions for the year ended 31 December 2008 are as follows:

	Caps for the three years ended/ ending 31 December			Approximate actual amounts for the year ended 31 December
	2008	**2009**	**2010**	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000
I. *Continuing connected transactions with CTS (Holdings) Group*				
(a) Provision of Travel Permit Administration on behalf of CTS (Holdings)	400,000	400,000	–	300,111
(b) Provision of insurance brokerage services by CTS (Holdings) Group	7,870	8,270	–	5,146
(c) Lease arrangements with CTS (Holdings) Group as lessor	18,260	20,010	–	17,090
(d) Provision of ASP related services to CTS (Holdings) Group	14,230	14,230	–	9,734
(e) Provision of hotel management services to CTS (Holdings) Group	9,764	11,326	13,138	5,451
II. *Continuing connected transactions with China CTS (HK) Group*				
(f) Provision of travel related services to China CTS (HK) Group	17,500	13,730	–	624
(g) Provision of tour group services by the Group to China CTS (HK) Group	19,840	43,240	59,520	6,867
(h) Provision of tour group services by China CTS (HK) Group to the Group	29,080	34,900	41,870	15,659

(iii) On 29 December 2006, the Company and USCTS, a subsidiary of the Company, entered into a travel service agreement for a term of three years commenced 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 favourable than those charged by independent third parties. On 19 August 2008, the Company and USCTS entered into a travel service supplemental agreement to revise the original annual caps for the two years ending 31 December 2009 in relation to the continuing connected transactions of travel related services between the Group and USCTS as the projected aggregate amounts of the said continuing connected transactions for the two years ending 31 December 2009 are likely to exceed the original annual caps. Details of these transactions were set out in the Company's announcements dated 29 December 2006 and 19 August 2008.

As mentioned in the section headed "Connected Transaction" above, upon the completion of the Share Acquisition, USCTS ceased to be a connected person of the Company and accordingly transactions between USCTS and the Company ceased to be connected transactions or continuing connected transactions.

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

The maximum aggregate annual values for the above-said continuing connected transactions for the two years ending 31 December 2009 and the actual amounts of such transactions for the year ended 31 December 2008 are as follows:

	Caps for the years ended/ ending 31 December 2008	2009	Approximate actual amounts for the year ended 31 December 2008
I. Continuing connected transactions under the travel services agreement			
(a) Travel related service fees payable by the Group to USCTS	HK$11,410,000	–	HK$1,744,599
(b) Travel related service fees payable by USCTS to the Group	HK$14,720,000	–	HK$3,108,922
II. Fees payable by USCTS to Pacific Travel under the ticketing service agreement			
(a) Ticketing related services	US$2,467,500 (approximately HK$19,185,000)	US$2,961,000 (approximately HK$23,022,000)	US$876,156 (approximately HK$6,812,180)
(b) Technical support services	US$18,900 (approximately HK$147,000)	US$19,845 (approximately HK$154,000)	US$18,500 (approximately HK$143,839)
Total for II	US$2,486,400 (approximately HK$19,332,000)	US$2,980,845 (approximately HK$23,176,000)	US$894,656 (approximately HK$6,956,019)

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

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

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

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

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

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

The 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 2008, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

(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 1)*	50,000	0.000878%
Mr. Xu Muhan	Family interests *(Note 2)*	2,000	0.000035%

Note 1: These shares were beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah was taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

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

(ii) Mr. Zhang Fengchun held in trust of 60% of Shenzhen CTS Jiateng Industrial Limited (深圳市嘉騰實業有限公司) and of 40% of Shenzhen CTS Industrial Limited (深圳市華恒通實業有限公司), both of which are wholly-owned subsidiaries of the Group, in a non-beneficiary capacity.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 36 to the financial statements.

Details of the share options outstanding during the year were as follows:

	Number of share options							
Name or category of participant	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options 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
Xu Muhan	800,000	–	–	800,000	–	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
	14,710,000	–	–	14,710,000	–			
Other employees								
In aggregate	82,400,000	–	–	82,400,000	–	9 July 2007	9 July 2009 to 2 June 2012	4.65
	97,110,000	–	–	97,110,000				

Notes:

(i) During the year, 2,250,000 share options were lapsed and the Company, upon signing of cancellation agreements with all remaining grantees, cancelled all remaining 94,860,000 share options in December 2008. No share options were outstanding as at the date of this report.

(ii) Mr. Wei Qing resigned as director of the Company on 8 April 2008 and Mr. Xiong Weiping resigned as director of the Company on 25 March 2009.

Save as disclosed above, as at 31 December 2008, 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 set out in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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%

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.

During the year, 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 aforesaid and disclosed under the heading "Directors' Interests in the Shares and Short Positions in Shares and Underlying Shares" above, as at 31 December 2008, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Particulars of interest-bearing bank and other borrowings of the Group as at 31 December 2008 are set out in note 32 to the financial statements.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 2008, 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 2008 were as follows:

Amount outstanding as at 31 December 2008	Final maturity of the loan facilities
HK$220 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 44 to 55.

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.

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.

COMPENSATION POLICY

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

POST BALANCE SHEET EVENTS

The Group has no significant event occurring after the balance sheet date and up to the date of this report.

AUDITORS

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

ON BEHALF OF THE BOARD

Zhang Xuewu
Chairman

Hong Kong, 6 April 2009

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 2008. 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 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 2008 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 2008 and up to the date of this report were as follows:

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*
Mr. Xiong Weiping *(Vice Chairman, General Manager,* Resigned on 25 March 2009)
Mr. Zheng Heshui *(Vice Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Mao Jianjun
Mr. Fang Xiaorong (Appointed on 8 April 2008)
Mr. Zhang Fengchun
Mr. Xu Muhan (Appointed on 8 April 2008)
Mr. Wei Qing (Resigned on 8 April 2008)

Independent Non-Executive Directors:

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

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

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

During the year ended 31 December 2008, 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 2008:

- 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, one Board meetings in relation to Directors' nomination related matters was held on 8 April 2008, at which Mr. Fang Xiaorong and Mr. Xu Muhan were appointed as executive Directors, Mr. Wei Qing resigned as executive Director of the Company 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 2009 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 2008, the Board met four times. On 8 April 2008, the Board met to review the annual results, the report from the first Audit Committee meeting, retirement and re-election of Directors, re-appointment of auditors and connected transactions. On 13 August 2008, the Board met to review connected transactions. On 9 September 2008, the Board met to review the interim results, the report from the second Audit Committee meeting, interim dividend and Rules and Procedures of the Board. On 27 November 2008, the Board met to discuss issues including investment projects. The attendance rate at each meeting was 69%, 85%, 85% and 85% 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 2008 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Zhang Xuewu	3/4	Not applicable	Not applicable
Xiong Weiping	4/4	Not applicable	Not applicable
Zheng Heshui	3/4	Not applicable	Not applicable
Lo Sui On	4/4	Not applicable	Not applicable
Jiang Yan	3/4	Not applicable	Not applicable
Mao Jianjun	3/4	Not applicable	Not applicable
Fang Xiaorong	3/4	Not applicable	Not applicable
Zhang Fengchun	3/4	Not applicable	Not applicable
Xu Muhan	4/4	Not applicable	Not applicable
Wei Qing*	Not applicable	Not applicable	Not applicable
Fong Yun Wah	2/4	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	3/4	2/3	1/1

* *Mr. Wei Qing was resigned as an executive Directors of the Company with effect from 8 April 2008. During the period from 1 January 2008 to 7 April 2008, no Board meetings were held.*

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. 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 31 March 2008 to review matters mainly concerning a review on remuneration and performance of executive Directors and senior management of the Company, as well as directors' fees.

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 2008 to consider 2007 internal audit report and independent opinions of external auditors on the Company, and to review the financial results and reports, financial reporting and process of compliance, 2008 internal audit plan, review report by Pricewaterhouse Coopers on the Company's internal control and risk management improvement, 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 2008 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 2008.

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 2008.

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 56 to 57.

Save as disclosed in note 7 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2008, other fees payable for significant non-audit service assignments for the year include:

	Fees (HK$'000)
1. Taxation services	1,168
2. Professional consultation services on acquisition of Hotel Group and disposal of Cargo Group	607
3. Professional consultation services on special group restructuring project	5,850
Total	7,625

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 appointed Pricewaterhouse Coopers to conduct a comprehensive review of the improvement of the internal control system of the group with respect to financial control, operational control, compliance control and risk management under the guidance of the Board and the senior management in 2008.

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

The Company held an investor conference after its 2007 annual results announcement and held an investor conference and a press conference after its 2008 interim results announcement.

The Company also participated in an investor conference held by a securities firm and managed to keep smooth communication with investors and analysts through various means including one-on-one meeting, small-group conference, telephone conference and e-mail and so on during its daily business operation. In 2008, the Company received over 100 investors and analysts. Besides, at least five securities research institutions issued research reports on the Company.

