香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(Stock Code : 308)

2018 Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Mr. Fu Zhuoyang *(Chairman)*
Mr. Lo Sui On *(Vice Chairman)*
Mr. Jiang Hong *(General Manager)*
Mr. Chen Xianjun
Mr. You Cheng
Mr. Yang Hao
Mr. Wu Qiang *(Executive Deputy General Manager)*
Mr. Tse Cho Che Edward*
Mr. Zhang Xiaoke*
Mr. Huang Hui*
Mr. Chen Johnny*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny

REMUNERATION COMMITTEE

Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny
Mr. Fu Zhuoyang

NOMINATION COMMITTEE

Mr. Fu Zhuoyang *(Chairman)*
Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

KPMG

LEGAL ADVISORS

Jeffrey Mak Law Firm

REGISTERED OFFICE

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

SHARE REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation
China Everbright Bank Co., Ltd., Hong Kong Branch
Bank of Communications Co. Ltd, Hong Kong Branch

FINANCIAL CALENDAR AND INVESTOR RELATION INFORMATION

Announcement of 2018 Final Results		27 March 2019
Announcement of 2018 Interim Results		16 August 2018
Announcement of 2017 Final Results		27 March 2018
Announcement of 2017 Interim Results		29 August 2017
Dividends	2018 Final	Nil
	2018 Interim	HK3 cents per share paid on 27 September 2018
	2017 Final	HK5.5 cents per share paid on 29 June 2018
	2017 Interim	HK3 cents per share paid on 10 October 2017
Closure of Register of Members for ascertaining shareholders' entitlement to attend and vote at the annual general meeting		Period from 27 May 2019 to 30 May 2019
Annual General Meeting in 2019		30 May 2019
Listing Date		11 November 1992
Authorised Shares		7,000,000,000 shares
Issued Shares		5,455,913,525 (as at 31 December 2018)
Website address		irasia.com/listco/hk/ctii
Stock Code		308
Board Lot		2,000 shares
Financial Year End		31 December

MAJOR OPERATIONS

TRAVEL DESTINATION OPERATIONS

1. City travel destinations, categorized into:

1.1 City hotels

Metropark Hotel Mongkok	100%
Kew Green Hotel Wanchai	100%
Metropark Hotel Kowloon	100%
Metropark Hotel Causeway Bay	100%
Metropark Hotel Macau	100%
Beijing Guang'anmen Grand Metropark Hotel	100%
CTS H.K. Metropark Hotels Management Company Limited	100%

1.2 Theme parks

Shenzhen The World Miniature Co., Ltd.	51%
Shenzhen Splendid China Development Co., Ltd.	51%

2. Natural and Cultural Scenic Spot Destinations

CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd	51%
CTS (Ningxia) Shapotou Tourist Spot Co., Ltd.	46%
CTS (Ningxia) Shapotou Cable Car Co., Ltd.	51%
Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co., Ltd.	80%
Guangxi Ningming CTS Balai Tourism Culture Co., Ltd.	51%

3. Leisure Resort Destinations

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.	100%
Xianyang Ocean Spring Resort Co., Ltd.	89.14%
Zhuhai Evergrande Ocean Spring Land Co., Ltd.	49%
CTS (Anji) Tourism Development Company Limited	96.38%

4. Non-Controlling Scenic Spot Investments

Huangshan Yuping Cable Car Company Ltd.	20%
Huangshan Taiping Cable Car Co., Ltd.	30%
Changsha Colorful World Company Limited	26%
Changchun Jingyuetan Youle Co. Ltd.	30.2%

5. Supplementary tourist attraction operations

China Heaven Creation International Performing Arts Co., Ltd.	78%
China Travel Zhiye Culture Development (Shenzhen) Co., Ltd.	51%
CTS Scenery (Beijing) Tourism Management Limited	100%

TRAVEL AGENCY, TRAVEL DOCUMENT AND RELATED OPERATIONS

China Travel Service (Hong Kong) Limited	100%
– Travel agency business	
– Travel document business	

PASSENGER TRANSPORTATION OPERATIONS

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

FINANCIAL RATIOS HIGHLIGHTS

		2018	2017
Profit & loss account ratios			
Interest coverage ratio		**101.72**	320.15
Earnings per share	HK cents	**12.60**	21.07
Earnings per share (Diluted)	HK cents	**12.57**	21.05
Dividend per share	HK cents	**3.00**	8.50
Dividend payout ratio	%	**23.81**	40.34
Balance sheet ratios			
Current ratio		**2.08**	2.27
Quick ratio		**1.52**	1.69
Net assets value per share	HK$	**2.94**	2.98
Net bank and other borrowings to equity		**-0.14**	-0.18
Debt to capital ratio	%	**18.55**	19.75
Rate of return ratios			
Return on average equity	%	**4.81**	7.62
Return on total capital and borrowings	%	**4.88**	7.18
Market price ratios			
Dividend yied			
Year low	%	**0.83**	2.90
Year high	%	**1.46**	3.99
Price to earning ratio			
Year low		**16.27**	10.11
Year high		**28.65**	13.91

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)

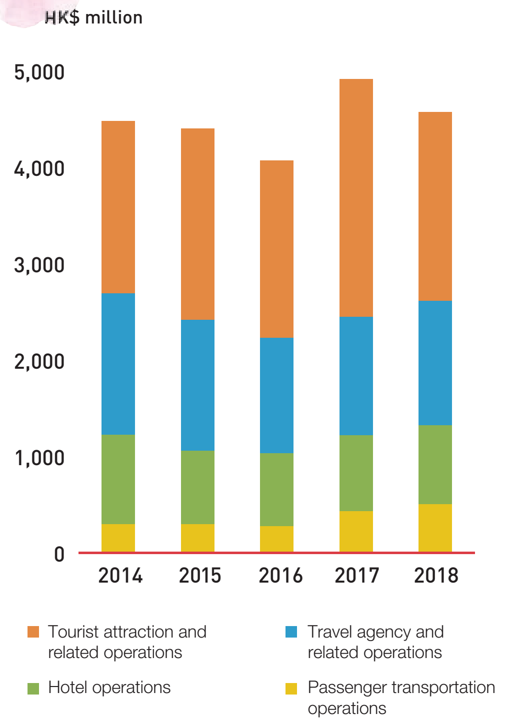
* *Profit before taxation including continuing & discontinued operations*

FIVE YEAR FINANCIAL SUMMARY

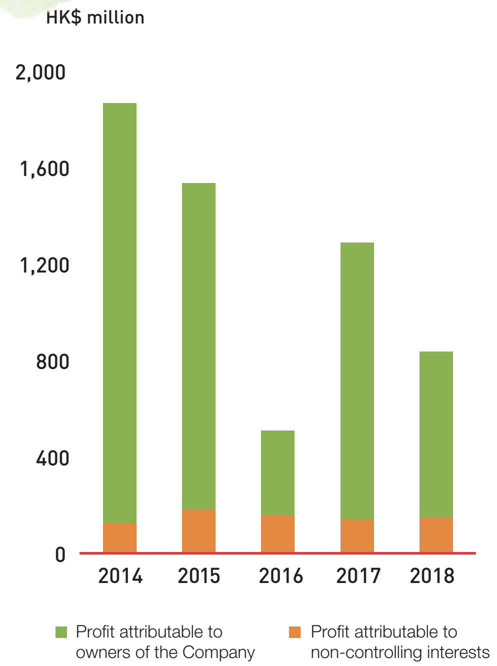
A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements, is set out below.

	2018 **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000 (restated)
RESULTS					
Continuing operations					
Revenue	**4,518,180**	4,908,837	4,065,999	4,395,389	4,475,142
Cost of sales	**(2,560,183)**	(2,964,119)	(2,253,779)	(2,391,052)	(2,417,299)
Gross profit	**1,957,997**	1,944,718	1,812,220	2,004,337	2,057,843
Other income and gains, net	**144,260**	852,944	140,054	262,360	1,048,465
Changes in fair value of investment properties	**26,542**	80,843	55,555	73,353	70,049
Selling and distribution costs	**(519,038)**	(511,602)	(490,039)	(536,472)	(503,597)
Administrative expenses	**(980,308)**	(960,815)	(992,205)	(932,331)	(996,108)
Finance income	**80,352**	63,166	120,677	129,001	140,081
Finance costs	**(10,314)**	(4,966)	(12,965)	(24,332)	(30,276)
Share of profits less losses of associates and joint ventures	**339,373**	97,791	144,895	132,947	104,562
Profit before taxation	**1,038,864**	1,562,079	778,192	1,108,863	1,891,019
Taxation	**(208,948)**	(297,838)	(205,129)	(239,635)	(310,182)
Profit for the year from continuing operations	**829,916**	1,264,241	573,063	869,228	1,580,837
Discontinued operations					
Profit/(loss) for the year from discontinued operations	**–**	20,538	(64,815)	662,917	284,322
Profit for the year	**829,916**	1,284,779	508,248	1,532,145	1,865,159
Attributable to:					
Equity owners of the Company	**687,076**	1,147,843	352,053	1,352,750	1,738,884
Non-controlling interests	**142,840**	136,936	156,195	179,395	126,275
	829,916	1,284,779	508,248	1,532,145	1,865,159
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**21,491,775**	22,135,075	19,975,771	21,216,252	20,950,844
Total liabilities	**(4,379,751)**	(4,741,229)	(4,203,178)	(4,717,424)	(4,318,061)
Non-controlling interests	**(1,098,557)**	(1,181,217)	(1,099,248)	(1,093,669)	(1,090,850)
Equity attributable to owners of the Company	**16,013,467**	16,212,629	14,673,345	15,405,159	15,541,933

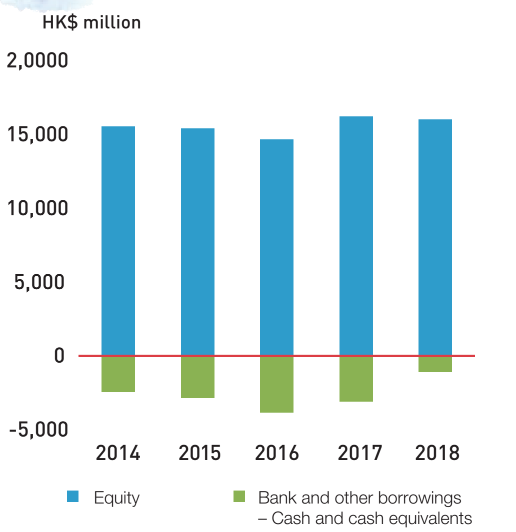
TURNOVER BY PRINCIPAL ACTIVITIES



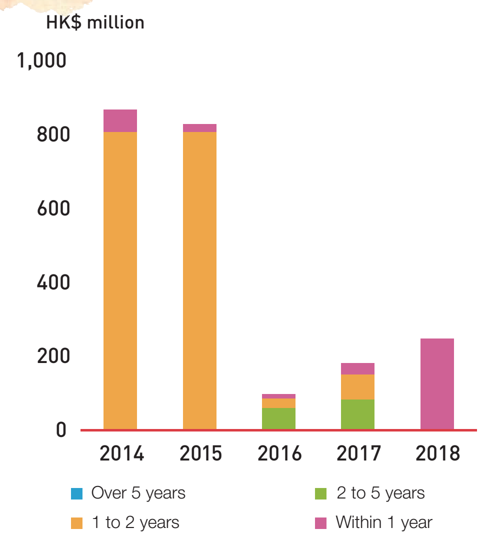
PROFIT FOR THE YEAR



NET BANK & OTHER BORROWINGS TO EQUITY



DEBT MATURITY PROFILE*



* Includes bank and other borrowings and loan from holding company only

BIOGRAPHIES OF DIRECTORS

MR. FU ZHUOYANG *Chairman & Executive Director*

Aged 59, appointed in June 2018, is a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Company. Mr. Fu is a Director of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), and the Chairman of Hong Kong China Travel Service Investment (China) Limited, a wholly owned subsidiary of CTS (Holdings). Mr. Fu is also a Director of Common Bond Investments Limited, a subsidiary of the Company. Mr. Fu was the Deputy General Manager of China National Travel Service Group Corporation Limited ("China CTS") and CTS (Holdings), the Deputy General Manager of China Travel Service (Holdings) Corporation of China, the General Manager of China National Tourism Trading & Service Corporation, and the Chairman of China Spacesat Company Limited, a company listed on the Shanghai Stock Exchange. He was also an Executive Director of the Company from November 2010 to February 2017, a member of the Strategy and Development Committee of the Company from June 2012 to February 2017, and the chairman of CTS International Logistics Corporation Limited, a company listed on the Shanghai Stock Exchange, from October 2016 to September 2017. Mr. Fu has extensive experience in investment management and capital operation. 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.

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

Aged 68, appointed in 2000, is a Director of a number of subsidiaries of the Company. Mr. Lo has over 40 years of operation and management experience in the tourism industry. Mr. Lo is a Deputy of the Thirteenth National People's Congress of the PRC, a member of The Election Committee for the Second, Third, Fourth & Fifth Government of the HKSAR, the Chairman of Committee on Tourism of The Hong Kong Chinese Enterprises Association and the Chairman of Hong Kong Association of China Travel Organizers 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.

MR. JIANG HONG

Executive Director and General Manager

Aged 49, appointed in October 2018, graduated from the Peking University Law School in 1991 with a Bachelor of Laws degree. He was the director and general manager of Hong Kong China Travel Service Investment (China) Limited, a company specialized in the development of urban and tourism real estate and a wholly-owned subsidiary of CTS (Holdings). He was the deputy general manager (in charge of overall operation) of the strategic investment department and the general manager of the corporate development and management department of CTS (Holdings). Mr. Jiang was a cadre in the marketing division of National Tourism Administration; an officer of the general office, the legal counsel, and the securities affairs representative of China Pan-Tourism Industry Development Co., Ltd. (a company listed on the Shanghai Stock Exchange); the general manager of Pan-Tourism Advertising Development Ltd.; an officer in the human resources division, and the general manager in the development and planning division of China National Tourism Trading & Service Corporation; the general manager of the strategic development department of China Travel Service (Holdings) Corporation of China and a director of China Travel Service Head Office. Mr. Jiang has extensive experience in investment management, capital operation and the development of tourism real estate.

MR. CHEN XIANJUN *Executive Director*

Aged 50, appointed in February 2017, is the general manager of strategic investment and corporate management department of China CTS and a director of China International Travel Service Corporation Limited. He was a member of the Strategy and Development Committee of the Company. Mr. Chen is a Certified Public Accountant in China and has extensive experience in investment planning and business and hotel management. He was the general manager of China Travel Tours Transportation Services Hong Kong Limited, general manager of CTS Pingdingshan Tourism Management Limited, general manager of Metropark Hotel Shenzhen, general manager of Metropark Hotel Mongkok and deputy general manager of China Travel Hotel Management Services Hong Kong Limited. Mr. Chen holds a Master's degree in Economics from Jinan University.

MR. YOU CHENG *Executive Director*

Aged 44, appointed in October 2018, was a director of Shaanxi Weihe Power Co., Ltd., the deputy general manager of the Company, a director of CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd., Shenzhen The World Miniature Co., Ltd. and Shenzhen Splendid China Development Co., Ltd., the subsidiaries of the Company, and the general manager of the human resources department of CTS (Holdings). Mr. You graduated from the school of labour and human resources of Renmin University of China with a bachelor's degree in human resources management, and obtained a master degree in finance from the Chinese University of Hong Kong. Mr. You has extensive experience in human resources management and business management.

MR. YANG HAO *Executive Director*

Aged 42, appointed in December 2018, is a director of Hongkong New Travel Investments Ltd. (formerly known as Alliance Power Resources Ltd.), the substantial shareholder of the Company; a director and the executive deputy general manager of China Travel Financial Investment Holdings Co., Limited, a subsidiary of CTS (Holdings). Mr. Yang also serves as the Chairman of Prime Credit Limited, a director of China Tourism Industry Fund and the vice president of Chinese Financial Association of Hong Kong. Mr. Yang has 21 years of experience in commercial banks and possesses extensive knowledge and experience in finance and management. He used to work in human resources department, planning and finance department, and the asset and liability management department at the headquarter of the China Construction Bank. Since June 2010, Mr. Yang had been serving at the China Construction Bank (Asia) Corporation Limited as the deputy chief executive and had been in charge of the corporate and institutional business, financial market and treasury business, risk management and credit approval business and information technology business. Mr. Yang had also served as a director of CCB Asia Trust Co., Ltd. Mr. Yang holds a bachelor's degree in economics from Renmin University of China and a master's degree in business administration from Tsinghua University.

MR. WU QIANG *Executive Director and Executive Deputy General Manager*

Aged 47, appointed in March 2019, is a director of Shenzhen Splendid China Development Co., Ltd., a subsidiary of the Company. Mr Wu was the deputy general manager in the corporate development and management department of CTS (Holdings). He was also a director and the executive deputy general manager of Shenzhen The World Miniature Co., Ltd., a subsidiary of the Company, and the general manager of Shenzhen Splendid China Development Co., Ltd. Mr. Wu has extensive experience in investment planning and corporate and scenic spots management. Mr. Wu graduated from the School of Business Nanjing University with a master's degree in management.

MR. WONG MAN KONG PETER *B.B.S., J.P., BSc, F.C.I.T., MRINA*

Independent Non-Executive Director

It is with great sorrow that the Board informs that Mr. Wong passed away peacefully on 11 March 2019. Mr. Wong was the Chairman of Audit Committee and Remuneration Committee of the Company as well as a member of Nomination Committee and Strategy and Development Committee of the Company. Mr. Wong had over 40 years of experience in industrial, commercial and public service. He was 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, Sino Hotels (Holdings) Limited, Far East Consortium International Limited, New Times Energy Corporation Ltd. and MGM China Holdings Limited. Mr. Wong was a deputy of the Thirteenth National People's Congress of the PRC. He graduated from the University of California at Berkeley in U.S.A. Mr. Wong made invaluable contribution to the Company during his terms of office. The Board would like to express its sincere gratitude to Mr. Wong for his dedication.

MR. TSE CHO CHE EDWARD

Independent Non-Executive Director

Aged 62, appointed in October 2018, is a member of the Audit Committee, Remuneration Committee, and Nomination Committee of the Company. He holds a bachelor's degree and a master's degree in civil engineering from the Massachusetts Institute of Technology, the United States, and a master of business administration as well as a Ph.D. in civil engineering from the University of California, Berkeley, the United States. Mr. Tse is currently an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (Stock Code: HK.02607, SH.601607). He has been engaged in management consultancy and corporate senior management for nearly 30 years, with extensive experience and expertise in definition and implementation of corporate transformation, establishment of organizations, business strategy and overseas expansion. He holds the position of Chairman in Gao Feng Advisory Company since April 2014. He was the chairman of the board in Greater China region of Booz & Company, an independent director of Baoshan Iron & Steel Co., Ltd. (Stock code SH.600019), director of Shanghai Automotive Industry Corporation (Group), executive vice president of corporate planning and development division and business president of Greater China region of HKT Limited, a member of the Strategy Development Committee and a part-time member of the Central Policy Unit of the Hong Kong Special Administrative Region, and president of Greater China region of Boston Consulting Group, etc.

