香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code：308)

Annual Report 2012

Contents

CORPORATE INFORMATION

DIRECTORS

Mr. Wang Shuai Ting *(Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Zhang Fengchun
Mr. Xu Muhan *(General Manager)*
Mr. Fu Zhuoyang
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee*

* Independent Non-Executive Director

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Wong Man Kong, Peter *(Chairman)*
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee
Mr. Wang Shuai Ting
Ms. Jiang Yan

NOMINATION COMMITTEE

Mr. Wang Shuai Ting *(Chairman)*
Ms. Jiang Yan
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Xu Muhan *(Chairman)*
Mr. Zhang Fengchun
Mr. Fu Zhuoyang
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

DLA Piper Hong Kong

REGISTERED OFFICE

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Credit Agricole Corporate & Investment Bank
China Everbright Bank
China Construction Bank
The Bank of Nova Scotia
Pingan Bank

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2012 Final Results		20 March 2013
Announcement of 2012 Interim Results		20 August 2012
Announcement of 2011 Final Results		15 March 2012
Announcement of 2011 Interim Results		18 August 2011
Dividends	2012 Final	HK 3 cents per share payable on 10 June 2013
	2012 Interim	HK 2 cents per share paid on 28 September 2012
	2011 Final	HK 3 cents per share paid on 1 June 2012
	2011 Interim	HK 2 cents per share paid on 26 September 2011
Closure of Register of Members for ascertaining shareholders' entitlement to attend and vote at the annual general meeting		Period from 8 May 2013 to 10 May 2013
Annual General Meeting in 2013		10 May 2013
Closure of Register of Members for ascertaining shareholders' entitlement to the proposed final dividend		Period from 20 May 2013 to 21 May 2013
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,658,669,525 (as at 31 December 2012)
Website address		irasia.com/listco/hk/ctii
Stock Code		308
Board Lot		2,000 shares
Financial Year End		31 December
Par Value		HK$0.10

MAJOR OPERATIONS

TRAVEL AGENCY AND RELATED OPERATIONS

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

TOURIST ATTRACTION OPERATIONS

Shenzhen Splendid China Development Co., Ltd.	51%
Shenzhen The World Miniature Co., Ltd.	51%
CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd.	51%
Mutual Great (Hong Kong) Ltd.	100%
CTS (Xinyang) Jigongshan Culture Tourism Co., Ltd.	65%
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.	100%
Xianyang Ocean Spring Resort Co., Ltd.	83.72%

HOTEL OPERATIONS

Metropark Hotel Mongkok	100%
Metropark Hotel Wanchai	100%
Metropark Hotel Kowloon	100%
Metropark Hotel Causeway Bay	100%
Metropark Hotel Macau	100%
CTS (HK) Grand Metropark Hotel Beijing	100%
Metropark Service Apartment Shanghai	100%
Yangzhou Grand Metropark Hotel	60%
CTS H.K. Metropark Hotels Management Company Limited	100%

PASSENGER TRANSPORTATION OPERATIONS

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

GOLF CLUB OPERATIONS

CTS Tycoon (Shenzhen) Golf Club Company Limited	100%

ARTS PERFORMANCE OPERATIONS

China Heaven Creation International Performing Arts Co., Ltd.	78%

POWER GENERATION OPERATIONS

Shaanxi Weihe Power Co., Ltd.	51%

FINANCIAL RATIOS HIGHLIGHTS

	2012	2011
Income statement ratios		
Interest coverage ratio	**60.21**	69.66
Earnings per share (HK cents)	**14.16**	12.21
Dividend per share (HK cents)	**5.00**	5.00
Dividend payout ratio (%)	**35.31**	40.95
Financial position ratios		
Current ratio	**2.20**	2.02
Quick ratio	**2.15**	2.01
Net assets value per share (HK$)	**2.38**	2.28
Net bank and other borrowings to equity	**(0.16)**	(0.19)
Debt-to-capital ratio (%)	**15.73**	18.60
Rate of return ratios		
Return on average equity (%)	**6.43**	5.91
Return on total capital and borrowings (%)	**6.54**	5.70
Market price ratios		
Dividend yield		
Year low (%)	**2.98**	2.67
Year high (%)	**3.94**	5.37
Price to earnings ratio		
Year low	**8.97**	7.62
Year high	**11.86**	15.32

Formula for financial ratios:

Interest coverage ratio	(Profit before taxation + Finance costs)/Finance costs
Net assets value per share	Net assets attributable to owners of the Company/ Number of shares as at the end of the reporting period
Net bank and other borrowings to equity	(Bank and other borrowings – Cash and bank balances)/Total equity
Debt-to-capital ratio	Debt/Equity attributable to owners of the Company (note 43 to consolidated financial statements)
Return on average equity	Profit for the year/Average total equity
Return on total capital and borrowings	(Profit before taxation + Finance costs)/(Total liabilities + Total equity)

FIVE YEAR FINANCIAL SUMMARY

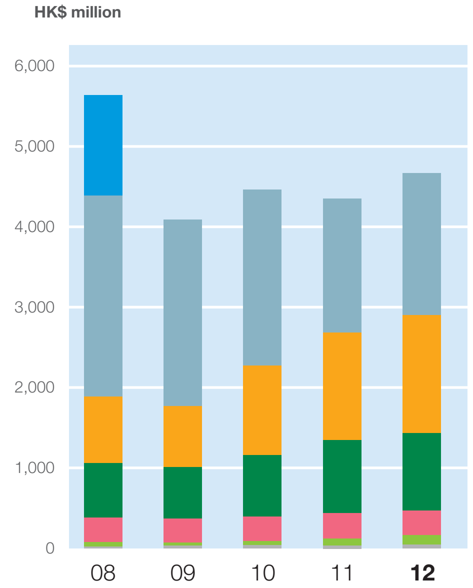
A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Results					
Continuing operations					
Revenue	**4,668,431**	4,352,882	4,464,727	4,090,498	4,388,443
Cost of sales	**(2,515,494)**	(2,253,285)	(2,544,736)	(2,523,207)	(2,684,534)
Gross profit	**2,152,937**	2,099,597	1,919,991	1,567,291	1,703,909
Other income and gains, net	**198,572**	335,974	204,928	114,899	167,005
Other expenses	**–**	(52,701)	(229,400)	(80,287)	(22,435)
Changes in fair value of investment properties	**165,051**	65,287	180,845	189,806	(70,609)
Selling and distribution costs	**(619,761)**	(619,806)	(612,340)	(552,303)	(524,236)
Administrative expenses	**(1,034,705)**	(1,040,800)	(1,203,965)	(1,124,211)	(1,057,071)
Finance income	**94,520**	59,770	37,054	24,527	44,502
Finance costs	**(18,913)**	(13,989)	(16,353)	(10,346)	(12,013)
Share of profits less losses of associates and jointly controlled entities	**182,077**	127,192	119,651	59,355	18,670
Profit before taxation	**1,119,778**	960,524	400,411	188,731	247,722
Taxation	**(217,973)**	(179,856)	(179,407)	(122,042)	(78,723)
Profit for the year from continuing operations	**901,805**	780,668	221,004	66,689	168,999
Discontinued operation					
Profit for the year from a discontinued operation	**–**	–	–	–	428,139
Profit for the year	**901,805**	780,668	221,004	66,689	597,138
Attributable to:					
Equity owners of the Company	**803,561**	695,233	155,332	29,186	527,648
Non-controlling interests	**98,244**	85,435	65,672	37,503	69,490
	901,805	780,668	221,004	66,689	597,138

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Assets, liabilities and non-controlling interests					
Total assets	**17,410,326**	17,087,281	15,038,441	14,461,693	14,320,551
Total liabilities	**(3,131,894)**	(3,314,998)	(2,382,038)	(2,295,296)	(2,152,964)
Non-controlling interests	**(807,603)**	(786,152)	(621,016)	(483,659)	(538,713)
Equity attributable to owners of the Company	**13,470,829**	12,986,131	12,035,387	11,682,738	11,628,874

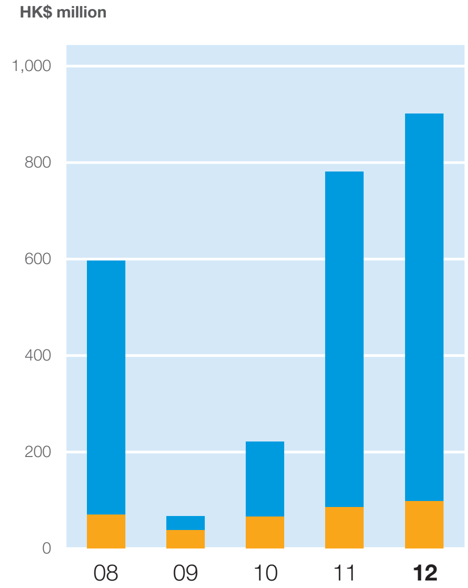
FINANCIAL REVIEW

Turnover by principal activities



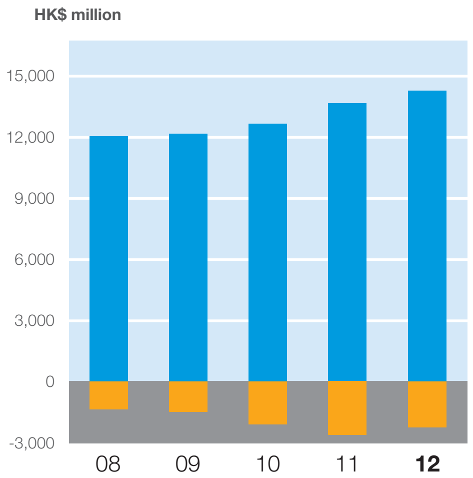
- Freight forwarding and transportation operations (discontinued in 2008)
- Travel agency and related operations
- Tourist attraction operations
- Hotel operations
- Passenger transportation operations
- Golf club operations
- Arts performance operations

Profit for the year



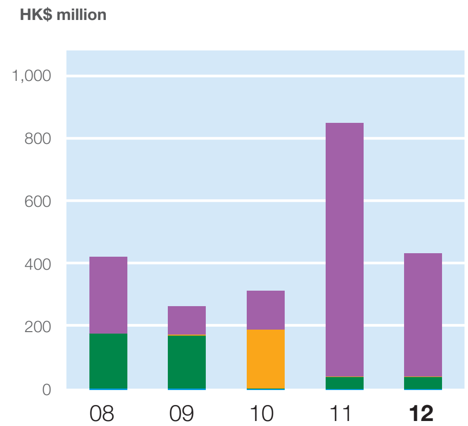
- Profit attributable to equity owners of the Company
- Profit attributable to non-controlling interests

Net bank & other borrowings to equity



- Equity
- Bank and other borrowings – Cash and bank balances

Debt maturity profile



- Over 5 Years
- 2 to 5 Years
- 1 to 2 Years
- Within 1 Year

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

MR. WANG SHUAI TING *Chairman & Executive Director*
Aged 57, appointed in 2011, is the Vice Chairman, General Manager and Director of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") and China National Travel Service (HK) Group Corporation, the controlling shareholders of the Company. He is also the Chairman of Nomination Committee and a member of Remuneration Committee of the Company. Mr. Wang formerly served as Vice Chairman and Deputy General Manager of China Resources (Holdings) Company Limited and Chairman and Executive Director of China Resources Power Holdings Company Limited. Mr. Wang is highly renowned in the electricity industry in the PRC and possesses extensive management experience in large enterprise group. He served as the General Manager of China Resources (Xuzhou) Electric Power Co., Ltd. ("CR Xuzhou") from 1994 to 2001 and was in charge of the construction and operation of Xuzhou Power Plant. Prior to his engagement in CR Xuzhou, Mr. Wang worked in the general office of the Government of Jiangsu Province from June 1985 to March 1987 and was subsequently the head of the Industrial Office of Xuzhou Municipal Government. He was also the Deputy Secretary-general of Xuzhou Municipal Government. Mr. Wang holds an Executive Master's degree in Business Administration ("EMBA") from China Europe International Business School.

MR. LO SUI ON *Vice Chairman & Executive Director*
Aged 62, appointed in 2000, is a Director of CTS (Holdings) and China National Travel Service (HK) Group Corporation, and is also a director of a number of subsidiaries of CTS (Holdings) and the Company. Mr. Lo has over 40 years of operation and management experience in the tourism industry. Mr. Lo is a Deputy of the Twelfth National People's Congress of the PRC, a member of The Election Committee for the Second, Third & Fourth 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 member of Hong Kong Tourism Board, 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 55, appointed in 2006, is the Director and Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation. She is also a member of Nomination Committee and Remuneration Committee of the Company. Prior to joining CTS (Holdings), Ms. Jiang worked in State Oceanic Administration and All-China Women's Federation. She was also the Senior Assistant of the Director General of Personnel Office and Division Chief of The Liaison Office of the Central People's Government in HKSAR. Ms. Jiang obtained a Master's degree in Business Administration from University of South Australia.

MR. FANG XIAORONG *Executive Director*
Aged 60, appointed in April 2008 and retired on 1 March 2013, is the Vice President of China Tourism Restaurant Association. Mr. Fang has extensive experience in tourism and hospitality management. He was the Director and Deputy General Manager of CTS (Holdings), 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 48, appointed in 2000, is the Chief Financial Officer of CTS (Holdings) and China National Travel Service (HK) Group Corporation, the Chairman of CTS International Logistics Corporation Limited and the General Manager of China Travel Financial Holdings Co. Ltd, both of which are subsidiaries of CTS (Holdings) and China National Travel Service (HK) Group Corporation, a director of some of subsidiaries of the Company, the Vice Chairman of Financial & Accounting Affairs Steering Committee of The Hong Kong Chinese Enterprises Association and the Vice Chairman of the Hong Kong Chinese Enterprises Association. Mr. Zhang is also a member of Strategy and Development Committee of the Company. He is a Certified Public Accountant in China and has extensive experience in investment planning, capital operation, financial operation and business management. Mr. Zhang graduated from the Accounting Department of Renmin University of China and obtained a Bachelor's degree in Economics in 1987. In January 2006, he graduated from the School of Economics and Management of Tsinghua University with an Executive Master Degree of Business Administration (EMBA).

MR. XU MUHAN *Executive Director and General Manager*
Aged 52, appointed as an Executive Director and Standing Deputy General Manager in April 2008 and appointed as the General Manager in October 2009, is the Chairman of Strategy and Development Committee of the Company, the Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation, the Chairman of China Travel Service (Hong Kong) Limited ("CTSHK") and is also a director of a number of subsidiaries of the Company. Mr. Xu has extensive career in tourism and hospitality management. He obtained his master degree in travel and hotel management from The Hong Kong Polytechnic University and the certificate of GMP program from Cornell University.

MR. FU ZHUOYANG *Executive Director*
Aged 53, appointed in November 2010, is a Deputy General Manager of CTS (Holdings) and China National Travel Service (HK) Group Corporation, and the Chairman of Hong Kong China Travel Service Investment (China) Limited, a wholly owned subsidiary of CTS (Holdings). Mr. Fu is also a member of Strategy and Development Committee of the Company as well as a director of Common Bond Investments Limited, a subsidiary of the Company. Mr. Fu has extensive experience in investment management and capital operation. Mr. Fu was the Deputy General Manager of China Travel Service (Holdings) Corporation of China and the General Manager of China National Tourism Trading & Service Corporation. Mr. Fu graduated from Xiamen University with a Bachelor of Arts degree in 1982, and graduated from Graduate School, Chinese Academy of Social Sciences in 1998.

DR. FONG YUN WAH *S.B.S., J.P.*
Independent Non-Executive Director
Aged 88, 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 Election 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 64, appointed in 1998, is the Chairman of Audit Committee and Remuneration Committee as well as a member of Nomination Committee and Strategy and Development Committee of the Company. Mr. Wong has over 39 years of experience in industrial, commercial and public service. He is the Chairman of M.K. Corporation Ltd. and North West Development Ltd., as well as the director of Hong Kong Ferry (Holdings) Co. Ltd., Glorious Sun Enterprises Limited, Sun Hung Kai & Co., Limited, Chinney Investments, Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Limited, New Times Group Holdings Ltd. and MGM China Holdings Limited. Mr. Wong serves as a deputy of the Twelfth 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 72, appointed in 2005, is a member of Audit Committee, Remuneration Committee, Nomination Committee and Strategy and Development 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 66, appointed in 2007, is a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company, Managing Director of Yangtzekiang Garment Limited, Director of YGM Trading Limited, Director of Hong Kong Knitters Limited, as well as the Independent Non-Executive Director of China Construction Bank (Asia) Corporation Limited.

Mr. Chan is a Standing Committee Member of the 12th of The Chinese People's Political Consultative Conference and Member of the Selection Committee of Hong Kong S.A.R. He was also a Deputy of the 8th and 9th National People's Congress of China, Standing Committee Member of the 10th and 11th 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, Member of Commission on Strategic Development of Hong Kong S.A.R. and Ex-Chairman of Small and Medium Enterprises Committee of Hong Kong S.A.R.

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

SENIOR MANAGEMENT

MR. LIU FENGBO *Deputy General Manager*
Aged 56, appointed in December 2011. Mr. Liu is a qualified Senior Economist and has over 20 years of operation and management experience in the hotel industry. Mr. Liu was the General Manager of Swan Hotel-Harbin, the General Manager of the Metropark Hotel Shenzhen, the General Manger of Beijing CTS (Hong Kong) Grand Metropark Hotel Company Limited, the Deputy General Manager of LIDO Hotel Co. Ltd., and the President of China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.

MR. WANG FEI *Deputy General Manager*
Aged 48, appointed in December 2011, is the General Manager of CTS Tycoon (Shenzhen) Golf Club Company Limited. Mr. Wang has been engaged in business management for many years with substantial experience. Mr. Wang was the Standing Deputy General Manager of the China Travel Air Service Hong Kong Limited, the Director and the General Manager of CTS Tycoon (Shenzhen) Golf Club Company Limited, the Director and the General Manager of China Travel Tours Transportation Services Hong Kong Limited. Mr. Wang holds a master's degree in Business Administration from the University of Science and Technology of China.

MR. CAO XIAONING *Artistic Director*
Aged 56, appointed in December 2011. Mr. Cao has over 30 years' experience in the show business. Mr. Cao was the Director and the Standing Deputy General Manager of Shenzhen Splendid China Development Co., Ltd., the Director and the President of Florida Splendid China Inc. and since the year 1999, he became the General Manager of China Heaven Creation International Performing Arts Co., Ltd. Mr. Cao obtained a Master degree in Business Administration and a Doctor degree of Science in Business Administration from Liberty University in US.

MR. DU XINJIAN *Financial Controller*
Aged 46, appointed in December 2011. Mr. Du has many years' experience in the financial affairs. He was the General Manager of Finance Department of Hongkong China Travel Service Investment (China) Limited, the Financial Controller of CTSHK, the Deputy General Manager of Finance Department of CTS (Holdings) and the General Manager of Finance Department of the Company. Mr. Du graduated from Xiamen University with a Master of Business Administration Degree.

CHAIRMAN'S STATEMENT

WANG SHUAI TING
Chairman & Executive Director

SUMMARY OF RESULTS

In 2012, although the economic situations were complicated and uncertain, the Group's overall businesses demonstrated resilience and achieved a steady growth in results. The consolidated revenue of the Group was HK$4,668 million, a 7% increase compared to last year, and the profit attributable to shareholders was HK$804 million, a 16% increase compared to last year. Excluding the effect of revaluation of investment properties and non-recurring items (please refer to note 4 to the consolidated financial statements for details), the profit attributable to shareholders was HK$593 million, a 3% increase compared to last year. Basic earnings per share was HK 14.16 cents, a 16% increase compared to last year.

The Board recommended the payment of a final dividend of HK 3 cents per share, which is expected to be paid on 10 June 2013 upon approval at the annual general meeting. Together with the interim dividend of HK 2 cents per share, the total dividend for the full year is HK 5 cents per share and the dividend payout ratio is 35%.

EXTERNAL ENVIRONMENT

In 2012, the global economy was weak. The US economy grew sluggishly and Europe's economy contracted. Accordingly, China's economy grew at a slower rate. However, due to the emergence of rigid demand in the tourism industry of China, the number of domestic and outbound tourists continued to grow at double-digit rate. In addition, the number of visitors to Hong Kong, driven by the individual visit scheme, broke the record and the number of visitors to Macau remained stable. These developments provided support for the Group's various tourism businesses, especially hotels and tourist attractions, and provided favourable external conditions for achieving steady growth in revenue and profit.