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

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

We have audited the financial statements of China Travel International Investment Hong Kong Limited set out on pages 58 to 177, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

INDEPENDENT AUDITORS' REPORT

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 2008 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

6 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**4,388,443**	4,417,195
Cost of sales		**(2,664,108)**	(2,687,137)
Gross profit		**1,724,335**	1,730,058
Other income and gains	5	**211,507**	112,618
Selling and distribution costs		**(481,450)**	(483,263)
Administrative expenses		**(1,120,283)**	(909,834)
Changes in fair value of investment properties		**(70,609)**	13,947
Other expenses		**(22,435)**	–
Finance costs	6	**(12,013)**	(32,713)
Share of profits and losses of:			
Jointly-controlled entities		**61,009**	248,751
Associates		**(42,339)**	67,702
PROFIT BEFORE TAX	7	**247,722**	747,266
Tax	10	**(75,062)**	(120,626)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**172,660**	626,640
DISCONTINUED OPERATION			
Profit for the year from/gain on disposal of a discontinued operation	12	**428,139**	94,272
PROFIT FOR THE YEAR		**600,799**	720,912
Attributable to:			
Equity holders of the parent	11	**531,309**	633,974
Minority interests		**69,490**	86,938
		600,799	720,912
DIVIDENDS	13		
Interim		**113,907**	170,861
Special interim		**170,861**	–
Proposed final		**56,954**	170,861
		341,722	341,722

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Note	**2008**	2007
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK CENTS)	*14*		
Basic			
– For profit for the year		**9.33**	11.13
– For profit from continuing operations		**1.88**	9.80
Diluted			
– For profit for the year		**N/A**	11.12
– For profit from continuing operations		**N/A**	9.79

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,163,769**	4,418,186
Investment properties	16	**762,470**	200,049
Prepaid land lease payments	17	**3,074,804**	3,036,028
Goodwill	18	**1,244,769**	1,244,769
Other intangible assets	19	**37,419**	2,168
Interests in jointly-controlled entities	21	**1,154,076**	1,176,160
Interests in associates	22	**333,997**	438,293
Available-for-sale investments	23	**18,033**	17,977
Held-to-maturity investments	24	**–**	15,691
Prepayments		**45,654**	–
Deferred tax assets	34	**581**	250
Total non-current assets		**11,835,572**	10,549,571
CURRENT ASSETS			
Inventories	25	**25,565**	18,377
Trade receivables	26	**230,845**	283,823
Tax recoverable		**3,926**	2,967
Prepayments, deposits and other receivables	27	**319,234**	370,878
Pledged time deposits	28	**49,782**	11,169
Cash and cash equivalents	28	**1,794,879**	2,272,346
Amount due from the immediate holding company	29	**28,222**	28,230
Amounts due from fellow subsidiaries	29	**32,526**	21,676
		2,484,979	3,009,466
Assets of a disposal group classified as held for sale	12	**–**	995,260
Total current assets		**2,484,979**	4,004,726
CURRENT LIABILITIES			
Trade payables	30	**331,587**	402,841
Tax payable		**64,032**	69,203
Other payables and accruals	31	**861,403**	858,975
Interest-bearing bank and other borrowings	32	**244,652**	5,385
Amount due to the immediate holding company	29	**400**	902
Amounts due to fellow subsidiaries	29	**4,006**	2,623
		1,506,080	1,339,929
Liabilities directly associated with the assets classified as held for sale	12	**–**	473,546
Total current liabilities		**1,506,080**	1,813,475
NET CURRENT ASSETS		**978,899**	2,191,251
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,814,471**	12,740,822

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,814,471**	12,740,822
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		**164,408**	148,108
Interest-bearing bank and other borrowings	*32*	**179,068**	578,949
Deferred tax liabilities	*34*	**417,635**	373,435
Total non-current liabilities and deferred income		**761,111**	1,100,492
Net assets		**12,053,360**	11,640,330
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	*35*	**569,536**	569,536
Reserves	*37*	**10,888,157**	10,365,589
Proposed final dividend	*13*	**56,954**	170,861
		11,514,647	11,105,986
Minority interests	*37*	**538,713**	534,344
Total equity		**12,053,360**	11,640,330

Zhang Xuewu
Director

Xu Muhan
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Total equity at 1 January		**11,105,986**	10,420,540
Exchange differences on translation of the financial statements of foreign entities	37	**275,126**	240,433
Release of exchange differences upon disposal of subsidiaries	37	**(41,934)**	–
Total income and expense for the year recognised directly in equity		**233,192**	240,433
Profit for the year	37	**531,309**	633,974
Total income and expense for the year		**764,501**	874,407
Share of reserve of an associate	37	**(30,761)**	11,623
Dividends paid		**(455,629)**	(227,815)
Equity-settled share option arrangements	36	**130,550**	27,231
Total equity at 31 December		**11,514,647**	11,105,986

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**247,722**	747,266
From a discontinued operation	4	**432,809**	111,294
Adjustments for:			
Finance costs	6	**13,807**	34,513
Interest income	7	**(44,962)**	(62,455)
Loss/(gain) on disposal of investment properties and items of property, plant and equipment, net	7	**10,489**	(4,399)
Gain on disposal of available-for-sale investments	7	**–**	(3,941)
Gain on disposal of a discontinued operation	12	**(397,440)**	–
Loss on write-off of items of property, plant and equipment	7	**15,054**	–
Depreciation	7	**384,073**	317,069
Amortisation of prepaid land lease payments	7	**67,026**	66,643
Impairment/(reversal of impairment) of trade and other receivables, net	7	**5,912**	(2,353)
Impairment of items of property, plant and equipment	7	**1,479**	–
Impairment of available-for-sale investments	7	**614**	853
Impairment of goodwill	7, 18	**7,381**	–
Changes in fair value of investment properties	7, 16	**70,609**	(21,251)
Share of profits and losses of jointly-controlled entities		**(61,009)**	(248,751)
Share of profits and losses of associates		**42,339**	(67,702)
Equity-settled share option expense	7, 36	**130,550**	27,231
Excess over the cost of a business combination	5, 38	**(521)**	–
Exchange gain on translation of intercompany balances		**(64,888)**	–
		861,044	894,017
Increase in inventories		**(2,462)**	(548)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables		**140,896**	(225,228)
Decrease/(increase) in balances with the immediate holding company		**22,067**	(5,542)
Increase/(decrease) in trade payables, other payables and accruals		**(314,520)**	121,194
Increase in amounts due from fellow subsidiaries		**(8,500)**	(18,404)
Decrease in amounts due to fellow subsidiaries		**(3,541)**	(466)
Increase/(decrease) in deferred income		**8,577**	(894)
Decrease in amounts due from jointly-controlled entities		**9,313**	34,050
Increase/(decrease) in amounts due to jointly-controlled entities		**328**	(1,831)
Decrease in amounts due from associates		**1,857**	11,230
Increase/(decrease) in amounts due to associates		**(4,564)**	1,275
Cash generated from operations		**710,495**	808,853
Hong Kong, PRC and Macau profits taxes paid		**(118,753)**	(97,778)
Overseas taxes paid		**(2,133)**	(765)
Net cash inflow from operating activities		**589,609**	710,310

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow from operating activities		**589,609**	710,310
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**44,864**	62,311
Dividends received from an associate		**33,930**	47,560
Dividends received from jointly-controlled entities		**162,805**	138,585
Proceeds from disposal of available-for-sale investments		**–**	4,310
Purchases of items of property, plant and equipment		**(432,149)**	(322,562)
Investment in a jointly-controlled entity		**–**	(7,700)
Proceeds from disposal of subsidiaries	39	**628,431**	–
Proceeds from disposal of items of property, plant and equipment		**58,727**	18,996
Proceeds from disposal of investment properties		**–**	5,429
Proceeds from disposal of held-to-maturity investments		**15,776**	–
Additions to passenger service licences	19	**(960)**	(2,168)
Acquisition of subsidiaries	38	**(1,036,292)**	49,878
Acquisition of minority interests		**(14,097)**	–
Additions to available-for-sale investments		**(414)**	–
Return of capital from a jointly-controlled entity		**–**	10,241
Increase in pledged time deposits		**(33,194)**	(6,993)
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**4,604**	175,509
Net cash inflow/(outflow) from investing activities		**(567,969)**	173,396
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(22,311)**	(34,916)
Dividends paid		**(455,629)**	(227,815)
Dividends paid to minority shareholders		**(69,750)**	(100,413)
Contributions from minority shareholders		**19,640**	22,943
New bank loans		**552,305**	45,027
Repayment of bank loans		**(706,700)**	(182,815)
Capital element of finance lease and hire purchase contract payments		**(18)**	(36)
Net cash outflow from financing activities		**(682,463)**	(478,025)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(660,823)**	405,681
Cash and cash equivalents at beginning of year		**1,940,041**	1,487,979
Effect of foreign exchange rate changes, net		**26,652**	46,381
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,305,870**	1,940,041
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**764,147**	1,113,018
Non-pledged time deposits with original maturity of less than three months when acquired		**541,723**	665,519
Cash and cash equivalents attributable to a discontinued operation	12	**–**	161,504
		1,305,870	1,940,041

BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**984**	633
Investment property	16	**2,080**	2,000
Investments in subsidiaries	20	**4,320,430**	4,501,131
Amounts due from subsidiaries	20	**–**	700,000
Investment in a jointly-controlled entity	21	**1,415**	1,415
Available-for-sale investment	23	**13,949**	13,949
Total non-current assets		**4,338,858**	5,219,128
CURRENT ASSETS			
Amounts due from subsidiaries	20	**6,561,998**	5,368,344
Amount due from a fellow subsidiary	29	**473**	–
Prepayments, deposits and other receivables	27	**4,229**	7,233
Cash and cash equivalents	28	**718,697**	818,201
Total current assets		**7,285,397**	6,193,778
CURRENT LIABILITIES			
Amounts due to subsidiaries	20	**1,575,211**	1,972,497
Other payables and accruals	31	**30,932**	16,767
Amount due to the immediate holding company	29	**201**	897
Tax payable		**11,273**	3,611
Total current liabilities		**1,617,617**	1,993,772
NET CURRENT ASSETS		**5,667,780**	4,200,006
Net assets		**10,006,638**	9,419,134
EQUITY			
Share capital	35	**569,536**	569,536
Reserves	37	**9,380,148**	8,678,737
Proposed final dividend	13	**56,954**	170,861
Total equity		**10,006,638**	9,419,134

Zhang Xuewu
Director

Xu Muhan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2008

1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not possessed financial instruments which required reclassification, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys 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. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

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

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [2]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)- Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement* [5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]

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

HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods beginning on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

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

HKFRS 3 (Revised) introduces 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.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange* Rate, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 7 Amendments require enhanced disclosure about fair value measurements and liquidity risk. The Group expects to adopt HKFRS 7 Amendments from 1 January 2009.