MR. ZHANG XIAOKE

Independent Non-Executive Director

Aged 64, appointed in October 2018, is a member of the Audit Committee, Remuneration Committee, and Nomination Committee of the Company. He is a specially-invited expert of the Chinese Academy of Social Sciences and a deputy of the eighth and ninth National People's Congress of the People's Republic of China. Mr. Zhang obtained a doctor of business administration degree from Warnborough College, UK, and an EMBA degree from Xi'an Jiaotong University. Mr. Zhang was the general manager of China International Travel Service, Xi'an, the under-secretary of Shaanxi Provincial Tourism Bureau, and the general manager and chairman of the Shaanxi Tourism Holdings Company. Due to his outstanding performance, Mr. Zhang received about 20 awards and honors such as the excellent manager of national travel agency industry and the outstanding entrepreneur of national tourism industry.

MR. HUANG HUI *Independent Non-Executive Director*

Aged 42, appointed in October 2018, is a member of the Audit Committee, Remuneration Committee, and Nomination Committee of the Company. He obtained two bachelor degrees – in mechanical engineering and in law – and a master degree in law, from Tsinghua University, and a PhD in law from the University of New South Wales, Australia. He is a professor of law in the faculty of law, the Chinese University of Hong Kong. Mr. Huang specializes in corporate law, securities law and financial regulation, etc. Mr. Huang is a member of the World Bank Panel for Financial Institution Resolution and Insolvency, a specially-invited expert of the Supreme People's Court of the People's Republic of China. He has written extensively in his areas of expertise, with articles published in some of the top-rated journals in the US, the UK, Australia, Canada, German, Israel, Hong Kong and Mainland China, etc. He has also published nine books and book chapters with international and reputable publishers.

MR. CHEN JOHNNY *Independent Non-Executive Director*
Aged 59, appointed in January 2019, is a member of the Audit Committee, Remuneration Committee, and Nomination Committee of the Company. Hs an Independent Non-Executive Director of Stella International Holdings Limited (Stock Code: HK.01836), Uni-President China Holdings Ltd. (Stock Code: HK.00220) and Alibaba Pictures Group Limited (Stock Code: HK.01060). He is also the Chairman and Executive Director of Convoy Global Holdings Limited (Stock Code: HK.01019). Mr. Chen is currently an Adjunct Associate Professor of the Department of Finance and the Department of Management at the Hong Kong University of Science and Technology. Mr. Chen served as the assurance partner and general manager of the Beijing office in KPMG from September 1983 to August 1993. He then joined PricewaterhouseCoopers and served as an assurance partner and the managing partner of its Beijing office. Mr. Chen subsequently joined the management of Zurich Insurance Group ("Zurich") in 2005, and worked in Zurich from March 2005 to February 2015 in multiple senior managerial roles in the Asia-Pacific region. His last position in Zurich was the chairman of Life and General Insurance in its China office. From 2005 to January 2014, Mr. Chen was a non-executive director of New China Life Insurance Company Ltd. (Stock code: HK.01336). He was also an Independent Non-Executive Director of China Minsheng Financial Holding Corporation Limited (Stock Code: HK.00245) from December 2015 to November 2018. Mr. Chen obtained a bachelor's degree in accounting/management from Johnson & Wales University in 1981. He obtained a master's degree in accounting from University of Rhode Island in 1983. He is a certified public accountant in the US since 1985.

CHAIRMAN'S STATEMENT

MR. FU ZHUOYANG
Chairman & Executive Director

I am pleased to present my report to the shareholders.

SUMMARY OF RESULTS

For the year ended 31 December 2018, the Company's consolidated revenue and profit attributable to shareholders were HK$4,518 million and HK$687 million respectively, representing a 8% and 40% decrease compared with last year. As of 31 December 2018, the Group's net asset value was HK$17.1 billion, representing a decrease of 1.6% compared with last year. The decrease in profit attributable to shareholders was mainly due to the one-off gain generated from assets operation last year no longer contributing to the profit this year.

An interim dividend of HK3 cents per share was paid during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

COMPANY DEVELOPMENT

In 2018, the Company was firmly committed to the strategic development direction of becoming "a first-class tourist destination investment and operation service provider". We focused on tourism resources and the customer base, and optimised our strategic development plan. At the same time, we focused on the market to drive innovative developments and fulfil customer demands.

During the year, the Group launched asset-light businesses including tourism planning and management services which brought new sources of income and expanded the market share. The Hip Kee Godown (No.3) property in Hung Hom, owned by China Travel Service (Hong Kong) Limited, has obtained Government approval for a change to hotel use, which has significantly enhanced the value of the land and its development potential. The Group experienced more new growth in its existing scenic spots businesses. Our associate, Evergrande OSR, began to contribute profit by recognising revenue in property sales during the year. The value of the majority of land reserves of Zhuhai OSR is enhanced and post-development profitability is promising. Additionally, the official opening of the Mediterranean Club Hotel of the Anji project significantly increased the development value of the subsequent land reserve, while the development of Songshan Shaolin Town and the upgrading of Shapotou Scenic Spot facilities and products enriched the tourist experience, boost average consumption per visitor, and promote enhancement and innovation of product conditions and the business model.

At the end of 2018, the Company entered into a management services master agreement with parent company, pursuant to which the Group will provide management services for subsidiaries of parent company which engage in real estate projects. The Group will thereby benefit from the quality resources of parent company, achieving synergy and maximizing asset returns. On 1 March 2019, the Company and Daxin County People's Government of Chongzuo City, Guangxi entered into a cooperation agreement, pursuant to which the Company will establish a project company and invest in the Detian Tourism Project in Daxin County. As Daxin County is rich in tourism resources and has tremendous development potential, the project will help strengthen the Group's cultural scenic spot business and increase its market influence and bring in revenue.

MR. JIANG HONG

Executive Director and General Manager

During the year, the Group fulfilled its corporate social responsibilities by promoting poverty alleviation through all-for-one tourism, promoting poverty alleviation in Leibo County and Mabian County, Sichuan Province, and implementing action plans for poverty alleviation through tourism in the aforementioned counties. In connection with the latter, it assigned cadres to participate in poverty alleviation and organised large special orientation job fair and special tourism training series, etc.

PROSPECTS

In 2019, with the situation becoming more complicated both overseas and domestically in the PRC, new features will emerge in the tourism industry and the competition will become more intense. As the coexistence of opportunities and challenges remains unchanged, development and reform will continue as the Group's main focus this year. Currently, the PRC has become the world's largest outbound travel market. As long as the Group can seize opportunities, it can adjust itself in changing environment and push forward its business to a new level.

The Group will promote product innovation by considering scenic spots as important technological application sites, and enhance its capacity for scientific and technological innovation. It will promote crawler technology on reputation monitoring, intelligent command systems and other technical applications to enhance the allocation of travel service carriers within the entire sector, such as resources for scenic spots, traffic conditions, shopping environments.

The Group will continue to promote market innovation via market orientation and will carry out innovative benchmarking products to enhance the operational capabilities, product innovation capabilities and the brand influence of travel destinations. We will promote Ocean Spring Resort's brand to create a refined and replicable

business model. The Group will focus on efficiency-driven innovation and reduce costs by reducing production times, raising product quality, rationalising and improving existing production processes, and achieving breakthroughs in efficiency assessment standards for quality, cost, speed and service.

The Group will strengthen its capital and asset operations to improve the return on assets and capital utilisation rate. It will expand overseas markets and seize investment opportunities in key travel destination countries along the "Belt and Road". The Group adheres to the three-wheel-driven integration and development of capital, assets and operations, leads the industry norms and standards, and will become a first-class tourist destination investment and operation service provider to create greater value for shareholders.

ACKNOWLEGEMENTS

With the full support of the parent company and the consistent efforts and pioneering spirit of the management and all staff, I am confident in the prospects of the Group. I would like to take this opportunity to express my sincere gratitude to the shareholders and business partners for their support, and to all directors and staff for their loyal effort, professionalism and valuable contributions.

Fu Zhuoyang
Chairman of the Board

Hong Kong, 27 March 2019

RESULTS OVERVIEW

In 2018, the Group's consolidated revenue was HK$4,518 million, a decrease of 8% compared with last year, mainly attributable to a majority of units from the real estate projects of Zhuhai OSR and Anji Company having been sold in the previous year, and sales of only a few remaining units being recognised as revenue during the year. Profit before taxation was HK$1,039 million, representing a 33% decrease compared with last year. Profit attributable to shareholders was HK$687 million, representing a 40% decrease compared with last year. Profit attributable to operations was HK$683 million, representing a 38% decrease compared with last year. The decrease in profit attributable to shareholders this year was mainly due to the one-off gain from asset operation recorded last year, and there was no such gain this year.

The Group's financial position remained stable and healthy, with strong investment and financing capabilities. As of 31 December 2018, total assets were HK$21,492 million, a 3% decrease compared with last year; the equity attributable to shareholders was HK$16,013 million, similar to that of last year; cash and bank balances, wealth management products and certain loan receivables amounted to HK$4,023 million, a decrease of 22% compared with last year, of which cash and bank balances amounted to HK$2,602 million and deducting loans from the holding company, bank loans and other borrowings of HK$326 million, net cash was HK$2,276 million, a 26% decrease compared with last year. The decrease in net cash was mainly due to capital expenditure used in the development of Anji Company, and payment of the land premium for Hip Kee Godown (No. 3), Hung Hom, with an aim of creating a foundation for future profitable development.

DIVIDENDS

An interim dividend of HK3 cents per share was paid during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

CORE PRINCIPAL OPERATIONS AND OPERATIONAL FIGURES

(I) The Group's travel destination operations mainly include:

City hotels

Five hotels in Hong Kong and Macau
Beijing Guang'anmen Grand Metropark Hotel ("Beijing Metropark Hotel")
CTS H.K. Metropark Hotels Management Company Limited

Theme parks

Shenzhen The World Miniature Co., Ltd. ("Window of the World")
Shenzhen Splendid China Development Co., Ltd. ("Splendid China")

Natural and cultural scenic spots

CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd ("Songshan Scenic Spot")
CTS (Ningxia) Shapotou Tourist Spot Co., Ltd and CTS (Ningxia) Shapotou Cable Car Co., Ltd ("Shapotou Scenic Spot")
Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co., Ltd
Guangxi Ningming CTS Balai Tourism Culture Co., Ltd. ("Huashan Scenic Spot")

Leisure resorts

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd ("Zhuhai OSR")
Xianyang Ocean Spring Resort Co., Ltd ("Xianyang OSR")
Zhuhai Evergrande Ocean Spring Land Co., Ltd. ("Evergrande OSR")
CTS (Anji) Tourism Development Company Limited ("Anji Company")

Non-controlling scenic spot investments
Huangshan Yuping Cable Car Company Limited
Huangshan Taiping Cable Car Co., Ltd.
Changsha Colorful World Company Limited
Changchun Jingyuetan Youle Co., Ltd.

Supplementary tourist attraction operations
China Heaven Creation International Performing Arts Co., Ltd.
China Travel Zhiye Culture Development (Shenzhen) Co., Ltd. ("China Travel Zhiye")
CTS Scenery (Beijing) Tourism Management Limited ("Management Company")

In 2018, total revenue of the Group's travel destination operations was HK$2,780 million, a 14% decrease compared with last year. Attributable profit was HK$426 million, a 50% decrease compared with last year.

In 2018, revenue of the Group's hotel operations was HK$821 million, a 4% increase compared with last year. Attributable profit was HK$163 million, a 9% increase compared with last year. The average room rate of the five hotels in Hong Kong and Macau and the Beijing Metropark Hotel increased and the entire hotel business achieved a satisfying performance.

Revenue of theme parks was HK$855 million, a 7% increase compared with last year. Attributable profit was HK$135 million, an increase of 4% compared with last year. Theme parks maintained stable growth in terms of visitor numbers, revenue and profit. Window of the World and Splendid China continued to enrich their products and expand their business. Driven by the management and consultation business's outstanding performance, revenue and profit of Splendid China increased. The theme park business remained the major revenue and profit contributor to the Group's scenic spots business.

Revenue from natural and cultural scenic spots was HK$550 million, a 2% decrease compared with last year. Attributable profit was HK$22 million, a decrease of 46% from last year. Songshan Scenic Spot implemented an interactive marketing model comprising online branding, offline theme activities and direct sales channels, resulting in an increase in the number of visitors and driving an 8% increase in revenue and 15% increase in attributable profit compared with last year. Shapotou Scenic Spot introduced discount tickets, driving an increase in the number of visitors but a decrease in average per capita consumption. This, together with the opening of the tourist distribution centre in mid-2017 which increased depreciation and amortisation charges for the year, resulted in a decrease in revenue and attributable profit compared with last year. Huashan Scenic Spot was established in August this year and recorded preliminary planning and preparation expenses.

Revenue of leisure resort destinations was HK$433 million, a 52% decrease compared with the last year. Attributable profit was HK$116 million, turning loss into profit during the year. The revenue decrease was mainly due to the sales of a majority of units from the real estate projects of Zhuhai OSR and Anji Company in 2017, which left sales of only a few remaining units to be recognised as revenue for the year. The leisure resort destinations turned loss into profit during the year, mainly due to increased profit from sales revenue recognised from the real estate project by the associate, Evergrande OSR. The loss of Zhuhai OSR increased. Xianyang OSR coped with difficulties by enhancing its marketing and cost control measures, achieving decreased losses compared with last year.

Attributable profit from non-controlling scenic spot investments was approximately HK$40 million, which was similar to that of last year.

China Travel Zhiye and Management Company were officially launched during the year to provide tourism planning, management services and other related businesses. This has expanded the Group's source of revenue.

(II) Travel Agency, Travel Document and Related Operations

The Group's travel agency, travel document and related operations comprise the travel agency business (China Travel Service (Hong Kong) Limited and overseas travel agencies) and travel document business.

In 2018, revenue of the Group's travel agency, travel document and related operations was HK$1,289 million, a 5% increase compared with last year. Attributable profit was HK$179 million, a 28% increase compared with last year. The increase in revenue and profit was largely due to an increase in the business volume of travel document operations.

(III) Passenger Transportation Operations

In 2018, revenue of the Group's passenger transportation operations was HK$449 million, a 4% increase compared with last year. Attributable profit was HK$119 million, an 8% decrease compared with last year.

Revenue from China Travel Tours Transportation Services Hong Kong Limited increased by 4% and its profit increased slightly, mainly attributable to an increase in passenger numbers and a rise in ticket prices for major routes such as Airport Express and Urban Lines.

Attributable profit of our associate, Shun Tak-China Travel Shipping Investments Limited, decreased due to the decrease in passenger numbers and increased fuel prices.

DEVELOPMENT STRATEGY

With its mission of "creating a new travel destination and leading a new lifestyle for mass tourism" and its strategy of becoming "a first-class tourist destination investment and operation service provider", the Group will focus on developing natural and cultural scenic spots and leisure resorts, exploring new travel destinations, and capturing investment opportunities in businesses which offer strong synergies with its core operations.

The Group will continue to boost revenue and efficiency in its existing businesses by optimising their operations, and gradually increasing new product innovation, transformation and upgrading of its existing products for Window of the World and Splendid China. It will advance the planning and development of the land reserve for the Zhuhai OSR Phase 2 Project and subsequent land development of Anji. Progressive product innovations and extensions of the industrial chain will be implemented for Songshan Scenic Spot and Shapotou Scenic Spot to optimise their industrial structure. Such traditional scenic spots will be built in regions boasting clusters of tourism products with complex functions and comprehensive elements to strengthen their integrated tourism economy and realise upgrade and adjustment of the profit model. The Group will also enhance the development of light-asset businesses such as China Travel Zhiye and Management Company to expand market share, increase brand awareness and improve profitability.

The Group will develop new business and create new growth engines by acquiring strategic quality scenic spot resources. It will focus on regions rich in tourism resources and tourists, and quality scenic spots with a potential for expansion and appreciation. In the meantime, the Group will undertake in-depth studies of major travel destinations associated with the "Belt and Road", with the aim of seeking out business partners and exploring overseas markets.

The Group will strengthen the operation of capital and assets. By making mergers and acquisitions, joint ventures and cooperative arrangements when opportunities arise, the Group will invest funds in its principal business which may increase its core competitiveness with the aim of 'leapfrogging' development. The Group will also enhance its operation efficiency and unleash the value of core businesses and assets by exiting businesses that lack a competitive edge. It will also accomplish this by way of reform and reconstruction.

The Group will continue its progress toward informatisation and digital transformation, and will carry out in-depth studies on the impact of the internet, artificial intelligence and other technologies on its business. It will explore digital business models and advance the intelligent operation and management of scenic spots, with a view to building an intelligent management platform for smart scenic spots.

The Group will strengthen the functional capacities of its headquarters, recruit high calibre talent, intensify its control and business synergies, fully enable the supervisory duties of functional departments at headquarters, reinforce its risk resistance, implement a production safety system, and ensure compliance with all relevant laws and regulations.

EMPLOYEE NUMBERS AND REMUNERATION

As of 31 December 2018, the Group had 8,963 employees. Employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package for Group employees are periodically reviewed by management. Apart from the retirement benefit and in-house training programmes, discretionary bonuses and share options are awarded to certain employees according to assessments of their 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 of 31 December 2018, the cash and bank balances of the Group amounted to HK$2,602 million, whereas the bank and other borrowings and loans from a holding company amounted to HK$326 million. The debt-to-capital ratio was 19% with the debt including bank and other borrowings, trade and other payables, loans from a holding company and amounts due to holding companies and fellow subsidiaries.

FOREIGN EXCHANGE RISK

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

CHARGE ON ASSETS

As of 31 December 2018, the Group's bank deposits of approximately HK$47 million (31 December 2017: HK$38 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 of 31 December 2018, certain of the Group's buildings with net carrying amount of HK$1,460,000 (31 December

2017: HK$1,295,000) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures for the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group is actively identifying and exploring suitable investments with potential and synergy effect to its existing businesses. The Group will only consider potential investments which are in the interests of the Company and the shareholders as a whole. Save as disclosed in the section "SUBSEQUENT EVENTS" below, no agreements for material investment have been conducted as of the date of this report.

CONTINGENT LIABILITIES

As of 31 December 2018, the Group's performance bond given to a customer for due performance of a sale contract was HK$0.3 million (31 December 2017: HK$0.3 million).