COMPANY DEVELOPMENT

In 2012, the Group actively rose to severe challenges and strengthened corporate fundamental management. As a result, the fundamentals of most of its enterprises improved. Out of the Group's seven operations, four operations, namely hotel, passenger transportation, golf club and power generation operations, delivered better results while three operations, namely travel permit and Mangocity.com, tourist attraction and arts performance operations delivered weaker results. The profit attributable to shareholders recorded a steady growth despite the high base number last year.

During the year, the Group launched comprehensive management enhancement initiatives to increase revenue and reduce costs. In upgrading product offerings, China Travel Service (Hong Kong) Limited launched high-end tour products such as Silk Road and London Olympics, Mangocity.com launched public charter cruise services, Shenzhen Splendid China Development Co., Ltd. and CTS H.K. Metropark Hotels Management Co., Ltd. expanded their management services, the two Ocean Spring Resorts enhanced quality of their hot spring products and China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries terminated loss making bus routes to optimize resources allocation. In optimizing organizational structure, the two Ocean Spring Resorts streamlined headcount by merging branches and departments to enhance management efficiency and reduce management costs. In promoting standardization of management of tourist attractions, the Group started the compilation of management manuals for different categories of tourist attractions to standardize service and management, and to enhance visitors' experience and operating results. The Group also strengthened its cost management and suppressed growth in costs and expenses of its enterprises.

The Group adhered to the use of strategy to guide development, reviewed and revised its strategy continuously and adopted the development model of "travel destination development plus tourism real estate". Zhuhai Ocean Spring Resort basically secured the land for tourism real estate in phase two development and the soft ground foundation treatment works commenced in June 2012. The earth excavation works of Xianyang Ocean Spring Resort tourism real estate project also commenced. The master planning of the Golf Club's small-scale tourism real estate project was under the approval process and the Golf Club began preliminary product planning. The Group established a joint venture in December to invest in and develop the travel and leisure resort on Lingfeng Mountain in Anji, which marked a major step forward for implementing the Group's strategy. In addition, the Group actively pushed forward progress of investment opportunities in new travel projects in Guangdong, Anhui and Jiangsu.

The Group pushed forward adjustments of its business mix steadily. It studied the feasibility of developing new travel businesses such as national-wide chain of vacation timeshares, modern elderly care and cruise ships, etc. It also studied the feasibility of withdrawing from businesses and enterprises that were incompatible with its strategic positioning and lacking synergy, and had been loss making for a long time with no prospects of turning around, and identified preliminary withdrawal targets. The Group strengthened internal coordination by promoting sharing of its customer relationship management system and the call centre platform, and by launching a series of premier tour products, travel products and combined products from different businesses.

With the gradual improvement in the fundamentals of its operations, the Group continued to repurchase its shares. The Group considers that share repurchase is a constructive means to enhance shareholder return in the long run.

LOOKING FORWARD

Global growth is projected to increase gradually and slowly during 2013. China's economy have picked up gradually with steady and favourable prospects. Although the global economic situations will remain complicated and uncertain, China's economy and tourism industry stay promising in the long run, and are still in a development period which is full of opportunities. There are favourable conditions and factors as well as difficulties, challenges and uncertainties.

Despite achieving steady growth in 2012, the Group will encounter more pressure and challenges from a higher starting point. The Group will stimulate growth through execution of its strategy. The Group will adopt the development model of "travel destination development plus tourism real estate" and push forward strategic projects including Zhuhai Ocean Spring Resort phase two tourism real estate, Zhejiang Anji Lingfeng Mountain resort and tourism real estate, Golf Club tourism real estate and Henan Songshan Scenic Spot tourist town, which will support the Group's growth, increase its geographic presence and offer higher and quicker returns. To build up project reserve, the Group will actively acquire quality travel resources and develop new quality tourism real estate projects.

The Group will stimulate growth through adjustments of its business and product mix. It will focus on developing businesses with advantages and selectively withdraw from those with disadvantages. It will strengthen cooperation with external parties and leverage on their advantages to optimize its business and product mix. It will strengthen synergy in marketing, procurement and product combination between its enterprises. And more importantly, it will strengthen internal resources sharing within the tourist attraction plus tourism real estate operations to enhance its capability in travel planning and design, real estate development and construction management.

The Group will stimulate growth through management enhancement. It will continue to strengthen the fundamental management of existing businesses, especially the improvement and turnaround of loss making businesses, to improve the fundamentals of their operations further.

The Group expects that, in 2013, the fundamentals of its overall business will remain stable. The Group will strive for steady operational growth through adjustments of its business and product mix and further strengthening of fundamental management of existing businesses. In accordance with its strategic plan, the Group will increase investment in travel destination development and tourism real estate to promote long term growth. The Group expects that its travel destination and tourism real estate projects will gradually provide returns in the next few years and the foundation for sustainable development will become stronger. The Group is confident in its development prospects. The Group will strive to break the development bottleneck, deliver growing operating results and provide better return to Shareholders.

Wang Shuai Ting
Chairman of the Board

Hong Kong, 20 March 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

XU MUHAN
Executive Director and General Manager

BUSINESS REVIEW

The year 2012 saw a grim and unstable world economy with downward risk and pressure. China's economy also experienced the severe challenge of decelerating growth rate. Against this backdrop, China's tourism industry grew at a relatively slower pace. However, due to the rigid demands and less cyclic features of tourism, China's tourism industry recorded higher growth compared with most other industries. Tourism in Hong Kong and Macau enjoyed continued prosperity and stability.

During the year, the Group strengthened fundamental management of its enterprises, actively developed businesses and conducted stringent cost control to achieve steady growth in results. It reviewed and revised its strategy continuously and adopted the development model of "travel destination development plus tourism real estate". It pushed forward the tourism real estate projects of the two Ocean Spring Resorts and established a joint venture to invest in and develop the travel and leisure resort on Lingfeng Mountain in Anji.

RESULTS OVERVIEW

In 2012, the Group's consolidated revenue was HK$4,668 million, a 7% increase compared to last year; profit attributable to shareholders was HK$804 million, a 16% increase compared to last year. Basic earnings per share was HK14.16 cents, a 16% increase compared to last year. Excluding the effect of revaluation of investment properties and non-recurring items (please refer to note 4 to the consolidated financial statements for details), profit attributable to shareholders was HK$593 million, a 3% increase compared to last year. Four operations, namely hotel, passenger transportation, golf club and power generation operations, delivered better results while the other three operations, namely travel permit and Mangocity.com, tourist attraction and arts performance operations delivered weaker results. The overall businesses achieved steady growth.

The Group's financial position remained stable and strong. As at 31 December 2012, equity attributable to shareholders was HK$13,471 million, a 4% increase compared to the end of last year; cash and bank balances amounted to HK$2,678 million and after deducting bank loans of HK$435 million, the net cash was HK$2,243 million, a 15% decrease compared to the end of last year.

TRAVEL AGENCY AND RELATED OPERATIONS

The Group's travel agency and related operations comprise China Travel Service (Hong Kong) Limited ("CTSHK"), overseas travel agencies and Mangocity.com, an on-line travel consolidator. In 2012, the revenue of the travel agency and related operations was HK$1,765 million, a 6% increase compared to last year; profit attributable to shareholders was HK$144 million, a 11% decrease compared to last year, which was mainly attributable to the decreased contribution from the travel permit business resulting from the reduction of certain visa fee since July 2011 and the increased losses of Mangocity.com under fierce competition.

Travel revenue of CTSHK increased by 18% compared to last year, in which outbound travel revenue decreased due to fierce competition and ticketing revenues increased. Coupled with effective cost control, profit attributable to shareholders increased compared to last year.

Revenue of Mangocity.com decreased by 12% compared to last year due to fierce competition and price war. Commission revenue of air tickets and hotel decreased while travel package revenue increased. Loss attributable to shareholders increased compared to last year. The Headquarters building of Mangocity.com under construction topped off in 2012.

TOURIST ATTRACTION OPERATIONS

Major operating statistics

Million persons	2012	2011
Number of ticket purchasing visitors		
Window of the World	**2.94**	2.94
Splendid China	**1.26**	1.27
Songshan Scenic Spot	**2.49**	2.10
Number of visitors received		
Jigongshan Scenic Spot	**0.44**	0.39
Zhuhai OSR	**2.38**	2.69
Xianyang OSR	**0.37**	0.30

The Group's tourist attraction operations comprise theme parks: Shenzhen The World Miniature Co., Ltd. ("Window of the World") and Shenzhen Splendid China Development Co., Ltd. ("Splendid China"); natural scenic spots: CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. ("Songshan Scenic Spot"), CTS (Xinyang) Jigongshan Culture Tourism Co., Ltd ("Jigongshan Scenic Spot") and other scenic spot investments; leisure resorts: China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. ("Zhuhai OSR") and Xianyang Ocean Spring Resort Co., Ltd. ("Xianyang OSR"). In 2012, the revenue of the tourist attraction operations was HK$1,467 million, a 10% increase compared to last year; profit attributable to shareholders was HK$45 million, a 55% decrease compared to last year, which was mainly attributable to the decrease in exchange gain and the rise in costs resulting from the opening of the Xianyang OSR hotel.

The number of ticket purchasing visitors at the theme parks was 4.2 million, almost the same as last year; revenue was HK$664 million, a 7% increase compared to last year, which was mainly attributable to the rise in ticket price after the launch of new projects; profit attributable to shareholders was HK$100 million, an 8% increase compared to last year. Splendid China further expanded its management services, renewed the service contract for the Wuxiang project in Shanxi Province, signed a new service contract with Datong Yungang Grottoes and actively contacted potential parties which might require its management services.

The revenue at natural scenic spots was HK$337 million, a 28% increase compared to last year; profit attributable to shareholders was HK$34 million, a 18% increase compared to last year. Songshan Scenic Spot increased its revamp efforts to enhance its service facilities, management and quality of customer services and as a result, revenue and profit attributable to shareholders increased by 28% and 44% respectively. Jigongshan Scenic Spot entered its second year of joint venture and business started to improve. Revenue increased by 39% compared to last year, in which ticket, hotel and transportation revenues all increased. Losses attributable to shareholders decreased by 19% compared to last year.

The number of visitors at leisure resorts was 2.75 million (including 70,000 visitors at the Xianyang OSR hotel), an 8% decrease compared to last year; revenue was HK$466 million, a 3% increase compared to last year; losses attributable to shareholders were HK$90 million (2011: losses of HK$20 million). Revenue of Zhuhai OSR decreased by 5% compared to last year the losses were mainly attributable to the decrease in exchange gain. After excluding that factor, losses attributable to shareholders actually decreased compared to last year because of cost control. Revenue of Xianyang OSR increased by 45% compared to last year, which was mainly attributable to the opening of the new hotel in April 2012. Losses attributable to shareholders increased due to the heavy start-up costs of the hotel. After excluding that factor, losses attributable to shareholders actually decreased compared to last year.

HOTEL OPERATIONS

Major operating statistics

	2012	2011
Five hotels in Hong Kong and Macau		
Average occupancy rate	**91%**	91%
Average room rate (HK$)	**915**	856
Three hotels in Mainland China		
Average occupancy rate	**68%**	67%
Average room rate (RMB)	**503**	496

The Group's hotel operations comprise CTS H.K. Metropark Hotels Management Company Limited ("CTS Metropark"), five hotels in Hong Kong and Macau, and three hotels in Mainland China. In 2012, the revenue of the hotels operations was HK$962 million, a 6% increase compared to last year; profit attributable to shareholders was HK$247 million, an 8% increase compared to last year.

The revenue of five hotels in Hong Kong and Macau was HK$700 million, a 6% increase compared to last year; profit attributable to shareholders was HK$201 million, a 9% increase compared to last year; average occupancy rate was 91% (2011: 91%); average room rate was HK$915, a 7% increase compared to last year. With stable market demand, the Group's hotels in Hong Kong and Macau reached out to high revenue customers and raised room rate to spur growth.

The Revenue of CTS Metropark and hotels in mainland China was HK$261 million, a 7% increase compared to last year, which was mainly attributable to the increase of management and consulting revenue from CTS Metropark; profit attributable to shareholders was HK$46 million, a 1% increase compared to last year. The profit growth lagged behind revenue growth because of increased staff costs arising from business expansion of CTS Metropark. Average occupancy rate was 68% (2011: 67%); average room rate was RMB503, a 2% increase compared to last year. CTS Metropark continued to increase central procurement efforts and expand hotel management services with the signing of 13 additional hotel management consultancy contracts in regions including Beijing, Shandong, Henan, Anhui and Hainan. CTS Metropark was ranked 38th in "Top 300 Hotel Groups 2011" by HOTELS magazine, moving up six notches compared to 2010.

PASSENGER TRANSPORTATION OPERATIONS

The Group’s passenger transportation operations include China Travel Tours Transportation Services Hong Kong Limited and its subsidiaries (“CTTT”) and the Group’s associated company, Shun Tak – China Travel Shipping Investments Limited (“Shun Tak – China Travel”). In 2012, the revenue of passenger transportation operations was HK$310 million, a 4% decrease compared to last year; profit attributable to shareholders was HK$36 million (2011: losses of HK$2 million), achieving a turnaround to profit.

CTTT served 5.78 million passengers, a 4% decrease compared to last year; revenue was HK$310 million, a 4% decrease compared to last year; profit attributable to shareholders was HK$18 million, a remarkable 96% increase compared to last year. CTTT closed down loss making bus routes and reduced trips with low loading factor, which reduced number of passengers served and revenue but the cost savings were even more significant. In addition, profit contribution from a jointly controlled entity of CTTT in Macau increased because of thriving development of tourism there. As a result, the profit of CTTT increased significantly.

Shun Tak – China Travel achieved a turnaround to profit and profit attributable to shareholders was HK$18 million (2011: losses of HK$11 million), which was mainly attributable to rise in ticket price for some ferry routes since July 2011 and the increase in market share after acquisition of First Ferry (Macau) in September 2011.

GOLF CLUB OPERATIONS

In 2012, the revenue of CTS Tycoon (Shenzhen) Golf Club (“Golf Club”) was HK$119 million, a 44% increase compared to last year; losses attributable to shareholders was HK$14 million (2011: losses of HK$22 million). The commencement of full operation of the 45-hole golf course in March 2011 and the rise in golfing fees at the beginning of 2012 drove visitor and revenue growth and reduced losses. Sales of membership generated revenue of RMB49.3 million. The net operating cash flow was positive.

ART PERFORMANCE OPERATIONS

In 2012, the revenue of China Heaven Creation International Performing Arts Co., Ltd. was HK$45 million, a 18% increase compared to last year, which was mainly attributable to the increase in revenue generated from arts performance production service; profit attributable to shareholders was HK$0.12 million, a 72% decrease compared to last year, which was mainly attributable to the increase in its theatre operating costs in the United States and decrease in government subsidies. In addition to regular theatre performance in Beijing and Branson in the United States, "The Legend of Kung Fu" visited four cities in Spain, with 11 performances.

POWER GENERATION OPERATIONS

In 2012, the on-grid electricity volume of the Group's Shaanxi Weihe Power Co., Ltd. was 5.60 billion kwh, almost the same as last year. Profit attributable to shareholders was HK$124 million, a 19% increase compared to last year, which was mainly attributable to the increase of average electricity tariff of 7% and the decrease of coal cost of 1% compared to last year.

SHARE REPURCHASE

In 2012, the Company repurchased a total of 31.36 million of its shares on The Stock Exchange of Hong Kong Limited. The average purchase price per share was approximately HK$1.45 and the total consideration paid amounted to HK$45.62 million. The Company considers that repurchasing its shares at the appropriate time would enhance the earnings and net asset value per share and increase shareholder value.

MANAGEMENT ENHANCEMENT

During the year, the Group launched comprehensive management enhancement initiatives. In upgrading product offerings, CTSHK launched high-end tour products such as Silk Road and London Olympics, Mangocity.com launched public charter cruise services, Splendid China and CTS Metropark expanded their management services, the two Ocean Spring Resorts enhanced quality of their hot spring products and CTTT terminated loss making bus routes to optimize resources allocation. In optimizing organizational structure, the two Ocean Spring Resorts streamlined headcount by merging branches and departments to enhance management efficiency and reduce management costs. In promoting standardization of management of tourist attractions, the Group started the compilation of management manuals for different categories of tourist attractions to standardize service and management, and to enhance visitors' experience and operating results. The Group also strengthened its cost management and suppressed growth in costs and expenses of its enterprises.

STRATEGIC POSITIONING

The Group is positioned as a tourism businesses and capital operation platform with focus on tourist attractions and adopted the development model of "travel destination development plus tourism real estate". The Group will actively acquire travel resources, strengthen internal resources sharing, enhance its professional standards, play its role as a capital market platform, so as to become a leading tourism enterprise in China and a renowned tourism investor and operator in Greater China region. The Group will adhere to the use of strategy to guide development and strive to increase shareholder value.

In execution of its strategy, the Group will gradually withdraw from businesses and enterprises that are incompatible with its strategic positioning, lacking synergy, and has been loss making for a long time with no prospects of turning around.

STRATEGIC DEVELOPMENT

In accordance with its strategic plan, the Group pushed forward the development of travel destinations and tourism real estate. Zhuhai OSR basically secured the land for tourism real estate in phase two development and the soft ground foundation treatment works commenced in June 2012. The earth excavation works of Xianyang OSR tourism real estate project also commenced. The master planning of the Golf Club's small-scale tourism real estate project was under the approval process and the Golf Club began preliminary product planning.

The Group entered into a joint venture with Zhejiang Anji Ecological Park Development Company Limited (the "Joint Venture Partner") in December 2012 to establish CTS (AnJi) Travel Development Company Limited (the "JV Company") to invest in and develop the travel and leisure resort on Lingfeng Mountain in Anji. Anji County situates in northwest Zhejiang Province and is rich in eco-tourism resources and especially famous for its bamboo forest landscapes. The total investment and registered capital of the JV Company is USD99.8 million and the JV Company is owned as to 80% by the Group and 20% by the Joint Venture Partner. The Group considers the project a promising and major one for implementing the Group's strategy. In addition to the establishment of the JV Company, the Group actively pushed forward progress of investment opportunities in new travel projects in Guangdong, Anhui and Jiangsu.

At the same time, the Group began to conduct study over business mix adjustment and studied the feasibility of withdrawing from businesses and enterprises that were incompatible with its strategic positioning, lacking synergy, and had been loss making for a long time with no prospects of turning around, and identified preliminary withdrawal targets.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 31 December 2012, the Group had 11,879 employees. The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from the retirement benefit and in-house training programs, discretionary bonuses and share options are 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. The Group generally finances its operations with internally generated cash flows and loan facilities from banks. As at 31 December 2012, the cash and bank balances of the Group amounted to HK$2,678 million whereas the bank and other borrowings amounted to HK$435 million. The debt to capital ratio was 16% and the debt includes bank and other borrowings, trade and other payables, amounts due to the immediate holding company and fellow subsidiaries.

FOREIGN EXCHANGE RISK

The Group has certain assets, borrowings, and major transactions which are denominated in foreign currencies, thus exposes a certain level of foreign currency risk. The Group has not engaged in any particular hedging vehicles to hedge against foreign exchange risk. However, the Group will closely monitor and manage foreign currency exposure and to make use of appropriate measures when required.

CHARGE ON ASSETS

As at 31 December 2012, the Group's bank deposits of approximately HK$28 million (31 December 2011: HK$27 million) were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries, and certain bank guarantees given in lieu of utility and rental deposits.

As at 31 December 2012, certain of the Group's buildings with an aggregate value of approximately HK$9.43 million (31 December 2011: HK$8.71 million) were pledged to secure bank guarantees given to suppliers in connection with credit facility granted.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group's performance bond given to a customer for due performance of a sale contract was HK$0.3 million (31 December 2011: HK$0.3 million).

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to fulfilling its corporate social responsibilities and enthusiastically supporting the public welfare, environmental protection and education activities. During the year, CTSHK organized its employees to participate in a series of "15th Anniversary of Hong Kong's Handover" celebrations. Songshan Scenic Spot aided and comforted employees in difficulties and wounded and disabled soldiers on Chinese New Year's eve and organized employees in difficulties to participate in medical check-up activity held by the local assistance centre. Zhuhai OSR took part in "Earth Hour", a climate change awareness campaign, and held "Energy Saving Publicity Week" and a number of energy saving seminars to promote energy saving awareness. Xianyang OSR organized employees to participate in blood donation activity, donated student grants to needy university students in Xianyang and donated books to primary and secondary schools in Xianyang.

BUSINESS PROSPECTS

According to the "World Economic Outlook" from IMF, 2013 will witness the subsiding of factors that depress the world economy, so growth will gradually increase, but the recovery is slow, and downside risks must be addressed. China's economy has gradually warmed up with stable and favourable prospects. Although the global economic situations will remain complicated and uncertain, China's economy and tourism industry stay promising in the long run, and are still in a development period which is full of opportunities. There are favourable conditions and factors as well as difficulties, challenges and uncertainties.