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 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

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 any financial impact on the Group.

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

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

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 9 and HKAS 39 Amendments clarify the assessment of embedded derivatives if the fair value of the embedded derivatives that would have to be separated cannot be measured separately. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estates the interpretation is unlikely to have any financial impact on the Group.

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

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

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). As the Group does not have such arrangement, the interpretation is unlikely to have any financial impact on the Group.

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.

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

(c) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

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

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

(e) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

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

(g) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

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

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

(i) HKAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

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

The Group's 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 interests 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)*

Goodwill on acquisitions for which the arrangement date is on or after 1 January 2005 (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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of the Group or 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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	3.5% to 19%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	2.25% to 20%
Furniture, fixtures and equipment	6% to 33.3%
Motor vehicles	12.9% to 20%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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

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

Non-current assets and disposal groups held for sale

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets and disposal groups held for sale *(Continued)*

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.

Intangible assets and trademarks

The useful life of passenger service licences and trademarks 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.

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

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

The Group 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

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

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

Fair value hedges

The change in the fair value of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Deferred income

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

Cash and cash equivalents

For the purpose of the consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Revenue recognition

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

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

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

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

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

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

Share-based payment transactions

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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 36 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Paid leave carried forward

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

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs *(Continued)*

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.

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 dates 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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. Further details are given in note 18 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 34 to the financial statements.

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

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

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

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

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

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

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties and identifiable assets and liabilities in a business combination *(Continued)*

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar properties and identifiable assets and liabilities in the same location and condition, appropriate discount rates, expected future economic outflows and inflows and future maintenance costs associated with the properties and identifiable assets and liabilities. Further details of the carrying amounts of the investment properties and business combination are contained in notes 16 and 38 respectively to the financial statements.

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

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

(b) the hotel operations segment engages in the provision of hotel accommodation services in Hong Kong, Macau and Mainland China;

(c) the theme park operations segment engages in the operation of theme parks in Shenzhen, Mainland China;

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

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

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

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

4. SEGMENT INFORMATION *(Continued)*

(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 (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.

(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 2008 and 2007.

Year ended 31 December 2008	Continuing operations										Discontinued operation	
	Travel agency and related operations HK$'000	Hotel operations HK$'000	Theme park operations HK$'000	Resort operations HK$'000	Passenger transportation services HK$'000	Golf club operations HK$'000	Power generation HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000	Freight forwarding and transportation services HK$'000	Consolidated HK$'000
Segment revenue:												
Sales to external customers	2,498,536	683,504	485,916	340,235	299,414	56,659	–	24,179	–	4,388,443	1,256,254	5,644,697
Intersegment revenue	9,036	5,804	4,011	6,579	1,347	–	–	24,810	(51,587)	–	–	–
Other income and gains	15,942	14,161	473	66,452	10,540	–	12,635	46,281	–	166,484	8,102	174,586
Total	2,523,514	703,469	490,400	413,266	311,301	56,659	12,635	95,270	(51,587)	4,554,927	1,264,356	5,819,283
Segment results	71,228	101,237	169,290	(62,117)	9,006	(49,721)	6,825	(49,706)		196,042	36,703	232,745
Excess over the cost of a business combination	–	521	–	–	–	–	–	–	–	521	–	521
Gain on disposal of a discontinued operation										–	397,440	397,440
Interest income										44,502	460	44,962
Finance costs										(12,013)	(1,794)	(13,807)
Share of profits and losses of:												
Jointly-controlled entities	4,056	–	–	–	–	–	58,539	(1,586)	–	61,009	–	61,009
Associates	–	–	–	–	(42,134)	–	–	(205)	–	(42,339)	–	(42,339)
Profit before tax										247,722	432,809	680,531
Tax										(75,062)	(4,670)	(79,732)
Profit for the year										172,660	428,139	600,799

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2008	Continuing operations: Travel agency and related operations HK$'000	Continuing operations: Hotel operations HK$'000	Continuing operations: Theme park operations HK$'000	Continuing operations: Resort operations HK$'000	Continuing operations: Passenger transportation services HK$'000	Continuing operations: Golf club operations HK$'000	Continuing operations: Power generation HK$'000	Continuing operations: Corporate and others HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Freight forwarding and transportation services HK$'000	Consolidated HK$'000
Segment assets	2,450,978	4,660,084	644,808	2,655,285	135,360	338,549	14,131	84,115	10,983,310	–	10,983,310
Interests in jointly-controlled entities	58,963	–	–	–	(249)	–	1,088,240	7,122	1,154,076	–	1,154,076
Interests in associates	(4,353)	–	–	–	337,722	–	–	628	333,997	–	333,997
Unallocated assets									1,849,168	–	1,849,168
Total assets									14,320,551	–	14,320,551
Segment liabilities	618,890	110,608	106,674	222,875	29,438	234,115	496	38,708	1,361,804	–	1,361,804
Unallocated liabilities									905,387	–	905,387
Total liabilities									2,267,191	–	2,267,191
Other segment information:											
Capital expenditure	24,532	1,196,620	118,519	250,375	25,395	65,928	–	11,618	1,692,987	–	1,692,987
Depreciation and amortisation	56,216	102,592	74,362	153,353	29,930	31,635	–	3,011	451,099	–	451,099
Impairment losses/(reversal of impairment loss) recognised in the income statement	4,528	1,140	(29)	2,833	5,515	1,431	–	(32)	15,386	–	15,386
Other non-cash expenses	–	–	–	–	–	15,054	–	–	15,054	–	15,054
Changes in fair value of investment properties	(5,560)	(70,749)	–	–	–	–	–	5,700	(70,609)	–	(70,609)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2007	Continuing operations										Discontinued operation	
	Travel agency and related operations HK$'000	Hotel operations HK$'000	Theme park operations HK$'000	Resort operations HK$'000	Passenger transportation services HK$'000	Golf club operations HK$'000	Power generation HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000	Freight forwarding and transportation services HK$'000	Consolidated HK$'000
Segment revenue:												
Sales to external customers	2,714,968	502,274	464,900	354,474	294,267	56,838	–	29,474	–	4,417,195	3,517,957	7,935,152
Intersegment revenue	9,961	6,333	5,727	13,958	2,649	–	–	32,373	(71,001)	–	–	–
Other income and gains	14,774	5,392	686	15,440	7,878	–	–	8,252	–	52,422	15,827	68,249
Total	2,739,703	513,999	471,313	383,872	304,794	56,838	–	70,099	(71,001)	4,469,617	3,533,784	8,003,401
Segment results	113,464	110,763	153,347	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

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2007	Continuing operations									Discontinued operation	
	Travel agency and related operations HK$'000	Hotel operations HK$'000	Theme park operations HK$'000	Resort operations HK$'000	Passenger transportation services HK$'000	Golf club operations HK$'000	Power generation HK$'000	Corporate and others HK$'000	Total HK$'000	Freight forwarding and transportation services HK$'000	Consolidated HK$'000
Segment assets	2,768,127	3,368,878	609,678	2,387,808	145,149	297,487	–	80,725	9,657,852	833,400	10,491,252
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									2,286,732	161,513	2,448,245
Total assets									13,559,037	995,260	14,554,297
Segment liabilities	670,331	59,604	102,282	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	34,960	64,388	189,718	27,773	15,753	–	1,022	366,184	9,762	375,946
Depreciation and amortisation	49,802	74,816	69,553	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)
Changes in fair value of investment properties	13,107	840	–	–	–	–	–	–	13,947	7,304	21,251

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Hong Kong		Mainland China (including Macau)		Overseas		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**1,796,051**	2,004,196	**3,385,953**	5,294,415	**462,693**	636,541	**5,644,697**	7,935,152
Other income and gains	**84,704**	45,069	**86,817**	19,949	**3,065**	3,231	**174,586**	68,249
Attributable to a discontinued operation	**(46,006)**	(123,479)	**(1,182,063)**	(3,270,809)	**(36,287)**	(139,496)	**(1,264,356)**	(3,533,784)
Revenue from continuing operations	**1,834,749**	1,925,786	**2,290,707**	2,043,555	**429,471**	500,276	**4,554,927**	4,469,617
Other segment information:								
Segment assets	**6,582,885**	7,059,128	**7,467,733**	6,900,231	**269,933**	594,938	**14,320,551**	14,554,297
Capital expenditure	**1,208,572**	80,670	**482,015**	293,950	**2,400**	1,326	**1,692,987**	375,946

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2008 HK$'000	2007 HK$'000
Revenue		
Travel agency and related operations	**2,498,536**	2,714,968
Hotel operations	**683,504**	502,274
Theme park operations	**485,916**	464,900
Resort operations	**340,235**	354,474
Passenger transportation services	**299,414**	294,267
Golf club operations	**56,659**	56,838
Others	**24,179**	29,474
Attributable to continuing operations reported in the consolidated income statement	**4,388,443**	4,417,195
Freight forwarding and transportation services attributable to a discontinued operation *(note 12)*	**1,256,254**	3,517,957
	5,644,697	7,935,152
Other income		
Interest income	**44,502**	60,196
Gross rental income	**7,001**	6,393
Reinvestment tax credit	**37,735**	–
Others	**22,201**	17,941
	111,439	84,530
Gains		
Foreign exchange differences, net	**99,547**	27,956
Excess over the cost of a business combination	**521**	–
Gain on disposal of items of property, plant and equipment, net	**–**	132
	100,068	28,088
Other income and gains		
Attributable to continuing operations reported in the consolidated income statement	**211,507**	112,618
Attributable to a discontinued operation	**8,562**	18,086
	220,069	130,704

6. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**22,311**	34,916
Less: Interest capitalised	**(8,504)**	(403)
	13,807	34,513
Attributable to continuing operations reported in the consolidated income statement	**12,013**	32,713
Attributable to a discontinued operation *(note 12)*	**1,794**	1,800
	13,807	34,513