SIGNIFICANT INVESTMENTS HELD

To utilise the Group's idle funds more efficiently without affecting operating cash and while ensuring fund safety, the Group used some idle funds to subscribe for RMB denominated wealth management products. As of 31 December 2018, wealth management products held by the Group amounted to a total RMB 826 million (equivalent to HK$943 million). During the year, the income from financial assets at fair value through profit or loss was approximately HK$54.80 million. The movements of the subscribed wealth management products during the year were as follows:

	1 January 2018 HK$'000	Subscribed during the year HK$'000	Recovered during the year HK$'000	Exchange difference HK$'000	Income receivable from financial assets at fair value through profit or loss HK$'000	31 December 2018 HK$'000	Tenor (Month)	Expected annualised yields (%)
Issuers								
With agreed maturity date								
China Resources Bank of Zhuhai Co., Ltd.	734,483	580,187	(899,883)	(26,749)	931	388,969	6	4.1-4.26
Ping An Bank Co., Ltd.	48,214	645,311	(692,673)	(852)	–	–	3-6	3.2-3.9
Industrial Bank Co., Ltd.	183,505	632,286	(809,896)	(5,895)	–	–	1-6	4.2-4.6
China Construction Bank Corporation	–	384,819	(355,217)	(1,069)	15	28,548	1	3.25
China Merchants Bank Co., Ltd.*	289,931	367,058	(284,174)	(19,015)	7,608	361,408	3-9	3.87-4.39
China Citic Bank	155,578	439,285	(439,285)	(7,211)	436	148,803	3-4	4-4.15
Agricultural Bank of China Ltd.	–	165,768	(165,768)	–	–	–	1	2.25-4
Without agreed maturity date								
Bank of Communications Co., Ltd.	–	15,393	–	(556)	428	15,265	N/A	3.15
	1,411,711	**3,230,107**	**(3,646,896)**	**(61,347)**	**9,418**	**942,993**	–	–

* Issuers have no early termination rights

The key terms for the wealth management products above are:

(i) Type of return: Principal-protected with floating yields

(ii) Payment of principal and income: The principal and the earned income of the wealth management will be received one-off within 1-3 business days subsequent to the agreed maturity date or confirmed redemption date.

(iii) Terms of redemption: During the agreed holding period, subscribers have no rights to redeem the products. For products without agreed maturity date, subscribers can perform the redemption on the business days.

(iv) Early termination rights: Subscribers are not entitled to terminate such products early. Unless otherwise specified, issuers are entitled to early termination. In case of early termination, issuers shall settle the one-off payment of the principal and the earned income of the wealth management products within 2-3 business days subsequent to the termination day.

The subscriptions above belong to the principal-protected with floating yields investments. The Group continuously monitors the income risks derived from such financial assets and it diversifies the relevant investment risks via appropriate asset allocation.

During the year, in respect of each subscription above, the relevant applicable percentage ratios (as defined under Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) calculated by the Group were all less than 5%, which did not constitute a notifiable transaction under Chapter 14 of the Listing Rules. The above outstanding wealth management products at the end of the year with agreed maturity date will be gradually recovered before the end of this year, whereas the outstanding wealth management products without agreed maturity date will be redeemed where appropriate according to the funds position of the Group.

BUSINESS PROSPECTS

The economic development of China has entered a "new normal" phase, and its economic structure is at a critical stage of transformation. While China-US trade negotiations have made progress, many uncertainties remain. China's economy still faces considerable downward pressure and macro policy will continue to make countercyclical adjustments. Its macroeconomic situation is complicated and grim. However, China's development is still at a stage which offers significant strategic opportunities and there is no risk for the overall economy to stall. Opportunities for development are abundant, while various reforms will continue to deepen. Supported by a solid domestic economy, the normalisation of tourism consumption and the continued rapid growth of tourism, the Group's overall business fundamentals remain steady and healthy. Additionally, the Group possesses adequate funds and the capability to invest and develop.

In 2019, the Group will adhere to the guideline of integrating existing business and planning for new business, further optimise management structure and concrete optimisation of resources, staff, business, platforms and management. With building its core competitiveness and increasing its market influence as its basic goals, the Group will enhance its operation and management capability and improve the standard of its products and services. It will focus on innovation, upgrading and replacing products and launching new benchmark products. It will also seize good development opportunities to acquire prime projects and strategic resources to support future development.

The Group's travel destination operations are generally in good shape. The development of Shaolin Town in the Songshan Scenic Spot and the upgrading of facilities and products at Shapotou Scenic Spot will enrich the tourist experience, boost average consumption per visitor and capitalise effectively on the existing large tourist flow. After years of cultivation, the tourism real estate business is gradually showing development potential, with the tourism real estate of our associate Evergrande OSR having begun to contribute profit by recognising revenue in property sales. In 2019, development of a new phase of the Zhuhai OSR tourism real estate project is planned. It is expected that continued development of the Zhuhai OSR tourism real estate project will continue its profit contribution. Xianyang OSR, a tourism real estate project which includes planned development of commercial and residential properties, is expected to commence construction in the second half of the year. The opening of the Mediterranean Club Hotel at the Anji project has significantly increased the development value of the project's land for tourism real estate. Anji Company intended to develop tourism real estate with high popularity such as courtyard buildings and houses in 2019, and aims to launch sales within the year.

At the end of 2018, the Company entered into a management services master agreement with China National Travel Service Group Corporation Limited ("China CTS"), pursuant to which the Group will provide management services for subsidiaries of China CTS which engage in real estate projects. Through providing management services, the Group will benefit from the quality tourism resources of China CTS, achieving synergy and maximising asset returns. It can also strengthen interaction between the Group's travel destination operations and tourism real estate business, which will enable us to provide a more comprehensive range of products and services, and increase our competitiveness and market influence. This will create favourable conditions for the Group's acquisition of additional prime projects and strategic resources, and is conducive to the realisation the Company's strategic position and plan.

The Group is studying the vitalisation and optimisation of existing assets, including properties in Hong Kong, with the aim of enhancing operational efficiency and unleashing value. Of these, the payment of land premium for the Group's land parcel at Hung Hom, on which Hip Kee Godown (No. 3) is located, was completed in the second half of 2018. As the government has approved the modification of the land parcel for hotel use, its value and development potential have significantly increased. Currently, preliminary work including market research has been commenced for the redevelopment of Hip Kee Godown (No. 3), and the target is to begin demolition by the end of the year.

The Group believes that with the appropriate leadership from the Board, the right development strategy and a dedicated effort from all employees, it will break through the development bottleneck, achieve high quality and sustainable development, and bring more favourable returns to shareholders. The Group is fully confident of its future development prospects.

SUBSEQUENT EVENTS

On 1 March 2019, the Company and Daxin County People's Government of Chongzuo City, Guangxi entered into a cooperation agreement, pursuant to which the Company will establish a project company as a vehicle to invest in the Detian Tourism Project and carry out operations in the Detian Waterfall Scenic Spot. The total planned investment amount to be made by the Company and the project company in Daxin County is approximately RMB1.45 billion, including certain construction, renovation and improvement works in the core area of the Detian Waterfall Scenic Spot, Detian town hotel and a tourism real estate project, etc. Tourism resources in Daxin County are abundant with development potential. Participating in the Detian Tourism Project is in line with the Group's strategic direction and will help to fundamentally strengthen its cultural scenic spot business, increase its market influence and bring in revenue, all of which are important to the long-term development of the Group. Please refer to the Company's announcement dated 1 March 2019 for details.

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 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of the Group's principal subsidiaries are set out in note 38 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of financial year 2018, an indication of likely future development in the Group's business, and a discussion on the Company's environmental policies and performance, can be found in the "Chairman's Statement" section on pages 12 to 15, the "Management Discussion and Analysis" section on pages 16 to 22, the "Financial Review" section on page 7, the "Corporate Governance Report" section on pages 38 to 48, the "Environment, Social and Governance Report" section on pages 49 to 64 and note 43 to the consolidated financial statements on pages 175 to 181 of the Annual Report.

GROUP PROFIT

The Group's profit for the year ended 31 December 2018 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 71 to 186.

DIVIDENDS

An interim dividend of HK3 cents per share (2017: HK3 cents per share) were paid on 27 September 2018. The Directors do not recommend the payment of a final dividend (2017: HK5.5 cents per share) for the year ended 31 December 2018.

SHARE CAPITAL

During the year, the Company issued 7,328,000 shares for cash of HK$12,457,600 on the exercise of options granted under the approved share option scheme. Details of movements in the share capital of the Company during the year are shown in note 35 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 46 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in the section headed "Share Option Scheme" below, no equity-linked agreements were existed during the year. For the year ended 31 December 2018, the Company has not entered into any equity-linked agreements.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 297 and 299 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to HK$3,743,168,000.

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

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

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.

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. Fu Zhuoyang *(Chairman)*
(Appointed on 13 June 2018)
Mr. Zheng Fengchun *(Resigned on 13 June 2018)*
Mr. Lo Sui On *(Vice Chairman)*
Mr. Liu Fengbo *(Resigned on 20 August 2018)*
Mr. Jiang Hong *(General Manager)*
(Appointed on 24 October 2018)
Mr. Zhang Xing *(Resigned on 24 October 2018)*
Mr. Chen Xianjun
Mr. You Cheng *(Appointed on 26 October 2018)*
Mr. Yang Hao *(Appointed on 14 December 2018)*
Mr. Wu Qiang *(Appointed on 8 March 2019)*

Independent non-executive directors:

Dr. Fong Yun Wah *(Resigned on 24 October 2018)*
Mr. Sze Robert Tsai To *(Resigned on 24 October 2018)*
Mr. Chan Wing Kee *(Resigned on 24 October 2018)*
Mr. Wong Man Kong Peter
(Passed away on 11 March 2019)
Mr. Tse Cho Che Edward *(Appointed on 24 October 2018)*
Mr. Zhang Xiaoke *(Appointed on 24 October 2018)*
Mr. Huang Hui *(Appointed on 24 October 2018)*
Mr. Chen Johnny *(Appointed on 18 January 2019)*

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 of Hong Kong Limited (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. Lo Sui On, Mr. Chen Xianjun and Mr. You Cheng shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 92 of the Company's Articles of Association, Mr. Yang Hao, Mr. Chen Johnny and Mr. Wu Qiang, who have been appointed by the Board on 14 December 2018, 18 January 2019 and 8 March 2019 respectively, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Biographical details of the Directors of the Company are set out on pages 8 to 11 of the Annual Report.

DIRECTORS OF SUBSIDIARIES

A list of names of all the directors who have served on the board of the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at http://www.irasia.com/listco/hk/ctii/.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in Directors' information since the date of the 2018 Interim Report are set out below:

Name of Director	Changes
Fu Zhuoyang	– Appointed as a director of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)") with effect from 10 January 2019 and ceased to be the Deputy General Manager of China National Travel Service Group Corporation Limited ("China CTS") and CTS (Holdings) on the same date.
You Cheng	– Resigned as the general manager of the human resources department of CTS (Holdings) with effect from 13 December 2018.
Chen Johnny	– Resigned as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Viva China Holdings Limited (Stock Code: HK.08032) with effect from 13 February 2019.
	– Resigned as an independent non-executive director, the chairman of the audit committee, a member of the remuneration committee and the nomination committee of China Dongxiang (Group) Co., Ltd. (Stock code: HK.03818) with effect from 27 March 2019.

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 caliber candidates required for the development of the Group and avoid excess reward. The Group reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Group. No individual employee shall have the right to determine his/her own compensation.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangement or contract (that is significant in relation to the Company's business), to which the Company or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or any entity connected with a Director had, directly or indirectly, a material interest, subsisted as 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 2018 and up to the date of this annual report, the Group had the following connected transactions and continuing connected transactions, details of which are as follows:

Connected Transactions

On 19 May 2017, the Company, as lender, entered into a loan agreement with China Travel Financial Investment Holdings Co., Limited ("CTS Finance Investment"), as borrower, for a term of on year commencing from 19 May 2017 and ending on 18 May 2018, the maturity date of the loan, pursuant to which the Company provided a loan of US$20,000,000 to CTS Finance Investment. CTS Finance Investment has, pursuant to the terms of the loan agreement, submitted an application to the Company within 10 business days prior to the maturity date to apply for extension of the maturity date of the loan. On 18 May 2018, the Company entered into an extension agreement with CTS Financial Investment for a term of one year commencing from 18 May 2018 and ending on 17 May 2019 to set out the terms and conditions with respect to such extension. CTS (Holdings) is a substantial shareholder of the Company. CTS Finance Investment is a wholly-owned subsidiary of CTS (Holdings) and is therefore a connected person of the Company. Accordingly, the transaction contemplated under the extension agreement constitutes connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements thereunder. For detailed information, please refer to the announcement of the Company dated 18 May 2018.

Continuing Connected Transactions

(i) On 14 January 2016, the Company and China National Travel Service (HK) Finance Company Limited ("CTS Finance") entered into a Financial Services Framework Agreement (the "2016 Financial Services Framework Agreement") in respect of the provision of deposit services, comprehensive credit line services, entrustment loan services and cross-border RMB cash pooling services by CTS Finance. China CTS holds the entire share capital of CTS (Holdings) and CTS (Holdings) is a substantial shareholder of the Company, China CTS is a connected person of the Company under the Listing Rules. CTS Finance is a non wholly-owned subsidiary of China CTS and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the 2016 Financial Services Framework Agreement constitutes continuing connected transactions for the Company under the Listing Rules.

Due to the increasing idle funds in the PRC Subsidiaries and more competitive deposit rates offered by CTS Finance, the aggregate amount under the deposit services actually required by the Group for the year ended 31 December 2018 is expected to exceed the original projection. The Company entered into a supplemental agreement with CTS Finance on 8 November 2018 to revise the deposit cap for the year ended 31 December 2018 as RMB500 million to re-comply with the reporting and announcement requirements in accordance with Rule 14A.54 of the Listing Rules. All other terms under the 2016 Financial Services Framework Agreement remain unchanged.

Since the loan services are on normal commercial terms (or better to the Group) where no security over the assets of the Group will be granted in respect of the financial assistance given by CTS Finance, the loan services are fully exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the fees in connection with the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services will be on an annual basis less than 0.1%, the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services are fully exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the deposit caps, being the maximum daily outstanding balance of deposits (including accrued interest) from the deposit services and cross-border RMB cash pooling services placed by the Company and/or its PRC subsidiaries with CTS Finance, will be more than 0.1% but less than 5% and have an annual consideration of more than HK$3,000,000, the deposit services are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under the Listing Rules. The deposit caps for each of the three years ended 31 December 2018 were RMB124.4 million, RMB136.8 million and RMB500 million, respectively. The actual amount of the transactions for the year ended 31 December 2018 was RMB465,232,000. The maximum annual interest receivable for the year ended 31 December 2018 was RMB7 million. The actual amount of such transactions for the year ended 31 December 2018 was RMB1,327,000.

As the 2016 Financial Services Framework Agreement expired on 31 December 2018, the Company entered into a financial services framework agreement with CTS Finance on 8 November 2018 to renew the terms of such continuing connected transactions for a term commencing from 1 January 2019 and ending on 31 December 2021, where CTS Finance will continue to provide services thereunder to the Group. The deposit caps for each of the three years ending 31 December 2021 is RMB500 million. The maximum annual interest receivable for each of the three years ending 31 December 2021 is RMB20 million.

For detailed information, please refer to the Company's announcement dated 14 January 2016 and 8 November 2018.

(ii) On 29 September 2016, Shenzhen The World Miniature Co. Ltd. ("Window of the World"), a 51% owned subsidiary of the Company, Industrial and Commercial Bank of China Limited ("ICBC") and Shenzhen Overseas Chinese Town Company Limited ("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 an initial term of one year commencing on 29 September 2016 and ending on 28 September 2017, extendable for up to two years beyond the initial term to 28 September 2019, pursuant to which ICBC has, at the request of and acting as an agent to Window of the World, agreed to release an entrustment loan, which is funded by Window of the World, with a maximum amount of RMB150 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 an initial term of one year commencing on 29 September 2016 and ending on 28 September 2017, extendable for up to two years beyond the initial term to 28 September 2019, pursuant to which ICBC has, at the request of and acting as an agent to Splendid China, agreed to release an entrustment loan, which is funded by Splendid China, 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, 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 (collectively, the "Entrustment Loan Agreements") constitute continuing connected transactions for the Company under Listing Rules. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Entrustment Loan Agreements will be aggregated and treated as if they were one transaction. As the highest applicable transactions contemplated under the Entrustment Loan Agreements on an aggregate basis will be more than 1% but less than 5% and have an annual consideration of more than HK$3,000,000, the entering into of the Entrustment Loan Agreements is subject to the reporting, announcement and annual review requirements, but is exempt from the independent shareholders' approval requirement under the Listing Rules. The annual cap for each year during the term of the Entrustment Loan Agreements is RMB320 million. The actual amount of the transactions for the year ended 31 December 2018 was RMB240,000,000. For detailed information, please refer to the announcement of the Company dated 29 September 2016.

(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 and its associates (collectively, the "China CTS Group") in the following categories:

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

(b) Lease arrangements with the CTS (Holdings) Group or the China CTS Group as lessor (note (2));

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

(d) Provision of hotel management services to the CTS (Holdings) Group (note (3));

(e) Provision of tour group services by the Group and the China CTS Group to each other (note (4)); and

(f) Lease arrangements with the Chins CTS Group as lessee (note (5)).

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 15 December 2015, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$290 million for each of the three years ending 31 December 2018. At the extraordinary general meeting of the Company held on 14 December 2018, the Company obtained independent shareholders' approval of the maximum aggregate annual value of HK$310 million for each of the three years ending 31 December 2021. For detailed information, please refer to the Company's announcement dated 8 November 2018 and the circular dated 28 November 2018.

(2) The Company entered into a master agreement with CTS (Holdings) on 6 November 2015 to govern the continuing connected transactions referred to in (b) and (c) above for a term commenced from 1 January 2016 and ending on 31 December 2018. On 8 November 2018, the Company entered into a master agreement with China CTS to renew the terms of the transactions referred to in (b) above for a term commencing from 1 January 2019 and ending on 31 December 2021, where the Group will continue to obtain lease of office premises from the China CTS Group.

As CTS (Holdings) is a substantial shareholder of the Company, members of the CTS (Holdings) Group are connected persons of the Company. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS and the China CTS Group are connected persons of the Company under the Listing Rules. For detailed information, please refer to the Company's announcements dated 6 November 2015 and 8 November 2018.

(3) On 6 November 2015, the Company, as hotel manager, and CTS (Holdings), as hotel owner, entered into a hotel management services master agreement (the "HMS Master Agreement") to govern the continuous provision of hotel management services by the Group to the CTS (Holdings) Group for a term commenced from 1 January 2016 and ending on 31 December 2018. For detailed information, please refer to the announcement of the Company dated 6 November 2015.

(4) On 28 December 2017, the Company and China CTS entered into a tour group services master agreement in relation to the provision of tour group services by the Group and the China CTS Group to each other for a term commenced on 1 January 2018 and ending on 31 December 2020 in order to benefit from the extensive coverage of the travelling network of the China CTS Group and to allocate resources more efficiently.

As China CTS holds the entire issued share capital of CTS (Holdings) which is a substantial shareholder of the Company, China CTS is therefore a connected person of the Company. For detailed information, please refer to the Company's announcement dated 28 December 2017.

(5) On 21 July 2017, the Company and China CTS entered into a master lease agreement to govern the lease arrangements with the China CTS Group as lessee for a term commencing from 21 July 2017 and ending on 31 December 2019.

As China CTS holds the entire issued share capital of CTS (Holdings) which is a substantial shareholder of the Company, China CTS is therefore a connected person of the Company. For detailed information, please refer to the Company's announcement dated 21 July 2017.