Looking ahead to 2013, Hong Kong's tourism industry will continue to benefit from the continued economic development of Hong Kong and Mainland China and the business of CTSHK is expected to develop steadily. The travel documents business has reflected the effect of reduction of certain visa fee since July 2011 but is still affected by the diversion of business from opening up of more landing visa ports. Mangocity.com is expected to encounter intense price competition and its operating environment remains challenging. Mangocity.com will strengthen its core air ticket reservation business and develop its competitive travel package business and niche markets. Also, it will control costs in its hotel reservation business by forging cooperation and reduce staff costs.

The tourist attraction operations benefit from the trend of steady development in the tourism market in Mainland China and the operating environment is expected to remain positive. Window of the World will launch a new night show in a new theatre and continue to enrich its products; Splendid China will expand its management services and carry out the overall renovation plan in an orderly manner; Jigongshan Scenic Spot and the two Ocean Spring Resorts will strengthen fundamental management and make efforts to turnaround; Xianyang OSR will strengthen the coordinated marketing of its hotel and hot spring centre.

The steady development of China's economy provides support for the inbound tourism markets in Hong Kong and Macau. The operating environment of the hotel operations is expected to remain positive but growth rate may slow down. The Group will expand its hotel management business and its brand awareness. To achieve better return on assets, the Group plans to gradually improve the quality of its hotel assets.

CTTT Macau reduced bus fare for its core Guangzhou route amid competition from Guangzhou-Zhuhai light rail and the results of CTTT are expected to be affected. The Golf Club is affected by roadwork at the Hezhou exit of Guangzhou-Shenzhen highway which creates inconveniences for its visitors and operating pressure is expected to increase.

The Group will continue to push forward the development of travel destinations and tourism real estate projects. The soft foundation treatment work of Zhuhai OSR is expected to complete in the first half of the year and Zhuhai OSR will strive to start tourism real estate construction this year. The gross floor area of the first batch of real estate to test the market is approximately 70,000 square metres; Xianyang OSR's tourism real estate project will start construction. The total gross floor area is approximately 150,000 square metres and will be developed in two years; the travel and leisure resort on Lingfeng Mountain in Anji will enter the preparation stage before construction; Golf Club will push forward the approval and preparation work of its tourism real estate project with gross floor area of approximately 50,000 square metres and strive to start construction by the end of this year; Songshan Scenic Spot will push forward the planning and evaluation work of the tourist town project. Together with the addition of new projects, the capital expenditure is expected to increase. To use financial leverage to increase shareholder return, the Group will moderately increase its bank loans and maintain the debt ratio at a healthy level. The Group expects interest income to decrease and financing costs to increase, which may impact short-term results, but in the medium to long term, the possession and development of these high-quality tourism resources will strengthen the Group's profit growth ability.

All in all, the fundamentals of the Group's overall businesses remain stable. The Group will strive for steady operational growth through adjustments of its business and product mix and further strengthening of fundamental management of existing businesses, especially the improvement and turnaround of loss making enterprises. In accordance with its strategic plan, the Group will increase investment in travel destination development and tourism real estate to promote long term growth. The Group expects that its travel destination and tourism real estate projects will gradually provide returns in the next few years and the foundation for sustainable development will become stronger. The Group is confident in its development prospects.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group's principal subsidiaries are set out in note 37 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

GROUP PROFIT

The Group's profit for the year ended 31 December 2012 and the state of the Company's and the Group's financial affairs as at that date are set out in the consolidated financial statements on pages 48 to 142.

DIVIDENDS

An interim dividend of HK 2 cents per share (2011: HK 2 cents per share) was paid on 20 August 2012. The Directors recommend the payment of a final dividend of HK 3 cents per share (2011: HK 3 cents per share) in respect of the year to shareholders whose names appear on the register of members of the Company on 21 May 2013.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are shown in note 33 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$2,515,119,000, of which HK$169,718,000 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.

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

During the year, the Company repurchased a total of 31,360,000 ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), of which 29,960,000 shares were cancelled during the year and 1,400,000 shares were cancelled on 25 January 2013. The number of issued shares as of 31 December 2012 was 5,658,669,525 shares. Particulars of the shares repurchased during the year are as follows:

Month/Year	Number of ordinary shares repurchased	Purchase price paid per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
January 2012	6,738,000	1.42	1.28	9,324,180
February 2012	1,000,000	1.53	1.51	1,523,000
March 2012	3,100,000	1.59	1.57	4,917,200
April 2012	1,600,000	1.53	1.52	2,441,000
May 2012	3,404,000	1.39	1.36	4,699,560
June 2012	1,556,000	1.39	1.37	2,146,720
July 2012	1,728,000	1.46	1.43	2,498,040
October 2012	10,584,000	1.51	1.38	15,461,420
November 2012	250,000	1.53	1.52	380,400
December 2012	1,400,000	1.60	1.59	2,233,000

The Directors consider that the repurchases of shares will enhance shareholder value in the long term. Save as disclosed above, neither the Company nor any of its subsidiaries purchased or sold and the Company did not redeem any of the Company's listed securities during the year.

DONATIONS

During the year, the Group made charitable donations amounting to HK$2,459. (2011: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the Group's results and assets and liabilities for the last five financial years, is set out on page 6. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the consolidated financial statements, respectively. Summaries of the particulars of the Group's principal hotel properties and principal investment properties are set out on pages 143 and 144, respectively. These summaries do not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

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

Executive directors:
Mr. Wang Shuai Ting *(Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Ms. Jiang Yan
Mr. Fang Xiaorong *(Retired on 1 March 2013)*
Mr. Zhang Fengchun
Mr. Xu Muhan *(General Manager)*
Mr. Fu Zhuoyang

Independent non-executive directors:
Dr. Fong Yun Wah
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

The Company received confirmations from the Independent Non-Executive Directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considered all the Independent Non-Executive Directors as independent.

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

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

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

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in Directors' information since the date of the 2012 Interim Report are set out below:

Name of Director		Changes
Lo Sui On	–	Resigned as a director of Shenzhen The World Miniature Co., Ltd., a non wholly-owned subsidiary of the Company, with effect from 20 November 2012.
	–	Resigned as a director of Shenzhen Splendid China Development Co., Ltd., a non wholly-owned subsidiary of the Company, with effect from 7 November 2012.
Zhang Fengchun	–	Resigned as a director of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the controlling shareholder of the Company, with effect from 18 January 2013.
Xu Muhan	–	Appointed as a director of Shenzhen The World Miniature Co., Ltd., a non wholly-owned subsidiary of the Company, with effect from 20 November 2012.
	–	Appointed as a director of Shenzhen Splendid China Development Co., Ltd., a non wholly-owned subsidiary of the Company, with effect from 7 November 2012.
	–	Appointed as a director of CTS Tycoon (Shenzhen) Golf Club Co. Ltd., a wholly-owned subsidiary of the Company incorporated in the PRC, with effect from 12 September 2012.

Wong Man Kong, Peter	–	Appointed as an independent non-executive director of MGM China Holdings Limited (Stock Code: 2282) with effect from 1 December 2012.

DIRECTORS' REMUNERATION

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

COMPENSATION POLICY

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

INTERESTS IN CONTRACTS

No contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or a subsidiary was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 2.27 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2012 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 1 June 2012, Mangocity.com (Shenzhen) Limited, a wholly-owned subsidiary of the Company, and China National Travel Service (HK) Group Corporation ("China CTS (HK)") entered into the Entrusted Software Development Contracts pursuant to which China CTS (HK) entrusted Mangocity.com (Shenzhen) Limited to undertake the software development services, which include the B2C basic services system upgrade, business travel services system optimization and membership system upgrade, for a total entrustment fee of RMB10.9 million.

As China CTS (HK) is the sole shareholder of CTS (Holdings), the controlling shareholder of the Company, China CTS (HK) is a connected person of the Company and the provision of software development services by Mangocity.com (Shenzhen) Limited under the Entrusted Software Development Contracts constitutes a connected transaction for the Company under the Listing Rules. For detailed information, please refer to the announcement of the Company dated 1 June 2012.

Continuing connected transactions

(i) On 24 October 1995, Shenzhen The World Miniature Co. Ltd. ("Window of the World"), a subsidiary of the Company, entered into a lease agreement (the "Lease Agreement") with a lease term of eighteen years with Huaqiaocheng Group Company ("Huaqiaocheng") which stated that the increase in annual rent for the third renewal period between 28 April 2007 and 5 May 2012 was to be negotiated and agreed between the parties, and subject to a maximum increment of 15% as compared with the annual rent for the period between 28 April 2002 and 27 April 2007 (the "third rental period"). On 10 September 2007, Window of the World entered into a supplemental agreement with Huaqiaocheng to govern the lease transaction with Huaqiaocheng for the period commenced on 28 April 2007 and ending on 27 April 2010 at an annual rent of RMB10.89 million, representing an increment rate of 10% on the rent for the third rental period. On 24 May 2010, Window of the World entered into a new supplemental agreement (the "New Supplemental Agreement") with Huaqiaocheng to supplement the Lease Agreement and to govern the lease transaction with Huaqiaocheng (the "Huaqiaocheng CCT") for the period commenced on 28 April 2010 and ended on 5 May 2012 at an annual rent of RMB11.385 million, representing an increment rate of 15% on the rent for the third rental period.

Huaqiaocheng owns approximately a 56.62% interest in Shenzhen Overseas Chinese Town Company Limited ("Overseas Chinese Town"). Overseas Chinese Town in turn owns a 49% interest in Window of the World, and is therefore a substantial shareholder of Window of the World. Accordingly, Huaqiaocheng and Overseas Chinese Town are connected persons of the Company, and the Huaqiaocheng CCT constitutes a continuing connected transaction for the Company. For detailed information in this regard, please refer to the announcement issued by the Company on 24 May 2010.

The Huaqiaocheng CCT's cap for the two years ended 31 December 2012 was RMB11.385 million per year. The actual amount of the transactions pursuant to the New Supplemental Agreement for the year ended 31 December 2012 was RMB3.93 million.

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

Overseas Chinese Town is a substantial shareholder of each of Window of the World and Splendid China, being 51% owned subsidiaries of the Company, and is, therefore, a connected person of the Company. Therefore, the transactions contemplated under the First Entrustment Loan Agreement and the Second Entrustment Loan Agreement (the "Financial Assistance") constitutes continuing connected transactions for the Company under Listing Rules. Pursuant to Rule 14A.25 of the Listing Rules, the transactions contemplated under the First Entrustment Loan Agreement will be aggregated with the transactions contemplated under the Second Entrustment Loan Agreement and treated as if they were one transaction. The annual cap for the Financial Assistance for each of the two financial years ended 31 December 2012 was RMB220 million. The actual amount of the transactions for the year ended 31 December 2012 was RMB210 million. For detailed information, please refer to the announcement of the Company dated 20 August 2010.

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

(a) Provision of Travel Permit Administration by China Travel Service (Hong Kong) Limited ("CTSHK") (note (1));

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

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

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

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

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

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

Notes:

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

CTSHK has continued to provide the Travel Permit Administration during its ordinary and usual course of business and in accordance with the terms of the Agency Agreement. At the extraordinary general meeting held on 18 December 2009, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$420 million for the Travel Permit Administration for each of the three financial years ended 31 December 2012. At the extraordinary general meeting held on 12 December 2012, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$380 million, HK$403 million and HK$427 million for the Travel Permit Administration for each of the three financial years ending 31 December 2015. For detailed information, please refer to the Company's announcement dated 6 November 2012 and the circular dated 26 November 2012.

(2) The Company entered into a master agreement (the "2009 Master Agreement") with CTS (Holdings) on 18 November 2009 to govern the continuing connected transactions referred to in (b), (c) and (d) above for a term commenced from 1 January 2010 and ended on 31 December 2012. On 6 November 2012, the Company entered into a renewal agreement with CTS (Holdings) to renew the terms of the continuing connected transactions referred to in (c) and (d) above for a term commenced from 1 January 2013 and ending on 31 December 2015.

As CTS (Holdings) is a substantial shareholder of the Company, members of the CTS (Holdings) Group are connected persons of the Company. China CTS (HK) is the sole shareholder of CTS (Holdings), and accordingly members of the China CTS (HK) Group are also connected persons of the Company. For detailed information, please refer to the Company's announcements dated 6 November 2012.

(3) On 9 May 2008, the Company and CTS (Holdings) entered into a hotel management services master agreement (the "HMS Master Agreement") to govern the continuous provision of hotel management services by CTS H.K. Metropark Hotels Management Company Limited ("CTS Hotels Management"), a wholly-owned subsidiary of the Company, to certain subsidiaries of CTS (Holdings) for a term commenced from 9 May 2008, date of signing of the HMS Master Agreement, and ending on 31 December 2015. For detailed information, please refer to the announcement of the Company dated 1 November 2007.

As the aggregate amount of hotel management fees for the three financial years ending 31 December 2013 may exceed the original projection, the Company has, on 8 September 2011, revised the annual caps for the three financial years ending 31 December 2013 under Rule 14A.36 of the Listing Rules. For detailed information, please refer to the announcement of the Company dated 8 September 2011.

(4) On 14 October 2011, the Company and China CTS (HK) entered into a tour group services master agreement (the "Tour Group Services Master Agreement") in relation to the provision of tour group services by the Group and China CTS (HK) Group to each other for the period commenced on 1 January 2012 and ending on 31 December 2014 in order to benefit from the extensive coverage of the travelling network of China CTS (HK) Group and to allocate resources more efficiently. As the aggregate amount of the tour group services actually required by the China CTS (HK) Group for each of the three years ending 31 December 2014 may exceed the original projection, the Company has revised the annual caps for each of the three years ending 31 December 2014 to re-comply with Rule 14A.35 in accordance with Rules 14A.36 of the Listing Rules. As China CTS (HK) holds the entire issued share capital of CTS (Holdings) which is a substantial shareholder of the Company, China CTS (HK) is therefore a connected person of the Company. Accordingly, the transactions will constitute continuing connected transactions of the Company under the Listing Rules. For detailed information, please refer to the Company's announcement dated 14 October 2011 and 6 November 2012.

The maximum aggregate annual consideration for the above-said continuing connected transactions for the year ended 31 December 2012 and the years ending 31 December 2013 and 31 December 2014 and the actual amounts of such transactions for the year ended 31 December 2012 are as follows:

	Caps for the three years ended/ ending 31 December			**Actual amounts for the year ended 31 December**
	2012	**2013**	**2014**	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000
I. Continuing connected transactions with the CTS (Holdings) Group				
(a) Provision of Travel Permit Administration by CTSHK	420,000	380,000	403,000	340,757
(b) Provision of insurance brokerage services by the CTS (Holdings) Group	7,200	–	–	1,400*
(c) Lease arrangements with CTS (Holdings) Group as lessor	35,500	20,000	23,000	16,498
(d) Provision of ASP related services to the CTS (Holdings) Group	36,000	30,000	33,000	27,240
(e) Provision of hotel management services to the CTS (Holdings) Group	22,000	24,200	–	18,107
II. Continuing connected transactions with the China CTS (HK) Group				
(f) Provision of tour group services to the China CTS (HK) Group	30,000	36,000	43,200	23,555
(g) Provision of tour group services by the China CTS (HK) Group to the Group	100,000	120,000	144,000	72,977

* The aggregate amount of brokerage fees payable for the year ended 31 December 2012.

(iv) On 18 November 2009, CTS Scenery Resort Investment Company Limited ("CTS Scenery Resort"), a wholly-owned subsidiary of the Company upon completion of the Acquisition on 31 December 2009, entered into a services agreement (the "2009 Services Agreement") with China CTS Asset Management Corporation ("China CTS Asset Management"), a wholly-owned subsidiary of China CTS (HK), for a term of three years in relation to the provision of management services by China CTS Asset Management to CTS Scenery Resort and its subsidiaries. As the 2009 Services Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2012, CTS Scenery Resort entered into the 2012 Services Agreement with China CTS Asset Management on 6 November 2012 to renew the terms of such continuing connected transactions for a term commencing from 1 January 2013 and ending on 31 December 2015, where China CTS Asset Management will continue to provide the management services thereunder to CTS Scenery Resort and its subsidiaries. The continuing provision of the management services by China CTS Asset Management to CTS Scenery Resort shall constitute a continuing connected transaction of the Company under the Listing Rules. The maximum annual caps for each of the three years ending 31 December 2014 for the provision of management services by China CTS Asset Management to CTS Scenery Resort and its subsidiaries are HK$6,410,000, RMB8,000,000 and RMB8,500,000, respectively. The actual amount of the transactions for the year ended 31 December 2012 was HK$5,375,000. For detailed information, please refer to the Company's announcement dated 18 November 2009 and 6 November 2012.

(v) On 4 January 2010, CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. ("CTS (Dengfeng)") and Henan Province Songshan Scenic Spot Management Committee ("Songshan Management") entered into a franchise agreement pursuant to which CTS (Dengfeng) would be authorized to exclusively manage and operate the ticket sales, sales proceeds collection and the car parks of the Shaolin Scenic Spot, Zhong Yue Scenic Spot and Song Yang Scenic Spot under the Songshan Scenic Spot from 25 December 2009 for a term of 40 years. The Company owns 51% equity interest in CTS (Dengfeng) and CTS (Dengfeng) is 49% owned by Songshan Management. Songshan Management is therefore a connected person of the Company and the transactions contemplated under the franchise agreement shall constitute continuing connected transactions for the Company under the Listing Rules. As the caps approved for the franchise agreement are up to the financial year ended 31 December 2012, the Company has set the new caps for the franchise agreement for each of the three years ending 31 December 2015 to comply with the Listing Rules. The caps for the three years ending 31 December 2014 in respect of the franchise fee payable by the CTS (Dengfeng) to Songshan Management are RMB126 million, RMB110 million and RMB126.5 million, respectively. The actual amount of the transactions for the year ended 31 December 2012 was RMB101 million. For detailed information, please refer to the Company's announcement dated 6 November 2012.

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.

PricewaterhouseCoopers, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial

Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers have issued their report containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2012, the interests and short positions of the Directors and the Company's chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Interests in shares		Interests in underlying shares pursuant to share options	Aggregate interests	% of the issued share capital as at 31 December 2012
	Corporate interest	Family interest			
Mr. Lo Sui On	–	–	1,770,000	1,770,000	0.03%
Ms. Jiang Yan	–	–	1,770,000	1,770,000	0.03%
Mr. Fang Xiaorong	–	–	1,770,000 (Note 3)	1,770,000	0.03%
Mr. Zhang Fengchun	–	–	1,770,000	1,770,000	0.03%
Mr. Xu Muhan	–	2,000 (Note 1)	1,850,000	1,852,000	0.03%
Mr. Fu Zhuoyang	–	–	1,770,000	1,770,000	0.03%
Dr. Fong Yun Wah	50,000 (Note 2)	–	–	50,000	0.00%

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

Note 2: These shares are beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah is taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

Note 3: Mr. Fang Xiaorong retired as an Executive Director of the Company with effect from 1 March 2013.

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme" below, at no time during the year was the Company or any of its subsidiaries a party of any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

On 4 May 2012, the Company has passed the resolution in a shareholders' meeting for the termination of the share option scheme adopted on 3 June 2002 (the "2002 Share Option Scheme") and the adoption of a new share option scheme (the "2012 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Outstanding share options granted under the 2002 Share Option Scheme prior to such termination shall continue to be valid, and subject to the vesting schedule, exercisable in accordance with the 2002 Share Option Scheme. Further details of the 2002 Share Option Scheme and 2012 Share Option Scheme are disclosed in note 34 to the consolidated financial statements.

The 2002 Share Option Scheme

Details of the movement in the share options granted under the 2002 Share Option Scheme during the year are set out below:

	Number of share options							
Name or category of participant	Balance as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Balance as at 31 December 2012	Date of grant	Exercise period (Note 1)	Exercise price (HK$)
Directors								
Lo Sui On	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Jiang Yan	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Fang Xiaorong	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Zhang Fengchun	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Xu Muhan	1,850,000	–	–	–	1,850,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Fu Zhuoyang	1,770,000	–	–	–	1,770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Sub-Total	10,700,000	–	–	–	10,700,000			
Other employees in aggregate	112,960,000	–	–	(2,300,000)	110,660,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand total	123,660,000	–	–	(2,300,000)	121,360,000			

Note 1: The vesting period of the share options is from the date of grant until the commencement of the exercise period. The options are exercisable in the following manner subject to the achievement of certain performance targets:

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

The accounting policies on Share Option Scheme are set out in note 2.26 to the consolidated financial statements. Since the option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.