7. PROFIT BEFORE TAX

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

	Notes	**2008 HK$'000**	2007 HK$'000
Depreciation	*15*	**384,073**	317,069
Amortisation of prepaid land lease payments	*17*	**67,026**	66,643
Auditors' remuneration:			
Current year		**6,416**	6,618
Overprovision in the prior year		**(90)**	(605)
		6,326	6,013
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**998,856**	904,809
Equity-settled share option expenses		**134,292**	27,231
Less: Forfeited share option expenses		**(3,742)**	–
Net equity settled share option expenses		**130,550**	27,231
Pension scheme contributions		**78,210**	63,984
Less: Forfeited contributions		**–**	–
Net pension scheme contributions *(note (i))*		**78,210**	63,984
Total employee benefit expenses		**1,207,616**	996,024

7. PROFIT BEFORE TAX *(Continued)*

	Notes	2008 HK$'000	2007 HK$'000
Minimum lease payments under operating leases:			
Land and buildings		**67,199**	57,699
Plant and machinery and motor vehicles		**37,799**	42,576
Impairment of available-for-sale investments *(note (ii))*		**614**	853
Impairment of goodwill *(note (iii))*	*18*	**7,381**	–
Impairment/(reversal of impairment) of trade and other receivables, net		**5,912**	(2,353)
Impairment of items of property, plant and equipment	*15*	**1,479**	–
Loss on write-off of items of property, plant and equipment *(note (iii))*		**15,054**	–
Loss/(gain) on disposal of items of property, plant and equipment, net		**10,489**	(1,470)
Gain on disposal of investment properties		**–**	(2,929)
Gain on disposal of available-for-sale investments		**–**	(3,941)
Changes in fair value of investment properties	*16*	**70,609**	(21,251)
Net rental income		**(6,565)**	(5,978)
Foreign exchange differences, net		**(98,850)**	(25,470)
Bank interest income		**(44,962)**	(62,455)

Notes:

(i) At 31 December 2008, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

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

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

8. DIRECTORS' REMUNERATION

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

	Group	
	2008	2007
	HK$'000	HK$'000
Fees:		
Executive directors	**2,246**	2,273
Independent non-executive directors	**1,040**	1,022
	3,286	3,295
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**1,074**	4,410
Performance related bonuses*	**252**	2,742
Equity-settled share option expense	**20,244**	4,122
Pension scheme contributions	**95**	116
	21,665	11,390
	24,951	14,685

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

In 2007, 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 36 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant, and the amount is included in the above directors' remuneration disclosures.

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

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	Group 2008 HK$'000	2007 HK$'000
Fees:		
Dr. Yeh Meou Tsen, Geoffrey	–	127
Dr. Fong Yun Wah	**260**	260
Mr. Wong Man Kong, Peter	**260**	260
Mr. Sze, Robert Tsai To	**260**	260
Mr. Chan Wing Kee	**260**	115
	1,040	1,022

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2007: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the three non-directors, highest paid employees in 2007 are as follows:

	2007 HK$'000
Salaries, allowances and benefits in kind	3,255
Equity-settled share option expense	673
Pension scheme contributions	28
	3,956

As at 31 December 2007, the remuneration of all three non-directors, highest paid employees fell within the band of HK$1,000,001 to HK$1,500,000.

In 2007, share options were granted to three non-director, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 36 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 is included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate has become effective from the year of assessment 2008/2009, and so was applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. 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.

	2008 **HK$'000**	2007 HK$'000
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	**67,561**	74,200
Underprovision/(overprovision) in prior years	**(5,140)**	11,981
Current – Elsewhere		
Charge for the year	**37,341**	30,644
Underprovision/(overprovision) in prior years	**3,048**	(127)
Overseas – Current tax charge for the year	**609**	626
Deferred tax	**(28,357)**	3,302
Total tax charge for the year	**75,062**	120,626

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) 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 are as follows:

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

10. TAX *(Continued)*

	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 discontinued 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 continuing operations reported in the consolidated income statement							120,626	
Tax charge attributable to a discontinued operation *(note 12)*							17,022	
							137,648	

The share of tax attributable to jointly-controlled entities and associates amounting to tax charge of HK$13,208,000 (2007: tax charge of HK$41,009,000) and tax credit of HK$8,311,000 (2007: tax charge of HK$8,810,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of HK$912,583,000 (2007: HK$622,223,000) which has been dealt with in the financial statements of the Company (note 37).

12. DISCONTINUED OPERATION

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

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

	2008	2007
	HK$'000	HK$'000
Revenue	**1,256,254**	3,517,957
Expenses	**(1,219,091)**	(3,404,863)
Finance costs	**(1,794)**	(1,800)
Profit before tax	**35,369**	111,294
Tax	**(4,670)**	(17,022)
Profit for the year	**30,699**	94,272
Gain on disposal of a discontinued operation	**397,440**	–
Profit for the year from a discontinued operation	**428,139**	94,272
Attributable to:		
Equity holders of the parent	**424,202**	75,967
Minority interests	**3,937**	18,305
	428,139	94,272

12. DISCONTINUED 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.

12. DISCONTINUED OPERATION *(Continued)*

At 31 December 2007, the trade receivables included in a discontinued operation were 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

At 31 December 2007, the trade payables included in a discontinued operation were 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

12. DISCONTINUED OPERATION *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Operating activities	**19,041**	(2,419)
Investing activities	**(6,362)**	3,643
Financing activities	**44,974**	(3,042)
Net cash inflow/(outflow)	**57,653**	(1,818)
Earnings per share:		
Basic, from a discontinued operation	**HK7.45 cents**	HK1.33 cents
Diluted, from a discontinued operation	**N/A**	HK1.33 cents

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

	2008	2007
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**HK$424,202,000**	HK$75,967,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,695,355,525**	5,695,355,525
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**N/A**	5,700,658,130

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

(i) An aged analysis of the discontinued operation's trade receivables based on the invoice date is provided above. 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 discontinued operation's financial liabilities as at the balance sheet date, based on contractual undiscounted payments, was either on demand or within 12 months.

13. DIVIDENDS

	2008	2007
	HK$'000	HK$'000
Interim – HK2 cents (2007: HK3 cents) per ordinary share	**113,907**	170,861
Special interim – HK3 cents (2007: Nil) per ordinary share	**170,861**	–
Proposed final – HK1 cent (2007: HK3 cents) per ordinary share	**56,954**	170,861
	341,722	341,722

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

14. 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.

A diluted earnings per share amount for the year ended 31 December 2008 has not been disclosed, as the share options outstanding during the year had no diluting effect on the basic earnings per share for the year, and the share options had been cancelled in December 2008.

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

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

	2008 HK$'000	2007 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	107,107	558,007
From a discontinued operation *(note 12)*	424,202	75,967
	531,309	633,974

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	5,695,355,525	5,695,355,525
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	5,302,605
	5,695,355,525	5,700,658,130

15. 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 2008:							
Cost		2,215,920	1,517,016	1,122,763	107,354	1,707,287	6,670,340
Accumulated depreciation and impairment		(583,297)	(386,571)	(627,464)	–	(654,822)	(2,252,154)
Net carrying amount		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186
At 1 January 2008, net of accumulated depreciation and impairment		1,632,623	1,130,445	495,299	107,354	1,052,465	4,418,186
Additions		–	8,132	41,755	346,930	133,431	530,248
Acquisition of subsidiaries	*38(a)*	362,917	–	–	–	91,266	454,183
Disposals and write-off		(444)	(55,528)	–	(2,584)	(18,887)	(77,443)
Depreciation provided during the year	7	(76,631)	(82,492)	(44,609)	–	(180,341)	(384,073)
Impairment	7	–	–	–	–	(1,479)	(1,479)
Transfers		44,658	288,994	8,616	(358,991)	16,723	–
Exchange realignment		61,446	56,943	34,388	7,596	63,774	224,147
At 31 December 2008, net of accumulated depreciation and impairment		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769
At 31 December 2008:							
Cost		2,779,950	1,820,542	1,213,715	100,305	2,064,504	7,979,016
Accumulated depreciation and impairment		(755,381)	(474,048)	(678,266)	–	(907,552)	(2,815,247)
Net carrying amount		2,024,569	1,346,494	535,449	100,305	1,156,952	5,163,769

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

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
Acquisition of a subsidiary	*38(b)*	–	–	–	47,741	2,206	49,947
Disposals and write-off		(13)	(1,464)	(356)	(996)	(14,697)	(17,526)
Depreciation provided during the year	*7*	(64,502)	(37,247)	(32,984)	–	(182,336)	(317,069)
Reclassification to assets held for sale	*12*	–	(68,739)	–	–	(33,321)	(102,060)
Transfer to investment properties	*16*	–	4,000	–	–	–	4,000
Transfers		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

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

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008:				
Cost	803	2,913	2,379	6,095
Accumulated depreciation	(732)	(2,462)	(2,268)	(5,462)
Net carrying amount	71	451	111	633
At 1 January 2008, net of accumulated depreciation	71	451	111	633
Additions	–	598	342	940
Depreciation provided during the year	(71)	(280)	(238)	(589)
At 31 December 2008, net of accumulated depreciation	–	769	215	984
At 31 December 2008:				
Cost	803	3,524	1,921	6,248
Accumulated depreciation	(803)	(2,755)	(1,706)	(5,264)
Net carrying amount	–	769	215	984

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

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 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

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 2008 amounted to HK$11,000 (2007: HK$64,000).

Included in the Group's construction in progress at 31 December 2008 amounting to HK$35,133,000 was the construction of certain building and golf courses on a parcel of land of which the Group is in the progress of applying for the land use right certificate as at the balance sheet date.