The maximum aggregate annual consideration for the above-said continuing connected transactions for the year ended 31 December 2018 and the actual amounts of such transactions for the year ended 31 December 2018 are as follows:

	Caps for the years ended/ending 31 December				Actual amounts for the year ended 31 December
	2017	**2018**	**2019**	**2020**	**2018**
	'000	'000	'000	'000	'000
I. Continuing connected transactions with the CTS (Holdings) Group					
(a) Provision of Travel Permit Administration by CTSHK	HK$290,000	HK$290,000	HK$310,000	HK$310,000	HK$247,101
(b) Lease arrangements with the CTS (Holdings) Group as lessor	HK$28,500	HK$31,500	N/A	N/A	HK$18,670
(c) Provision of ASP related services to the CTS (Holdings) Group	HK$5,000	HK$6,250	N/A	N/A	HK$3,318
(d) Provision of hotel management services to the CTS (Holdings) Group	RMB16,500	RMB18,200	N/A	N/A	RMB1,122
II. Continuing connected transactions with the China CTS Group					
(e) Provision of tour group services by the Group to the China CTS Group	HK$43,000	HK$35,000	HK$45,000	HK$58,000	HK$13,871
(f) Provision of tour group services by the China CTS Group to the Group	HK$105,000	HK$90,000	HK$108,000	HK$129,000	HK$74,049
(g) Lease arrangements with the China CTS Group as lessor	N/A	N/A	HK$23,000	HK$25,000	N/A
(h) Lease arrangements with the China CTS Group as lessee	RMB6,430	RMB7,720	RMB9,270	N/A	RMB5,460

(iv) On 6 November 2015, CTS Scenery Resort Investment Company Limited ("CTS Scenery Resort"), a wholly-owned subsidiary of the Company, entered into a services agreement (the "Services Agreement") with China CTS Asset Management Corporation ("China CTS Asset Management"), a wholly-owned subsidiary of China CTS, for a term of three years commencing from 1 January 2016 and ending on 31 December 2018, 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 for the Company under the Listing Rules. The maximum annual caps for each of the three years ending 31 December 2018 for the provision of management services by China CTS Asset Management to CTS Scenery Resort and its subsidiaries are RMB6.6 million, RMB7.3 million and RMB8 million, respectively. The actual amount of the transactions for the year ended 31 December 2018 was RMB6,818,000. For detailed information, please refer to the Company's announcement dated 6 November 2015.

(v) On 28 December 2018, the Company and China CTS entered into a management services master agreement pursuant to which the Company agreed to provide management services to a group of subsidiaries of China CTS, the principal business of which include investment, development and management of tourism real estate projects, for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. The management services agreement will enable the Company to benefit from the quality tourism resources of China CTS with synergies and maximized asset yields, and expand the Company's revenue stream and increase its cash flow. The annual cap for each of the three years ending 31 December 2021 is RMB55,000,000.

CTS (Holdings) is a connected person of the Company by virtue of being a substantial shareholder. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS is a connected person of the Company under the Listing Rules. The entering into of the management services master agreement between the Company and China CTS constitutes continuing connected transactions of the Company under the Listing Rules. For detailed information, please refer to the Company's announcement dated 28 December 2018.

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 for the year ended 31 December 2018 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.

KPMG, the Company's auditors, were engaged to report on the Group's continuing connected transactions for the year ended 31 December 2018 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. KPMG 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.56 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 2018, 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 2018
	Corporate interest	Personal interest	Family interest			
Mr. Fu Zhuoyang (Note 1)	–	–	–	768,000	768,000	0.01%
Mr. Lo Sui On	–	600,000	–	770,000	1,370,000	0.03%
Mr. Jiang Hong (Note 2)	–	–	–	800,000	800,000	0.01%
Mr. You Cheng (Note 3)	–	450,000	–	–	450,000	0.01%

Note 1: Mr. Fu Zhuoyang was appointed as an Executive Director and the Chairman of the Board of the Company on 13 June 2018.

Note 2: Mr. Jiang Hong was appointed as an Executive Director and the General Manager of the Company on 24 October 2018.

Note 3: Mr. You Cheng was appointed as an Executive Director of the Company on 26 October 2018.

The interests of the Directors and Chief Executives of the Company in the share option of the Company are detailed in the "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.

PERMITTED INDEMNITY PROVISION

The Articles provides that every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the extent permitted by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which he may sustain or incur or about the execution of the duties of his office or otherwise in relation thereto.

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for legal actions brought against the Directors of the Company. The level of coverage is reviewed annually.

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 36 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 2018	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Reclassified during the year	Balance as at 31 December 2018	Date of grant	Exercise period (Note 1)	Exercise price (HK$)
Directors									
Fu Zhuoyang	–	–	–	–	768,000	768,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Lo Sui On	770,000	–	–	–	–	770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Jiang Hong	–	–	–	–	800,000	800,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Sub-Total	770,000	–	–	–	1,568,000	2,338,000			
Other employees in aggregate	19,944,000	–	(7,328,000)	–	(1,568,000)	11,048,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand Total	20,714,000	–	(7,328,000)	–	–	13,386,000			

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

Note 2: No further share options can be granted under the 2002 Share Option Scheme since its termination on 4 May 2012. The total number of shares of the Company which may be issued upon exercise of all share options granted and yet to be exercised under the 2002 Share Option Scheme as at 31 December 2018 was 13,386,000, representing 0.25% of the total number of issued shares of the Company as at the date of this annual report.

Note 3: Mr. Fu Zhuoyang was appointed as an Executive Director and the Chairman of the Company on 13 June 2018.

Note 4: Mr. Jiang Hong was appointed as an Executive Director and the General Manager of the Company on 24 October 2018.

The 2012 Share Option Scheme

Details of the movement in the share options granted under the 2012 Share Option Scheme during the year ended 31 December 2018 are set out below.

Name or category of participant	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Reclassified during the year	Balance as at 31 December 2018	Date of grant	Exercise period (Note 1)	Exercise price (HK$)
Directors									
Zhang Xing	2,000,000	–	–	(2,000,000)	–	–	15 September 2016	15 September 2018 to 14 September 2021	2.304
Chen Xianjun	1,300,000			(1,300,000)	–	–	15 September 2016	15 September 2018 to 14 September 2021	2.304
Sub-Total	3,300,000	–	–	(3,300,000)	–	–			
Other employees in aggregate	135,940,000	–	–	(77,435,600)	–	58,504,400	15 September 2016	15 September 2018 to 14 September 2021	2.304
	16,400,000	–	–	(10,504,000)	–	5,896,000	30 December 2016	30 December 2018 to 29 December 2021	2.304
Sub-Total	152,340,000	–	–	(87,939,600)	–	64,400,400			
Grand Total	155,640,000	–	–	(91,239,600)	–	64,400,400			

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:

Date of Grant	The proportion of options exercisable	Exercise period
15 September 2016	First 33% of the share options	15 September 2018 to 14 September 2021
	Second 33% of the share options	15 September 2019 to 14 September 2021
	Remaining 34% of the share options	15 September 2020 to 14 September 2021
30 December 2016	First 33% of the share options	30 December 2018 to 29 December 2021
	Second 33% of the share options	30 December 2019 to 29 December 2021
	Remaining 34% of the share options	30 December 2020 to 29 December 2021

Note 2: Mr. Zhang Xing was resigned as an Executive Director and Executive Deputy General Manager (in charge of overall operation) of the Company on 24 October 2018.

Note 3: Mr. Chen Xianjun entered into an agreement with the Company on 11 September 2018, pursuant to which the 1,300,000 share options, being all the share options granted to Mr. Chen Xianjun by the Company, were cancelled.

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 total number of shares of the Company which may be issued upon exercise of all share options to be granted under the 2012 Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue on the date of approval of the 2012 Share Option Scheme. As at 31 December 2018, the number of shares of the Company available for issue in respect thereof was 567,779,152 shares, representing 10.41% of the total number of issued shares of the Company as at the date of this annual report.

Save as disclosed above, as at 31 December 2018, 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 2018, 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 2018
China CTS	Interest of controlled corporation (Note 1)	3,276,164,728	60.05%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (Note 1 and 2)	3,276,164,728	60.05%
Hongkong New Travel Investments Ltd. (formerly known as Alliance Power Resources Ltd.)	Beneficial owner (Note 2)	1,109,952,705	20.34%
CTS Asset Management (I) Limited	Interest of controlled corporation (Note 2)	1,109,952,705	20.34%
CNIC Corporation Limited (formerly known as GUOXIN International Investment Corporation Limited)	Interest of controlled corporation (Note 3)	1,115,340,456	20.44%
Ryden Holdings Company Limited	Interest of controlled corporation (Note 3)	1,115,340,456	20.44%
中國華馨投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.44%
博遠投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.44%

Note 1: The entire issued share capital of CTS (Holdings) is beneficially owned by China CTS. CTS (Holdings) is the immediate holding company of the Company. Accordingly, China CTS 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 in the Company duplicate the interests of CTS (Holdings).

Note 2: Of these 3,276,164,728 shares, 2,145,512,023 shares are held by CTS (Holdings) directly. 20,700,000 shares are directly held by Foden International Limited, a wholly-owned subsidiary of CTS (Holdings). 1,109,952,705 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. CTS Asset Management (I) Limited is 100% directly owned by CTS (Holdings), and CTS (Holdings) and CTS Asset Management (I) Limited are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Note 3: 1,109,952,705 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. Ryden Holdings Company Limited is 100% directly owned by CNIC Corporation Limited, which is 90% directly owned by 博遠投資有限公司, a 100%-owned subsidiary of 中國華馨投資有限公司. Ryden Holdings Company Limited, CNIC Corporation Limited, 博遠投資有限公司 and 中國華馨投資有限公司 are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Save as aforesaid, as at 31 December 2018, 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 2018 are set out in note 33 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 a bank for an uncommitted facility of HK$300,000,000. The term of the credit facility has been extended from 30 June 2016 to such other date at the bank's absolute discretion and is subject to the bank's periodic review.

On 25 July 2018, a wholly-owned subsidiary of the Company, as borrower, and the Company, as guarantor, entered into a facility agreement with a bank for a committed revolving loan of HK$300,000,000. The final maturity date of the credit facility is 25 July 2019.

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% direct or indirect 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.

On 24 May 2018, the Company, as borrower, entered into a facility agreement with a bank, as lender, for a committed revolving loan of up to HK$300,000,000. The final maturity date of the credit facility is one year from 24 May 2018, the starting date on which the credit facility was made available to the Company for drawdown. Pursuant to the facility agreement, the Company undertakes with the bank, inter alia, that (i) CTS (Holdings) shall hold, directly or indirectly, more than 40% of the issued share capital of the Company and maintain as the single largest shareholder of the Company; and (ii) CTS (Holdings) shall be wholly-owned, directly or indirectly, by the State Council of the People's Republic of China and is under the direct or indirect management control of the State Council of the People's Republic of China.

On 25 June 2013, the Company, as borrower, entered into a facility agreement with a bank (the "Bank") for an uncommitted revolving credit facility to the extent of HK$100,000,000. Pursuant to the aforesaid facility agreements, the Company undertakes with the Bank that CTS (Holdings) shall hold, directly or indirectly, not less than 50% of the issued share capital of the Company.

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 the risk management, 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 38 to 48.

AUDITORS

PricewaterhouseCoopers were auditors of the Company for the year ended 31 December 2016 who resigned on 12 December 2017. Since their resignation, KPMG have been appointed as auditors of the Company.

The financial statements of the Company for the year ended 31 December 2018 were audited by KPMG. KPMG retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the 2019 annual general meeting to re-appoint them and to authorise the Directors to fix their remuneration.

ON BEHALF OF THE BOARD

Fu Zhuoyang
Chairman

Hong Kong, 27 March 2019

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 shareholders' values. The board of Directors of the Company (the "Board") will continue to monitor and review the Company's corporate governance practices to ensure compliance.

The Company has complied with the code provisions (the "Code Provision(s)") of the Corporate Governance 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") throughout the year ended 31 December 2018, except for the following deviations:

– Code Provision A.2.7 specifies that the Chairman should at least annually hold meetings with the Non-Executive Directors (including Independent Non-Executive Directors) without the Executive Directors present. During the year, the Chairman did not hold any meeting with the Non-Executive Directors without the Executive Directors present because the Non-Executive Directors of the Company may express their views directly to the Chairman from time to time via other means including correspondences and emails. The Company is of the view that there is efficient communication between the Chairman and Non-Executive Directors.

– Code Provision A.4.1 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 Provision D.1.4 specifies that the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. Except for Mr. Jiang Hong, Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke and Mr. Huang Hui, who were appointed as Directors of the Company on 24 October 2018, 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.

THE BOARD

Composition

The Board currently comprises 11 Directors, being 7 Executive Directors and 4 Independent Non-Executive Directors. Further details of the composition of the Board are disclosed in the "Corporate Information" section on page 2 and the "Report of the Directors" section on page 23 to 37.

The relationships among members of the Board are disclosed in the "Biographies of Directors" section on pages 8 to 11.

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 (or the Executive Deputy General Manager taking charge of the overall operation of the Company) 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, or the Executive Deputy General Manager taking charge of the overall operation of the Company, focuses on managing and controlling the business of the Group. Their respective responsibilities are clearly defined and set out in writing. On 24 October 2018, Mr. Zhang Xing resigned as an Executive Director and the Executive Deputy General Manager (in charge of overall operation) of the Company, and Mr. Jiang Hong has been appointed as an Executive Director and the General Manager of the Company on the same date.

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 or the Executive Deputy General Manager (in charge of overall operation of the Company) 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 or the Executive Deputy General Manager (in charge of overall operation of the Company) and the senior management to discharge its responsibilities.

Directors' Training

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 year, the Company organized a training programme for Directors to update the Directors on risk management. During the year, the Directors participated in the following professional developments:

	Type of Trainings		
Name of Directors	Attending seminars and/or conferences and/or forums	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:			
Fu Zhuoyang Note 1	√	–	√
Zhang Fengchun Note 1	√	√	√
Lo Sui On	√	√	√
Jiang Hong Note 3	√	–	√
Zhang Xing Note 3	√	–	√
Liu Fengbo Note 2	√	–	√
Chen Xianjun	√	–	√
You Cheng Note 6	√	–	√
Yang Hao Note 7	√	–	√
Independent Non-executive Directors:			
Fong Yun Wah Note 4	√	–	√
Wong Man Kong Peter	√	–	√
Tse Cho Che Edward Note 5	√	√	√
Zhang Xiaoke Note 5	√	–	√
Huang Hui Note 5	√	√	√
Sze Robert Tsai To Note 4	√	–	√
Chan Wing Kee Note 4	√	–	√

Note 1 Mr. Fu Zhuoyang appointed as the Chairman and an Executive Director of the Company with effect from 13 June 2018 and Mr. Zhang Fengchun resigned as the Chairman and an Executive Director of the Company with effect from the same date.

Note 2 Mr. Liu Fengbo resigned as an Executive Director of the Company with effect from 20 August 2018.

Note 3 Mr. Zhang Xing resigned as an Executive Director and the Executive Deputy General Manager (in charge of overall operation) of the Company with effect from 24 October 2018 and Mr. Jiang Hong appointed as an Executive Director and the General Manager of the Company with effect from the same date.

Note 4 Dr. Fung Yun Wah, Mr. Sze Robert Tsai To and Mr. Chan Wing Kee resigned as Independent Non-Executive Directors of the Company with effect from 24 October 2018.

Note 5 Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke and Mr. Huang Hui appointed as Independent Non-Executive Directors of the Company with effect from 24 October 2018.

Note 6 Mr. You Cheng appointed as an Executive Director of the Company with effect from 26 October 2018.

Note 7 Mr. Yang Hao appointed as an Executive Director of the Company with effect from 14 December 2018.

Board Meetings

During the year ended 31 December 2018, 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 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.

Audit Committee

Members:

Independent Non-Executive Directors:	Mr. Wong Man Kong Peter *(Chairman)* (passed away on 11 March 2019)
	Mr. Tse Cho Che Edward (appointed on 24 October 2018)
	Mr. Zhang Xiaoke (appointed on 24 October 2018)
	Mr. Huang Hui (appointed on 24 October 2018)
	Mr. Chen Johnny (appointed on 18 January 2019)
	Mr. Sze Robert Tsai To (resigned on 24 October 2018)
	Mr. Chan Wing Kee (resigned on 24 October 2018)

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 2018 and reviewed the audited financial statements for the year ended 31 December 2017 and the unaudited interim financial statements for the six months ended 30 June 2018. The Audit Committee also reviewed internal audit reports, corporate governance reports, the re-appointment of external auditors, the adequacy of resources, qualifications and experience of staffs of the Company's accounting and financial reporting function and discussed with the management and external auditors the risk management and internal control system and accounting policies and practices.

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Remuneration Committee

Members:

Independent Non-Executive Directors:	Mr. Wong Man Kong Peter *(Chairman)* (passed away on 11 March 2019)
	Mr. Tse Cho Che Edward (appointed on 24 October 2018)
	Mr. Zhang Xiaoke (appointed on 24 October 2018)
	Mr. Huang Hui (appointed on 24 October 2018)
	Mr. Chen Johnny (appointed on 18 January 2019)
Executive Director:	Mr. Fu Zhuoyang (appointed on 13 June 2018)
	Mr. Zhang Fengchun (resigned on 13 June 2018)

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 management for the financial year ended 31 December 2018 are disclosed in the notes to the consolidated financial statements.

The Remuneration Committee held one meeting in 2018 and reviewed the Directors' fees for 2018.

Nomination Committee

Members:

Executive Director:	Mr. Fu Zhuoyang *(Chairman)* (appointed on 13 June 2018)
	Mr. Zhang Fengchun *(Chairman)* (resigned on 13 June 2018)

Independent Non-Executive Directors:	Mr. Wong Man Kong Peter (passed away on 11 March 2019)
	Mr. Tse Cho Che Edward (appointed on 24 October 2018)
	Mr. Zhang Xiaoke (appointed on 24 October 2018)
	Mr. Huang Hui (appointed on 24 October 2018)
	Mr. Chen Johnny (appointed on 18 January 2019)
	Mr. Sze, Robert Tsai To (resigned on 24 October 2018)
	Mr. Chan Wing Kee (resigned on 24 October 2018)

The Nomination Committee was established in June 2012 with specific terms of reference in accordance with the Code Provisions. 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.

The Board Diversity Policy of the Company was adopted on 30 August 2013, aiming to set out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee is responsible for reviewing the Policy and monitoring its implementation.

The Nomination Committee held one meeting in 2018 and reviewed the re-election of retiring Directors at the 2018 annual general meeting, the structure, size and composition of the Board, and the resignation and appointment of Board members and senior management.

Strategy and Development Committee

Members:

Executive Directors:	Mr. Fu Zhuoyang *(Chairman)* (appointed on 13 June 2018)
	Mr. Zhang Fengchun *(Chairman)* (resigned on 13 June 2018)
	Mr. Chen Xianjun

Independent Non-Executive Directors:	Mr. Wong Man Kong, Peter (passed away on 11 March 2019)
	Mr. Sze, Robert Tsai To (resigned on 24 October 2018)
	Mr. Chan Wing Kee (resigned on 24 October 2018)

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 held one meeting during the year ended 31 December 2018 and d reviewed the Company's capital expenditure and financial plan for 2018.

The Board cancelled the Strategy and Development Committee with effect from 24 October 2018 and its work and duties are immediately performed by the Board.