The 2012 Share Option Scheme

No share options were granted under the 2012 Share Option Scheme during the year ended 31 December 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors or the Company's Chief Executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following shareholders (other than Directors or Chief Executive of the Company) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register of interest required to be kept by the Company under Section 336 of the SFO:

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

Name of shareholders	Capacity	Number of shares held	% of the issued share capital as at 31 December 2012
China CTS (HK)	Interest of controlled corporation *(Note)*	3,231,822,728	57.00%
CTS (Holdings)	Interest of controlled corporation and beneficial owner	3,231,822,728	57.00%

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

Save as aforesaid, as at 31 December 2012, 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.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Group as at 31 December 2012 are set out in note 31 to the consolidated financial statements.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 4 July 2011, the Company entered into a facility agreement with a bank for an uncommitted revolving term loan facility of HK$300,000,000.

On 20 July 2011, CTSHK, as borrower, and the Company, as guarantor entered into a facility agreement with another bank for an uncommitted facility of HK$300,000,000. The credit facility under the facility agreement has been extended from its original expiry date of 30 June 2012 to 30 June 2013.

On 23 April 2012, CTSHK, as borrower, and the Company, as guarantor entered into a facility agreement with a bank for a committed revolving loan of HK$200,000,000. The final maturity date of the credit facility is one year from the date of acceptance of the facility agreement.

Pursuant to the aforesaid facility agreements, CTS (Holdings), the controlling shareholder of the Company, is required, at all times, to be the largest shareholder of the Company with at least 40% equity interest throughout the life of the credit facilities. Breach of this specific performance obligation will constitute an event of default. Upon occurrence of such event of default, the relevant bank may declare the relevant facility to be terminated and all the indebtedness under the relevant facility would become due and payable.

PUBLIC FLOAT

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, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 40 to 46.

AUDITORS

The financial statements of the Company for the year ended 31 December 2010 and 2011 were audited by Ernst & Young. At the annual general meeting of the Company on 4 May 2012, Ernst & Young retired as the auditor of the Company and PricewaterhouseCoopers was appointed as the auditor of the Company to fill the casual vacancy.

The financial statements of the Company for the year ended 31 December 2012 were audited by PricewaterhouseCoopers. PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the 2013 annual general meeting to re-appoint them and to authorize the Directors to fix their remuneration.

ON BEHALF OF THE BOARD

Wang Shuai Ting
Chairman

Hong Kong, 20 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintain high standards of corporate governance to safeguard the interests of shareholders and other stakeholders and enhance shareholder value. The board of Directors of the Company (the "Board") will continue to monitor and review the Company's corporate governance practices to ensure compliance.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Former Code") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") was amended and revised as the Corporate Governance Code (the "New Code") which became effective on 1 April 2012. For the year under review, the Company has complied with the applicable code provisions of the Former Code and the New Code as and when they were/are in force, except for the following deviations:

– Code provision A.4.1 of the Former Code/New Code specifies that Non-Executive Directors should be appointed for a specific term, subject to re-election. Although the Company's 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 shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. The Board considers that such requirements are sufficient to meet the underlying objective and spirit of the relevant code provisions.

– Code provisions A.5.1 to A.5.4 of the New Code requires the establishment of a nomination committee with specific terms of reference and sufficient resources. The Company established a nomination committee and published its terms of reference on the website of the Stock Exchange and the Company on 25 June 2012, which was after the New Code took effect, because the Directors took a cautious approach to compare and contrast the merits of appointment of new Director by a nomination committee and by the Board collectively.

– Code provisions C.3.3 and C.3.7 of the New Code make certain revisions to the minimum requirements of the terms of reference of the audit committee. The Company published its revised terms of reference of the audit committee incorporating all these minimum requirements on the website of the Stock Exchange and the Company on 25 June 2012 because, for the purposes of reducing administrative burdens and increasing efficiency, the revised terms of reference were submitted together with the proposal for establishment of nomination committee to the Board on the same date and the Board approved all these proposals on 25 June 2012.

– Code provision D.1.4 of the New Code specifies that the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors because all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles. In addition, the Directors are expected to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

– Code provision E.1.2 of the Former Code/New Code specifies that the chairman of the Board should attend the annual general meeting. The chairman of the Board of the Company has not attended the Company's annual general meeting held on 4 May 2012 because of other business commitment.

THE BOARD

Composition

The Board currently comprises 10 Directors, being 6 Executive Directors and 4 Independent Non-Executive Directors. During the year ended 31 December 2012 and up to the date of this report, Mr. Fang Xiaorong retired as an Executive Director with effect from 1 March 2013. Further details of the composition of the Board are disclosed under "Corporate Information" on page 2.

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

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.

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.

Chairman and General Manager

The Company supports the division of responsibility between the Chairman and the General Manager to ensure a balance of power and authority. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively, while the General Manager focuses on managing and controlling the business of the Group. Their respective responsibilities are clearly defined and set out in writing. Currently, Mr. Wang Shuai Ting serves as the Chairman of the Board and Mr. Xu Muhan serves as the General Manager.

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 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 Company. The Board has the full support of the General Manager and the senior management to discharge its responsibilities.

Directors' Training

With effect from 1 April 2012, Directors are provided with monthly updates on the Company's performance and prospects to enable the Board as a whole and each Director to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the period from 1 April 2012 to 31 December 2012, the Directors participated in the following trainings:

Name of Directors	Attending seminars and/or conferences and/or forums	Type of trainings giving talks at seminars and/or conferences and/or forums	Reading newspapers, journals and updates relating to the economy, general business, tourism or Director's duties and responsibilities etc.
Executive Directors:			
Wang Shuai Ting	√	√	√
Lo Sui On	√	–	√
Jiang Yan	√	–	√
Fang Xiaorong*	√	√	√
Zhang Fengchun	√	√	√
Xu Muhan	√	√	√
Fu Zhuoyang	√	–	√
Independent Non-executive Directors:			
Fong Yun Wah	√	–	√
Wong Man Kong, Peter	√	–	√
Sze, Robert Tsai To	√	–	√
Chan Wing Kee	–	–	√

* Mr. Fang Xiaorong retired as an Executive Director with effect from 1 March 2013.

Board Meetings

During the year ended 31 December 2012, the Board held four regular meetings. 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.

An agenda and accompanying Board papers are sent to all Directors at least three days in advance of every Board meeting or committee meeting. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The company secretary is responsible for taking and keeping 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.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Development Committee, for overseeing particular aspects of the Company's affairs. All the Board committees are empowered by the Board under their own terms of reference.

Remuneration Committee

Members:

Independent Non-Executive Directors:	Mr. Wong Man Kong, Peter *(Chairman)* Mr. Sze, Robert Tsai To Mr. Chan Wing Kee
Executive Directors:	Mr. Wang Shuai Ting Ms. Jiang Yan

To tie in with the amendments in the New Code effective from 1 April 2012, the terms of reference of the Remuneration Committee were updated during the year. The Remuneration Committee is responsible for making recommendations on the Company's policy and structure on the remuneration of all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy for approval by the Board. It shall also make recommendations to the Board on the remuneration packages of individual Executive Director and senior management. Details of the remuneration paid to Directors and senior managements for the financial year ended 31 December 2012 are disclosed in the notes to the consolidated financial statements.

The Remuneration Committee held one meeting in 2012 and reviewed the Directors' fees and proposed bonuses of senior management.

Audit Committee

Members:

Independent Non-Executive Directors:	Mr. Wong Man Kong, Peter *(Chairman)* Mr. Sze, Robert Tsai To Mr. Chan Wing Kee

During the year, the Board delegated certain corporate governance functions to the Audit Committee to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board, to review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to review and monitor the code of conduct and compliance manual applicable to employees and Directors and to review the Company's compliance with the code provisions as set out in the New Code and disclosures in the Corporate Governance Report. To include the aforesaid corporate governance functions and tie in with the amendments in the New Code effective from 1 April 2012, the terms of reference of the Audit Committee were updated during the year. The Audit Committee is responsible for the review and supervision of the Group's financial reporting and internal controls, maintaining an appropriate relationship with external auditors and performing corporate governance duties.

The Audit Committee held two meetings during the year ended 31 December 2012 and reviewed the audited financial statements for the year ended 31 December 2011 and the unaudited interim financial statements for the six months ended 30 June 2012. The Committee also reviewed internal audit reports, corporate governance reports and the appointment of external auditors, and discussed with the management and external auditors the internal control system and accounting policies and practices.

The Company's annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee.

Nomination Committee

Members:

Executive Directors:	Mr. Wang Shuai Ting *(Chairman)* Ms. Jiang Yan
Independent Non-Executive Directors:	Mr. Wong Man Kong, Peter Mr. Sze, Robert Tsai To Mr. Chan Wing Kee

The Nomination Committee was established in June 2012 with specific terms of reference in accordance with the New Code. The Nomination Committee is responsible for review the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall identify suitable individuals qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, and assess the independence of Independent Non-Executive Directors. Before its establishment, the role and function of the Nomination Committee was taken up by the Board. The Nomination Committee did not hold any meeting during the year.

Strategy and Development Committee

Members:

Executive Directors:	Mr. Xu Muhan *(Chairman)* Mr. Zhang Fengchun Mr. Fu Zhuoyang
Independent Non-Executive Directors:	Mr. Wong Man Kong, Peter Mr. Sze, Robert Tsai To

The Strategy and Development Committee was established in June 2012 with specific terms of reference which are posted on the Company's website. The Strategy and Development Committee is responsible for the study of the Company's long-term development strategic planning, major investment projects and financing plan and the provision of opinions thereon. The Strategy and Development Committee did not hold any meeting during the year.

ATTENDANCE AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

	Number of Meetings Attended/Eligible to attend for the year ended 31 December 2012					
Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Directors:						
Wang Shuai Ting Note 1	2/4	–	0/0	0/0	0/1	0/1
Lo Sui On	4/4	–	–	–	1/1	1/1
Jiang Yan Note 2	1/4	–	0/0	0/0	0/1	0/1
Fang Xiaorong Note 3	0/4	–	–	–	0/1	0/1
Zhang Fengchun	3/4	–	–	–	1/1	0/1
Xu Muhan	3/4	–	–	–	0/1	0/1
Fu Zhuoyang	1/4	–	–	–	0/1	0/1
Independent Non-Executive Directors:						
Fong Yun Wah	4/4	–	–	–	1/1	1/1
Wong Man Kong, Peter	3/4	1/2	0/1	0/0	1/1	0/1
Sze, Robert Tsai To	4/4	2/2	1/1	0/0	1/1	1/1
Chan Wing Kee	3/4	2/2	1/1	0/0	1/1	1/1

Note 1 Mr. Wang Shuai Ting was appointed as a member of the Remuneration Committee and the Chairman of the Nomination Committee with effect from 25 June 2012.

Note 2 Ms. Jiang Yan was appointed as a member of the Remuneration Committee and the Nomination Committee with effect from 25 June 2012.

Note 3 Mr. Fang Xiaorong retired as an Executive Director with effect from 1 March 2013.

DIRECTOR' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions 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.

In response to a specific enquiry by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, the remuneration to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

Service rendered	**Fees paid/payable** HK$'000
Audit services	6,587
Non-audit services	203
Total	6,790

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Directors acknowledge their responsibility for preparing the financial statements of the Company and the Group.

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 page 47.

INTERNAL CONTROLS

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets from inappropriate use, maintaining proper accounts and ensuring compliance with regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

The internal audit department formulates the annual internal audit plan and procedures, conducts audits of the Company and its subsidiaries, associates, and jointly controlled entities to identify any irregularities and risks, develops action plans and makes recommendations to address the identified risks. The work carried out by the internal audit department will ensure the internal controls are carried out appropriately and functioning as intended. The internal audit department 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.

The Board conducted a review of the Group's internal control system for the year ended 31 December 2012, including financial, operational and compliance controls and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, management and both internal and external auditors. The annual review also considered the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function.

CONSTITUTIONAL DOCUMENTS

At the annual general meeting of the Company held on 4 May 2012, a special resolution was passed by Shareholders to approve the amendment of the Articles relating to the use of electronic means of providing corporate communications. An updated version of the Articles is available on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting on requisition of Shareholders

Pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong), Shareholder(s) holding not less than one-twentieth of the paid up capital of the Company can make a requisition to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the relevant Shareholder(s) and deposited at the registered office of the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that may have with respect to the Company. They can also send their enquiries to the Board through these means.

Procedures for putting forward proposals at Shareholders' meetings

Section 115A of the Companies Ordinance provides that (i) Shareholder(s) representing not less than one-fortieth of the total voting rights of all Shareholders or (ii) not less than 50 Shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per Shareholder can put forward proposals for consideration at a general meeting of the Company by depositing a requisition in writing signed by the relevant Shareholder(s) at the registered office of the Company.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management maintain a continuing dialogue with Shareholders and investors through various channels. In 2012, the Company held press and analyst conferences following the release of its 2011 annual results and 2012 interim results announcement. In addition, the Company arranged one-on-one meetings for analysts and investors and site visits to Zhuhai Ocean Spring Resort for analysts, investors and the media. The Company also attended investor conferences in Hong Kong, Macau and Mainland China. During the year, the Company met with over 100 analysts and investors.

The Company's website (www.irasia.com/listco/hk/ctii) offers timely access to the Company's financial information, announcements, circulars to Shareholders and information on the Company's corporate governance structure and practices. For efficient communication with Shareholders and in the interest of environmental protection, Shareholders are encouraged to elect to receive the Company's corporate communications by electronic means through the Company's website.

The annual general meeting of the Company provides a forum for communication between Shareholders and the Board. The Chairman of the Board, other members of the Board and external auditors attend the annual general meeting and answer questions from Shareholders.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 142, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	5	**4,668,431**	4,352,882
Cost of sales		**(2,515,494)**	(2,253,285)
Gross profit		**2,152,937**	2,099,597
Other income and gains, net	5	**198,572**	335,974
Other expense		**–**	(52,701)
Changes in fair value of investment properties		**165,051**	65,287
Selling and distribution costs		**(619,761)**	(619,806)
Administrative expenses		**(1,034,705)**	(1,040,800)
Operating profit	7	**862,094**	787,551
Finance income	6	**94,520**	59,770
Finance costs	6	**(18,913)**	(13,989)
Finance income, net	6	**75,607**	45,781
Share of profits less losses of			
Associates		**173,000**	121,205
Jointly controlled entities		**9,077**	5,987
Profit before taxation		**1,119,778**	960,524
Taxation	10	**(217,973)**	(179,856)
Profit for the year		**901,805**	780,668
Attributable to:			
Equity owners of the Company		**803,561**	695,233
Non-controlling interests		**98,244**	85,435
Profit for the year		**901,805**	780,668
Earnings per share for profit attributable to equity owners of the Company, basic and diluted (HK cents)	13	**14.16**	12.21
Dividends	12	**283,108**	284,334

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**901,805**	780,668
Other comprehensive (loss)/income		
Gains on property revaluation	**–**	248,431
Share of hedging reserve of an associate	**242**	(9,582)
Release of exchange difference upon disposal of subsidiaries	**751**	–
Exchange differences on translation of foreign operations, net	**(14,047)**	200,337
Other comprehensive (loss)/income for the year, net of tax	**(13,054)**	439,186
Total comprehensive income for the year	**888,751**	1,219,854
Attributable to:		
Equity owners of the Company	**791,236**	1,103,214
Non-controlling interests	**97,515**	116,640
	888,751	1,219,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	31 December 2012 HK$'000	31 December 2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**8,082,383**	7,830,530
Investment properties	15	**1,668,577**	1,503,416
Prepaid land lease payments	16	**431,660**	509,762
Goodwill	17	**1,278,574**	1,278,574
Other intangible assets	18	**188,086**	191,328
Interests in associates	20	**901,842**	782,564
Interests in jointly controlled entities	21	**36,458**	26,989
Available-for-sale investments	22	**22,742**	8,796
Prepayments	25	**44,465**	50,726
Pledged time deposit	27	**1,030**	1,026
Deferred tax assets	32	**12,915**	10,223
Total non-current assets		**12,668,732**	12,193,934
Current assets			
Inventories	23	**105,136**	30,668
Trade receivables	24	**257,785**	224,175
Deposits, prepayments and other receivables	25	**1,298,753**	722,805
Amount due from the immediate holding company	28	**33,701**	43,621
Amounts due from fellow subsidiaries	28	**44,901**	54,011
Tax recoverable		**2,318**	3,906
Financial assets at fair value through profit or loss	26	**292,286**	296,041
Pledged time deposits	27	**28,313**	27,330
Cash and bank balances	27	**2,678,401**	3,490,790
Total current assets		**4,741,594**	4,893,347
Total assets		**17,410,326**	17,087,281
EQUITY			
Equity attributable to owners of the Company			
Share capital	33	**565,867**	568,990
Reserves		**12,904,962**	12,417,141
		13,470,829	12,986,131
Non-controlling interests		**807,603**	786,152
Total equity		**14,278,432**	13,772,283

	Note	**31 December 2012 HK$'000**	31 December 2011 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income		**456,721**	399,793
Bank and other borrowings	31	**41,985**	41,988
Deferred tax liabilities	32	**477,643**	449,928
Total non-current liabilities		**976,349**	891,709
Current liabilities			
Trade payables	29	**335,720**	357,123
Other payables and accruals	30	**1,336,845**	1,183,228
Amount due to the immediate holding company	28	**1,691**	44
Amounts due to fellow subsidiaries	28	**8,788**	24,058
Tax payable		**79,069**	50,374
Bank and other borrowings	31	**393,432**	808,462
Total current liabilities		**2,155,545**	2,423,289
Total liabilities		**3,131,894**	3,314,998
Total equity and liabilities		**17,410,326**	17,087,281
Net current assets		**2,586,049**	2,470,058
Total assets less current liabilities		**15,254,781**	14,663,992

Wang Shuai Ting
Director

Xu Muhan
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	**2012 HK$'000**	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**3,909**	1,164
Investment property	15	**3,207**	3,084
Interests in subsidiaries	19	**4,987,712**	4,747,051
Available-for-sale investment	22	**13,949**	–
Total non-current assets		**5,008,777**	4,751,299
Current assets			
Deposits, prepayments, and other receivables	25	**91,421**	104,346
Amounts due from subsidiaries	19	**7,488,760**	6,608,026
Amount due from the immediate holding company	28	**–**	2,338
Amounts due from fellow subsidiaries	28	**157**	60
Financial asset at fair value through profit or loss	26	**94,962**	–
Cash and bank balances	27	**686,072**	1,903,462
Total current assets		**8,361,372**	8,618,232
Total assets		**13,370,149**	13,369,531
EQUITY			
Share capital	33	**565,867**	568,990
Reserves	35	**10,937,111**	11,074,716
Total equity		**11,502,978**	11,643,706
LIABILITIES			
Current liabilities			
Other payables and accruals	30	**19,950**	31,172
Amounts due to subsidiaries	19	**1,844,270**	1,694,048
Amount due to the immediate holding company	28	**38**	–
Amounts due to fellow subsidiaries	28	**5**	21
Tax payable		**2,908**	584
Total current liabilities		**1,867,171**	1,725,825
Total equity and liabilities		**13,370,149**	13,369,531
Net current assets		**6,494,201**	6,892,407
Net assets		**11,502,978**	11,643,706

Wang Shuai Ting
Director

Xu Muhan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to equity owners of the Company													
	Share capital HK$'000 (note 33)	Share premium account HK$'000	Treasury shares HK$'000	Share option reserve HK$'000 (note 34)	Capital redemption reserve HK$'000	Building revaluation reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Enterprise expansion/ reserve funds[1] HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	568,990	8,357,579	(1,602)	41,345	896	309,218	(242)	(1,031,344)	118,542	956,410	3,666,339	12,986,131	786,152	13,772,283
Comprehensive income														
Profit for the year	-	-	-	-	-	-	-	-	-	-	803,561	803,561	98,244	901,805
Other comprehensive income/(loss) for the year:														
Share of hedging reserve of an associate	-	-	-	-	-	-	242	-	-	-	-	242	-	242
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(13,318)	-	(13,318)	(729)	(14,047)
Release of exchange differences upon disposal of subsidiaries	-	-	-	-	-	-	-	-	-	751	-	751	-	751
Total other comprehensive income/(loss) for the year, net of tax	-	-	-	-	-	-	242	-	-	(12,567)	-	(12,325)	(729)	(13,054)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	242	-	-	(12,567)	803,561	791,236	97,515	888,751
Transactions with owners														
Transfer from retained profits	-	-	-	-	-	-	-	-	9,662	-	(9,662)	-	-	-
Equity-settled share option arrangement	-	-	-	21,282	-	-	-	-	-	-	-	21,282	-	21,282
Relating to acquisition of a subsidiary	-	-	-	-	-	-	-	1,682	-	-	-	1,682	2,315	3,997
Repurchase of shares	-	-	(45,624)	-	-	-	-	-	-	-	-	(45,624)	-	(45,624)
Cancellation for shares repurchased	(3,123)	-	44,993	-	3,123	-	-	-	-	-	(45,147)	(154)	-	(154)
Contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	-	10,658	10,658
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(89,037)	(89,037)
2011 final dividend paid	-	-	-	-	-	-	-	-	-	-	(170,334)	(170,334)	-	(170,334)
2012 interim dividend paid	-	-	-	-	-	-	-	-	-	-	(113,390)	(113,390)	-	(113,390)
Total transactions with owners for the year	(3,123)	-	(631)	21,282	3,123	-	-	1,682	9,662	-	(338,533)	(306,538)	(76,064)	(382,602)
At 31 December 2012	565,867	8,357,579	(2,233)	62,627	4,019	309,218	-	(1,029,662)	128,204	943,843	4,131,367	13,470,829	807,603	14,278,432