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

At 31 December 2008, the Group's buildings with an aggregate net book value of HK$5,674,000 (2007:Nil) were pledged to secure a bank guarantee given to a supplier in connection with credit facility granted.

Further particulars of the hotel properties held by the Group as at 31 December 2008 are included on pages 178 and 179.

16. INVESTMENT PROPERTIES

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January		**200,049**	240,085	**2,000**	1,950
Acquisition of subsidiaries	*38(a)*	**618,383**	–	**–**	–
Disposals		**–**	(2,500)	**–**	–
Reclassification to assets held for sale	*12*	**–**	(40,750)	**–**	–
Net profit/(loss) from a fair value adjustment:					
– Attributable to a discontinued operation		**–**	7,304	**–**	–
– Attributable to continuing operations	*7*	**(70,609)**	13,947	**80**	50
Transfer to property, plant and equipment	*15*	**–**	(4,000)	**–**	–
Transfer to prepaid land lease payments	*17*	**–**	(15,150)	**–**	–
Exchange realignment		**14,647**	1,113	**–**	–
Carrying amount at 31 December		**762,470**	200,049	**2,080**	2,000

16. INVESTMENT PROPERTIES *(Continued)*

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	24,800	265,992	290,792
Medium term leases	153,200	318,478	471,678
	178,000	584,470	762,470
Company			
Medium term leases	–	2,080	2,080

The Group's and the Company's investment properties were revalued on 31 December 2008 by RHL Appraisal Ltd., the independent professionally qualified valuers, at HK$762,470,000 (2007: HK$200,049,000) and HK$2,080,000 (2007: 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.

Further particulars of the Group's principal investment properties are included on page 180.

17. PREPAID LAND LEASE PAYMENTS

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**3,100,986**	3,117,468
Acquisition of subsidiaries	*38*	**89,213**	78,875
Reclassification to assets held for sale	*12*	**–**	(51,164)
Amortised during the year	*7*	**(67,026)**	(66,643)
Transfer from investment properties	*16*	**–**	15,150
Exchange realignment		**19,709**	7,300
Carrying amount at 31 December		**3,142,882**	3,100,986
Current portion included in prepayments, deposits and other receivables		**(68,078)**	(64,958)
Non-current portion		**3,074,804**	3,036,028

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

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Long term leases	2,180,315	1,671	2,181,986
Medium term leases	462,501	498,395	960,896
	2,642,816	500,066	3,142,882

18. GOODWILL

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Cost at 1 January, net of accumulated impairment		**1,244,769**	1,244,769
Acquisition of minority interests		**7,381**	–
Impairment during the year	*7*	**(7,381)**	–
Net carrying amount at 31 December		**1,244,769**	1,244,769

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated retained profits. The 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$959,000,000 as at 31 December 2008 and 2007. 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 11% (2007: 17%) 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 2008 and 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

19. OTHER INTANGIBLE ASSETS

	Group		
	Trademarks	**Passenger service licences**	**Total**
	HK$'000	HK$'000	HK$'000
Carrying amount at 1 January 2007	–	–	–
Additions	–	2,168	2,168
Carrying amount at 31 December 2007 and at 1 January 2008	–	2,168	2,168
Additions	–	960	960
Acquisition of subsidiaries *(note 38(a))*	34,291	–	34,291
Carrying amount at 31 December 2008	34,291	3,128	37,419

20. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**4,740,588**	4,979,595
Amounts due from subsidiaries – non-current portion	**–**	700,000
Amounts due from subsidiaries – current portion	**7,307,929**	5,749,518
Amounts due to subsidiaries – current portion	**(1,575,211)**	(1,972,497)
Capital contribution in respect of employee share-based compensation	**119,674**	21,536
	10,592,980	9,478,152
Impairment #		
– Investment cost	**(539,832)**	(500,000)
– Amounts due from subsidiaries	**(745,931)**	(381,174)
	9,307,217	8,596,978

An impairment was recognised for certain subsidiaries and for the amounts due from subsidiaries. During the year, an additional impairment of HK$404,589,000 (2007: 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 their carrying amounts.

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

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

21. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investment, at cost	**–**	–	**1,415**	1,415
Share of net assets	**1,126,027**	1,138,538	**–**	–
Goodwill on acquisition*	**10,877**	10,877	**–**	–
Amounts due from jointly-controlled entities	**17,432**	26,745	**–**	–
Amount due to a jointly-controlled entity	**(260)**	–	**–**	–
	1,154,076	1,176,160	**1,415**	1,415

* The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001 was HK$3,693,000 as at the balance sheet date (2007: HK$3,693,000).

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

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

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

Name	Business structure	Place of registration and operations	Percentage of equity and profit sharing attributable to the Group 2008	2007	Principal activities
China Travel International (Hangzhou) Ltd.#***	Corporate	PRC/Mainland China	**52.5**	52.5	Tour operations
Gansu Lida International Co., Ltd.#*	Corporate	PRC/Mainland China	**–**	40	Provision of cargo transportation services
Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe Power")*	Corporate	PRC/Mainland China	**51**	51	Generation and sale of electricity
Shanghai China Travel International Limited#*	Corporate	PRC/Mainland China	**50**	50	Tour operations
Suzhou China Travel International Ltd.#****	Corporate	PRC/Mainland China	**25.5**	25.5	Tour operations
Tibet Shengdi Heaven Creation Entertainment Co., Ltd.#*	Corporate	PRC/Mainland China	**38**	38	Production of arts performances

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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 27.5% is held through Shanghai China Travel International Limited.

*** The Company's interest in this jointly-controlled entity of 25.5% is held indirectly through Shanghai China Travel International Limited.

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

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

	2008	2007
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**416,980**	413,439
Current assets	**1,207,352**	1,097,896
Current liabilities	**(487,338)**	(372,797)
Non-current liabilities	**(10,967)**	–
Net assets	**1,126,027**	1,138,538
Share of the jointly-controlled entities' results:		
Revenue	**1,542,855**	1,384,229
Other income and gains	**14,465**	18,958
Total revenue	**1,557,320**	1,403,187
Total expenses	**(1,482,167)**	(1,113,427)
Tax	**(14,144)**	(41,009)
Profit after tax	**61,009**	248,751

22. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**331,351**	438,354
Amounts due from associates	**7,209**	9,066
Amounts due to associates	**(4,353)**	(8,917)
	334,207	438,503
Impairment	**(210)**	(210)
	333,997	438,293

22. INTERESTS IN ASSOCIATES *(Continued)*

The amount of goodwill remaining in the consolidated retained profits arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001 was HK$49,089,000 as at the balance sheet date (2007: HK$49,089,000).

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

Particulars of the principal 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 2008	2007	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	PRC/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").

22. INTERESTS IN ASSOCIATES *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Total assets	**1,959,711**	2,135,528
Total liabilities	**(817,244)**	(624,420)
Revenue	**2,295,500**	2,572,095
Profit/(loss) after tax	**(145,815)**	233,633

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equity investments, at cost	**18,033**	17,977	**13,949**	13,949

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

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

24. HELD-TO-MATURITY INVESTMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted debt investments, at amortised cost	–	15,691

25. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Food and beverages	**12,782**	11,262
Spare parts and consumables	**3,280**	2,918
General merchandise	**9,503**	4,197
	25,565	18,377

26. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**246,477**	292,406
Impairment	**(15,632)**	(8,583)
	230,845	283,823

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 the provision for impairment of trade receivables, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**206,050**	198,571
3 to 6 months	**17,927**	63,084
6 to 12 months	**6,868**	14,569
1 to 2 years	**–**	3,184
Over 2 years	**–**	4,415
	230,845	283,823

26. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**8,583**	21,610
Acquisition of subsidiaries	**892**	–
Impairment losses recognised	**6,505**	647
Impairment losses reversed/written-off	**(593)**	(3,000)
Provision for impairment of trade receivables included in a discontinued operation	**–**	(10,674)
Exchange realignment	**245**	–
At 31 December	**15,632**	8,583

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	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**138,952**	138,244
Past due:		
Less than 3 months	**78,990**	124,527
3 to 6 months	**9,223**	13,398
6 to 12 months	**3,680**	3,301
1 to 2 years	**–**	3,144
Over 2 years	**–**	1,209
	230,845	283,823

26. 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.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred borrowing costs	**–**	811	**–**	–
Prepayments, deposits and other debtors	**319,194**	368,904	**4,229**	7,233
Amounts due from minority shareholders	**40**	1,163	**–**	–
	319,234	370,878	**4,229**	7,233

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.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**764,147**	1,113,018	**85,077**	308,497
Time deposits	**1,080,514**	1,170,497	**633,620**	509,704
	1,844,661	2,283,515	**718,697**	818,201
Less: Pledged time deposits	**(49,782)**	(11,169)	**–**	–
Cash and cash equivalents	**1,794,879**	2,272,346	**718,697**	818,201

28. CASH AND CASH EQUIVALENTS *(Continued)*

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

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$1,371,428,000 (2007: HK$1,099,224,000). 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.

29. 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.