ATTENDANCE AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETING

The attendance record of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee, Strategy and Development Committee, Annual General Meeting and Extraordinary General Meeting of the Company during the year ended 31 December 2018 are set out as follows:

	Number of Meetings Attended/Eligible to attend for the year ended 31 December 2018						
Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Strategy and Development Committee Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Directors:							
Fu Zhuoyang Note 1	3/3	N/A	N/A	N/A	N/A	N/A	1/1
Lo Sui On	3/4	N/A	N/A	N/A	N/A	1/1	1/1
Jiang Hong Note 2	2/2	N/A	N/A	N/A	N/A	1/1	1/1
Chen Xianjun	2/4	N/A	N/A	N/A	1/1	0/1	0/1
You Cheng Note 3	1/2	N/A	N/A	N/A	N/A	N/A	0/1
Yang Hao Note 4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zhang Fengchun Note 5	1/1	N/A	1/1	1/1	1/1	N/A	N/A
Zhang Xing Note 7	2/2	N/A	N/A	N/A	N/A	1/1	N/A
Liu Fengbo Note 8	2/2	N/A	N/A	N/A	N/A	0/1	N/A
Independent Non-executive Directors:							
Fong Yun Wah Note 9	2/2	N/A	N/A	N/A	N/A	1/1	N/A
Wong Man Kong, Peter	4/4	2/2	1/1	1/1	1/1	0/1	1/1
Sze, Robert Tsai To Note 10	2/2	2/2	1/1	1/1	1/1	1/1	N/A
Chan Wing Kee Note 10	2/2	2/2	1/1	1/1	1/1	0/1	N/A
Tse Cho Che, Edward Note 11	2/2	N/A	N/A	N/A	N/A	N/A	1/1
Zhang Xiaoke Note 11	2/2	N/A	N/A	N/A	N/A	N/A	1/1
Huang Hui Note 11	2/2	N/A	N/A	N/A	N/A	N/A	1/1

Note 1 Mr. Fu Zhuoyang appointed as the Chairman of the Board, Chairman of the Nomination Committee, a member of the Remuneration Committee and the Chairman of the Strategy and Development Committee with effect from 13 June 2018.

Note 2 Mr. Jiang Hong appointed as an Executive Director and the General Manager of the Company with effect from 24 October 2018.

Note 3 Mr. You Cheng appointed as an Executive Director of the Company with effect from 26 October 2018.

Note 4 Mr. Yang Hao appointed as an Executive Director of the Company with effect from 14 December 2018.

Note 5 Mr. Zhang Fengchun resigned as the Chairman of the Board, Chairman of the Nomination Committee, a member of the Remuneration Committee and the Chairman of the Strategy and Development Committee with effect from 13 June 2018.

Note 7 Mr. Zhang Xing resigned as an Executive Director and Executive Deputy General Manager (in charge of overall operation) of the Company with effect from 24 October 2018.

Note 8 Mr. Liu Fengbo resigned as an Executive Director of the Company with effect from 20 August 2018.

Note 9 Dr. Fong Yun Wah resigned as an Independent Non-executive Director of the Company with effect from 24 October 2018.

Note 10 Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee resigned as Independent Non-executive Director; member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Development Committee of the Company with effect from 24 October 2018.

Note 11 Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke and Mr. Huang Hui appointed as Independent Non-executive Director; member of the Audit Committee, the Nomination Committee and the Remuneration Committee with effect from 24 October 2018.

DIRECTOR'S 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 2018.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the remuneration to the Company's auditors, KPMG is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services	6,867
Non-audit services	372
Total	7,239

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 Auditor's Report" on page 65 to 70.

RISK MANAGEMET AND INTERNAL CONTROL

Risk Management

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

To provide sound and effective risk management, the Board has established a risk management system. The key elements of our risk management system includes risk strategy, risk management policy and procedures, risk organisation, risk management process and other risk management supporting elements.

Risk Governance Structure

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems, and review their effectiveness on an ongoing basis;

- Oversee management in the design, implementation and monitoring of the risk management and internal control systems.

Risk Management Committee

- Review the effectiveness of the Group's risk management and internal control systems at least annually and report the result to the Board, and such review should cover all material controls including financial, operational and compliance controls;

- Consider major findings on risk management and internal control matters, and report and propose the recommendations to the Board.

Risk Management Office

- Faciliate the performance of risk assessment;

- Monitor the operation of risk mangement and review risk profile on a regular basis;

- Periodically report the riks management matters to Risk Management Committee.

Business Unit Management

- Identify, evaluate and manage the risks that may potentially impact the major processes of the operations;

- Monitor risks and take measures to mitigate risks in day-to-day operations.

Process Used to Identify, Evaluate and Manage Significant Risks

A robust risk management process is developed to identify, evaluate and manage significant risks. The risk management procedures include the following 5 steps:

Step 1: **Risk identification** – Identify the risks faced by the Company and its subsidiaries.

Step 2: **Risk analysis** – Analyze the identified risks from two dimensions: potential impact and likelihood of occurrence; prioritize key risks and confirm top risks.

Step 3: **Risk responses** – Select an appropriate risk treatment and develop the relevant risk management strategies for identified key risks.

Step 4: **Risk monitoring** – Perform ongoing and periodic monitoring of risks to ensure the risk management strategies are operating effectively.

Step 5: **Risk reporting** – Consolidate the results from the risk assessment; establish detailed action plan and report to the Risk Management Committee and the Audit Committee.

We have established the risk management system and are endeavouring to improve the risk management system by continuously promoting the risk management culture, performing annual risk assessments and reviewing the measures of risk responses etc.

INTERNAL CONTROL

Main Features of the Internal Control System

The Group has established internal control system which is referencing with COSO internal control framework. Our internal control system is consisted of 5 elements (e.g. control environment, risk assessment, control activities, information and communication, and monitoring) and 17 principles. To facilitate the achievement of the Company objectives, we are endeavouring to continually improve internal control system/policies for the increasing requirements from the business and regulators.

Internal Audit Department

The Group has established its in-house internal audit department. The internal audit department conducts audits in accordance with a risk-based annual audit plan. The internal audit reports, along with the key audit findings, prepared by the internal audit department were also reported to the Audit Committee and the Board on a regular basis. Management are obligated to address internal control deficiencies reported and the relevant recommendations proposed by the internal audit department in a timely manner to enhance the Group's internal control system.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to create a system for the employees to raise concerns, in confidence, to the Audit Committee and the Board members about possible improprieties relating to the Group. The identification of the whistleblower will be treated with strictest confidence.

Inside Information

The Company regulates the handling and dissemination of inside information and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company's legal and compliance department assesses the likely impact of any unexpected and significant event that may impact the price of the shares of the Company or their trading volume and evaluates whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

Reviews on Risk Management and Internal Control Systems

The Board has conducted an annual review over the effectiveness of the risk management and internal control systems by reviewing the work performed by management and internal audit department. Through the review of management's key risk and control assessment, the scope and quality of ongoing monitoring of risks and the internal control systems have been assessed. Findings and areas for improvement have been reported to the Risk Management Committee and the Board. The Board therefore considered the risk management and internal control systems of the Group are effective. Management has also provided a confirmation to the Board on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

During the review, the Board also assessed and considered the resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting on requisition of Shareholders

Pursuant to Section 566-568 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), Shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company, may require the Directors of the Company to convene an extraordinary general meeting ("EGM"). The written requisition must state the general nature of the business to be dealt with at the EGM and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company in hard copy form or sent to the Company in electronic form. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the Directors of the Company do not within 21 days after the date on which the written requisition is received by the Company proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months from the date of the original requisition.

The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the Directors 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

Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 shareholders who have a relevant right to vote, may:

– put forward proposal at general meeting;

– circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting.

For further details on the shareholder qualifications, and the procedures and timeline, in connection with the above, Shareholders are kindly requested to refer to Sections 580 and 615 of the Companies Ordinance (Cap 622 of the Laws of Hong Kong).

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management maintain a continuing dialogue with Shareholders and investors through various channels. In 2018, the Company held press and analyst conferences following the release of its 2017 annual results and 2018 interim results announcement, attended various investor conferences, and arranged face-to-face meetings for 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.

INTRODUCTION

We are pleased to present our third Environmental, Social and Governance (ESG) Report covering certain environmental and social responsibility aspects underlying our business operations for the financial year from January 1, 2018 to December 31, 2018.

This report has been prepared in compliance with the Environmental, Social and Governance Reporting Guide ("HKEx ESG Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An index is attached at the end of the report to map the disclosures against the Key Performance Indicators (KPIs) listed in the HKEx ESG Guide, in accordance with the "comply or explain" provisions.

The report scope includes the principal business activities, which are operationss of travel destinations ("travel destinations", mainly including hotels, theme parks, natural and cultural spots, and leisure resorts), travel agency, travel documents and related operations and passenger transportation operations. This year, we have expanded the scope of data collection to further improve the accuracy of our data representing the Group. The quantitative environmental performance of our operation is based on data collected from the 13 operation units which have significant impacts.

The Board of Directors is responsible for the leadership, decision-making and supervision of our ESG performance measures, policies and processes.

OUR APPROACH TO SUSTAINABILITY

We have put in place a set of management policies and embedded sustainability principles in our business activities to deliver long-term value to our stakeholders. Based on the results of robust stakeholder engagement, we conducted a materiality assessment to set the priorities of our ESG management. Through all levels and business units in our organisation, we aim to raise awareness of sustainability and to empower our people to develop environmental friendly initiatives. With oversight from the Board, our sustainability targets cover the following four aspects: Environment, People, Operating Practices, and Community. Our measures in these areas will be described in detail in the following pages.

Stakeholder Engagement

We serve a wide range of stakeholders including government, investors, employees, customers, contractors, suppliers and the community. Regular and effective communication through different channels is crucial to understanding the issues that matter most to our stakeholders. This ensures that we can direct our efforts to align our business with their goals and sustainability concerns.

We have continued to engaged representatives from different business functions to identify relevant ESG issues and assess their materiality to our business by holding internal discussions and reviewing our operations. Disclosures relating to the material ESG issues identified have been included in this ESG report, which aims to provide a balanced representation of our ESG performance on environment, social and governance matters.

The table below shows the material ESG issues identified, relevant stakeholder, and our engagement.

Stakeholders	Material Issues	Engagement
Government	• Alignment with national development plans and policies • Legal compliance • Anti-corruption • Appreciation of state-owned assets • Economic development	❖ Respond to national policies and plans ❖ Evaluate current operations according to updates in policies ❖ Respond to inquiries from Government departments ❖ Fulfil social responsibility
Investors	• Performance growth and return on investment • Information disclosure • Business operation risks	❖ Convene regular shareholder meetings ❖ Publish financial and ESG reports
Employees	• Career development and promotion opportunities • Remuneration and benefits protection • Health and safety	❖ Internal and external employee training ❖ Employee caring activities ❖ Company Intranet ❖ Opinion surveys and feedback
Customers	• Product quality and customer safety • Complaint handling • Customer privacy protection	❖ Customer hotline ❖ Grievance mechanisms ❖ Social media and communication
Contractors and Suppliers	• Open, fair and just procurement • Responsible purchasing • Integrity	❖ Open tendering ❖ Examination and evaluation ❖ Regular communication
Community	• Support community development • Ecological conservation • Urban Greenhouse Gas emissions • Resource utilisation	❖ Supervise the construction process ❖ Examine Environmental Impact Assessment Report ❖ Set energy-saving and emission reduction targets ❖ Poverty alleviation projects

Materiality Assessment of ESG Issues

To further our growth in line with the expectation of our stakeholders, we conduct comprehensive materiality analysis to identify their opinions and concerns with regards to our business and sustainable development. Through active communication with stakeholders, in conjunction with management's expectations, and with the assistance of a third-party professional entity, the following issues were identified to be material. These issues are highly important to both our stakeholders and business, which will be discussed in more detail when addressing the four sustainability aspects in the corresponding sections of this report.

Sustainability aspects	Material ESG issues for us
Environmental	1. Greenhouse gas emissions and mitigation 2. Waste management 3. Use of energy and water 4. Environmental management
Social – People	5. Labour practices 6. Occupational health and safety 7. Training and development 8. Prevention of child and forced labour
Social – Operating practices	9. Supply chain management 10. Service responsibility 11. Intellectual property and data privacy 12. Anti-corruption
Social – Community	13. Contribution to community

To consider our ESG development process and ensure the data accuracy, of all our business operations, the quantitative environmental performance of 13 operation units from our hotels, tourist attractions, and passenger transportation operations were identified and collected this year. This year, we have expanded the scope of data collection to further improve the accuracy of our data representing the group. We will continue to expand the scope of environmental data in the future to better demonstrate our overall environmental performance. Up to now, detailed disclosure information has been identified and marked in the following sections of the report.

Achievements

During the year, we focused on innovation and successfully established a professional talent pool for tourism investment, development, planning, operations and management. We are thrilled to announce that we are selected into the MSCI China index this year. As we have devoted ourselves to the strategic goal of becoming "First-class Tourist Destination Investment and Operation Service Provider", we have been honoured to receive multiple awards, such as the "My favourite Chinese agency" for China Travel Services by U Magazine in 2018, the only 5A grade awardee of the best travel destinations for Sapotou Scenic Spot by China National Travel in 2018 and so forth.

OUR ENVIRONMENT

We are committed to applying robust sustainability principles throughout all business operations. With a view to complying with the applicable environmental laws and regulations, such as the Environmental Protection Law of the People's Republic of China and the Regulation on the Administration of Construction Project Environmental Protection, we have developed internal policies, programmes, and systems to drive continuous improvement. For example, Xianyang Ocean Spring Resort Co., Ltd ("Xianyang OSR") has required all employees to strictly implement its "Office Management Policy", so as to eliminate energy waste from lighting, water taps, and air-conditioning, as well as to minimise paper usage. The construction projects in travel destinations are all subject to Environmental Impact Assessment (EIA) to evaluate and mitigate any potential impact to the local environment, so as to sustain the development of tourism places. There were no non-compliance cases noted in relation to environmental laws and regulations in 2018.

We also encourage our employees, who are vital to our overall success, to adopt environmentally responsible behaviour including saving energy and water, cutting down greenhouse gas (GHG) emissions and adopting waste reduction measures.

Energy and Resources

Efficient management of energy and other resources reduces operation costs and benefits the environment. Therefore, going beyond legal compliance, we are continually improving our environmental management practices and measures to reduce our use of energy and other resources. For example, the China Travel Hong Kong (Zhuhai) Ocean Spring Resort Co., Ltd ("Zhuhai OSR") has adopted the "Implementation Rules for Energy-saving Management", adjusting energy use structures according to the actual situation of the hotel, with the goal of reducing energy consumption in both customer-facing and management functions. Considering the complexity of our business, the specific energy intensity based on each operation is disclosed this year as well.

To achieve higher energy efficiency, we have also implemented the following key initiatives:

(i) Installing blinds for windows to reduce solar heat in air-conditioned areas and reduce the usage of electricity;

(ii) Switching off lights and air-conditioning in meeting rooms, and computers at work stations when not in use; and

(iii) Using energy-saving LED lights in our properties, which save the energy compared with fluorescent lights.

By implementing regular measurement and monitoring systems, we can reduce our energy consumption without affecting the experience of our customers. Shenzhen Splendid China Development Co., Ltd ("Splendid China") has carried out "Water and Electricity Consumption Data Collection Procedures and Energy-saving Measures", whereby energy conservation specialists are responsible for collecting weekly and monthly energy statistics. The data summary is subsequently analysed and reported in the management meetings to track our progress on energy conservation. Various employee education activities have been actively carried out to raise environmental awareness of resources and energy conservation, and to encourage employees to take action proactively.

Electricity and other resource consumption figures for 2018 are shown in the following table.

	Energy Consumption[1]		Unit	GHG Emissions		Unit
	2018	2017		2018	2017	
Electricity use	85,690,787.7	81,223,275.43	kWh	51,899.67	48,749.50	tCO_2e
Natural gas	1,923,674.64	1,109,075.00	m^3	4,180.39	2,410.14	
Gasoline	683,325.08	567,480.63	L	1,529.91	1,252.61	
Diesel fuel	7,706.51	4,431.31	tonnes	23,912.54	13,858.92	
Liquefied petroleum	352.85	349.89	tonnes	1,111.05	1,101.72	
Gas	6,645,312.00	7,337,992.00	MJ	435.96	481.40	
Refrigerant	142	789.40	kg	330.67	1,407.14	

Notes:

1. Data from all 13 operating units including six hotels in Hong Kong, Macau and Mainland China, Shapotou Scenic Spot, Zhuhai OSR, Xianyang OSR, Window of the World, Splendid China, Anji and China Travel Tours Transportation Services is included.

2. tCO_2e. Definition: Tonnes of carbon dioxide equivalent, which is describing how much global warming a given type and amount of greenhouse gas may cause, using the functionally equivalent amount or concentration of carbon dioxide (CO_2) as the reference.

Calculated energy consumption intensity for China Travel Tours Transportation Services:

Energy consumption intensity	Usage in 2018	Energy consumption source
Fuel used for operation/ Total vehicle mileage ('000)	9.22 GJ/km ('000)	Natural gas, gasoline, diesel fuel

Case Studies
Hotels
Metropark Hotel Causeway Bay Hong Kong
Upgrade of lighting The hotel has an Energy Management policy to guide the environmental journey. In this year, we have started to replace current fluorescent lighting with LED lights to save energy for the long run.
Metropark Hotel Mongkok
The Central Water System of Metropark Hotel Mongkok can adjust water flow and temperature according to time, weather and occupancy rate, saving energy for heating water. In 2018, we achieved energy reduction in electricity use than 2017.
Travel destinations
Zhuhai OSR
Our energy conservation specialists in the Engineering Department are responsible for the collection of energy statistics, including weekly and monthly usage of electricity, water, gas and diesel. The statistical summary is reported in regular management meetings. We have real-time access to energy usage information and can identify abnormalities for rectification.
Passenger transportation operations
China Travel Tours Transportation Services Hong Kong Ltd. ("China Travel Tours Transportation Services")
In respect of energy conservation, we value the cultivation of staff awareness of energy conservation. Various education activities have been actively carried out to raise environmental awareness of resources and energy conservation, and to encourage employees to take action proactively.

Emissions

We have launched a series of policies and activities to manage greenhouse gas emissions in a systematic way. We have also conducted regular tests on GHG emissions. For example, Zhuhai OSR entrusts a third-party inspection agency to conduct regular tests on air pollutants emitted, including nitrogen oxide, sulphur dioxide, and dust particles, which mainly comes from the combustion of the diesel boilers. The test results are reported to our management for setting reduction targets and to the Environmental Protection Bureau of the Government on a quarterly basis, in line with regulations. China Travel Tours Transportation Services has invited third-party agents to perform GHG audits based on ISO 14064-1 Greenhouse gases – Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals, and GB/T 32150-2015 General Guideline of the greenhouse gas emissions accounting and reporting for industrial enterprises, regarding company's scope 1 and scope 2 emissions, and regarding emissions from vehicles. The auditing team has focused on the data collection process, data quality and choice of emissions factor etc.

Calculated GHG emission figures for 2018 are shown in the following table.