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to equity owners of the Company												Non-controlling interests HK$'000	Total equity HK$'000
	Share capital HK$'000 (note 33)	Share premium account HK$'000	Treasury Shares HK$'000	Share option reserve HK$'000 (note 34)	Capital redemption reserve HK$'000	Building revaluation reserve HK$'000	Hedging reserve HK$'000	Capital reserve HK$'000	Enterprise expansion/ reserve funds[1] HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000		
At 1 January 2011	569,536	8,357,579	–	14,942	350	60,787	9,340	(1,031,344)	107,762	787,278	3,159,157	12,035,387	621,016	12,656,403
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	–	695,233	695,233	85,435	780,668
Other comprehensive income/(loss) for the year:														
Gain on property revaluation, net of tax	–	–	–	–	–	248,431	–	–	–	–	–	248,431	–	248,431
Share of hedging reserve of an associate	–	–	–	–	–	–	(9,582)	–	–	–	–	(9,582)	–	(9,582)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	169,132	–	169,132	31,205	200,337
Total other comprehensive income/(loss) for the year, net of tax	–	–	–	–	–	248,431	(9,582)	–	–	169,132	–	407,981	31,205	439,186
Total comprehensive income/(loss) for the year	–	–	–	–	–	248,431	(9,582)	–	–	169,132	695,233	1,103,214	116,640	1,219,854
Transactions with owners														
Transfer from retained profits	–	–	–	–	–	–	–	–	10,780	–	(10,780)	–	–	–
Equity-settled share option arrangement	–	–	–	26,403	–	–	–	–	–	–	–	26,403	–	26,403
Acquisition through business combination (note 36)	–	–	–	–	–	–	–	–	–	–	–	–	113,537	113,537
Repurchase of a shares	–	–	(8,012)	–	–	–	–	–	–	–	–	(8,012)	–	(8,012)
Cancellation for shares repurchased	(546)	–	6,410	–	546	–	–	–	–	–	(6,410)	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(65,041)	(65,041)
2010 final dividend paid	–	–	–	–	–	–	–	–	–	–	(56,954)	(56,954)	–	(56,954)
2011 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(113,907)	(113,907)	–	(113,907)
Total transactions with owners for the year	(546)	–	(1,602)	26,403	546	–	–	–	10,780	–	(188,051)	(152,470)	48,496	(103,974)
At 31 December 2011	568,990	8,357,579	(1,602)	41,345	896	309,218	(242)	(1,031,344)	118,542	956,410	3,666,339	12,986,131	786,152	13,772,283

Note:

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit before taxation	**1,119,778**	960,524
Adjustments for:		
Finance costs	**18,913**	13,989
Finance income	**(94,520)**	(59,770)
Gain on disposal of subsidiaries, net	**(5,751)**	–
Gain on disposal of property, plant and equipment, net	**(45,699)**	(64,935)
Gain on disposal of an investment property	**–**	(4,361)
Income from financial assets at fair value through profit or loss and available-for-sale investment	**(46,712)**	(9,931)
Depreciation	**438,445**	425,215
Amortisation of prepaid land lease payments	**24,936**	24,445
Amortisation of other intangible assets	**3,228**	3,156
Impairment of interests in an associate	**–**	52,701
Impairment of trade and other receivables, net	**1,348**	–
Changes in fair value of investment properties	**(165,051)**	(65,287)
Share of profits of associates	**(173,000)**	(121,205)
Share of profits of jointly controlled entities	**(9,077)**	(5,987)
Equity-settled share option expense	**21,282**	26,403
Gain on bargain purchase	**(1,829)**	(14,094)
Foreign exchange differences on translation of intercompany balances, net	**230**	(60,559)
Exchange gain on return of capital from an associate	**(10,244)**	(8,551)
	1,076,277	1,091,753
Increase in inventories	**(22,408)**	(4,454)
(Increase)/decrease in trade receivables, deposits, prepayments and other receivables	**(62,813)**	124,704
(Increase)/decrease in amounts due from associates	**(17,935)**	7,299
Decrease/(increase) in amounts due from jointly controlled entities	**15,179**	(2,044)
Decrease/(increase) in amount due from the immediate holding company	**11,567**	(812)
Decrease/(increase) in amounts due from fellow subsidiaries	**9,110**	(2,507)
Increase in trade payables, other payables and accruals	**23,737**	146,042
(Decrease)/increase in amounts due to associates	**(3,177)**	2,975
(Decrease)/increase in amounts due to fellow subsidiaries	**(15,270)**	7,824
Increase in deferred income, net of sales tax	**56,824**	159,109
Cash generated from operations	**1,071,091**	1,529,889
Hong Kong, PRC and Macau profits taxes paid	**(169,200)**	(180,283)
Overseas taxes paid	**(408)**	(753)
Net cash flows from operating activities	**901,483**	1,348,853

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from investing activities		
Finance income received	**94,520**	59,770
Dividends received from associates and joint controlled entities	**20,962**	179,904
Return of capital from an associate	**44,551**	39,467
Purchases of property, plant and equipment	**(623,676)**	(635,407)
Proceeds from disposal of an investment property, property, plant and equipment	**96,207**	330,829
Proceeds from disposal of available-for-sale investments	–	4,191
Additions to other intangible assets	**–**	(13,680)
Acquisition through business combination	**–**	(120,048)
Increase in entrustment loan receivables	**(533,213)**	(170,631)
Proceeds upon disposal of financial assets at fair value through profit or loss	**1,430,623**	692,058
Additions to financial assets at fair value through profit or loss	**(1,394,171)**	(978,161)
(Increase)/decrease in pledged time deposits	**(1,122)**	40,336
Increase in non-pledged time deposits with original maturity of more than three months when acquired	**(61,977)**	(58,247)
Net cash flows used in investing activities	**(927,296)**	(629,619)
Cash flows from financing activities		
Finance cost paid	**(18,913)**	(13,989)
Dividends paid	**(283,724)**	(170,861)
Dividends paid to non-controlling shareholders	**(89,037)**	(65,041)
Contribution from non-controlling shareholders	**5,609**	–
New bank loans	**1,370,000**	637,005
Repayment of bank loans	**(1,784,414)**	(112,056)
Repurchase of shares	**(45,778)**	(8,012)
Net cash flows (used in)/from financing activities	**(846,257)**	267,046
Net (decrease)/increase in cash and cash equivalents	**(872,070)**	986,280
Cash and cash equivalents at beginning of year	**3,395,611**	2,387,675
Effect of foreign exchange rate changes, net	**(2,315)**	21,656
Cash and cash equivalents at end of year	**2,521,226**	3,395,611
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**2,678,401**	3,490,790
Deposits of non-cash and cash equivalents	**(157,175)**	(95,179)
Cash and cash equivalents	**2,521,226**	3,395,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in following activities:

- Travel agency and related operations
- Tourist attraction operations
- Hotel operations
- Passenger transportation operations
- Golf club operations
- Arts performance operations
- Power generation operations

The Company is a limited liability company incorporated in Hong Kong and is listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.

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 parent company is China National Travel Service (HK) Group Corporation ("China CTS (HK)"), a PRC state-owned enterprise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of China Travel International Investment Hong Kong Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by revaluation of investment properties and financial assets at fair value through profit or loss, which have been measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Amended standards adopted by the Group

The following amendments to standards are mandatory and relevant to the Group for the financial year beginning 1 January 2012.

HKFRSs (Amendments)	Improvements to IFRSs 2010

The application of the above amendments to standards did not affect the Group's results and financial position.

(b) New standards, amendments and interpretations to existing standards that are not effective and have not been early adopted by the Group

At the date of authorisation of these consolidated financial statements, the following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group:

HKAS 1 (Amendment) [1]	Presentation of Financial Statements
HKAS 19 (Amendment)[2]	Employee Benefits
HKAS 27 (Revised 2011)[2]	Separate Financial Statements
HKAS 28 (Revised 2011)[2]	Investments in Associates and Joint Ventures
HKAS 32 (Amendment)[3]	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKFRS 1 (Amendment) [2]	First Time Adoption of Government Loans
HKFRS 7 (Amendment)[2]	Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities
HKFRS 9[4]	Financial Instruments
HKFRS 7 and HKFRS 9 (Amendments)[4]	Mandatory Effective Date and Transition Disclosures
HKFRS 10 [2]	Consolidated Financial Statements
Amendments to HKFRSs 10,11 and 12 [2]	Transitional Guidance
HKFRS 11[2]	Joint Arrangements
HKFRS 12[2]	Disclosure of Interests in Other Entities
HKFRS 13[2]	Fair Value Measurement
HK(IFRIC)-Int 20[2]	Stripping Costs in the Production Phase of a Surface Mine

(1) Effective for financial periods beginning on or after 1 July 2012

(2) Effective for financial periods beginning on or after 1 January 2013

(3) Effective for financial periods beginning on or after 1 January 2014

(4) Effective for financial periods beginning on or after 1 January 2015

The Group is in the process of assessing the impact of these standards, amendments and interpretations to existing standards and does not expect there will be a material impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On consolidation, inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Joint ventures (Continued)

(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, 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 Jointly controlled entities

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

The Group's investments in jointly controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly controlled entities is determined based on the agreed profit sharing ratio. Goodwill arising from the acquisition of jointly controlled entities is included as part of the Group's investments in jointly controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.5 Associates

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

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

2.6 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of non-financial assets (Continued)

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

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

2.7 Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is controlled or jointly controlled by a person identified in (a); and
- (vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates accordingly.

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

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Hotel properties	Over the shorter of the lease terms and 75 years
Buildings	Over the shorter of the lease terms and 40 years
Scenic spots establishments	3.5% to 19%
Others:	
Leasehold improvements	4.5% to 20%
Furniture, fixtures and equipment	6% to 33.3%
Motor vehicles	12.9% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investment properties

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

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

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

2.10 Other intangible assets

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

The Group's other intangible assets represent ticketing operation rights, passenger service licences and quotas, and trademarks.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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 lower of fair value of leased property or present value of minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

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

2.12 Investments and other financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition.

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

Loans and receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 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 them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

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

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

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.13 Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

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

2.14 Financial liabilities

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

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

The Group's financial liabilities include trade and other payables, amounts due to the immediate holding company and fellow subsidiaries, and bank and other borrowings.

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

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Financial liabilities (Continued)

Loans and borrowings

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

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

Financial guarantee contracts

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

2.15 Offsetting of financial instruments

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

2.16 Fair value of financial instruments

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

2.17 Derivative financial instruments and hedge accounting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Derivative financial instruments and hedge accounting (Continued)

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; 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 hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

Cash flow hedges

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

2.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis. Net realisable value is based on estimated sales value less any estimated selling expenses or the net realisable value as estimated by the directors.

2.19 Properties under development

Properties under development comprise leasehold land and land use rights, development expenditure and borrowing costs capitalised, and are carried at the lower of cost and net realisable value. Properties under development included in the current assets are expected to be realised in, or is intended for sale in the Group's normal operating cycle.

2.20 Deferred income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Cash and cash equivalents

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

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

2.22 Provisions

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

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

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

2.23 Income tax

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Income tax (Continued)

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Government grants

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

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

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

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

2.25 Revenue recognition

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

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

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

(c) from the rendering of tour services, when the services have been rendered;

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

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

(f) income from arts performances, when the relevant performance shows have been held;

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

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

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

2.26 Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Other employee benefits

Paid leave carried forward

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

Retirement benefit 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 in Hong Kong. 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 rules of the MPF Scheme.

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

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

2.28 Borrowing costs

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) 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.

(b) Estimation uncertainty

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

Impairment of goodwill

The Group assesses whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17 to the financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Estimation uncertainty (Continued)

Depreciation

The net book value of the Group's property, plant and equipment as at 31 December 2012 was HK$8,082,383,000 (2011: HK$7,830,530,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 3 to 75 years depending on the fixed assets' category. The policy on depreciation is detailed in note 2.8 to the consolidated financial statements. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Any change in this estimation may have a material impact on the Group's results.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 32 to the financial statements.

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

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

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

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

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

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar properties and identifiable assets and liabilities in the same location and condition, appropriate discount rates, expected future economic outflows and inflows and future maintenance costs associated with the properties and identifiable assets and liabilities. Further details are included in notes 15 and 36 to the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Estimation uncertainty (Continued)

Provision for impairment of trade and other receivables

The policy for provision for impairment of trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to change, resulting in an impairment or improvement in their abilities to make payments, either additional provision or reversal of previously made provision may be required.

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an impairment assessment of property, plant and equipment.

Management judgement is required in the area of asset impairment, particularly in assessing whether (a) an event has occurred that may affect asset values; (b) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (c) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumption in the cash flows projections, could significantly affect the Group's reported financial condition and results of operations.

4 OPERATING SEGMENT INFORMATION

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

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

(b) the tourist attraction operations segment engages in the operation of theme parks, scenic spots, cable car systems, skiing facilities and resorts hotel which comprise hot spring centers, hotels and leisure and entertainment facilities located in Mainland China;

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

(d) the passenger transportation operations segment engages in the provision of cross-border transportation services to individuals travelling between Hong Kong, Macau and Mainland China, vehicle rental and charter operations in Hong Kong, Macau and Mainland China;

(e) 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;

(f) the arts performance operations segment engages in the production of arts performances in Mainland China and overseas; and

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

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker and monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit/(loss) attributable to equity owners of the Company of each reportable operating segment excluding material non-recurring incomes or expenses, such as changes in fair value of investment properties (net of tax), gain on bargain purchase, net gain on disposal of subsidiaries, net gain on disposal of property, plant and equipment and an investment property, and compensation income.

During the year ended 31 December 2012, the Group reorganised the business segments such that the scenic spots operation and resort operations have been combined and reported under the tourist attraction operations. The comparative figures have been reclassified to conform with the current year's presentation.

Segment assets include all tangible and intangible assets and current assets with the exception of interests in associates and jointly controlled entities, and other unallocated head office and corporate assets as these assets are managed on a group basis.

4 OPERATING SEGMENT INFORMATION (Continued)

Segment liabilities includes all trade and other payables, bank and other borrowings, tax payable and deferred tax liabilities, except for head office and corporate liabilities that are managed on a group basis.

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

Year ended 31 December 2012

	Travel agency and related operations HK$'000	Tourist attraction operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	1,765,098	1,467,157	961,643	309,877	119,239	45,417	-	4,668,431	-	4,668,431
Intersegment revenue	7,373	12,133	6,534	1,421	361	-	-	27,822	25,350	53,172
	1,772,471	1,479,290	968,177	311,298	119,600	45,417	-	4,696,253	25,350	4,721,603
Elimination of intersegment revenue								(27,822)	(25,350)	(53,172)
Revenue								4,668,431	-	4,668,431
Segment results	143,907	45,265	246,718	35,990	(13,915)	122	124,342	582,429	10,736	593,165
Changes in fair value of investment properties, net of tax										138,276
Gain on bargain purchase										1,829
Gain on disposal of subsidiaries, net										5,751
Gain on disposal of property, plant and equipment, net										45,699
Compensation income										4,892
Other gain										13,949
Taxation										217,973
Non-controlling interests										98,244
Profit before taxation										1,119,778

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2012 (Continued)

	Travel agency and related operations HK$'000	Tourist attraction operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment assets	3,174,501	5,258,228	4,752,728	196,022	684,849	136,247	-	14,202,575	2,269,451	16,472,026
Interests in associates	11,390	103,987	-	169,922	-	-	616,543	901,842	-	901,842
Interests in jointly controlled entities	-	-	-	29,121	-	7,337	-	36,458	-	36,458
Intersegment receivables	863,242	3,967	642,113	7,168	-	-	-	1,516,490	13,169,814	14,686,304
	4,049,133	5,366,182	5,394,841	402,233	684,849	143,584	616,543	16,657,365	15,439,265	32,096,630
Elimination of intersegment receivables										(14,686,304)
Total assets										17,410,326
Segment liabilities	677,947	750,570	594,238	54,958	538,796	42,348	-	2,658,857	473,037	3,131,894
Intersegment payables	26,755	1,944,685	3,291,543	719,296	324,678	55,685	-	6,362,642	8,323,662	14,686,304
	704,702	2,695,255	3,885,781	774,254	863,474	98,033	-	9,021,499	8,796,699	17,818,198
Elimination of intersegment payable										(14,686,304)
Total liabilities										3,131,894
Other segment information:										
Share of profits less losses of										
Associates	(383)	31,395	-	17,646	-	-	124,342	173,000	-	173,000
Jointly controlled entities	-	-	-	9,077	-	-	-	9,077	-	9,077
Capital expenditure #	82,538	633,087	10,809	5,954	4,500	275	-	737,163	3,552	740,715
Depreciation and amortisation	46,794	232,973	106,130	25,654	51,579	2,672	-	465,802	807	466,609
Impairment losses/(reversal of impairment losses) recognised in the income statement, net	(92)	261	579	600	-	-	-	1,348	(13,949)	(12,601)

Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, investment properties and intangible assets, including assets from business combination.

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011

	Travel agency and related operations HK$'000	Tourist attraction operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	1,665,135	1,336,079	907,949	322,531	82,800	38,388	–	4,352,882	–	4,352,882
Intersegment revenue	8,571	5,992	7,229	1,430	129	–	–	23,351	23,221	46,572
	1,673,706	1,342,071	915,178	323,961	82,929	38,388	–	4,376,233	23,221	4,399,454
Elimination of intersegment revenue								(23,351)	(23,221)	(46,572)
Revenue								4,352,882	–	4,352,882
Segment results	161,816	101,529	229,020	(2,071)	(22,250)	427	104,368	572,839	1,248	574,087
Changes in fair value of investment properties, net of tax										59,240
Gain on bargain purchase										14,094
Gain on disposal of property, plant and equipment and an investment property, net										69,296
Compensation income										31,217
Other expense										(52,701)
Taxation										179,856
Non-controlling interests										85,435
Profit before taxation										960,524

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011 (Continued)

	Travel agency and related operations HK$'000	Tourist attraction operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Golf club operations HK$'000	Arts performance operations HK$'000	Power generation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment assets	3,588,785	4,776,756	4,771,016	240,537	733,855	103,513	–	14,214,462	2,063,266	16,277,728
Interests in associates	–	93,009	–	152,037	–	–	537,518	782,564	–	782,564
Interests in jointly controlled entities	–	–	–	19,794	–	7,195	–	26,989	–	26,989
Intersegment receivables	1,468,710	2,929	174,781	6,409	–	–	–	1,652,829	5,910,181	7,563,010
	5,057,495	4,872,694	4,945,797	418,777	733,855	110,708	537,518	16,676,844	7,973,447	24,650,291
Elimination of intersegment receivables										(7,563,010)
Total assets										17,087,281
Segment liabilities	1,185,766	808,287	632,892	51,338	498,029	47,731	–	3,224,043	90,955	3,314,998
Intersegment payables	505,681	1,450,629	3,190,772	775,585	414,691	54,748	–	6,392,106	1,170,904	7,563,010
	1,691,447	2,258,916	3,823,664	826,923	912,720	102,479	–	9,616,149	1,261,859	10,878,008
Elimination of intersegment payable										(7,563,010)
Total liabilities										3,314,998
Other segment information:										
Share of profits less losses of										
Associates	–	28,281	–	(11,444)	–	–	104,368	121,205	–	121,205
Jointly controlled entities	–	–	–	6,000	–	(13)	–	5,987	–	5,987
Capital expenditure#	79,986	467,109	21,052	59,930	101,634	566	–	730,277	697	730,974
Depreciation and amortization	41,942	224,031	110,499	26,959	46,112	2,816	–	452,359	457	452,816
Impairment losses/(reversal of impairment losses) recognised in the income statement, net	(271)	(5)	–	359	–	–	52,701	52,784	(210)	52,574

Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, investment properties and intangible assets, including assets from business combination.