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

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from the immediate holding company				
Within 1 year	**27,688**	26,777	**–**	–
1 to 2 years	**133**	98	**–**	–
Over 2 years	**401**	1,355	**–**	–
	28,222	28,230	**–**	–
Amounts due to the immediate holding company				
Within 1 year	**400**	902	**201**	897
Amounts due from fellow subsidiaries				
Within 1 year	**23,549**	11,272	**473**	–
1 to 2 years	**8,170**	2,913	**–**	–
Over 2 years	**807**	7,491	**–**	–
	32,526	21,676	**473**	–
Amounts due to fellow subsidiaries				
Within 1 year	**2,418**	2,484	**–**	–
1 to 2 years	**696**	–	**–**	–
Over 2 years	**892**	139	**–**	–
	4,006	2,623	**–**	–

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

30. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**275,677**	343,156
3 to 6 months	**18,608**	18,487
6 to 12 months	**5,386**	15,784
1 to 2 years	**18,292**	14,197
Over 2 years	**13,624**	11,217
	331,587	402,841

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

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities	**423,359**	467,617	**15,137**	4,317
Employee benefits	**207,273**	201,356	**15,795**	12,450
Receipts in advance	**229,436**	189,935	**–**	–
Amounts due to minority shareholders	**1,335**	67	**–**	–
	861,403	858,975	**30,932**	16,767

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

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Notes	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000	2007 Effective interest rate (%)	2007 Maturity	2007 HK$'000
Current							
Finance lease and hire purchase contract payables *(note 33)*		4.84	2009	11	4.84	2008	36
Bank loan – secured	*(i)*			–	EURIBOR + 0.12	2008	4,590
Bank loans – unsecured		3.05	2009	392	2.55 – 5.49	2008	659
Syndicated bank loan – unsecured	*(ii)*	HIBOR + 0.25	2009	220,000			–
Other borrowings – unsecured	*(iii)*	1-Year PBOC Lending Rate	On demand	22,904			–
Other loans – unsecured		Interest-free	On demand	1,145			–
Golf club debentures		Interest-free	2009	200	Interest-free	2008	100
				244,652			5,385
Non-current							
Finance lease and hire purchase contract payables *(note 33)*				–	4.84	2009	26
Syndicated bank loans – unsecured	*(ii)*			–	HIBOR + 0.25	2009	500,000
Bank loan – secured	*(i)*	EURIBOR + 0.12	2011	2,731			–
Bank loans – unsecured		4.30	2011	598			–
Entrustment loans		6.48	2012	171,782	6.48	2012	74,866
Golf club debentures		Interest-free	2013-2024	3,957	Interest-free	2009-2024	4,057
				179,068			578,949
Total interest-bearing bank and other borrowings				423,720			584,334

Notes:

(i) The Group's loan is secured by the Group's bank deposits amounting to HK$2,731,000 (2007: HK$5,844,000).

(ii) The loans are secured by corporate guarantees given by the Company.

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

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

	Group	
	2008	2007
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**220,392**	5,249
In the second year	**–**	500,000
In the third to fifth years, inclusive	**175,111**	74,866
	395,503	580,115
Other borrowings repayable:		
Within one year	**24,260**	136
In the second year	**–**	126
Beyond five years	**3,957**	3,957
	28,217	4,219
Total interest-bearing bank and other borrowings	**423,720**	584,334

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

	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fixed rate bank loans	**172,380**	74,866	**175,188**	70,351
Golf club debentures	**3,957**	4,057	**3,253**	2,944
	176,337	78,923	**178,441**	73,295

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

33. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its business operations. The lease is classified as a finance lease and has remaining lease term of one year.

At the balance sheet date, the total future minimum lease payment under finance lease and its present value were as follows:

Group

	Minimum lease payments 2008 HK$'000	Minimum lease payments 2007 HK$'000	**Present value of minimum lease payments 2008 HK$'000**	Present value of minimum lease payments 2007 HK$'000
Amounts repayable:				
Within one year	**11**	36	**11**	36
In the second year	**–**	26	**–**	26
Total minimum lease payments	**11**	62	**11**	62
Future finance charges	**–**	–		
Total net lease payables	**11**	62		
Portion classified as current liabilities *(note 32)*	**(11)**	(36)		
Non-current portion *(note 32)*	**–**	26		

34. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation allowances in excess of related depreciation HK$'000	Surplus/ (deficit) on revaluation of properties HK$'000	Losses available for offsetting against future taxable profits HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Withholding tax HK$'000	Total HK$'000
At 1 January 2007	50,712	67,712	(24,881)	277,530	–	371,073
Deferred tax charged/ (credited) to the income statement during the year	4,993	(2,761)	4,038	(3,735)	–	2,535
At 31 December 2007 and at 1 January 2008	55,705	64,951	(20,843)	273,795	–	373,608
Acquisition of subsidiaries	–	40,115	–	32,835	–	72,950
Deferred tax charged/ (credited) to the income statement during the year	(2,416)	(19,052)	2,378	(15,477)	5,960	(28,607)
Disposal of subsidiaries	(173)	–	–	–	–	(173)
Exchange realignment	–	(143)	–	–	–	(143)
At 31 December 2008	53,116	85,871	(18,465)	291,153	5,960	417,635

34. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2007	–	(525)	(525)
Deferred tax charged to the income statement during the year	–	275	275
At 31 December 2007 and at 1 January 2008	**–**	**(250)**	**(250)**
Acquisition of subsidiaries	**(570)**	**–**	**(570)**
Deferred tax charged to the income statement during the year	**–**	**250**	**250**
Exchange realignment	**(11)**	**–**	**(11)**
At 31 December 2008	**(581)**	**–**	**(581)**

34. DEFERRED TAX *(Continued)*

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 balance of the Group for financial reporting purposes:

	2008	2007
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	**(581)**	(250)
Net deferred tax liabilities recognised in the consolidated balance sheet	**417,635**	373,435
Net deferred tax liabilities included in the disposal group *(note 12)*	**–**	173
	417,054	373,358

The Group has tax losses arising in Hong Kong of HK$207,184,000 (2007: HK$298,255,000, including HK$65,802,000 attributable to a discontinued operation) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$565,735,000 (2007: HK$331,648,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

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

35. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
7,000,000,000 ordinary shares of HK$0.10 each	**700,000**	700,000
Issued and fully paid:		
5,695,355,525 ordinary shares of HK$0.10 each	**569,536**	569,536

Share options

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

36. SHARE OPTION SCHEME

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

The Company operates the Share Option Scheme for the purpose of attracting and retaining the best quality personnel for the development of the Group's businesses; providing additional incentives to employees, officers and executive directors of the Group; and promoting the long term financial success of the Company by aligning the interests of option holders to those of the shareholders.

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

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

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

36. SHARE OPTION SCHEME *(Continued)*

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

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

The fair value of the share options granted during the year ended 31 December 2007 was HK$161,523,000 (HK$1.6633 each) of which the Group recognised a share option expense of HK$130,550,000 during the year ended 31 December 2008 (2007: HK$27,231,000).

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

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2007	–	–
Granted during the year	4.65	97,110
At 31 December 2007 and at 1 January 2008	**4.65**	**97,110**
Forfeited during the year	**4.65**	**(2,250)**
Cancelled during the year	**4.65**	**(94,860)**
At 31 December 2008	**–**	**–**

36. SHARE OPTION SCHEME *(Continued)*

The exercise prices and exercise periods of the share options outstanding as at 31 December 2007 were as follows:

Number of options '000	**Exercise price*** per share HK$	**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 was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had no (2007: 97,110,000) share options outstanding under the Share Option Scheme.

37. RESERVES

	Attributable to equity holders of the parent									
Group	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Enterprise expansion/ reserve funds (note) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000
At 1 January 2007	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 arrangements *(note 36)*	–	27,231	–	–	–	–	–	–	27,231	–
2007 interim dividend *(note 13)*	–	–	–	–	–	–	–	(170,861)	(170,861)	–
Proposed 2007 final dividend *(note 13)*	–	–	–	–	–	–	–	(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

37. RESERVES *(Continued)*

Group	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Enterprise expansion/ reserve funds (note) HK$'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 2008	8,357,579	27,231	350	7,254	(1,012,196)	116,624	400,398	2,468,349	10,365,589	534,344
Share of reserve of an associate	–	–	–	(30,761)	–	–	–	–	(30,761)	–
Exchange realignment	–	–	–	–	–	–	275,126	–	275,126	32,287
Transfer from retained profits	–	–	–	–	–	12,671	–	(12,671)	–	–
Profit for the year	–	–	–	–	–	–	–	531,309	531,309	69,490
Disposal of Cargo Business *(note 39)*	–	–	–	–	(19,147)	(34,610)	(41,934)	53,757	(41,934)	(74,494)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	33,912
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(6,716)
Contributions from minority shareholders	–	–	–	–	–	–	–	–	–	19,640
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(69,750)
Equity-settled share option arrangements *(note 36)*	–	130,550	–	–	–	–	–	–	130,550	–
Cancellation of equity-settled share option arrangements	–	(157,781)	–	–	–	–	–	157,781	–	–
2008 interim dividends *(note 13)*	–	–	–	–	–	–	–	(284,768)	(284,768)	–
Proposed 2008 final dividend *(note 13)*	–	–	–	–	–	–	–	(56,954)	(56,954)	–
At 31 December 2008	8,357,579	–	350	(23,507)	(1,031,343)	94,685	633,590	2,856,803	10,888,157	538,713

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.

37. 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 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 13)*	–	–	–	(170,861)	(170,861)
Proposed 2007 final dividend *(note 13)*	–	–	–	(170,861)	(170,861)
At 31 December 2007 and at 1 January 2008	8,357,579	27,231	350	293,577	8,678,737
Equity-settled share option arrangements *(note 36)*	–	**130,550**	–	–	**130,550**
Cancellation of equity-settled share option arrangements	–	**(157,781)**	–	**157,781**	–
Profit for the year	–	–	–	**912,583**	**912,583**
2008 interim dividend *(note 13)*	–	–	–	**(284,768)**	**(284,768)**
Proposed 2008 final dividend *(note 13)*	–	–	–	**(56,954)**	**(56,954)**
At 31 December 2008	**8,357,579**	–	**350**	**1,022,219**	**9,380,148**

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, be cancelled or be forfeited.

38. BUSINESS COMBINATION

(a) On 1 November 2007, the Company and its wholly-owned subsidiaries, namely Allied Well Holdings Ltd. and United Capital Management Limited entered into a conditional sale and purchase agreement with CTS (Holdings), China Travel Building Contractors Hong Kong Ltd. and China Travel Investments Hong Kong Ltd. (collectively the "Vendors") to acquire the entire issued share capital of CTS H.K. Metropark Hotels Management Company Limited, Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, Ruskin Overseas Limited and Wisepak Enterprises Limited (collectively the "Hotel Group") and the respective shareholders' loans owed by the Hotel Group to the Vendors. The transaction was completed on 9 May 2008.