Scope of emission	Overall usage in 2018[1]	Overall usage in 2017	Main energy source
Scope 1 Emissions[2]	31,417.46 tCO_2e	20,420.22 tCO_2e	Natural gas, gasoline, diesel fuel, liquefied petroleum, gas, refrigerant
Scope 2 Emissions[3]	51,982.73 tCO_2e	48,841.23 tCO_2e	Electricity purchased, gas

Notes:

1. Data from all 13 operating units including six hotels in Hong Kong, Macau and Mainland China, Shapotou Scenic Spot, Zhuhai OSR, Xianyang OSR, Window of the World, Splendid China, Anji and China Travel Tours Transportation Services is included.

2. Scope 1 greenhouse gas emissions are calculated based on the total electricity consumption according to the total consumption of natural gas, gasoline, diesel fuel, liquefied petroleum, gas and refrigerant.

3. Scope 2 greenhouse gas emissions are calculated based on the emission factors for purchased gas with reference to the information released by Towngas, and purchased electricity with reference to the information released by CLP, HEC, CEM, Southern, Northern and North western regional power grids; for example, the emissions of the Hong Kong hotels located on Hong Kong Island were calculated by HEC emission factors.

The air pollutants from automobile exhaust include carbon monoxide (CO), hydrocarbon (HC), nitrogen oxides (NO_x), particulate matter (PM) and other harmful solid particles. To reduce these pollutants, we have committed to complying all relevant requirements and standards. In 2018, China Travel Tours Transportation Services had a total of 221 operating vehicles, which were wholly compliant with the relevant environmental laws and regulations. As we strive to control the emissions and to strengthen the inspection of current vehicles, there were 10 buses which did not comply with the emissions standards in 2018, and which were replaced thereafter with environmental-friendly models that meet international and domestic requirements. During the year, passenger transportation operations have implemented the audit on exhaust pollution by type and the results shown in the following table.

Type of vehicle	Fuel type	Fuel consumption (t)	Pollutant	Pollutants calculations: Emissions Factor (kg/t)	Pollutants calculations: Emissions calculations (t)
Large vehicle	Diesel fuel	6893.0	Carbon Monoxide	28.4	195.76
			Hydrocarbon	9.1	62.73
			Nitrogen Oxide	40.8	281.23
			Particulate Matter	3.4	23.44
Small vehicle	Gasoline	300.713	Carbon Monoxide	267	80.29
			Hydrocarbon	33.2	9.98
			Nitrogen Oxide	26.8	8.06
			Particulate Matter	1.34	0.40

Notes:

1. The above emission data was the audited figure, based on fuel consumption and vehicle emission standards by China Travel Tours Transportation Services. Since the business has mostly large vehicles that consume diesel fuel and small vehicles that consume gasoline, CO, HC, NO_x are considered.

2. The emissions factors above are the weight of pollutants (kg) from the engine burning 1,000kg of fuel

Case Studies
Travel destinations
Shenzhen The World Miniature Co., Ltd. ("Window of the World")
"The Ice-snow World in Alpine" 300 kWp Distributed Photovoltaic Project Window of the World has been purchasing photovoltaic panels and generating solar energy to further reduce its overall carbon footprint. The roof of "The Alpine World of Ice and Snow" is a distributed photovoltaic power station with a total installed capacity of 302.94 kWp. The project supplies electricity for the spontaneous needs of the skating rink, and the remaining power goes to the power supply network.

Water

Water is a valuable resource and we are committed to conserving it in all of our operations through effective measures. In order to improve the water efficiency of our hotels and travel destinations we have set goals for reducing water consumption and implemented best practices to conserve water. Especially in our theme parks, Window of the World and Splendid China, various water conservation strategies have been introduced, including water efficient technologies for reusing and recycling landscaping water. In 2018, water consumption was 3,140,064.30 tonnes[1].

Case Studies
Travel Destinations
Window of the World
Fountain Self-Priming Pump Treatment Facilities In 2018, the water recycled percentage for Window of the World reached 21%. We have maximized the use of rainwater in the greening of tourist spots, in order to achieve the greatest effect of energy-saving emission reduction by scientific means. We have also installed fountain self-priming pump treatment facilities, so as to reuse fountain water.
Zhuhai OSR
Steam Condensate Recovery System Upgrade Zhuhai OSR upgraded its Steam Condensate Recovery System, whereby steam is produced by 4 diesel boilers, and passes through a pipeline to the hotel laundry room, where it is used for the laundry functions of the entire park. After this upgrade, the intensity of total water usage reduced to be around 4.6 tonnes per gross floor area. Every year, we can achieve a reduction in 180 tonnes diesel fuel used and 12,000 tonnes water consumption.

Notes:

1. Data from all 13 operating units including six hotels of Hong Kong, Macau and Mainland China, Shapotou Scenic Spot, Zhuhai OSR, Xianyang OSR, Window of the World, Splendid China, Anji and China Travel Tours Transportation Services is included.

Waste Management

We take a holistic approach to waste management through developing solutions specific to the different industries where we operate. All waste is properly handled and disposed of by an authorized third party. Waste separation facilities have been set up in our hotels and travel destinations, as we believe the correct categorization of waste can facilitate efficient cycling. We also strive to reduce, reuse and recycle throughout our operations to minimise the disposal of waste to landfill. For example, Beijing Guang'anmen Grand Metropark Hotel has implemented a "Green Office Policy" and actively promotes the use of electronic versions of documents. We also provide appropriate facilities in offices and engage with employees to facilitate source separation and waste recycling. No substantial hazardous waste was produced during the year.

The first four categories of waste listed below are recycled by professional recycling companies, waste batteries are recycled by the recycling company designated by the Government. Scrapped vehicles and waste oil are recovered by a repairer.

Waste Disposed (by types)[1]	2018		
Non-hazardous waste	***Produced***	***Recycled***	***Unit***
Paper	4,718.00	2,830.00	Kg
Glass	10,100.00	10,100.00	Kg
Hazardous waste	***Produced***	***Recycled***	***Unit***
Fluorescent Tubes	11.00	11.00	Kg
Waste Electrical and Electronic Equipment	0.00	0.00	Kg
Waste Batteries	1,512.00	1,512.00	Kg
Scrapped Vehicles	10	10	Units

Notes:

1. Data from China Travel Tours Transportation Services is included. The scope of data was revised in 2018.

Case Studies
Hotels
Metropark Hotel Kowloon
Recycling Activities Metropark Hotel Kowloon cooperated with ASB Chun Yip (Hong Kong) Ltd. and Confidential Materials Destruction Service Ltd. in 2018 to recycle 2,128 litres of waste oil and 3,968 kg of used paper respectively.
Metropark Hotel Causeway Bay Hong Kong
Environmental-friendly Bathroom Toiletries In order to reduce plastic consumption, travel-sized bathroom toiletries such as shampoo and shower gel, have gradually been replaced with family-sized products which the packaging can be reused.
Travel destinations
Xianyang OSR
Technical requirements for sewage outflow In order to minimise the impact of water pollution, sewage treatment facilities and the outflow location of the Xianyang OSR are governed by the requirements of the "Technical Specification for Pollution Source Monitoring".

OUR PEOPLE

People are our most valuable resources and the cornerstone of our business. We are committed to grow and nurture our people through continuous training and development to help them reach their full potential while building a motivated workforce to drive the business. We actively engage our employees through various platforms and dedicated to sustaining a healthy, safe and harmonious work environment.

Employee Benefits and Welfare

Recruiting and retaining talent is fundamental to the sustainability of our business. Our human resources policies strictly adhere to the applicable employment laws and regulations in mainland China, Hong Kong and the other regions where we operate. Such regulations include the new Labour Law, the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Labour Relations Law, Social Security System and Legal Framework on the Compensation for Accidents at Work and Occupational Diseases. Child and forced labour are strictly prohibited in our organization.

We engage our employees through a range of benefits, welfare and programmes. Employment policy and Employee handbooks are in place to govern compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare, in accordance with relevant laws and regulations.

We strive to remain an equal opportunity employer that does not discriminate on the grounds of gender, disability, pregnancy, race, religion, age or family status. Our employees have access to a range of benefits, wellbeing initiatives and advancements including training, promotion, recognition of achievements and compensation.

In this reporting year, we had a total of 8,963 employees. Staff turnover rate among managerial positions is relatively low, reflecting a high level of employee satisfaction and engagement. In this vital area of retention and development of new and current employees, we continue to look for factors to make us an employer of choice.

Health and Well-being

We recognize the importance of an engaged workforce that generates positive energy in service delivery and maintains a high performing working environment. A wide range of benefits including comprehensive medical and life insurance and retirement schemes are also provided to employees. We also have communication channels for employees to get feedback from our colleagues to identify areas where we are doing well, as well as anywhere we need to improve. Social and recreational activities are arranged for employees to help in achieving work-life balance.

Social and recreational activities are arranged for employees in different business units to help achieve work-life balance. This year was the eighth "Company Day" where subsidiaries organised different activities including hiking and visiting theme parks to nurture a collaborative workforce and corporate culture. Birthday celebrations were also organised in all headquarters offices, one of the best platforms for generating cohesion and team spirit.

As part of our commitment to promoting employee benefits and diversity, our policies are enhanced to improve inclusivity. In most of our hotels, women are granted paid maternity leave whilst joint parental leave and paternity pay are also provided for men. Lactation rooms have been equipped in Metropark Hotel Causeway Bay Hong Kong and Metropark Hotel Mongkok to assist working parents in combining their working and caring responsibilities.

Continuing to ensure our employees enjoy a respectful, safe and healthy work environment, The China Travel Tours Transportation Services provides employees with health check-ups and workplace site-inspections by qualified organisations. In Beijing Guang'anmen Grand Metropark Hotel, we organise seminars for employees to consult with Chinese medicine practitioners.

Case Studies
Hotels
Metropark Hotel Causeway Bay Hong Kong
Metropark Hotel Causeway Bay Hong Kong is committed to providing employees with safe and healthy working environment by promoting the principle of "Accountability of People In-charge". To ensure its comprehensive implementation, we have delegated staffs in department-level responsible for product safety, fire risk provision, hygiene, first aid treatment. Meanwhile, the hotel extends the scopes of annual assessment to safety production. The hotel also organises monthly safety meetings to review and manage potential risks, monitoring the quality of safety equipment and overseeing the implementation of safety production accountability scheme. Besides, the meetings also conduct random inspection covering material aspects such as fire precautions, public hygiene, construction, and security. To further enhance the awareness of workplace safety to our employees, posters focusing on occupational health along corridors are regularly updated.

Training and Development

Career development is vitally important to our employees and we develop specific training programmes at all levels of the organization. We promote a learning culture and offer structured career development and training programs that ensure staff at all levels are well-equipped to excel at work and in life. We also encourage staff to attend external training programs to support career development where relevant. With prior approval from us, courses and examination fees may be subsidised or reimbursed upon the successful completion of programs leading to an academic qualification. Training activities provided to staff in 2018 included orientation for new employees, finance and taxation enhancement training, invitation of expert scholars and advisory bodies to host training seminars, and management skills training for executive staff.

In 2018, the total training hours for our employees are more than 190,000 hours.

Case Studies
Hotel
Metropark Hotel Macau
Metropark Hotel Macau invites government departments and professional organisations, including the Labour Bureau, the Health Bureau, and the Institute of Tourism, to conduct training courses annually. These courses were focused on food hygiene, work and health, basic knowledge of emergency care, electrical safety, fire drills, occupational safety and health in the hotel industry, prevention of occupational muscle and muscle strain, emergency treatment, etc. In the view of preventing common injuries facing by our employees such as slipping, tripping, cutting, sprains or burns, we invited Macau Labour Affairs Bureau instructors to organise the seminar of Occupational Safety and Health Seminar for Hotel Industry.

OPERATING PRACTICES

Maintaining and continuing to improve our high-quality and responsible services is essential to developing sustainable partnerships with our stakeholders and to growing our business. We are dedicated to ensuring that we adhere to applicable laws regulating health and safety, advertising, labelling, and privacy, such as Food Safety Law regulated by the government for our hotels.

Supply Chain

We work with a wide range of suppliers. All suppliers are required to go through procurement and supply chain assessment in alignment with the applicable laws and regulations. We prioritize contractors and suppliers that uphold high environmental and social standards. We have published a document "Administrative Measures of the Tendering Procedures", setting out the policies for selection of tender candidates, procedures and evaluation of standards for tendering. During the year, we were not aware of any significant adverse findings made against any key supplier regarding business ethics, environmental protection, human rights, or labour practices, nor any non-compliance incident in respect of human rights issues.

Our hotels implement stringent supplier admission reviews to overcome any potential challenges along the supply chain. Suppliers in Hong Kong all possess Hong Kong Business Registration Certificates, so as to ensure that our products and services comply with applicable laws and regulations in Hong Kong.

In 2018, we engaged more than 1,900 suppliers and service providers mainly from Hong Kong, Macau and mainland China.

Case Studies
Hotels
Our hotels seek to select suppliers with the best product and service quality in responding to the requirements of our customers. We will only consider suppliers who have obtained qualified business licenses. In case of any products failed to meet quality requirement, we will request for product replacement to prioritise the needs of our customers. We also conduct supplier performance evaluation every six months against their product quality, price, package and delivery time. Pursuing cost-effective products, our analysts conduct market research regularly including measurement of trial sites and collection of the latest information on new products across the hotel industry. We have strict requirements for food safety. Therefore, it is especially crucial for us to make sure that all suppliers of high-risk products such as salmon, sushi, cancer pagurus, and blue mussels are qualified.

Service Responsibility

To deliver quality services, we ensure our staff are well trained and our equipment for managing the health and safety of our customers is comprehensive. Each of our business units is committed to continuous improvement, and our customer satisfaction ratings are assessed and used to identify specific areas for further improvement.

Our company aims to strengthen the responsibility of central management: to improve the safety control systems of headquarters and project companies; to incorporate production safety into the performance appraisal system; to strengthen the daily supervision of production safety and risk prevention; to strengthen the training of employees; and to improve emergency management.

Case Studies
Hotels
Metropark Hotel Macau
Customers safety is always recognized as our highest priority. A series of professional training were provided to our employees such as defibrillator training sessions for hotel managers and security personnel twice a year, and fire precaution talks every two months. Metropark Hotel Macau also performs intensive quality controls to safeguard the health and safety of every customer. It includes comprehensive water quality testing to prevent Legionnaires' disease, daily water quality check of swimming pools and hydro-massage pools, regular air-conditioner filters clean-up, stringent supervision system for food safety, procurement, inventory, receipt, and food production. In 2018, the hotel made a total of 4,720 questionnaires with 3,577 valid surveys. The overall satisfaction of the hotel was 99.08 points, and the overall service satisfaction of services was 98.69 points.
Metropark Hotel Mongkok
Metropark Hotel Mongkok established and implemented standard service procedures. Standard check-in and check-out phrases are given to all front-office staff, and inspections and spot checks are conducted from time to time. To inculcate the appropriate service concepts and skills, weekly training has been provided by the customer service manager. These trainings were focused on service attitude, response and reception skills, communication skills, etc.

Intellectual Property and Data privacy

Maintaining customer confidentiality and the security of our systems is of vital importance. We have implemented information-privacy and data-security procedures to protect individual privacy, and data-security procedures to safeguard our customers' and employees' information as below:

(i) Only personal data that is believed to be relevant and required to conduct our business may be collected; and

(ii) Personal data may only be used for the purpose for which it is collected or for a directly related purpose unless additional consent is obtained.

We also strictly abide by the Personal Data (Privacy) Ordinance. In 2018, we were not aware of any incidents of non-compliance with regulations and policies concerning the provision and use of our products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact of us.

Anti-Corruption

A reliable anti-corruption system is a foundation for efficient operations that ensure the delivery of high-quality services. Corruption, bribery, extortion and money-laundering activities are prohibited in any form and relevant policies and procedures are clearly stated in the Code of Conduct. Employees are regularly advised of the applicable policies and guidelines, including any updates or revisions. We have established procedures to ensure the thorough investigation of all allegations of corruption, whether internal or involving third-party business partners. Instances of improper action are addressed internally unless such matters indicate criminal activities, in which case we immediately notify appropriate law enforcement agencies.

We have also established complaint channels through which employees can confidentially report unethical or illegal behaviour, and have adopted a whistle-blowing policy to encourage the reporting of any possible improprieties. Training on anti-corruption matters has been incorporated into the orientation process for new employees. Hotels in Hong Kong and Macau also invite government specialists to hold seminars to raise internal awareness of ethical conduct and to emphasise local and national policies on conflicts of interest.

In 2018, no legal cases concerning corrupt practices were brought against us or any of our subsidiaries or employees.

Community

We devote ourselves to engaging with and contributing to the social and economic development of the local communities where our natural or cultural destinations and hotels are located. Being a responsible corporate citizen, we offer financial support to registered charitable organisations and encourage employees in volunteering to help the underprivileged and deserving members of the community. In addition to cash donations, we also welcome donations-in-kind to fulfil the basic needs of disabilities and low-income families. During the reporting period, a total of 21 volunteering activities were carried out with organisations including World Wildlife Fund (WWF), Green Power, and the Hong Kong Chinese Enterprise Association, which resulted in a contribution of over 802 service hours in Hong Kong, Macau and mainland China.

Furthermore, we are committed to helping to promote local economic development by creating business opportunities for the local community. Our business operations, especially tourism, plays an important role in supporting the local communities where we operate. We accept and embrace our role in the national mission and in fulfilling our social responsibilities by devoting ourselves to assisting those in need. We actively develop tourism in local areas to increase the income of local residents, as well as to expand direct and indirect employment in the areas where we operate. In order to achieve our goals of reducing poverty and supporting local communities, we continue to pursue poverty alleviation projects in various provinces. In addition, professional training is given to local residents to equip them with the necessary business skills and knowledge.

Case Studies
Travel destinations
Bashan Grand Canyon Tourism Development
Baoshan Grand Canyon Tourism Development Project, is a national tourism poverty alleviation demonstration project, being a key element of poverty alleviation measures in Dazhou city, Sichuan Province. The Project covers 5 key rural communities with a population of 90,000. Our work has been strongly and continuously supported by the local government. With the commitment of poverty alleviation and economic growth, we conclude our approach by “One platform, Two supporting points and Three approaches”: One platform – The project relied on the platform of Baoshan Grand Canyon, a natural scenic area to attract tourists and then bolster the economy around it. According to the preliminary statistics, since opening there were numerous small business occurred providing around 3,000 employment positions. Two supporting points – To enhance the development of tourism, we were actively pursuing two supporting points, namely poverty alleviation policies and industrial support. Poverty alleviation policies provided financial capital from central and local government, while industrial support contained technological and human power initiated by local companies. Three approaches – We showcased three important approaches for our sustainable tourism improvement, including: • The employment positions provided by the scenic area project; • Public service positions provided by the local government; • The initiatives offered by local government to encourage personal business. By the end of 2018, the project has effectively improved quality of life among local residents and continuously enhanced the economic development of the scenic area. The Project has attracted over 120,000 tourists. Five counties and thirteen villages have been sustainably poverty alleviated.