4 OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2012 HK$'000	2011 HK$'000
Hong Kong	**2,051,122**	1,918,589
Mainland China (including Macau)	**2,239,750**	2,055,779
Overseas	**377,559**	378,514
	4,668,431	4,352,882

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

(b) Non-current assets

	2012 HK$'000	2011 HK$'000
Hong Kong	**5,537,348**	5,507,968
Mainland China (including Macau)	**7,000,023**	6,601,711
Overseas	**95,704**	65,236
	12,633,075	12,174,915

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

Information about major customers

There was no revenue from any sales to any single external customer that contributed over 10% of the total sales of the Group during the years ended 31 December 2012 (2011: Nil).

5 REVENUE, OTHER INCOME AND GAINS, NET

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, net is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Travel agency and related operations	**1,765,098**	1,665,135
Tourist attraction operations	**1,467,157**	1,336,079
Hotel operations	**961,643**	907,949
Passenger transportation operations	**309,877**	322,531
Golf club operations	**119,239**	82,800
Arts performance operations	**45,417**	38,388
	4,668,431	4,352,882
Other income		
Income from financial assets at fair value through profit or loss	**32,763**	9,931
Gross rental income	**29,889**	27,913
Compensation income	**4,892**	31,217
Government grants received#	**17,109**	22,462
Others	**36,789**	32,912
	121,442	124,435
Gains, net		
Foreign exchange differences, net	**9,902**	128,149
Gain on bargain purchase	**1,829**	14,094
Gain on disposal of subsidiaries, net	**5,751**	–
Gain on disposal of property, plant and equipment, net	**45,699**	64,935
Gain on disposal of an investment property	**–**	4,361
Others	**13,949**	–
	77,130	211,539
	198,572	335,974

Various government grants have been received in respect of developing the online internet business, promoting the tourist industry and organising performances that promoted the Chinese traditional culture.

6 FINANCE INCOME, NET

	2012 HK$'000	2011 HK$'000
Interest income:		
Bank deposits and entrustment loans	**94,520**	59,770
Finance income	**94,520**	59,770
Interest expense:		
Bank borrowings, overdrafts and other borrowings		
– Wholly repayable within five years	**(20,553)**	(13,989)
Less: amount capitalised in assets under construction	**1,640**	–
Finance costs	**(18,913)**	(13,989)
Finance income, net	**75,607**	45,781

Capitalisation rate of 4% per annum was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

7 OPERATING PROFIT

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

	2012 HK$'000	2011 HK$'000
Depreciation	**438,445**	425,215
Amortisation of prepaid land lease payments	**24,936**	24,445
Amortisation of other intangible assets	**3,228**	3,156
Auditors' remuneration:		
Current year	**6,987**	7,460
Underprovision in the prior year	**–**	14
	6,987	7,474
Employee benefit expenses (including directors' remuneration (note 8)):		
Wages and salaries	**1,181,026**	1,114,515
Equity-settled share option expense	**21,282**	26,403
Retirement benefit scheme contributions*	**93,557**	93,325
Total employee benefit expenses	**1,295,865**	1,234,243

7 OPERATING PROFIT (Continued)

	2012 HK$'000	2011 HK$'000
Minimum lease payments under operating leases:		
Land and buildings	**75,951**	78,355
Plant and machinery and motor vehicles	**23,761**	53,279
Impairment/(reversal of impairment) of trade and other receivables, net	**1,348**	(128)
Rental income on investment properties less direct operating expenses of HK$692,000 (2011: HK$537,000)	**(29,197)**	(27,376)

* At 31 December 2012, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years (2011: Nil).

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year is as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Fees:		
Executive directors	**1,770**	1,935
Independent non-executive directors	**1,400**	1,400
	3,170	3,335
Other emoluments:		
Executive directors:		
Equity-settled share option expense	**1,758**	2,815
	4,928	6,150

Certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details are set out in note 34 to the consolidated financial statements. The fair value of such options which has been recognised in the consolidated 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.

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

	Group	
	2012	2011
	HK$'000	HK$'000
Fees:		
Dr. Fong Yun Wah	**350**	350
Mr. Wong Man Kong, Peter	**350**	350
Mr. Sze, Robert Tsai To	**350**	350
Mr. Chan Wing Kee	**350**	350
	1,400	1,400

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors

	Fees HK$'000	**Equity-settled share option expense HK$'000**	**Total remuneration HK$'000**
2012			
Mr. Wang Shuai Ting	**330**	**–**	**330**
Mr. Lo Sui On	**240**	**291**	**531**
Ms. Jiang Yan	**240**	**291**	**531**
Mr. Fang Xiaorong	**240**	**291**	**531**
Mr. Zhang Fengchun	**240**	**291**	**531**
Mr. Xu Muhan	**240**	**303**	**543**
Mr. Fu Zhouyang	**240**	**291**	**531**
	1,770	**1,758**	**3,528**

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors (Continued)

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2011			
Mr. Zhang Xuewu	227	309	536
Mr. Wang Shuai Ting	103	–	103
Mr. Zheng Heshui	165	257	422
Mr. Lo Sui On	240	372	612
Ms. Jiang Yan	240	372	612
Mr. Fang Xiaorong	240	372	612
Mr. Zhang Fengchun	240	372	612
Mr. Xu Muhan	240	389	629
Mr. Fu Zhouyang	240	372	612
	1,935	2,815	4,750

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

Mr. Xu Muhan is also the Chief Executive of the Company and his emoluments disclosed above include those services rendered by him as Chief Executive.

9 FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year did not include directors of the Company (2011: Nil). Details of the remuneration of the five highest paid individuals for the year are as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**7,601**	6,901
Equity-settled share option expense	**509**	715
Pension scheme contributions	**484**	518
	8,594	8,134

9 FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments fell within the following bands:

	Number of employees	
	2012	2011
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**4**	2
	5	5

Share options were granted to the five highest paid individuals in respect of their services to the Group, further details are included in the disclosures in note 34 to the consolidated financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above disclosures.

10 TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on assessable profits elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2012 HK$'000	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**77,635**	65,967
Overprovision in prior years	**(2,089)**	(676)
Current – Mainland China and Macau		
Charge for the year	**117,509**	104,446
(Overprovision)/underprovision in prior years	**(687)**	533
Overseas – Current tax charge for the year	**1,199**	776
Deferred tax	**24,406**	8,810
Total tax charge for the year	**217,973**	179,856

10 TAXATION (Continued)

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

Group – 2012

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before taxation	593,622		533,873		(7,717)		1,119,778	
Tax at the applicable tax rate	97,948	16.5	133,468	25.0	(3,087)	40.0	228,329	20.4
(Lower)/higher tax rates for specific provinces or enacted by local authority	–		(4,886)		644		(4,242)	
Adjustments in respect of current tax of previous periods	(2,089)		(687)		–		(2,776)	
Losses attributable to associates and jointly controlled entities	(4,346)		(38,995)		–		(43,341)	
Income not subject to tax	(33,077)		(2,197)		(1,198)		(36,472)	
Expenses not deductible for tax	16,954		8,498		1,486		26,938	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries, associates and jointly controlled entities	13,072		–		–		13,072	
Tax losses utilised from previous periods	(240)		(6,437)		–		(6,677)	
Tax losses not recognised	1,282		38,842		3,018		43,142	
Tax charge at the Group's effective rate	89,504	15.1	127,606	23.9	863	(11.2)	217,973	19.5

10 TAXATION (Continued)

Group – 2011

	Hong Kong HK$'000	%	Mainland China (including Macau) HK$'000	%	Overseas HK$'000	%	Total HK$'000	%
Profit before taxation	495,988		462,101		2,435		960,524	
Tax at the applicable tax rate	81,838	16.5	115,525	25.0	974	40.0	198,337	20.6
Lower tax rates for specific provinces or enacted by local authority	–		(5,306)		(1,354)		(6,660)	
Adjustments in respect of current tax of previous periods	(676)		533		–		(143)	
Profits and losses attributable to associates and jointly controlled entities	898		(32,590)		–		(31,692)	
Income not subject to tax	(34,318)		(7,557)		(772)		(42,647)	
Expenses not deductible for tax	28,557		3,987		1,412		33,956	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries, associates and jointly controlled entities	12,077		–		–		12,077	
Tax losses utilised from previous periods	(83)		(11,282)		–		(11,365)	
Tax losses not recognised	13		27,980		–		27,993	
Tax charge at the Group's effective rate	88,306	17.8	91,290	19.8	260	10.7	179,856	18.7

The share of tax attributable to associates and jointly controlled entities amounting to HK$1,575,000 (2011: HK$846,000) and HK$35,297,000 (2011: HK$26,855,000), respectively, is included in "Share of profits less losses of associates and jointly controlled entities" in the consolidated income statement.

11 PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

The consolidated profit attributable to equity owners of the Company for the year ended 31 December 2012 includes a profit of HK$167,492,000 (2011: HK$326,867,000) which has been dealt with in the financial statements of the Company.

12 DIVIDENDS

	2012 **HK$'000**	2011 HK$'000
Interim dividend, paid, of HK 2 cents (2011: HK 2 cents) per ordinary share	**113,390**	113,907
Final dividend, proposed, of HK 3 cents (2011: HK 3 cents) per ordinary share	**169,718**	170,427
	283,108	284,334

At a board meeting held on 20 March 2013, the directors proposed a final dividend of 3 cents per share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2013.

13 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

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

	2012 **HK$'000**	2011 HK$'000
Basic earnings per share		
Profit attributable to equity owners of the Company	**803,561**	695,233
Weighted average number of ordinary shares in issue	**5,674,677,689**	5,695,310,648
	HK14.16 cents	HK12.21 cents

Diluted earnings per share

Diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2012 and 2011 as the exercise price of the outstanding share options granted by the Company was higher than the average market price of the shares of the Company and they thus are anti-dilutive.

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel properties HK$'000	Land and buildings HK$'000	Scenic spots establishments HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
Net book value						
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	5,580,608	2,981,857	1,363,813	318,828	2,418,521	12,663,627
Accumulated depreciation and impairment	(1,892,617)	(709,244)	(848,671)	–	(1,382,565)	(4,833,097)
	3,687,991	2,272,613	515,142	318,828	1,035,956	7,830,530
At 1 January 2012	3,687,991	2,272,613	515,142	318,828	1,035,956	7,830,530
Additions	–	22,414	10,081	578,328	129,892	740,715
Disposals and write-off	(431)	(18,247)	–	–	(30,065)	(48,743)
Depreciation	(99,365)	(93,760)	(30,667)	–	(214,653)	(438,445)
Transfers	118,509	4,856	39,822	(280,093)	116,906	–
Exchange adjustments	117	(1,246)	(34)	877	(1,388)	(1,674)
At 31 December 2012	3,706,821	2,186,630	534,344	617,940	1,036,648	8,082,383
At 31 December 2012:						
Cost	5,698,205	2,986,786	1,413,215	617,940	2,568,954	13,285,100
Accumulated depreciation and impairment	(1,991,384)	(800,156)	(878,871)	–	(1,532,306)	(5,202,717)
	3,706,821	2,186,630	534,344	617,940	1,036,648	8,082,383

Accumulated impairment losses amounted to HK$ 336,684,000 as at 31 December 2012 and 31 December 2011.

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Hotel properties HK$'000	Land and buildings HK$'000	Scenic spots establishments HK$'000	Construction in progress HK$'000	Other fixed assets HK$'000	Total HK$'000
Net book value						
31 December 2011						
At 31 December 2010 and 1 January 2011:						
Cost	5,499,704	2,761,111	1,301,583	276,700	2,112,909	11,952,007
Accumulated depreciation and impairment	(1,758,554)	(684,680)	(778,601)	–	(1,227,451)	(4,449,286)
	3,741,150	2,076,431	522,982	276,700	885,458	7,502,721
At 1 January 2011	3,741,150	2,076,431	522,982	276,700	885,458	7,502,721
Additions	–	8,916	2,253	284,844	299,953	595,966
Acquisition through business combination (note 36)	–	90,135	–	–	–	90,135
Disposals and write-off	(1,168)	(41,282)	(1,208)	–	(14,237)	(57,895)
Surplus on revaluation at date of transfer to investment properties	–	248,431	–	–	–	248,431
Depreciation	(98,672)	(105,247)	(32,837)	–	(188,459)	(425,215)
Transfer to investment properties, net (note 15)	–	(312,500)	–	–	–	(312,500)
Transfers	13,215	218,709	(1,234)	(257,089)	26,399	–
Exchange adjustments	33,466	89,020	25,186	14,373	26,842	188,887
At 31 December 2011	3,687,991	2,272,613	515,142	318,828	1,035,956	7,830,530
At 31 December 2011:						
Cost	5,580,608	2,981,857	1,363,813	318,828	2,418,521	12,663,627
Accumulated depreciation and impairment	(1,892,617)	(709,244)	(848,671)	–	(1,382,565)	(4,833,097)
	3,687,991	2,272,613	515,142	318,828	1,035,956	7,830,530

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Net book value				
At 1 January 2011	109	815	–	924
Additions	17	680	–	697
Disposals	–	(1)	–	(1)
Depreciation	(26)	(430)	–	(456)
At 31 December 2011	100	1,064	–	1,164
At 31 December 2011:				
Cost	940	4,655	1,016	6,611
Accumulated depreciation	(840)	(3,591)	(1,016)	(5,447)
	100	1,064	–	1,164
At 1 January 2012	**100**	**1,064**	**–**	**1,164**
Additions	**1,659**	**1,105**	**788**	**3,552**
Depreciation	**(139)**	**(550)**	**(118)**	**(807)**
At 31 December 2012	**1,620**	**1,619**	**670**	**3,909**
At 31 December 2012:				
Cost	**2,599**	**5,760**	**1,804**	**10,163**
Accumulated depreciation	**(979)**	**(4,141)**	**(1,134)**	**(6,254)**
	1,620	**1,619**	**670**	**3,909**

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

	2012 HK$'000	2011 HK$'000
Leases of over 50 years	**2,008,967**	2,038,801
Leases of between 10 to 50 years	**438,661**	450,447
	2,447,628	2,489,248

At 31 December 2012, included in the Group's land and buildings amounting to HK$258,024,000 (2011: HK$143,306,000) were certain buildings of which the Group was in the progress of applying the certificate of buildings as at the end of the reporting period.

At 31 December 2012, certain of the Group's buildings with net carrying amounts of HK$9,433,000 (2011: HK$8,714,000) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

15 INVESTMENT PROPERTIES

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
At fair value				
At 1 January	**1,503,416**	1,280,092	**3,084**	2,550
Net gain from fair value adjustments	**165,051**	65,287	**123**	534
Transfer from property, plant and equipment, net (note 14)	**–**	312,500	**–**	–
Disposals	**–**	(200,845)	**–**	–
Exchange adjustments	**110**	46,382	**–**	–
At 31 December	**1,668,577**	1,503,416	**3,207**	3,084

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

	Hong Kong HK$'000	**Elsewhere HK$'000**	**Total HK$'000**
2012			
Group:			
Leases of over 50 years	**412,900**	**599,371**	**1,012,271**
Leases of between 10 to 50 years	**152,300**	**504,006**	**656,306**
	565,200	**1,103,377**	**1,668,577**
Company:			
Leases of between 10 to 50 years	**–**	**3,207**	**3,207**

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
2011			
Group:			
Leases of over 50 years	358,800	546,442	905,242
Leases of between 10 to 50 years	136,100	462,074	598,174
	494,900	1,008,516	1,503,416
Company:			
Leases of between 10 to 50 years	–	3,084	3,084

The Group's and the Company's investment properties were revalued on 31 December 2012 by RHL Appraisal Ltd., an independent professionally qualified valuer, at HK$1,668,577,000 (2011: HK$1,503,416,000) and HK$3,207,000 (2011: HK$3,084,000), respectively, on an open market existing use basis. The investment properties are leased to third parties under operating leases.

16 PREPAID LAND LEASE PAYMENTS

	Group 2012 HK$'000	Group 2011 HK$'000
At 1 January	**534,105**	511,354
Acquisition through business combination (note 36)	**–**	31,193
Amortisation	**(24,936)**	(24,445)
Disposals	**(52,362)**	(2,793)
Exchange adjustments	**(287)**	18,796
At 31 December	**456,520**	534,105
Current portion included in deposits, prepayments and other receivables	**(24,860)**	(24,343)
Non-current portion	**431,660**	509,762

The leasehold land is situated outside Hong Kong and is under the following lease terms as at the reporting date:

	Macau HK$'000	Elsewhere HK$'000	Total HK$'000
2012			
Leases of between 10 to 50 years	**97,040**	**359,480**	**456,520**
2011			
Leases of between 10 to 50 years	105,478	428,627	534,105

17 GOODWILL

	Group 2012 HK$'000	Group 2011 HK$'000
At 1 January and 31 December:		
Cost	**1,584,707**	1,584,707
Accumulated impairment	**(306,133)**	(306,133)
	1,278,574	1,278,574

Impairment testing of goodwill

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

- Travel agency and related operations
- Tourist attraction operations

17 GOODWILL (Continued)

Impairment testing of goodwill (continued)

Travel agency and related operations cash-generating unit

The recoverable amount of the travel agency and related operations cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% (2011: 15%) per annum. Cash flows beyond the five-year period are extrapolated without growth.

Tourist attraction operations cash-generating unit

The recoverable amount of the tourist attraction cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13% (2011: 15%) per annum. Cash flows beyond the five-year period are extrapolated without growth.

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

	Travel agency and related operations		Tourist attraction operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**1,244,769**	1,244,769	**33,805**	33,805	**1,278,574**	1,278,574

Key assumptions were used in the value-in-use calculation of the travel agency and related operations and tourist attraction operations cash-generating units for the years ended 31 December 2012 and 2011. 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, and expected market development.

Discount rates – The discount rate used is before tax and reflects specific risks relating to the travel agency and related operations and tourist attraction operations cash-generating units, respectively.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

18 OTHER INTANGIBLE ASSETS

	Group			
	Ticketing operation right	Trademarks	Passenger service licences and quota	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Net book value				
At 1 January 2011	119,981	34,291	20,425	174,697
Additions	–	–	13,680	13,680
Amortisation	(3,156)	–	–	(3,156)
Exchange adjustments	6,107	–	–	6,107
At 31 December 2011	122,932	34,291	34,105	191,328
At 31 December 2011:				
Cost	129,165	34,291	34,105	197,561
Accumulated amortisation	(6,233)	–	–	(6,233)
	122,932	34,291	34,105	191,328
At 1 January 2012	**122,932**	**34,291**	**34,105**	**191,328**
Amortisation	**(3,228)**	**–**	**–**	**(3,228)**
Exchange adjustments	**(14)**	**–**	**–**	**(14)**
At 31 December 2012	**119,690**	**34,291**	**34,105**	**188,086**
At 31 December 2012:				
Cost	**129,151**	**34,291**	**34,105**	**197,547**
Accumulated amortisation	**(9,461)**	**–**	**–**	**(9,461)**
	119,690	**34,291**	**34,105**	**188,086**

Amortisation of HK$3,228,000 for the year ended 31 December 2012 (2011: HK$3,156,000) is included in "administrative expenses" in the consolidated income statement.

19 INTERESTS IN SUBSIDIARIES

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted shares, at cost	**5,396,869**	5,137,380
Capital contribution in respect of employee share-based compensation	**164,555**	149,503
	5,561,424	5,286,883
Less: Impairment for investment costs	**(573,712)**	(539,832)
	4,987,712	4,747,051
Amounts due from subsidiaries – current portion	**8,395,201**	7,353,061
Less: Impairment for amounts due from subsidiaries	**(906,441)**	(745,035)
	7,488,760	6,608,026
Amounts due to subsidiaries – current portion	**(1,844,270)**	(1,694,048)

The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

Particulars of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

20 INTERESTS IN ASSOCIATES

	Note	Group 2012 HK$'000	Group 2011 HK$'000
Share of net assets	(a)	**1,129,753**	1,010,475
Provision for impairment	(b)	**(227,911)**	(227,911)
		901,842	782,564

20 INTERESTS IN ASSOCIATES (Continued)

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

	2012 HK$'000	2011 HK$'000
Total assets	**4,665,803**	3,321,493
Total liabilities	**(1,778,790)**	(1,309,657)
Revenue	**5,693,076**	3,674,227
Profit after taxation	**442,169**	194,667

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

Name	Particulars of issued shares or capital held	Place of incorporation/ operations	Percentage of equity and profit sharing attributable to the Group 2012	2011	Principal activities
All China Express Limited #	Ordinary shares of HK$1 each	Hong Kong	**30**	30	Passenger transportation
Changsha Colorful World Company Limited #	Registered capital of RMB100,000,000	PRC/Mainland China	**26**	26	Scenic spot operations
Huangshan Taiping Cable Car Co., Ltd. #	Registered capital of US$6,975,000	PRC/Mainland China	**30**	30	Cable car operations
Huangshan Yuping Cable Car Company Ltd. #	Registered capital of RMB19,000,000	PRC/Mainland China	**20**	20	Cable car operations
Qmango Holdings Limited #	Ordinary shares and preference shares of US$0.001 each	British Virgin Islands ("BVI")/Mainland China	**51**	-	Sale of travel related products
Shun Tak – China Travel Shipping Investments Limited	Ordinary shares of US$1 each	BVI/Hong Kong	**29**	29	Shipping operations
Shaanxi Weihe Power Co., Ltd. ("Shaanxi Weihe Power")	Registered capital of RMB 1,800,000,000	PRC/Mainland China	**51**	51	Generation and sale of electricity

Not audited by PricewaterhouseCoopers, Hong Kong or another member firm of the PricewaterhouseCoopers global network.