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

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	*15*	454,183	399,220
Investment properties	*16*	618,383	618,383
Prepaid land lease payments	*17*	89,213	46,523
Trademarks	*19*	34,291	–
Deferred tax assets		570	570
Inventories		4,726	4,726
Trade receivables, prepayments, deposits and other receivables		12,752	12,752
Cash and bank balances		70,968	70,968
Amount due from an intermediate holding company		21,772	21,772
Amounts due from fellow subsidiaries		11,876	11,876
Tax payable		(459)	(459)
Trade and other payables		(57,526)	(57,526)
Amount due to an intermediate holding company		(1,144,102)	(1,144,102)
Amounts due to fellow subsidiaries		(4,875)	(4,875)
Other borrowings		(26,357)	(26,357)
Deferred tax liabilities		(72,950)	(40,115)
Minority interests		(33,912)	(19,712)
		(21,447)	(106,356)
Excess over the cost of a business combination recognised in the income statement		(521)	
		(21,968)	

38. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

	Notes	HK$'000
Satisfied by:		
Cash paid for acquisition of the Hotel Group		1,107,260
Cash received on the disposal of the Cargo Business	39	(853,640)
Net cash		253,620
Debts assigned to the Group		(1,144,772)
Fair value of the Cargo Business on assets swap	39	869,184
		(21,968)

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

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

Since its acquisition, the Hotel Group contributed HK$159,166,000 to the Group's revenue and a loss of HK$13,363,000 to the Group's consolidated result for the year ended 31 December 2008.

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

38. BUSINESS COMBINATION *(Continued)*

(b) On 30 July 2007, the Group entered into a sale and purchase agreement to acquire a 51% interest in Guanzhong Hotspring Co., Ltd. ("Guanzhong Hotspring") from its 51% owned jointly-controlled entity, Shaanxi Weihe Power. The purchase consideration for the acquisition was set off against on an 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.

	Notes	**Carrying amount** HK$'000
Property, plant and equipment	*15*	49,947
Prepaid land lease payments	*17*	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 interests		(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

38. BUSINESS COMBINATION *(Continued)*

(b) *(Continued)*

As Guanzhong Hotspring was still under construction as at 31 December 2007, it had not contributed any revenue nor profit to the Group since its acquisition. Had the combination taken place at the beginning of 2007, it would have no material impact to the Group's revenue nor profit for the year ended 31 December 2007.

39. DISPOSAL OF SUBSIDIARIES

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

	Notes	HK$'000
Net assets disposed of:		
Property, plant and equipment		130,832
Investment properties		40,750
Prepaid land lease payments		53,237
Interest in a jointly-controlled entity		279
Available-for-sale investments		44
Inventories		2
Trade receivables, prepayments, deposits and other receivables		602,943
Tax recoverable		9
Cash and bank balances		219,157
Amounts due from fellow subsidiaries		9,533
Trade and other payables		(387,996)
Tax payables		(8,442)
Interest-bearing bank borrowings		(77,931)
Amounts due to an immediate holding company		(12,395)
Deferred tax liabilities		(173)
Minority interests		(74,494)
		495,355
Exchange fluctuation reserve realised	*37*	(41,934)
Gain on disposal of the Cargo Business	*12*	397,440
		850,861
Satisfied by:		
Fair value of the Cargo Business on assets swap	*38(a)*	869,184
Debts assigned from the Group		(12,271)
Transaction costs on disposal		(6,052)
		850,861

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	Note	HK$'000
Cash consideration	*38(a)*	853,640
Cash and bank balances disposed of		(219,157)
Transaction costs paid		(6,052)
Net inflow of cash and cash equivalents in respect of the disposal of the Cargo Business		628,431

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**		**Principal activities**
			2008	2007	
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	**100**	100	Travel and air ticketing agency
Allied Well Holdings Ltd.#	British Virgin Islands ("BVI")	1 share of US$1	**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 Development Limited# *(Note)*	BVI	1 share of US$1	**100**	100	Provision of financial services

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 2008	2007	Principal activities
China Heaven#***	PRC/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	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 agency
China Travel and Trading (Deutschland) GmbH#	Germany	EUR380,000	**100**	100	Travel and air ticketing agency
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	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 2008	2007	Principal activities
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** *(Note)*	PRC/Mainland China	US$141,000,000	**100**	100	Hot spring resort operations
China Travel International Ltd.#** *(Note)*	PRC/Mainland China	RMB177,300,000	**100**	100	Tour operations
China Travel International (Chengdu) Ltd.#*	PRC/Mainland China	RMB4,220,000	**51**	51	Tour operations
China Travel International (Shandong) Ltd.#*	PRC/Mainland China	RMB3,000,000	**51**	51	Tour operations
China Travel International (Datong) Travel Service Co., Ltd.#*	PRC/Mainland China	RMB3,000,000	**51**	51	Tour operations
China Travel International (Shanxi) Travel Service Co., Ltd.#*	PRC/Mainland China	RMB5,000,000	**51**	51	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.#*	PRC/Mainland China	RMB6,000,000	**51**	51	Tour operations
China Travel International (Xian) Ltd.#*	PRC/Mainland China	RMB3,570,000	**51**	51	Tour operations
China Travel International (Xinjiang) Ltd.#*	PRC/Mainland China	RMB4,000,000	**51**	51	Tour operations
China Travel Service (Australia) Pty Ltd.	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agency

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 2008	2007	Principal activities
China Travel Service (Canada) Inc.#	Canada	CAD3,162,750	**100**	100	Travel and air ticketing agency
China Travel Service (Cargo) Hong Kong Limited	Hong Kong	2 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**–**	100	Provision of freight forwarding and transportation services
China Travel Service (France) SARL#	France	EUR220,000	**100**	100	Travel and air ticketing agency
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK$100 each 1,000,000 non-voting deferred shares of HK$100 each	**100**	100	Tour operations, PRC entry permit handling agency, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.#	Japan	JPY95,000,000	**100**	100	Travel and air ticketing agency
China Travel Service (Korea) Co., Ltd.#	Korea	WON500,000,000	**100**	100	Travel and air ticketing agency
China Travel Service (N.Z.) Limited	New Zealand	NZD30,000	**100**	100	Travel and air ticketing agency
China Travel Service (U.K.) Ltd.#	United Kingdom	486,000 ordinary shares of GBP1 each 1,072,000 preference shares of GBP1 each	**100**	100	Travel and air ticketing agency

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 2008	2007	Principal activities
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	Property investment holding
CTI Cosco Travel Ltd.#***	PRC/Mainland China	RMB26,287,300	**100**	100	Tour operations
CTS H.K. Metropark Hotels Management Company Limited	Hong Kong	HK$100,001	**100**	–	Hotel management
CTS Tycoon (Shenzhen) Golf Club Company Limited (formerly Shenzhen Tycoon Golf Club Co., Limited)	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Provision of leisure services
CTS Tycoon (Shenzhen) Golf Club Co. Ltd. (formerly Shenzhen Tycoon Golf Club Co., Ltd.)**	PRC/Mainland China	RMB326,000,000	**100**	100	Golf club operations
CTS Scandinavia AB	Sweden	SEK100,000	**100**	100	Travel and air ticketing agency

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 2008	2007	Principal activities
Dalmore Investments Limited#	BVI	1 share of US$1 each	**100**	100	Investment holding
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
Guanzhong Hotspring*	PRC/Mainland China	RMB301,000,000	**83.72**	51	Hot spring resort operations
Hotel Metropole Holdings Limited	BVI/Hong Kong	1 share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Invincible Limited#	Western Samoa	7,200,000 shares of US$1 each	**100**	100	Investment holding
Mangocity.com Limited	Hong Kong	500,000 ordinary shares of HK$1 each	**100**	100	Sale of travel-related products through an electronic platform
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Metrocity Hotel Limited	BVI/Hong Kong	1 ordinary share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations

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 2008	2007	Principal activities
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation
Princess Capital Limited *(Note)*	BVI/Hong Kong	1 share of US$1	**100**	100	Securities trading
Rida Investment Company Limited#	Macau	MOP99,000	**–**	100	Property investment holding
Shenzhen The Splendid China Development Co., Ltd.* *(Note)*	PRC/Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* *(Note)*	PRC/Mainland China	US$29,500,000	**51**	51	Tourist attraction operations
Singa China Travel Service Pte. Limited#	Singapore	SG$6,740,000	**100**	100	Travel and air ticketing agency
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Starsoft Computer Services Limited	Hong Kong	4,000 ordinary shares of HK$100 each	**100**	100	Investment holding
Tonkin Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Property investment holding

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 2008	2007	Principal activities
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	**100**	51	Travel and air ticketing agency
Well Done Enterprises Inc.	BVI/Hong Kong	1 share of US$1	**100**	100	Property investment holding and hotel operations
深圳市港中旅快綫運輸有限公司#***	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation and investment holding
芒果網有限公司**	PRC/Mainland China	RMB219,595,000	**100**	100	Sale of travel-related products through an electronic platform
港中旅國際商務旅行管理(北京)有限公司#**	PRC/Mainland China	RMB10,000,000	**100**	100	Air ticketing agency
Guangdong CTS (HK) & Jinhuang Transportation Ltd.#**	PRC/Mainland China	HK$30,000,000	**100**	100	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 2008	2007	Principal activities
珠海市港中旅快線有限公司#**	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation
Beijing CTS (Hong Kong) Grand Metropark Hotel Co., Ltd.#***	PRC/Mainland China	US$12,000,000	**100**	–	Property investment holding and hotel operations
CTS Hotel Management Co., Ltd.***	PRC/Mainland China	HK$5,000,000	**100**	–	Hotel management
Kinetic Profit Real Estate (Shanghai) Co., Ltd.***	PRC/Mainland China	US$5,000,000	**100**	–	Property investment holding and hotel operations
Shanghai Weilv Hotel Management Co., Ltd.***	PRC/Mainland China	RMB1,000,000	**100**	–	Hotel management
Yangzhou Grand Metropole Hotel Co., Ltd.***	PRC/Mainland China	RMB44,000,000	**60**	–	Property investment holding and hotel operations

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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks granted to subsidiaries in lieu of utility and rental deposits	**–**	–	**1,724**	1,724
Corporate guarantees given to banks in connection with credit facilities granted to subsidiaries	**–**	–	**1,037,347**	1,635,549
Performance bond given to a customer for due performance of a sales contract	**415**	300	**–**	–
	415	300	**1,039,071**	1,637,273

As at 31 December 2008, 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$259,071,000 (2007: HK$637,273,000).