Case Studies
Travel destinations
The County Tourism Development of Leibo and Mabian
The County Tourism Development Project of Leibo and Mabian is a new project proposed to enhance sustainable poverty alleviation in the counties of Leibo and Mabian, Sichuan Province. This project is expected to cover the area of about 5,400 square kilometers and the population of nearly 480,000. In 2018, we have conducted working plans and targets for the coming two years. Specifically, the project has selected the peninsula of Jingzhu in Mazhou city as our investment site. The project research has been studied with exploring cultural and tourism resources in local communities. Moreover, we focused on trainings and the improvement of awareness in the tourism industry. During this period, the leading carders were provided with on-site trainings, and the opportunities to communicate with local entrepreneurs and operators. In addition, the recruitment fairs and trainings were brought for local residents, in order to deliver employment positions and tourism-relative education to them. We also helped local communities to sell purple yam. We have supported with packaging designs and promotion, and by the end of 2018, there were 27,610 catty of this agricultural product that have been sold.

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KPMG

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

OPINION

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 71 to 186, which comprise the consolidated statement of financial position as at 31 December 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Impairment assessment of property, plant and equipment relating to resort operations

Refer to note 3.1 and note 13 to the consolidated financial statements

The Key Audit Matter

As at 31 December 2018, the Group held two resort operations, Zhuhai Ocean Spring Resort and Xianyang Ocean Spring Resort, which the related property, plant and equipment ("the Resorts Related Assets") were stated at cost less accumulated depreciation and impairment losses at amounts of HK$1,164 million and HK$272 million respectively.

At the financial reporting date, the Group reviewed the resort operations to determine whether there were any indicators of impairment. When indicators of impairment are identified management assesses the recoverable amounts of the Resorts Related Assets. An impairment loss is recognised as an expense in the consolidated income statement if the carrying amounts of the Resorts Related Assets exceed their recoverable amounts. The recoverable amounts of the Resorts Related Assets are the greater of the fair value less costs of disposal and value in use.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of property, plant and equipment relating to the Group's resort operations included the following:

- discussing with management whether there were any indicators of impairment of the Resorts Related Assets as at 31 December 2018;
- assessing the reasonableness of the impairment assessment models and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- obtaining and inspecting the valuation reports prepared by the external property valuer engaged by the Group;
- meeting the external property valuer, to discuss and challenge the key estimates and assumptions adopted in the valuations, including comparable market transactions and to assess the independence, objectivity, qualification and expertise of the external property valuer in the properties being valued;
- with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the external property valuer and comparing the key estimates and assumptions adopted in the valuation of the Resorts Related Assets, including comparable market transactions, with available market data;

KEY AUDIT MATTERS (Continued)

Impairment assessment of property, plant and equipment relating to resort operations

Refer to note 3.1 and note 13 to the consolidated financial statements

The Key Audit Matter

The calculation of the recoverable amounts of the Resorts Related Assets is performed by the Group's management. The fair value less costs of disposal are assessed by the Group based on independent valuations prepared by a qualified external property valuer which takes into account the recent transactions in nearby locations. In assessing the value in use, the projected cash flows associated with the Resort Related Assets are discounted using risk-adjusted discount rates. The preparation of discounted cash flow forecasts can be highly subjective and requires the exercise of significant management judgement and estimation, in particular in determining forecast room rates, forecast occupancy rates, forecast guests spending, growth rates and discount rates applied.

We identified assessing impairment of property, plant and equipment relating to the Group's resort operations as a key audit matter because of the significant management judgement and estimation required in making assumptions and estimations which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

- obtaining and reading the value in use calculations of the Resorts Related Assets prepared by the Group's management;

- with the assistance of our internal property valuation specialists, comparing the key estimates and assumptions adopted in the value in use calculations of the Resort Related Assets prepared by the Group's management, including forecast room rates, forecast occupancy rates, forecast guests spending, growth rates and discount rates applied, with available market data and government statistics;

- evaluating the historical accuracy of the key assumptions and most significant inputs used in the prior year's discounted cash flow forecast, including room rates, occupancy rates and growth rates, by comparison with the actual outcomes in the current year and enquiry of management in respect of the reasons for any significant variations identified;

- performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for the Resorts Related Assets to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018** **HK$'000**	2017 HK$'000 (Note)
Continuing operations			
Revenue	5	**4,518,180**	4,908,837
Cost of sales		**(2,560,183)**	(2,964,119)
Gross profit		**1,957,997**	1,944,718
Other income and gains, net		**144,260**	852,944
Changes in fair value of investment properties		**26,542**	80,843
Selling and distribution costs		**(519,038)**	(511,602)
Administrative expenses		**(980,308)**	(960,815)
Operating profit	7	**629,453**	1,406,088
Finance income	6	**80,352**	63,166
Finance costs	6	**(10,314)**	(4,966)
Finance income, net	6	**70,038**	58,200
Share of profits less losses of			
– associates		**339,373**	98,410
– joint ventures		**–**	(619)
Profit before taxation		**1,038,864**	1,562,079
Taxation	10	**(208,948)**	(297,838)
Profit for the year from continuing operations		**829,916**	1,264,241
Discontinued operations			
Profit for the year from discontinued operations	44	**–**	20,538
Profit for the year		**829,916**	1,284,779

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000 (Note)
Attributable to:			
Equity owners of the Company		**687,076**	1,147,843
Non-controlling interests		**142,840**	136,936
Profit for the year		**829,916**	1,284,779
Earnings per share for profit attributable to equity owners of the Company (HK cents)	12		
Basic earnings per share			
From continuing operations		**12.60**	20.69
From discontinued operations		**–**	0.38
		12.60	21.07
Diluted earnings per share			
From continuing operations		**12.57**	20.67
From discontinued operations		**–**	0.38
		12.57	21.05

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Please refer to note 2.1(a).

The notes on pages 80 to 186 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000 (Note)
Profit for the year		**829,916**	1,284,779
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on property revaluation, net of tax	10(c)	**26,936**	25,479
Equity investments at fair value through other comprehensive income ("FVOCI") – net movement in fair value reserve (non-recycling)		**(24,328)**	–
Items that may be reclassified subsequently to profit or loss:			
Share of hedging reserve of an associate, net of tax	10(d)	**(9,371)**	1,336
Release of exchange difference upon disposal of			
– subsidiaries		**–**	(977)
– a joint venture		**(845)**	–
Exchange differences on translation of foreign operations, net		**(499,118)**	656,854
Other comprehensive income for the year, net of tax		**(506,726)**	682,692
Total comprehensive income for the year		**323,190**	1,967,471
Attributable to:			
Equity owners of the Company		**226,296**	1,766,468
Non-controlling interests		**96,894**	201,003
Total comprehensive income for the year		**323,190**	1,967,471

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Please refer to note 2.1(a).

The notes on pages 80 to 186 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000 (Note)
ASSETS			
Non-current assets			
Property, plant and equipment	13	**8,025,958**	7,398,349
Investment properties	14	**1,794,236**	1,754,106
Prepaid land lease payments	15	**2,171,581**	2,250,352
Goodwill	16	**1,323,828**	1,323,828
Other intangible assets	17	**203,066**	210,682
Interest in associates	19	**1,273,537**	1,076,902
Interest in a joint venture	20	**–**	7,084
Other financial assets	21	**40,129**	30,041
Prepayments and other receivables	26	**103,032**	37,310
Deferred tax assets	34	**51,446**	147,990
Total non-current assets		**14,986,813**	14,236,644
Current assets			
Inventories	22	**18,925**	21,339
Properties under development	23	**1,683,262**	1,883,541
Completed properties held for sale	24	**57,837**	92,092
Trade receivables	25	**145,498**	158,484
Deposits, prepayments and other receivables	26	**732,566**	748,103
Loan to a fellow subsidiary	29	**157,363**	156,831
Amounts due from holding companies	29	**26,162**	19,724
Amounts due from fellow subsidiaries	29	**40,193**	83,860
Tax recoverable		**50,997**	13,622
Financial assets at fair value through profit or loss	27	**942,993**	1,411,711
Pledged time deposits	28	**46,884**	37,720
Cash and bank balances	28	**2,602,282**	3,271,404
Total current assets		**6,504,962**	7,898,431
Total assets		**21,491,775**	22,135,075

As at 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000 (Note)
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the Company			
Share capital	35	**9,119,836**	9,102,708
Reserves		**6,893,631**	7,109,921
		16,013,467	16,212,629
Non-controlling interests		**1,098,557**	1,181,217
Total equity		**17,112,024**	17,393,846
LIABILITIES			
Non-current liabilities			
Deferred income	32	**689,725**	735,441
Bank and other borrowings	33	**337**	67,590
Deferred tax liabilities	34	**569,590**	453,069
Total non-current liabilities		**1,259,652**	1,256,100
Current liabilities			
Trade payables	30	**333,402**	397,206
Other payables and accruals	31	**2,301,532**	2,560,050
Loans from a holding company	29	**78,749**	82,545
Amounts due to holding companies	29	**1,232**	57,487
Amounts due to fellow subsidiaries	29	**7,871**	6,455
Tax payables		**150,404**	350,521
Bank and other borrowings	33	**246,909**	30,865
Total current liabilities		**3,120,099**	3,485,129
Total liabilities		**4,379,751**	4,741,229
Total equity and liabilities		**21,491,775**	22,135,075

The financial statements on pages 71 to 186 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf:

Fu Zhuoyang **Jiang Hong**

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Please refer to note 2.1(a).

The notes on pages 80 to 186 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity owners of the Company											
	Share capital HK$'000 (note 35)	Share option reserve HK$'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$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	9,102,708	45,389	527,137	4,101	(547,172)	212,227	314,468	-	6,553,771	16,212,629	1,181,217	17,393,846
Impact on initial application of HKFRS 9	-	-	-	-	-	-	-	29,429	-	29,429	3,186	32,615
Adjusted balance at 1 January 2018	9,102,708	45,389	527,137	4,101	(547,172)	212,227	314,468	29,429	6,553,771	16,242,058	1,184,403	17,426,461
Comprehensive income												
Profit for the year	-	-	-	-	-	-	-	-	687,076	687,076	142,840	829,916
Other comprehensive income for the year:												
Items that will not be reclassified subsequently to profit or loss:												
Gain on property revaluation, net of tax	-	-	26,936	-	-	-	-	-	-	26,936	-	26,936
Equity investments at FVOCI – net movement in fair value reserve (non-recycling)	-	-	-	-	-	-	-	(21,259)	-	(21,259)	(3,069)	(24,328)
Items that may be reclassified subsequently to profit or loss:												
Share of hedging reserve of an associate, net of tax	-	-	-	(9,371)	-	-	-	-	-	(9,371)	-	(9,371)
Release of exchange difference upon disposal of a joint venture	-	-	-	-	-	-	(659)	-	-	(659)	(186)	(845)
Exchange differences on translation of foreign operations, net	-	-	-	-	-	-	(456,427)	-	-	(456,427)	(42,691)	(499,118)
Total other comprehensive income for the year, net of tax	-	-	26,936	(9,371)	-	-	(457,086)	(21,259)	-	(460,780)	(45,946)	(506,726)
Total comprehensive income for the year	-	-	26,936	(9,371)	-	-	(457,086)	(21,259)	687,076	226,296	96,894	323,190
Transactions with owners												
Transfer from retained profits	-	-	-	-	-	5,297	-	-	(5,297)	-	-	-
Equity-settled share option arrangement	-	12,598	-	-	-	-	-	-	-	12,598	-	12,598
Establishment of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,841	2,841
Exercise of share options	17,128	(4,670)	-	-	-	-	-	-	-	12,458	-	12,458
Forfeiture of share options	-	(21,964)	-	-	-	-	-	-	-	(21,964)	-	(21,964)
Cancellation of share options	-	5,623	-	-	-	-	-	-	-	5,623	-	5,623
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(185,581)	(185,581)
2017 final dividend paid	-	-	-	-	-	-	-	-	(299,978)	(299,978)	-	(299,978)
2018 interim dividend paid	-	-	-	-	-	-	-	-	(163,624)	(163,624)	-	(163,624)
Total transactions with owners for the year	17,128	(8,413)	-	-	-	5,297	-	-	(468,899)	(454,887)	(182,740)	(637,627)
At 31 December 2018	9,119,836	36,976	554,073	(5,270)	(547,172)	217,524	(142,618)	8,170	6,771,948	16,013,467	1,098,557	17,112,024

	Share capital HK$'000 (note 35)	Share option reserve HK$'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 2017	9,096,434	18,045	501,968	2,765	(558,738)	169,616	(277,652)	5,720,907	14,673,345	1,099,248	15,772,593
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	1,147,843	1,147,843	136,936	1,284,779
Other comprehensive income for the year:											
Item that will not be reclassified subsequently to profit or loss:											
Gain on property revaluation, net of tax	–	–	25,169	–	–	–	–	–	25,169	310	25,479
Items that may be reclassified subsequently to profit or loss:											
Share of hedging reserve of an associate, net of tax	–	–	–	1,336	–	–	–	–	1,336	–	1,336
Release of exchange difference upon disposal of subsidiaries	–	–	–	–	–	–	(977)	–	(977)	–	(977)
Exchange differences on translation of foreign operations, net	–	–	–	–	–	–	593,097	–	593,097	63,757	656,854
Total other comprehensive income for the year, net of tax	–	–	25,169	1,336	–	–	592,120	–	618,625	64,067	682,692
Total comprehensive income for the year	–	–	25,169	1,336	–	–	592,120	1,147,843	1,766,468	201,003	1,967,471
Transactions with owners											
Transfer from retained profits	–	–	–	–	–	42,611	–	(42,611)	–	–	–
Equity-settled share option arrangement	–	31,611	–	–	–	–	–	–	31,611	–	31,611
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	43,138	43,138
Exercise of share options	6,274	(1,711)	–	–	–	–	–	–	4,563	–	4,563
Forfeiture of share options	–	(2,556)	–	–	–	–	–	–	(2,556)	–	(2,556)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(176,327)	(176,327)
Disposal of subsidiaries	–	–	–	–	11,566	–	–	–	11,566	14,155	25,721
2016 final dividend paid	–	–	–	–	–	–	–	(108,940)	(108,940)	–	(108,940)
2017 interim dividend paid	–	–	–	–	–	–	–	(163,428)	(163,428)	–	(163,428)
Total transactions with owners for the year	6,274	27,344	–	–	11,566	42,611	–	(314,979)	(227,184)	(119,034)	(346,218)
At 31 December 2017	9,102,708	45,389	527,137	4,101	(547,172)	212,227	314,468	6,553,771	16,212,629	1,181,217	17,393,846

The notes on pages 80 to 186 are an integral part of these consolidated financial statements.

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 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit before taxation and profit for the year from discontinued operations		**1,038,864**	1,582,617
Adjustments for:			
Finance costs		**10,314**	4,966
Finance income		**(80,352)**	(63,166)
Gain on disposal of a subsidiary		**–**	(28,574)
Gain on disposal of joint ventures		**(19,389)**	(10,534)
Loss on disposal of available-for-sale investment		**–**	690
Gain on disposal of discontinued operations		**–**	(20,538)
Loss on disposal of property, plant and equipment, net		**17,841**	66,711
Gain derived from assets operation		**–**	(673,740)
Income from financial assets at fair value through profit or loss		**(54,804)**	(66,399)
Depreciation		**467,050**	404,169
Amortisation of prepaid land lease payments		**25,020**	31,700
Amortisation of other intangible assets		**3,100**	3,020
Provision for impairment of property, plant and equipment and prepaid land lease payments		**5,020**	23,642
Provision for impairment of trade and other receivables and amount due from an associate, net		**2,399**	21,548
Changes in fair value of investment properties		**(26,542)**	(80,843)
Share of profits less losses of associates		**(339,373)**	(98,410)
Share of profits less losses of joint ventures		**–**	619
Equity-settled share option expense, net		**(3,743)**	29,055
		1,045,405	1,126,533
Decrease in inventories		**2,414**	12,764
Decrease in properties under development and completed properties held for sale		**145,889**	232,586
Increase in trade receivables, deposits, prepayments and other receivables		**(48,628)**	(34,917)
Increase in amounts due from associates		**(2,980)**	(22,822)
(Increase)/decrease in amounts due from holding companies		**(11,387)**	57,786
Increase in amounts due from fellow subsidiaries		**(819)**	(14,949)
Decrease in trade payables, other payables and accruals		**(218,099)**	(302,766)
Decrease in amounts due to associates		**(2,933)**	(8,231)
Increase/(decrease) in amounts due to fellow subsidiaries		**1,416**	(1,524)
Decrease in deferred income, net of sales tax		**(11,453)**	(62,753)
Cash generated from operations		**898,825**	981,707
Hong Kong, PRC and Macau profits taxes paid		**(251,181)**	(208,734)
Overseas taxes paid		**(2,910)**	(2,799)
Net cash flows generated from operating activities		**644,734**	770,174

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Finance income received		**64,746**	75,674
Dividends received from associates		**98,578**	109,027
Purchases of property, plant and equipment and prepaid land lease payments		**(1,470,889)**	(607,006)
Proceeds from disposal of property, plant and equipment		**85,995**	3,299
Net cash inflow for a joint venture company transferred to a subsidiary	37(a)	**–**	52,234
Net cash paid for acquisition of a subsidiary	37(b)	**–**	(51,626)
Capital contribution to associates		**(13,696)**	(31,790)
Disposal of interest in a subsidiary, net of cash		**43,954**	55,850
Payment related to disposal of a subsidiary		**(51,306)**	–
Proceeds upon disposal of a joint venture and available-for-sale investments		**27,055**	22,064
Increase in entrustment loan receivables		**–**	(5,768)
Loan to a fellow subsidiary		**–**	(155,578)
Proceeds upon disposal of financial assets at fair value through profit or loss		**3,692,284**	4,254,052
Additions to financial assets at fair value through profit or loss		**(3,230,107)**	(4,988,268)
(Increase)/decrease in pledged time deposits		**(11,061)**	25,043
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months when acquired		**(746,130)**	275,744
Net cash flows used in investing activities		**(1,510,577)**	(967,049)
Cash flows from financing activities			
Loans from a holding company		**–**	79,600
Finance costs paid		**(10,314)**	(4,966)
Dividends paid		**(462,872)**	(272,368)
Exercise of share options		**12,458**	4,563
Dividends paid to non-controlling shareholders		**(185,581)**	(176,327)
Contribution from non-controlling shareholders		**2,841**	2,884
Proceeds of new bank loans		**1,292,515**	195,076
Repayment of bank loans		**(1,139,480)**	(201,879)
Net cash flows used in financing activities		**(490,433)**	(373,417)
Net decrease in cash and cash equivalents		**(1,356,276)**	(570,292)
Cash and cash equivalents at beginning of year		**2,505,392**	2,948,066
Effect of foreign exchange rate changes, net		**(47,215)**	127,618
Cash and cash equivalents at end of year		**1,101,901**	2,505,392
Analysis of balances of cash and cash equivalents			
Cash and bank balances	28	**2,602,282**	3,271,404
Deposits with maturity of more than three months		**(1,500,381)**	(766,012)
Cash and cash equivalents		**1,101,901**	2,505,392

The notes on pages 80 to 186 are an integral part of these consolidated financial statements.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE INFORMATION

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

– Tourist attraction and related operations
– Travel agency, travel document and related operations
– Hotel operations
– Passenger transportation operations

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

In the opinion of the directors, 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 Group Corporation Limited, 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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap.622). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 2.8);

– equity investments (see note 2.12); and

– financial assets at fair value through profit or loss (see note 2.12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(a) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserves and the related tax impact at 1 January 2018.