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

20 INTERESTS IN ASSOCIATES (Continued)

(b) Impairment was recognised in prior years with reference to its estimated future cash inflows and financial budgets.

(c) Although the Group holds more than 50% of the equity interest of Shaanxi Weihe Power and Qmango Holdings Limited, the Group does not have unilateral control and only exercises significant influence over these associates.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

		Group	
	Note	**2012** **HK$'000**	2011 HK$'000
Share of net assets	(a)	**36,458**	26,989

(a) The following amounts represent the Group's 50% share of the assets and liabilities and income and results of the joint venture. They are included in the consolidated statement of financial position and income statement:

	2012 **HK$'000**	2011 HK$'000
Assets		
– Non-current assets	**12,133**	11,936
– Current assets	**40,636**	40,780
	52,769	52,716
Liabilities		
– Non-current liabilities	**16,311**	25,727
Net assets	**36,458**	26,989
Revenue	**58,761**	49,533
Expenses	**(48,109)**	(42,700)
Taxation	**(1,575)**	(846)
Profit after taxation	**9,077**	5,987

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly controlled entity is as follows:

Name	Particulars of issued capital held	Place of incorporation/ operations	Percentage of equity and profit sharing attributable to the Group 2012	2011	Principal activities
Macao CTS Passenger Road Transport Company Limited #	Registered capital MOP5,000,000	Macau	**50**	50	Passenger transportation

Not audited by PricewaterhouseCoopers, Hong Kong or another member firm of the PricewaterhouseCoopers global network.

(b) There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

22 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

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

The unlisted equity investments, whose fair values cannot be measured reliably, have been stated at cost less accumulated impairment.

23 INVENTORIES

	Group 2012 HK$'000	Group 2011 HK$'000
Food and beverages	**17,190**	14,593
Spare parts and consumables	**3,251**	2,845
General merchandise and properties under development	**84,695**	13,230
	105,136	30,668

24 TRADE RECEIVABLES

	Group 2012 HK$'000	Group 2011 HK$'000
Trade receivables	**268,436**	233,641
Less: provision for impairment	**(10,651)**	(9,466)
	257,785	224,175

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. The Group does not hold any collateral as security. Trade receivables are non-interest-bearing.

At 31 December 2012 and 2011, the ageing analysis of the trade receivables, based on the invoice date and net of the provision for impairment of trade receivables, is as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Within 3 months	**229,648**	203,914
3 to 6 months	**18,161**	15,262
6 to 12 months	**5,922**	3,974
1 to 2 years	**4,054**	1,025
	257,785	224,175

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

	Group 2012 HK$'000	Group 2011 HK$'000
At 1 January	**9,466**	9,345
Provision for impairment	**983**	359
Receivables written off during the year as uncollectible	**(84)**	(487)
Exchange adjustments	**286**	249
At 31 December	**10,651**	9,466

24 TRADE RECEIVABLES (Continued)

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.

As at 31 December 2012, trade receivables of HK$28,137,000 (2011: HK$20,261,000) were past due but not impaired. 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 ageing analysis of these trade receivables, based on the invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Over 3 months and up to 6 months	**18,161**	15,262
Over 6 months and up to 12 months	**5,922**	3,974
Over 1 year and up to 2 years	**4,054**	1,025
	28,137	20,261

As at 31 December 2012, trade receivables of HK$10,651,000 (2011: HK$9,466,000) were impaired and fully provided for. The ageing analysis of these receivables, based on the invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Less than 3 months	**–**	307
Over 3 months and up to 6 months	**4,085**	4,106
Over 6 months and up to 12 months	**146**	58
Over 1 year and up to 2 years	**1,572**	4,995
Over 2 years	**4,848**	–
	10,651	9,466

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables.

25 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

		Group		Company	
	Note	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Deposits, prepayments and other receivables		**265,920**	209,684	**5,034**	5,608
Entrustment loan receivables					
– non-controlling shareholders	(a)	**258,987**	271,371	**–**	–
– others	(b)	**641,302**	98,680	**86,329**	98,680
Amount due from a non-controlling shareholder	(c)	**124,687**	144,229	**–**	–
Amounts due from associates	(d)	**52,292**	34,358	**58**	58
Amount due from a jointly controlled entity	(d)	**30**	15,209	**–**	–
		1,343,218	773,531	**91,421**	104,346
Less: non-current portion prepayment		**(44,465)**	(50,726)	**–**	–
		1,298,753	722,805	**91,421**	104,346

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

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Notes:

(a) The Group entered into entrustment loan arrangements with the non-controlling shareholders of Splendid China and Window of the World, which are the Company's 51%-owned subsidiaries, with RMB140 million and RMB70 million withdrawn, respectively, as at 31 December 2012. The entrustment loans are unsecured, repayable by the non-controlling shareholders upon one month notice from the Group, and bear interest at the 1-year PBOC Base Lending Rate less 10% per annum.

(b) The Group also entered into several entrustment loan arrangements with certain PRC companies during the year. The entrustment loans are unsecured and bear interest ranging from 6.8% to 8.5% per annum. These loans are under 5-months and 1-year period and are repayable between January 2013 and October 2013 (31 December 2011: repayable in January 2012).

(c) The amount due from a non-controlling shareholder of CTS (Dengfeng), a 51%-owned subsidiary of the Company, is unsecured and bears interest at the 2-year People's Bank of China ("PBOC") Base Lending Rate per annum.

(d) The balances are unsecured, interest free and repayable on demand.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Company entered into certain investments with certain financial institutions. The investments based on respective contracts have maturity dates within 1 year.

The notional amount and the fair value of the investments are as follows:

2012

	Group		**Company**	
	Notional amount HK$'000	**Fair value HK$'000**	**Notional amount HK$'000**	**Fair value HK$'000**
Within 1 year	**292,286**	**292,286**	**94,962**	**94,962**

2011

	Group		Company	
	Notional amount HK$'000	Fair value HK$'000	Notional amount HK$'000	Fair value HK$'000
Within 1 year	296,041	296,041	–	–

The notional amounts of financial assets at fair value through profit or loss approximate their fair values.

Changes in fair value of financial assets at fair value through profit or loss are recorded in "other income and gains, net" in the consolidated income statement (note 5).

27 CASH AND BANK BALANCES

		Group		**Company**	
	Note	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Cash and bank balances		**1,162,251**	1,459,237	**309,739**	272,497
Time deposits		**1,545,493**	2,059,909	**376,333**	1,630,965
		2,707,744	3,519,146	**686,072**	1,903,462
Less: Pledged time deposits					
– Pledged for a long term bank loan	31	**(1,030)**	(1,026)	**–**	–
– Pledged for credit facilities and bank guarantees		**(28,313)**	(27,330)	**–**	–
		2,678,401	3,490,790	**686,072**	1,903,462

27 CASH AND BANK BALANCES (Continued)

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Maximum exposure to credit risks	**2,690,558**	3,504,034	**686,033**	1,903,409

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

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,338,065,000 (2011: HK$1,698,952,000). 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 authorised banks 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, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28 BALANCES WITH THE IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

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

Except for the balances 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, the remaining balances with the immediate holding company and the balances with fellow subsidiaries are unsecured, interest-free and repayable on demand.

28 BALANCES WITH THE IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES (Continued)

The ageing analysis of the balances with the immediate holding company and fellow subsidiaries is as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Amount due from the immediate holding company				
Within 1 year	**27,195**	29,626	**–**	2,069
1 to 2 years	**3,820**	13,530	**–**	8
Over 2 years	**2,686**	465	**–**	261
	33,701	43,621	**–**	2,338
Amounts due from fellow subsidiaries				
Within 1 year	**41,740**	45,063	**106**	60
1 to 2 years	**1,764**	3,400	**51**	–
Over 2 years	**1,397**	5,548	**–**	–
	44,901	54,011	**157**	60

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The above balances do not contain impaired assets.

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Amount due to the immediate holding company				
Within 1 year	**1,647**	44	**38**	–
1 to 2 years	**44**	–	**–**	–
	1,691	44	**38**	–
Amounts due to fellow subsidiaries				
Within 1 year	**8,255**	22,007	**5**	21
1 to 2 years	**524**	1,896	**–**	–
Over 2 years	**9**	155	**–**	–
	8,788	24,058	**5**	21

29 TRADE PAYABLES

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 3 months	**296,328**	302,796
3 to 6 months	**18,646**	31,630
6 to 12 months	**5,697**	6,737
1 to 2 years	**4,842**	6,646
Over 2 years	**10,207**	9,314
	335,720	357,123

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

30 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables and accruals	**758,056**	618,777	**9,183**	17,547
Accrued employee benefits	**307,100**	308,702	**10,767**	13,625
Receipts in advance	**210,053**	188,026	**–**	–
Amounts due to the non-controlling shareholders	**1,906**	4,814	**–**	–
Amount due to an associate	**59,730**	62,909	**–**	–
	1,336,845	1,183,228	**19,950**	31,172

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

Amount due to an associate is unsecured, interest free and repayable on demand.

31 BANK AND OTHER BORROWINGS

Group

	Note	2012 Contractual interest rate (%)	2012 Maturity	2012 HK$'000	2011 Contractual interest rate (%)	2011 Maturity	2011 HK$'000
Current							
Bank loans – unsecured	(i)	**HIBOR+1.25**	**2013**	**70,000** [1]	Higher of HIBOR+0.75/COF	2012	300,000 [1]
Bank loans – unsecured	(i)	**HIBOR+0.90**	**2013**	**300,000** [1]	Higher of HIBOR+0.90/COF	2012	300,000 [1]
Entrustment loans				**–**	4. 41	2012	185,025
Other borrowings – unsecured	(ii)	**1-Year PBOC Lending Rate**	**On demand**	**22,199**	1-Year PBOC Lending Rate	On demand	22,203
Other loans – unsecured		**Interest-free**	**On demand**	**1,233**	Interest-free	On demand	1,234
				393,432			808,462
Non-current							
Bank loan – secured	(iii)	**EURIBOR+0.12**	**2014**	**1,030**	EURIBOR+0.12	2014	1,026
Bank loan – unsecured		**1-year PBOC Lending Rate**	**2015**	**36,998** [2]	1-year PBOC Lending Rate	2015	37,005 [2]
Other borrowings – unsecured		**Interest-free**	**2013-2024**	**3,957**	Interest-free	2013-2024	3,957
				41,985			41,988
Total bank and other borrowings				**435,417**			850,450

Notes:

(i) COF represented the rate, as conclusively determined by the lender, to be that which express a percentage rate per annum the cost of the lender of funding the relevant advance for the relevant interest period from whatever source it may select.

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

(iii) As at 31 December 2012, the Group's long term bank loan is secured by the Group's bank deposits amounting to HK$1,030,000 (2011: HK$1,026,000).

[1] The loans are supported by corporate guarantees given by the Company.

[2] The loan is supported by corporate guarantees given by the parent company. Further details are contained in note 41(b)(ii).

31 BANK AND OTHER BORROWINGS (Continued)

The carrying amounts of the Group's bank and other borrowings approximate their fair values and are denominated in the following currencies:

	Group	
	2012	2011
	HK$'000	HK$'000
Hong Kong dollar	**373,957**	603,957
Renminbi	**60,430**	245,467
Euro dollar	**1,030**	1,026
	435,417	850,450

	Group	
	2012	2011
	HK$'000	HK$'000
Analysed into:		
Bank loans:		
Within 1 year	**370,000**	785,025
Between 1 and 2 years	**1,030**	1,026
Between 2 and 5 years	**36,998**	37,005
	408,028	823,056
Other borrowings:		
Within 1 year	**23,432**	23,437
Between 2 and 5 years	**2,166**	2,166
Over 5 years	**1,791**	1,791
	27,389	27,394
Total bank and other borrowings	**435,417**	850,450

	Group	
	2012	2011
	HK$'000	HK$'000
Bank loans:		
Wholly repayable within 5 years	**408,028**	823,056
Other borrowings:		
Wholly repayable within 5 years	**25,598**	25,603
Wholly repayable after 5 years	**1,791**	1,791
	27,389	27,394
Total bank and other borrowings	**435,417**	850,450

31 BANK AND OTHER BORROWINGS (Continued)

The carrying amounts of the Group's current and floating rate borrowings approximate 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	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Other borrowings – unsecured	**3,957**	3,957	**3,781**	3,730

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

32 DEFERRED TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group	
	2012 **HK$'000**	2011 HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**12,330**	10,058
– Deferred tax assets to be recovered within 12 months	**585**	165
	12,915	10,223

	Group	
	2012 **HK$'000**	2011 HK$'000
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**473,343**	445,895
– Deferred tax liabilities to be settled within 12 months	**4,300**	4,033
	477,643	449,928

32 DEFERRED TAX (Continued)

The movements in deferred tax liabilities and assets during the year, without taking into consideration of the offsetting of balances within the same tax jurisdiction, 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 2011	102,795	70,957	(21,440)	264,216	10,172	426,700
Deferred tax charged/(credited) to the income statement during the year (note 10)	3,862	3,296	15,098	(6,890)	264	15,630
Acquisition through business combination (note 36)	47	–	–	–	–	47
Exchange realignment	2,277	3,626	–	1,648	–	7,551
At 31 December 2011	108,981	77,879	(6,342)	258,974	10,436	449,928
At 1 January 2012	**108,981**	**77,879**	**(6,342)**	**258,974**	**10,436**	**449,928**
Deferred tax charged/(credited) to the income statement during the year (note 10)	**(523)**	**24,372**	**6,342**	**(3,093)**	**–**	**27,098**
Relating to acquisition of a subsidiary	**–**	**–**	**–**	**665**	**–**	**665**
Exchange realignment	**(137)**	**(15)**	**–**	**104**	**–**	**(48)**
At 31 December 2012	**108,321**	**102,236**	**–**	**256,650**	**10,436**	**477,643**

32 DEFERRED TAX (Continued)

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2011	(2,653)	(750)	(3,403)
Deferred tax (credited)/charged to the income statement during the year (note 10)	(6,985)	165	(6,820)
At 31 December 2011	(9,638)	(585)	(10,223)
At 1 January 2012	**(9,638)**	**(585)**	**(10,223)**
Deferred tax credited to the income statement during the year (note 10)	**(2,692)**	**–**	**(2,692)**
At 31 December 2012	**(12,330)**	**(585)**	**(12,915)**

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

	2012 HK$'000	2011 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(12,915)**	(10,223)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**477,643**	449,928
	464,728	439,705

32 DEFERRED TAX (Continued)

The Group has tax losses arising in Hong Kong of HK$87,339,000 (2011: HK$81,019,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$1,067,436,000 (2011: HK$937,888,000) and overseas of HK$9,220,000 (2011: Nil) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

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

33 SHARE CAPITAL

Shares

	2012		2011	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**7,000,000,000**	**700,000**	7,000,000,000	700,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**5,689,895,525**	**568,990**	5,695,355,525	569,536
Shares cancelled upon repurchase of own shares (note)	**(31,226,000)**	**(3,123)**	(5,460,000)	(546)
At 31 December	**5,658,669,525**	**565,867**	5,689,895,525	568,990

Note: During the year ended 31 December 2012, the Company repurchased a total of 31,360,000 of its own ordinary shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), of which 29,960,000 of the repurchased shares were cancelled during the year ended 31 December 2012. Of these repurchased shares together with 1,266,000 shares repurchased in December 2011, 31,226,000 shares were cancelled prior to 31 December 2012. The total amount paid to acquire these cancelled shares of HK$44,993,280 was deducted from equity. The highest price and lowest price paid were HK$1.60 per share and HK$1.15 per share respectively.

34 SHARE OPTION SCHEME

On 4 May 2012, the Company has terminated the expiring share option scheme adopted on 3 June 2002 (the "2002 Share Option Scheme") and adopted a new share option scheme (the "2012 Share Option Scheme").

The Company operates the 2002 Share Option Scheme and the 2012 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 2002 Share Option Scheme include the Company's directors and employees of the Group, Eligible participants of the 2012 Share Option Scheme include the Company's directors and employees of the Group, as well as any advisers, consultants, suppliers, customers and agents of the Group. The 2012 Share Option Scheme became effective on 4 May 2012 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 2002 Share Option Scheme and the 2012 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 2012 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 2002 Share Option Scheme and the 2012 Share Option Scheme at any time during a period to be notified by the Company's board of directors to each grantee and, in any event, such period of time shall not exceed a period of 10 years from the date of grant of the relevant option.

The offer of a grant of share options of the 2002 Share Option Scheme and the 2012 Share Option Scheme 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 of the 2002 Share Option Scheme and the 2012 Share Option Scheme 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's daily quotation sheet at the date of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

During the year, the following share options were outstanding under the 2002 Share Option Scheme, no share option was granted under the 2012 Share Option Scheme:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.70**	**123,660**	1.70	125,660
Forfeited during the year	**1.70**	**(2,300)**	1.70	(2,000)
At 31 December		**121,360**		123,660

34 SHARE OPTION SCHEME (Continued)

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

2012

Number of options '000	Exercise price[1] HK$ per share	Exercise period
36,410	**1.70**	**18 June 2012 – 17 June 2020**
36,410	**1.70**	**18 June 2013 – 17 June 2020**
48,540	**1.70**	**18 June 2014 – 17 June 2020**
121,360		

2011

Number of options '000	Exercise price[1] HK$ per share	Exercise period
37,070	1.70	18 June 2012 – 17 June 2020
37,070	1.70	18 June 2013 – 17 June 2020
49,520	1.70	18 June 2014 – 17 June 2020
123,660		

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

The Group recognised a share option expense of HK$21,282,000 during the year ended 31 December 2012 (2011: HK$26,403,000).

The fair value of equity-settled share options granted during the year ended 31 December 2010 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2010
Dividend yield (%)	3.52%
Expected volatility (%)	47.14%
Risk-free interest rate (%)	2.44%
Expected life of options (year)	10
Weighted average share price (HK$ per share)	1.7

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

34 SHARE OPTION SCHEME (Continued)

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

At the end of the reporting period, the Company had 121,360,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 121,360,000 additional ordinary shares of the Company and additional share capital of HK$12,136,000 and share premium of HK$194,176,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 121,360,000 share options outstanding under the Scheme, which represented approximately 2.14% of the Company's shares in issue as at that date.

35 RESERVES

Company

	Share premium account HK$'000	Treasury shares HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	8,357,579	–	350	14,942	2,526,902	10,899,773
Profit for the year and total comprehensive income for the year	–	–	–	–	326,867	326,867
Equity-settled share option arrangements	–	–	–	26,403	–	26,403
Repurchase of shares	–	(8,012)	–	–	–	(8,012)
Cancellation for shares repurchased	–	6,410	546	–	(6,410)	546
2010 final dividend paid	–	–	–	–	(56,954)	(56,954)
2011 interim dividend paid	–	–	–	–	(113,907)	(113,907)
At 31 December 2011 and at 1 January 2012	**8,357,579**	**(1,602)**	**896**	**41,345**	**2,676,498**	**11,074,716**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**167,492**	**167,492**
Equity-settled share option arrangements	**–**	**–**	**–**	**21,282**	**–**	**21,282**
Repurchase of shares	**–**	**(45,624)**	**–**	**–**	**–**	**(45,624)**
Cancellation for shares repurchased	**–**	**44,993**	**3,123**	**–**	**(45,147)**	**2,969**
2011 final dividend paid	**–**	**–**	**–**	**–**	**(170,334)**	**(170,334)**
2012 interim dividend paid	**–**	**–**	**–**	**–**	**(113,390)**	**(113,390)**
At 31 December 2012	**8,357,579**	**(2,233)**	**4,019**	**62,627**	**2,515,119**	**10,937,111**

During the year ended 31 December 2012, the Company repurchased 1,400,000 shares on the Stock Exchange. The total amount paid to acquire the shares was HK$2,233,000 (2011: HK$1,601,860). The shares were held as treasury shares as at 31 December 2012 as they had not been cancelled as at that date.