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its equipment and investment properties (notes 15 and 16) under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to three years, and those for equipment for terms no longer than one year. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2008, the Group's continuing operations had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Investment properties:		
Within one year	**39,757**	2,495
In the second to fifth years, inclusive	**25,697**	680
	65,454	3,175
Equipment:		
Within one year	**401**	161
In the second to fifth years, inclusive	**30**	–
	431	161

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

	2007
	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 2008, the Group's continuing operations had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Land and buildings:		
Within one year	**63,079**	47,792
In the second to fifth years, inclusive	**42,300**	70,570
After five years	**–**	227
	105,379	118,589
Plant and machinery and motor vehicles:		
Within one year	**2,698**	5,140
In the second to fifth years, inclusive	**988**	2,163
After five years	**–**	215
	3,686	7,518

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

	2007
	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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land and buildings:				
Contracted, but not provided for	**112,133**	26,067	**–**	–
Authorised, but not contracted for	**429,487**	308,599	**–**	–
	541,620	334,666	**–**	–
Plant and equipment and motor vehicles:				
Contracted, but not provided for	**–**	1,580	**–**	–
Authorised, but not contracted for	**19,250**	1,194	**–**	–
	19,250	2,774	**–**	–
Leasehold improvements:				
Contracted, but not provided for	**23,093**	18,127	**–**	–
Authorised, but not contracted for	**–**	134,070	**–**	–
	23,093	152,197	**–**	–
Scenic spots:				
Contracted, but not provided for	**37,090**	86,139	**–**	–
Authorised, but not contracted for	**39,297**	409,679	**–**	–
	76,387	495,818	**–**	–

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

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	
		2008	2007
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to:			
Immediate holding company			
(1) CTS (Holdings)	Office rental	**15,505**	14,041
Fellow subsidiaries			
(2) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	**1,400**	1,368
(3) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	**5,146**	5,173
(4) 上海天澤房地產有限公司	Office rental	**1,001**	–
(5) CTS H.K. Metropark Hotels Management Company Ltd.	Hotel management fees	**6,177**	16,651
(6) Metropark Hotel Shenzhen Co., Ltd.	Hotel room rental	**984**	1,086
(7) China Merchants International Travel Co., Ltd. Shenzhen	Travel-related service fees	**2,880**	5,362
(8) China Merchants International Travel Co., Ltd. Shenzhen	Courier service fees	**1,460**	53

44. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

		Group	
		2008	2007
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to: *(Continued)*			
Fellow subsidiaries (Continued)			
(9) China Merchants International Travel Co., Ltd. Guangzhou	Travel-related service fees	**8,086**	–
(10) China Travel Head Office	Travel-related service fees	**4,146**	142
Jointly-controlled entities			
(11) China Travel International (Hangzhou) Ltd.	Travel-related service fees	**8,688**	10,068
(12) Suzhou China Travel International Ltd.	Travel-related service fees	**1,806**	2,510
(13) Shanghai China Travel International Limited	Travel-related service fees	**4,556**	9,162
(14) Shaanxi Weihe Power	Finance costs	**8,504**	2,353
Associate			
(15) All China Express Limited	Coach rental	**4,828**	5,916
Received or receivable from:			
Immediate holding company			
(16) CTS (Holdings)	Hotel room rental	**4,246**	6,292
(17) CTS (Holdings)	Travel permit administration income *(note)*	**300,111**	308,457
(18) CTS (Holdings)	Sales of visa materials	**1,303**	2,642
(19) CTS (Holdings)	Sales of food and beverages	**1,076**	1,052

44. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name of company	Nature of transaction	Group 2008 HK$'000	Group 2007 HK$'000
Received or receivable from: *(Continued)*			
Fellow subsidiaries			
(20) China Travel Computer Service H.K. Limited	Service income as application service provider	**8,970**	13,103
(21) China Travel Head Office	Package tour income	**6,584**	4,049
(22) Metropark Hotel Nanjing	Hotel management fees	**2,137**	–
(23) Metropark Hotel Shenzhen Co., Ltd.	Hotel management fees	**1,186**	–
(24) Metropark Hotel Hangzhou Co., Ltd.	Hotel management fees	**1,871**	–
Jointly-controlled entity			
(25) Shanghai China Travel International Limited	Travel-related service fees	**2,415**	6,185
Associates			
(26) All China Express Limited	Coach rental	**42,596**	50,166
(27) All China Express Limited	Management fees	**24,305**	31,888
(28) All China Express Limited	Quota income	**1,373**	1,373

44. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

		Group	
		2008	2007
Name of company	**Nature of transaction**	**HK$'000**	HK$'000
Received or receivable from: *(Continued)*			
Associates (Continued)			
(29) Shun Tak-China Travel Shipping Investments Ltd.	Ticketing commission	**34,396**	38,328
(30) Shun Tak-China Travel Shipping Investments Ltd.	Management fees	**1,758**	1,672

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

On 9 May 2008, the Group completed its disposal of the Cargo Business and acquisition of the Hotel Group with CTS (Holdings) and its subsidiaries for a cash consideration of HK$853,640,000 and HK$1,107,260,000 respectively. Further details of the transaction are included in note 39 and note 38(a) respectively to the financial statements.

(c) On 21 August 2007, an entrustment loan arrangement was entered into between Shaanxi Weihe Power, Guanzhong Hotspring and a bank.

44. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

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

	Group	
	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**6,547**	11,511
Post-employment benefits	**181**	128
Equity-settled share option expense	**21,345**	4,518
Total compensation paid to key management personnel	**28,073**	16,157

45. FINANCIAL INSTRUMENTS BY CATEGORY

Other than available-for-sale investments and held-to-maturity as disclosed in notes 23 and 24 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2008 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Liquidity risk *(Continued)*

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

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

	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	30,749	614,698	3,957	649,404
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
	1,296,090	614,698	3,957	1,914,745

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

Liquidity risk *(Continued)*

Company

	2008			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**30,932**	**–**	**–**	**30,932**
Amounts due to subsidiaries	**1,575,211**	**–**	**–**	**1,575,211**
Amount due to the immediate holding company	**201**	**–**	**–**	**201**
	1,606,344	**–**	**–**	**1,606,344**

	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

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

Credit risk

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 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 the discontinued operation for both years, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase in RMB rate	Increase in profit before tax	Increase in equity
	%	HK$'000	HK$'000
2008			
If Hong Kong dollar weakens against RMB	**3**	**58,024**	**45,794**
If Hong Kong dollar weakens against RMB	**5**	**96,708**	**76,323**
2007			
If Hong Kong dollar weakens against RMB	3	35,516	29,975
If Hong Kong dollar weakens against RMB	5	59,193	49,958

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

Interest rate risk

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

At 31 December 2008, 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$2,456,000 (2007: HK$5,046,000). 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$9,227,000 (2007: HK$11,418,000).

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

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 and accruals, amounts due to the immediate holding company and fellow subsidiaries, and excludes the discontinued operation for both years. Adjusted capital represents equity attributable to equity holders of the parent, less proposed final dividends.

During 2008, the Group's strategy, which remained unchanged from that of 2007, 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.

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

Capital management *(Continued)*

Group

	2008 HK$'000	2007 HK$'000
Interest-bearing bank and other borrowings	**423,720**	584,334
Trade payables	**331,587**	402,841
Other payables and accruals	**861,403**	858,975
Amount due to the immediate holding company	**400**	902
Amounts due to fellow subsidiaries	**4,006**	2,623
Debt	**1,621,116**	1,849,675
Equity attributable to equity holders of the parent	**11,514,647**	11,105,986
Less: Proposed final dividend	**(56,954)**	(170,861)
Adjusted capital	**11,457,693**	10,935,125
Debt-to-adjusted capital ratio	**14.15%**	16.91%

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

47. POST BALANCE SHEET EVENT

There are no events to cause material impact on the Group from the balance sheet date to the date of this report.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 April 2009.

PARTICULARS OF HOTEL PROPERTIES

31 December 2008

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

PARTICULARS OF HOTEL PROPERTIES

31 December 2008

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

PARTICULARS OF PRINCIPAL INVESTMENT PROPERTIES

31 December 2008

Location	Use	Lease term
No. 361-367 Portland Street Mongkok Kowloon Hong Kong	Residential/ Shop/Office	Medium
17th, 18th, 21st Floor, V Heun Building No.138 Queen's Road Central Sheung Wan Hong Kong	Office	Medium
Basement levels 2 and 3 Beijing CTS (HK) Grand Metropark Hotel No.338 Guanganmen Nei Street Xuan Wu District Beijing PRC	Carpark	Medium
4th to 9th, 11th and 12th Floor Beijing CTS (HK) Grand Metropark Hotel No.338 Guanganmen Nei Street Xuan Wu District Beijing PRC	Office	Medium
Metropark Service Apartment Shanghai No.48 Lane 610, Yanan West Road Changning District Shanghai PRC	Service apartments	Long

香港中旅國際投資有限公司

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