35 RESERVES (Continued)

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 2.26 to the consolidated financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

36 BUSINESS COMBINATION

On 29 September 2010, the Company entered into a conditional joint venture agreement to contribute RMB167.14 million (HK$196.80 million) into CTS (Xinyang) Jigongshan Culture Tourism Co., Ltd. ("CTS Xinyang") to subscribe for a 65% equity interest in CTS Xinyang. The transaction was completed on 1 January 2011.

CTS Xinyang is principally engaged in hotel operation (rentals of hotels and villas) within Jigongshan Scenic Spot in Henan Province in the PRC.

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

The fair values of the identifiable assets and liabilities of CTS Xinyang as at the date of business combination were as follows:

	Notes	**Fair value recognised on business combination** HK$'000
Property, plant and equipment	14	90,135
Prepaid land lease payments	16	31,193
Deposits, prepayments and other receivables		129,193
Cash and bank balances		76,752
Other payables and accruals		(2,795)
Deferred tax liabilities	32	(47)
Non-controlling interests		(113,537)
Total identifiable net assets at fair value		210,894
Gain on bargain purchase recognised in the consolidated income statement	5	(14,094)
		196,800
Satisfied by cash		196,800

36 BUSINESS COMBINATION (Continued)

The fair values and gross contractual amounts of the trade and other receivables as at the date of business combination amounted to HK$129,193,000.

An analysis of the cash flows in respect of the business combination of CTS Xinyang is as follows:

	2011 HK$'000
Cash consideration	196,800
Cash and bank balances acquired	(76,752)
Net outflow of cash and cash equivalents included in cash flows from investing activities	120,048
Transaction costs of the acquisition included in cash flows from operating activities	27
	120,075

CTS Xinyang contributed HK$23,696,000 to the Group's revenue and loss of HK$34,393,000 to the Group's consolidated results for the year ended 31 December 2011.

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

37 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
			2012	2011	
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,300,000	**100**	100	Travel and air ticketing agency
Aldington International Ltd.[4]	Western Samoa	1,000,000 ordinary shares of US$1 each	**100**	100	Investment holding
Beijing CTS (Hong Kong) Grand Metropark Hotel Co., Ltd.[3,4]	PRC/Mainland China	US$12,000,000	**100**	100	Property investment holding and hotel operations
Chadwick Developments Limited ("Chadwick")[5]	Hong Kong	1,000 ordinary shares of HK$1 each 10,000 non-voting deferred shares of HK$1 each	**100**	100	Investment holding

37 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		Principal activities
			2012	2011	
China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven") [3,4,5]	PRC/Mainland China	RMB29,640,000	**78**	85.3	Production of art performances
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK$1 each	**100**	100	Tour operations
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Provision of printing and advertising agency services
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**100**	100	Air ticketing agency
China Travel and Trading (Deutschland) GmbH [4]	Germany	EUR 380,000	**100**	100	Travel and air ticketing agency
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Passenger transportation
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100**	100	Trading of computer equipment, provision of computer services and investment holding
Zhuhai OSR [2,5]	PRC/Mainland China	US$141,000,000	**100**	100	Hot spring resort operations
China Travel Service (Australia) Pty Ltd. [4]	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agency
China Travel Service (Canada) Inc. [4]	Canada	CAD3,162,750	**100**	100	Travel and air ticketing agency
CTSHK	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

37 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 2012	2011	Principal activities
China Travel Service (Korea) Co., Ltd. [4]	Korea	KRW500,000,000	**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. [4]	United Kingdom	486,000 ordinary shares of GBP1 each 1,072,000 preference shares of GBP1 each	**100**	100	Travel and air ticketing agency
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Passenger transportation
Chengdu Huashuiwan Sakura Hotel Company Limited [3,4]	PRC/Mainland China	RMB21,547,000	**100**	100	Resort operations
CTS H.K. Metropark Hotels Management Company Limited	Hong Kong	HK$100,001	**100**	100	Hotel management
CTS (Dengfeng) [1,5]	PRC/Mainland China	RMB100,000,000	**51**	51	Tourist attraction operations
CTS Xinyang [1,5]	PRC/Mainland China	RMB257,140,000	**65**	65	Tourist attraction operations
北京港中旅維景國際酒店管理有限公司（前稱：港中旅酒店管理有限公司）[3,4]	PRC/Mainland China	HK$5,000,000	**100**	100	Hotel management
CTS Scandinavia AB [4]	Sweden	SEK100,000	**100**	100	Travel and air ticketing agency
CTS Scenery Resort Investment Company Limited [2,4]	PRC/Mainland China	RMB132,250,000	**100**	100	Investment in and management of resort hotels and scenic spots
CTS Tycoon (Shenzhen) Golf Club Company Limited [2]	PRC/Mainland China	RMB326,000,000	**100**	100	Golf club operations

37 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 2012	2011	Principal activities
Glading Development Limited	Hong Kong	2 ordinary shares of HK$1 each 2 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding and hotel operations
Guangdong CTS (HK) & Jinhuang Transportation Ltd. [2,4]	PRC/Mainland China	HK$30,000,000	**100**	100	Passenger transportation
Hotel Metropole Holdings Limited	BVI/Hong Kong	1 share of US$1 each 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co., Ltd. [3,4]	PRC/Mainland China	RMB3,800,000	**80**	80	Cable car operations
Kinetic Profit Real Estate (Shanghai) Co., Ltd. [3]	PRC/Mainland China	US$5,000,000	**100**	100	Property investment holding and hotel operations
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Metrocity Hotel Limited	BVI/Hong Kong	1 ordinary share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Mutual Great (Hong Kong) Limited [5]	Hong Kong	1 ordinary share of HK$1 each	**100**	100	Investment holding
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation
Splendid China [1,5]	PRC/Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations

37 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 2012	2011	Principal activities
Window of the World [1,5]	PRC/Mainland China	US$29,500,000	**51**	51	Tourist attraction operations
Singa China Travel Service Pte. Ltd.[4]	Singapore	SG$6,740,000	**100**	100	Travel and air ticketing agency
Sociedade De Fomento Predial Fu Wa (Macau), Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Triumph King Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Trump Return Limited [4,5]	BVI	US$50,000	**100**	100	Investment holding
U.S. China Travel Services, Inc. [4]	United States of America	US$6,471,639	**100**	100	Travel and air ticketing agency
Well Done Enterprises Inc.	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Property investment holding and hotel operations
Xianyang OSR[1]	PRC/Mainland China	RMB301,000,000	**83.72**	83.72	Hot spring resort operations
Yangzhou Grand Metropole Hotel Co., Ltd.[3]	PRC/Mainland China	RMB44,000,000	**60**	60	Property investment holding and hotel operations
北京港中旅數碼科技有限公司[2,4]	PRC/Mainland China	HK$3,900,000	**100**	100	Travel agency management and software system development
深圳市港中旅快綫運輸有限公司[3,4]	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation and investment holding
芒果網有限公司 [2,4]	PRC/Mainland China	RMB519,595,000	**100**	100	Sale of travel-related products through an electronic platform
珠海市港中旅快線有限公司[2,4]	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation
港中旅(安吉)旅遊發展有限公司[2,4,5]	PRC/Mainland China	USD99,800,000	**80**	–	Tourist attraction operations

37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

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

1 Sino-foreign equity joint ventures

2 Registered as wholly-foreign-owned enterprises under PRC law

3 Registered as limited liability companies under PRC law

4 Not audited by PricewaterhouseCoopers, Hong Kong or another member firm of the PricewaterhouseCoopers global network

5 Directly owned by the Company

38 CONTINGENT LIABILITIES

At the end of the reporting period, material contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Corporate guarantees given to banks granted to subsidiaries in lieu of utility and rental deposits	**–**	–	**1,758**	1,758
Corporate guarantees given to banks in connection with credit facilities granted to subsidiaries	**–**	–	**1,196,674**	1,280,983
Counter guarantees given to the parent company for corporate guarantees in favour of banks in connection with credit facilities granted to a subsidiary	**–**	–	**36,998**	37,005
Performance bond given to a customer for due performance of a sales contract	**300**	300	**–**	–
	300	300	**1,235,430**	1,319,746

As at 31 December 2012, the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company and the parent company were utilised to the extent of approximately HK$666,674,000 (2011: HK$673,045,000).

39 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its certain property, plant and equipment and investment properties (notes 14 and 15) under operating lease arrangements. Leases for investment properties are negotiated for terms ranging from one to ten years, and those for certain property, plant and equipment for terms ranging from one to five years. The terms of the leases for investment properties generally require the tenants to pay security deposits.

At 31 December 2012, the Group had future aggregate minimum lease receivables under non-cancellable operating leases with its tenants as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Investment properties:		
Within one year	**81,084**	71,502
In the second to fifth years, inclusive	**83,498**	107,602
After five years	**440**	4,343
	165,022	183,447
Equipment and motor vehicles:		
Within one year	**1,900**	2,114
In the second to fifth years, inclusive	**–**	3,526
	1,900	5,640

(b) As lessee

At 31 December 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Land and buildings:		
Within one year	**59,010**	26,944
In the second to fifth years, inclusive	**58,870**	25,106
Later than five years	**33,230**	36,006
	151,110	88,056
Plant and machinery and motor vehicles:		
Within one year	**5,436**	5,057
In the second to fifth years, inclusive	**1,103**	819
	6,539	5,876

40 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	HK$'000
Land and buildings:		
Contracted, but not provided for	**159,342**	168,496
Authorised, but not contracted for	**259,113**	301,819
	418,455	470,315
Plant and equipment and motor vehicles:		
Contracted, but not provided for	**–**	1,928
Leasehold improvements:		
Contracted, but not provided for	**25,211**	16,186
Scenic spots:		
Contracted, but not provided for	**309,679**	59,449
Authorised, but not contracted for	**–**	32,742
	309,679	92,191

41 RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

	For the year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Travel-related income from (a)		
– the parent company	**9,056**	–
– the immediate holding company (#)	**348,423**	357,667
– fellow subsidiaries	**45,538**	39,586
– associates and jointly controlled entities	**47,895**	39,229
– other related parties	**6,782**	8,048
Hotel-related income from (a)		
– the immediate holding company	**3,750**	3,429
– fellow subsidiaries	**2,236**	2,887
– associates and jointly controlled entities	**281**	31
– other related parties	**175**	84
Management income from (b)		
– the parent company	**1,381**	2,445
– fellow subsidiaries	**18,907**	17,118
– associates and jointly controlled entities	**8,485**	10,341
Rental income from (c)		
– the immediate holding company	**1,454**	965
– fellow subsidiaries	**1,814**	1,734
– associates and jointly controlled entities	**40,908**	41,800
Consideration received for sale of property		
– the immediate holding company	**–**	188,000
Other service income from (d)		
– the immediate holding company	**298**	861
– fellow subsidiaries	**10,500**	16
– associates and jointly controlled entities	**718**	843
Travel-related expense paid to (a)		
– fellow subsidiaries	**(75,527)**	(91,452)
– other related party	**(4,140)**	(6,797)
Hotel-related expenses paid to (a)		
– fellow subsidiaries	**(1,800)**	(1,056)
Management expense paid to (b)		
– fellow subsidiaries	**(5,980)**	(5,464)
– other related parties	**(1,921)**	(1,923)
Rental expenses paid to (c)		
– the immediate holding company	**(14,828)**	(16,302)
– fellow subsidiaries	**(1,669)**	(1,976)
– associates and jointly controlled entities	**(6,401)**	(5,286)
Construction service charge paid to		
– fellow subsidiaries	**–**	(3,376)
Other service expense paid to (d)		
– the immediate holding company	**(407)**	(1,215)
– fellow subsidiaries	**(22)**	(9)
Interest expense paid to (e)		
– associates and jointly controlled entities	**(7,797)**	(9,357)

41 RELATED PARTY TRANSACTIONS (Continued)

The travel permit administration income was determined in accordance with the terms of an agency agreement entered into between the parties and was charged at 45% of the gross fee revenue from travel permit applications.

Notes:

(a) Travel-related and hotel-related income and expenses are entered into in the normal course of business based on terms mutually agreed by the parties.

(b) Management income and expense are charged at rates in accordance with relevant contracts.

(c) Rental income and expenses are charged in accordance with respective tenancy agreements.

(d) Other service income and expenses are charged as specified in the contract.

(e) Interest expenses are charged in accordance with relevant agreements.

(b) Other transactions with related parties

(i) On 20 August 2010, an entrustment loan arrangement was entered into between Window of the World and Splendid China, 51%-owned subsidiaries of the Company, Overseas Chinese Town, a state-owned enterprise, and a bank. As at the end of the current reporting period, the arrangement remained effective with RMB210 million withdrawn. The balance is included in deposits, prepayment and other receivables (note 25).

(ii) On 26 January 2011, China Heaven, a 78%-owned subsidiary of the Group, applied for a RMB30 million loan from the Export-Import Bank of China. Under the loan agreement, China CTS (HK) provided a credit guarantee in favour of the bank to secure the repayment obligations of Heaven Creation.

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

(iii) On 13 April 2011 and 29 December 2011, entrustment loan arrangements were entered into between Shaanxi Weihe Power, Shaanxi Qinlong Electric Power Co., Ltd., a substantial shareholder of Shaanxi Weihe Power, and a bank. As at the end of the current reporting period, the arrangements remained effective with RMB150 million withdrawn.

(iv) On 4 January 2010, CTS (Dengfeng) and Songshan Management entered into a franchise agreement pursuant to which CTS (Dengfeng) will be authorized to exclusively manage and operate the ticket sales, sales proceeds collection and the car parks of the Shaolin Scenic Spot, Zhong Yue Scenic Spot and Song Yang Scenic Spot under the Songshan Scenic Spot from 25 December 2009 for a term of 40 years and Songshan Management received franchise fee in exchange.

41 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel remuneration

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

	Group	
	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**8,464**	10,107
Equity-settled share option expense	**2,251**	4,123
Total compensation paid to key management personnel	**10,715**	14,230

(d) Commitments with related parties

(i) On 24 October 1995, a subsidiary of the Group entered into an operating land lease arrangement as a lessee with its non-controlling shareholder, which will remain effective until the end of the joint-venture period in 2037.

(ii) On 25 December 2009, a subsidiary of the Group entered into an operating land lease arrangement as a lessee with a local government authority with a leasing period of 20 years.

42 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

42 FAIR VALUE HIERARCHY (Continued)

Assets measured at fair value:

Group

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at fair value through profit or loss	**–**	**292,286**	**–**	**292,286**

	2011			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss	–	296,041	–	296,041

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements (2011: Nil).

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets and liabilities mainly comprise available-for-sale investments, trade and other receivables, financial assets at fair value through profit or loss, pledged time deposits, cash and bank balances, trade other payables and accruals, and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes to the consolidated financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Liquidity risk

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

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

Group

	2012			
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Bank and other borrowings	**399,073**	**41,750**	**1,791**	**442,614**
Trade payables	**335,720**	**–**	**–**	**335,720**
Other payables and accruals	**1,336,845**	**–**	**–**	**1,336,845**
Amount due to the immediate holding company	**1,691**	**–**	**–**	**1,691**
Amounts due to fellow subsidiaries	**8,788**	**–**	**–**	**8,788**
	2,082,117	**41,750**	**1,791**	**2,125,658**

	2011			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Bank and other borrowings	831,060	43,662	1,791	876,513
Trade payables	357,123	–	–	357,123
Other payables and accruals	1,183,228	–	–	1,183,228
Amount due to the immediate holding company	44	–	–	44
Amounts due to fellow subsidiaries	24,058	–	–	24,058
	2,395,513	43,662	1,791	2,440,966

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	2012			
	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	19,950	–	–	19,950
Amounts due to subsidiaries	1,844,270	–	–	1,844,270
Amounts due to the immediate holding company	38	–	–	38
Amounts due to fellow subsidiaries	5	–	–	5
	1,864,263	–	–	1,864,263

	2012			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
The maximum utilised amount of the guarantees given to banks in connection with banking facilities granted to subsidiaries	666,675	–	–	666,675
The maximum utilised amount of the counter guarantee given to the parent company for corporate guarantees in favour of bank in connection with credit facilities granted to a subsidiary	36,998	–	–	36,998
	703,673	–	–	703,673

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	2011			
	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	31,172	–	–	31,172
Amounts due to subsidiaries	1,694,048	–	–	1,694,048
Amounts due to fellow subsidiaries	21	–	–	21
	1,725,241	–	–	1,725,241

	2011			
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
The maximum utilised amount of the guarantees given to banks in connection with banking facilities granted to subsidiaries	636,040	–	–	636,040
The maximum utilised amount of the counter guarantee given to the parent company for corporate guarantees in favour of bank in connection with credit facilities granted to a subsidiary	37,005	–	–	37,005
	673,045	–	–	673,045

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.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and bank balances, amounts due from associates, jointly controlled entities, immediate holding company and fellow subsidiaries, other receivables, available-for-sale investments and financial assets at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the consolidated 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. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity except for retained profits.

	Increase in RMB rate	**Increase in profit before tax**
	%	HK$'000
2012		
If Hong Kong dollar weakens against RMB	**3**	**53,309**
If Hong Kong dollar weakens against RMB	**5**	**88,849**
2011		
If Hong Kong dollar weakens against RMB	3	53,802
If Hong Kong dollar weakens against RMB	5	89,670

43 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 bank loans. The Group does not use financial derivatives to hedge against the interest rate risk.

At 31 December 2012, 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$4,302,000 (2011: HK$6,602,000). Similarly, it is estimated that a general increase/decrease in 0.5% of the savings rate, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$13,539,000 (2011: HK$17,596,000).

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

Capital management

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

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

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

During 2012, the Group's strategy, which remained unchanged from that of 2011, was to maintain the debt-to-capital ratio at the lower end of the range from 10% to 50%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

	Group	
	2012	2011
	HK$'000	HK$'000
Bank and other borrowings	**435,417**	850,450
Trade payables	**335,720**	357,123
Other payables and accruals	**1,336,845**	1,183,228
Amount due to the immediate holding company	**1,691**	44
Amounts due to fellow subsidiaries	**8,788**	24,058
Debt	**2,118,461**	2,414,903
Capital	**13,470,829**	12,986,131
Debt-to-capital ratio	**15.73%**	18.60%

44 COMPARATIVE FIGURES

Certain comparative figures of shares of results, net assets of and amounts due from/(to) associates and jointly controlled entities have been reclassified to conform to the current year's presentation. These reclassifications have no impact on the Group's total equity as at both 31 December 2012 and 31 December 2011, or on the Group's profits for the years ended 31 December 2012 and 2011.

PARTICULARS OF PRINCIPAL HOTEL PROPERTIES

31 December 2012

Location	Attributable interest of the Group	Lease term
CTS (HK) Grand Metropark Hotel Beijing No. 338 Guanganmen Nei Street, Xuanwu District Beijing, PRC	100%	Medium
Metropark Hotel Causeway Bay Hong Kong 148 Tung Lo Wan Road, Causeway Bay, Hong Kong	100%	Long
Metropark Hotel Kowloon Hong Kong 75 Waterloo Road, Kowloon, Hong Kong	100%	Long
Metropark Hotel Macau 199 Rua de Pequim, Macau	100%	Medium
Metropark Hotel Mongkok Hong Kong 22 Lai Chi Kok Road, Mongkok, Kowloon, Hong Kong	100%	Medium
Metropark Hotel Wanchai Hong Kong 41-49 Hennessy Road, Wanchai, Hong Kong	100%	Long
Ocean Spring Hotel Pingsha Town, Jinwan District, Zhuhai City, Guangdong Province, PRC	100%	Medium
Xianyang Ocean Spring Hotel Middle of Century Boulevard, Xian Yang, Shaanxi Province, PRC	84%	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 2012

Location	Use	Lease term
3rd to 9th, 11th, 12th Floor and Basement levels 2 and 3 CTS (HK) Grand Metropark Hotel Beijing No. 338 Guanganmen Nei Street Xuan Wu District, Beijing, PRC	Carpark/ Shop/Office	Medium
Metropark Service Apartment Shanghai No. 48 Lane 610, Yanan West Road Changning District, Shanghai, PRC	Service apartments	Long
The Whole of Ground Floor with its Flat Roof China Travel Building No. 77 Queen’s Road Central Hong Kong	Shop	Long

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