	HK$'000
Fair value reserve (non-recycling)	
Remeasurement effect of available-for-sale investments now measured at FVOCI and increase in fair value reserve (non-recycling)	33,141
Related tax	(3,712)
Net increase in fair value reserve (non-recycling) at 1 January 2018	29,429
Non-controlling interests	
Recognition of remeasurement effect of available-for-sale investments now measured at FVOCI and increase in non-controlling interests at 1 January 2018	4,028
Related tax	(842)
Net increase in non-controlling interests at 1 January 2018	3,186

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments (Continued)

a. Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each impacted class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets measured at FVOCI (non-recycling)				
Equity securities (note(a))	–	30,041	37,169	67,210
Financial assets classified as available-for-sale under HKAS 39 (note (a))	30,041	(30,041)	–	–

(a) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its available-for-sale investments at FVOCI (non-recycling), as the investment is held for strategic purposes.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2.12, 2.13, 2.14, 2.16 and 2.20.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9. The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments (Continued)

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses ("ECLs") earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost, including deposits, prepayments and other receivables, trade receivables, loan to a fellow subsidiary, amounts due from holding companies, amounts due from fellow subsidiaries, pledged time deposits and cash and cash equivalents.

The adoption of the new ECL model has no significant impact to the financial statements of the Group.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018. The adoption of HKFRS 15 does not have a significant impact on the recognition of revenue of the Group.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

a. Timing of revenue recognition (Continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue (see note 2.25).

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the group only applied such a policy when payments were significantly deferred, which was not common in the group's arrangements with its customers. The group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than on legal assignment.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the completion date of legal assignment. This accrual increases the amount of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, *Borrowing costs*, in accordance with the policies set out in note 2.28.

This change in policy has had no significant impact on the Group.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

c. Sales commissions payable related to property sales contracts

The Group previously recognised sales commissions payable related to property sales contracts as distribution costs when they were incurred. Under HKFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as distribution costs at that time. This change in policy has had no significant impact on the Group.

d. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2.25) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue (see note 31). For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2.18).

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may be relevant to the consolidated financial statements. Further details are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, Leases

As disclosed in note 2.11, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

HKFRS 16, Leases (Continued)

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As disclosed in note 40(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$406,872,000 for land, buildings, equipment and motor vehicles. The Group will perform a more detailed analysis taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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 consolidated income statement.

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 a liability is recognised either in consolidated income statement or as a credit or debit to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions-that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) 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 consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent 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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

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

Impairment testing of the investments in subsidiaries is required upon receiving a dividend 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 arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates (Continued)

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.5 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities 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 a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) 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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

2.7 Property, plant and equipment

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and 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	2.25% to 19%
Others:	
Leasehold improvements	4.5% to 20%
Furniture, fixtures and equipment	6% to 33.3%
Motor vehicles	5% 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 asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.5).

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 or other assets when appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in "changes in fair value of investment properties".

Transfer from owner occupied property to investment property is made when, there is a change in use, evidenced by end of owner occupation. If an owner-occupied property becomes an investment property and the fair value is larger than carrying value, the difference will be recognised in revaluation reserve and subsequent gain or loss to be recognised through income statement. If the fair value is less than carrying value, the loss is recognised immediately in the income statement. Any increase in future is recognised in the income statement to the extent that the increase reverses a previous impairment loss.

2.9 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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, trademarks, passenger service licences and quota.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Other intangible assets (Continued)

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 trademarks, passenger service licences and quota 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 or when events or changes in circumstances indicate a potential impairment 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.

2.11 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.12 Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 27. These investments are subsequently accounted for as follows, depending on their classification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Other investments in debt and equity securities (Continued)

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2.25(h)).

– FVOCI-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2.25(i).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Other investments in debt and equity securities (Continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2.13(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2.25(i) and 2.25(h), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2.13(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2.13 Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost; and

– contract assets as defined in HKFRS 15 (see note 2.18).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are Grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2.25(h) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2.13(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2.18).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.13(i)).

2.15 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.16 Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group's associate designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other income and gains, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Derivative financial instruments and hedge accounting (Continued)

Cash flow hedges (Continued)

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "revenue". However, when the forecast transaction that is hedged results in the recognition of a nonfinancial asset (for example, inventory or plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other income and gains, net'.

2.17 Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

a Consumable stores

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

b Property development

Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2.28). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Inventories and other contract costs (Continued)

(i) Inventories (Continued)

b Property development (Continued)

– Completed property held for resale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group which comprise of multiple units which are sold individually, the cost of each unit is determined by apportionment of the total development costs for that development project to each unit on a per square foot basis, unless another basis is more representative of the cost of the specific unit. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 2.17(i)), property, plant and equipment (see note 2.7) or intangible assets (see note 2.10).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Inventories and other contract costs (Continued)

(ii) Other contract costs (Continued)

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2.25.

2.18 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.25) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.13(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.14).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.25). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.14).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.25).

Policy prior to 1 January 2018
Progress billings not yet paid by the customer were included under “trade receivables”. Amounts received before the related work was performed were presented as “receipts in advance” under “other payables and accruals”.

2.19 Deferred income

Deferred income includes 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 consolidated income statement.

For the deferred income which relates to government grants, details are set out in the accounting policy for “Government grants” in note 2.24 to the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2.13(i).

2.21 Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.28).

2.22 Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(iii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2.22(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2.22(i).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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 or property development project, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments or in the periods which the property sales incur.

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. 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 and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(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 travel-related services, resort-related services, hotel services and passenger transportation 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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue and other income (Continued)

(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 straight-line basis over the lease terms;

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

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

(j) revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when the property is delivered to the customers, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

Deposits and instalment received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under receipts in advance.

2.26 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Share-based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

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 consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Other employee benefits (Continued)

Retirement benefit schemes (Continued)

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.

For overseas subsidiaries, which participate in the local government benefit schemes, are required to contribute to the schemes for the retirement benefits of eligible employees. The government authorities are responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the schemes is to pay the ongoing contributions required by the schemes. The Group's contributions to the aforesaid defined contribution retirement schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale as stipulated under the requirements of the respective territories and are charged to the income statement as incurred.

2.28 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

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

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Foreign currencies

These consolidated 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 consolidated 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 joint ventures 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.31 Assets held for sale and discontinued operations

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2.32 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors, where appropriate.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. As the future is inherently uncertain, actually results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Impairment of property, plant and equipment and other assets

At each end of the reporting period the Group performs an impairment assessment of property, plant and equipment and other assets if necessary.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.1 Critical accounting estimates and assumptions (Continued)

(i) Impairment of property, plant and equipment and other assets (Continued)

Management judgement is required in the area of asset impairment, particularly in assessing whether (a) an event has occurred that may affect asset value; (b) the carrying value of an asset can be supported by the net present value of future cash flows from the asset using estimated cash flow projections or fair value less costs of disposal of the asset; 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 rate or the growth rate assumption in the cash flow projections, could significantly affect the Group's reported financial position and results of operations.

Management judgement is also required in the area of properties under development impairment. Net realisable value is estimated with reference to latest market value and current market conditions for the inventories identified. The estimation requires use of judgement.

The Group performed impairment assessment by adopting the value in use model which calculated the recoverable amount based on the lowest cash generating unit to which the asset belongs and the recoverable amount being the higher of the value in use and fair value less costs of disposal.

(ii) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period.

(iii) Impairment of goodwill

The Group assesses whether goodwill is impaired at least on an annual basis and where there is impairment indicator. This requires an estimation of the value in use of the cash-generating unit 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 unit 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 16 to the consolidated financial statements.

(iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 34 to the consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.1 Critical accounting estimates and assumptions (Continued)

(v) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(vi) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 43 to the consolidated financial statements.

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar properties in the same location and condition, appropriate discount rates, expected future economic outflows and inflows and future maintenance costs associated with the properties and identifiable assets and liabilities. Further details are included in note 43 to the consolidated financial statements.

(vii) Provision for impairment of trade and other receivables

The Group's policy for provision for impairment of trade and other receivables 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 impairment or improvement in their abilities to make payments, either additional provision or reversal of previously made provision may be required.

4 OPERATING SEGMENT INFORMATION

Executive management is the Group's chief operating decision-maker and regularly reviews the segment results. 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. No operating segments have been aggregated to form the reportable segments. A summary of details of the operating segments is as follows:

(a) the tourist attraction and related operations segment engages in the operation of theme parks, scenic spots, cable car systems, skiing facilities, hotspring resorts, other resorts, golf club (business closed at 6 November 2017), arts performance and tourism property development mainly located in Mainland China;

4 OPERATING SEGMENT INFORMATION (Continued)

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

(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;

The power generation operations engage in the generation of electricity in Mainland China. In March 2015, the Group entered into an agreement to dispose of its interest in the power generation operations to the immediate holding company and the transaction was completed in June 2015. Therefore, the power generation operations are disclosed as discontinued operations in operating segment information.

Management has determined the operating segments based on the information reviewed by the chief operating decision maker. Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit/(loss) attributable to equity owners of the Company of each reportable operating segment excluding changes in fair value of investment properties, result from disposal or impairment of investments, property, plant and equipment, one-off compensation to construction contractor and share option expenses.

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

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

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

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Continuing operations						
	Tourist attraction and related operations HK$'000	Travel agency, travel document and related operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	1,959,140	1,289,026	821,123	448,891	4,518,180	–	4,518,180
Inter-segment revenue	3,603	3,803	2,246	982	10,634	17,409	28,043
	1,962,743	1,292,829	823,369	449,873	4,528,814	17,409	4,546,223
Elimination of inter-segment revenue					(10,634)	(17,409)	(28,043)
Revenue					4,518,180	–	4,518,180
Segment results	263,840	178,517	162,530	119,124	724,011	(40,640)	683,371
Non-controlling interests							142,840
Segment operating results before non-controlling interests							826,211
Changes in fair value of investment properties, net of tax							27,131
Gain on disposal of a joint venture, net of tax							11,213
Provision for impairment of property, plant and equipment							(5,020)
Net loss on disposal of property, plant and equipment, net of tax							(8,959)
One-off compensation to construction contractor							(24,403)
Reversal of share option expense							3,743
Profit for the year							829,916

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018 (Continued)

	Continuing operations						
	Tourist attraction and related operations HK$'000	Travel agency, travel document and related operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Total HK$'000
Segment assets	9,763,701	3,529,762	3,984,487	379,635	17,657,585	2,560,653	20,218,238
Interest in associates	736,060	–	–	519,112	1,255,172	18,365	1,273,537
Inter-segment receivables	96,174	573,902	436,074	2,066	1,108,216	6,663,603	7,771,819
	10,595,935	4,103,664	4,420,561	900,813	20,020,973	9,242,621	29,263,594
Elimination of inter-segment receivables							(7,771,819)
Total assets							21,491,775
Segment liabilities	3,007,719	360,912	526,219	104,221	3,999,071	380,680	4,379,751
Inter-segment payables	3,813,358	447,086	2,133,818	292,678	6,686,940	1,084,879	7,771,819
	6,821,077	807,998	2,660,037	396,899	10,686,011	1,465,559	12,151,570
Elimination of inter-segment payables							(7,771,819)
Total liabilities							4,379,751
Other segment information:							
Share of profits less losses of associates	269,464	–	–	70,825	340,289	(916)	339,373
Capital expenditure (note a)	567,429	706,826	148,713	47,190	1,470,158	731	1,470,889
Depreciation and amortisation	305,021	23,061	137,968	27,348	493,398	1,772	495,170
Provision for impairment/(write back of provision for impairment) recognised in the income statement, net (note b)	7,429	(3)	(7)	–	7,419	–	7,419

Notes:

(a) Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

(b) Amounts consist of provision for impairment/(write back of provision for impairment) of trade and other receivables and property, plant and equipment.

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Continuing operations							Discontinued operations	
	Tourist attraction and related operations HK$'000	Travel agency, travel document and related operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Total HK$'000	Power generation operations HK$'000	Consolidated HK$'000
Segment revenue:									
Sales to external customers	2,464,547	1,227,803	787,977	428,510	4,908,837	–	4,908,837	–	4,908,837
Inter-segment revenue	11,419	4,050	4,755	1,509	21,733	16,360	38,093	–	38,093
	2,475,966	1,231,853	792,732	430,019	4,930,570	16,360	4,946,930	–	4,946,930
Elimination of inter-segment revenue					(21,733)	(16,360)	(38,093)	–	(38,093)
Revenue					4,908,837	–	4,908,837	–	4,908,837
Segment results	699,069	142,699	147,599	131,562	1,120,929	(15,114)	1,105,815	–	1,105,815
Non-controlling interests							136,936	–	136,936
Segment operating results before non-controlling interests							1,242,751	–	1,242,751
Changes in fair value of investment properties, net of tax							68,329	–	68,329
Net gain on disposal of subsidiaries, net of tax							22,619	20,538	43,157
Gain on disposal of joint ventures							10,534	–	10,534
Loss on disposal of available-for-sale investment							(690)	–	(690)
Provision for impairment of property, plant and equipment and prepaid land lease payments							(23,642)	–	(23,642)
Net loss on disposal of property, plant and equipment, net of tax							(26,605)	–	(26,605)
Share option expense							(29,055)	–	(29,055)
Profit for the year							1,264,241	20,538	1,284,779

4 OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017 (Continued)

	Continuing operations							Discontinued operations	
	Tourist attraction and related operations HK$'000	Travel agency, travel document and related operations HK$'000	Hotel operations HK$'000	Passenger transportation operations HK$'000	Total of reportable segments HK$'000	Corporate and others HK$'000	Total HK$'000	Power generation operations HK$'000	Consolidated HK$'000
Segment assets	10,575,200	2,905,577	4,055,566	386,665	17,923,008	3,128,081	21,051,089	–	21,051,089
Interest in associates	539,910	–	–	516,816	1,056,726	20,176	1,076,902	–	1,076,902
Interest in a joint venture	7,598	–	–	(514)	7,084	–	7,084	–	7,084
Inter-segment receivables	1,347	652,553	367,926	4,912	1,026,738	15,135,052	16,161,790	–	16,161,790
	11,124,055	3,558,130	4,423,492	907,879	20,013,556	18,283,309	38,296,865	–	38,296,865
Elimination of inter-segment receivables							(16,161,790)		(16,161,790)
Total assets							22,135,075		22,135,075
Segment liabilities	3,455,533	435,519	516,940	89,719	4,497,711	243,518	4,741,229	–	4,741,229
Inter-segment payables	3,345,240	41,062	2,307,115	394,999	6,088,416	10,073,374	16,161,790	–	16,161,790
	6,800,773	476,581	2,824,055	484,718	10,586,127	10,316,892	20,903,019	–	20,903,019
Elimination of inter-segment payables							(16,161,790)		(16,161,790)
Total liabilities							4,741,229		4,741,229
Other segment information:									
Share of profits less losses of									
– associates	14,291	–	–	84,345	98,636	(226)	98,410	–	98,410
– joint ventures	(619)	–	–	–	(619)	–	(619)	–	(619)
Capital expenditure (note a)	807,775	3,987	23,377	53,292	888,431	367	888,798	–	888,798
Depreciation and amortisation	264,035	22,088	128,882	22,239	437,244	1,645	438,889	–	438,889
Provision for impairment/(write back of provision for impairment) recognised in the income statement, net (note b)	29,265	2,819	(2,096)	–	29,988	15,202	45,190	–	45,190

Notes:

(a) Capital expenditure consists of additions and acquisition of subsidiaries, property, plant and equipment and prepaid land lease payments.

(b) Amounts consist of provision for impairment/(write back of provision for impairment) of trade and other receivables, property, plant and equipment, prepaid land lease payments and amount due from an associate.

4 OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong	**1,783,087**	1,632,302
Mainland China (including Macau)	**2,352,750**	2,910,471
Overseas	**382,343**	366,064
	4,518,180	4,908,837

The analysis of the Group's revenue by geographical area is based on the location of operations 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

	2018 HK$'000	2017 HK$'000
Hong Kong	**5,892,008**	5,242,893
Mainland China (including Macau)	**8,926,031**	8,727,586
Overseas	**73,319**	83,468
	14,891,358	14,053,947

The information about the Group's non-current assets is based on the physical location of assets which exclude other financial assets, other receivables (note 26) 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 year ended 31 December 2018 (2017: Nil).

5 REVENUE

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.

Disaggregation of revenue

	2018 HK$'000	2017 HK$'000 (Note)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
– Tourist attraction and related income	**1,735,051**	1,744,025
– Tour, travel agency, travel document and related income	**1,289,026**	1,227,803
– Hotel income	**820,359**	722,060
– Passenger transportation income	**448,886**	428,510
– Property sales income	**30,936**	585,641
– Consultancy and service income	**126,266**	134,881
	4,450,524	4,842,920
Revenue from other sources		
– Rental income	**67,656**	65,917
	4,518,180	4,908,837

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2.1(a)(ii)).

6 FINANCE INCOME, NET

	2018 HK$'000	2017 HK$'000
Interest income:		
Bank deposits and entrustment loans	**80,352**	63,166
Finance income	**80,352**	63,166
Interest expense:		
Bank borrowings, overdrafts and other borrowings – wholly repayable within five years	**(10,314)**	(4,966)
Finance costs	**(10,314)**	(4,966)
Finance income, net	**70,038**	58,200

7 OPERATING PROFIT

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

	2018 HK$'000	2017 HK$'000
Depreciation	**467,050**	404,169
Amortisation of prepaid land lease payments	**25,020**	31,700
Amortisation of other intangible assets	**3,100**	3,020
Auditors' remuneration		
– Audit services	**8,068**	6,536
– Non-audit services	**1,884**	2,122
Employee benefit expenses (including directors' remuneration (note 8)):		
– Wages and salaries	**1,240,265**	1,190,139
– Equity-settled share option expenses	**12,598**	31,611
Effect of forfeited options	**(21,964)**	(2,556)
Effect of cancelled options	**5,623**	–
– Equity-settled share option expenses, net	**(3,743)**	29,055
– Retirement benefit scheme contributions*	**82,134**	65,153
Total employee benefit expenses	**1,318,656**	1,284,347
Minimum lease payments under operating leases:		
– Land and buildings	**63,784**	76,708
– Plant and machinery and motor vehicles	**17,468**	21,080
Provision for impairment of trade and other receivables, net	**2,399**	6,345
Provision for impairment of amount due from an associate	**–**	15,203
Provision for impairment of property, plant and equipment and prepaid land lease payments	**5,020**	23,642
Rental income on investment properties	**(40,877)**	(37,831)
Direct operating expenses of investment properties	**1,765**	1,546
Income from financial assets at fair value through profit or loss	**(54,804)**	(66,399)

7 OPERATING PROFIT (Continued)

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

	2018 **HK$'000**	2017 HK$'000
Government grants#	**(14,880)**	(33,217)
Commission income	**(5,190)**	(1,315)
Management fee income	**(2,480)**	(2,215)
Gain derived from assets operation	**–**	(673,740)
Foreign exchange differences, net	**3,696**	(6,217)
Gain on disposal of a subsidiary	**–**	(28,574)
Gain on disposal of joint ventures	**(19,389)**	(10,534)
Loss on disposal of available-for-sale investment	**–**	690
Loss on disposal of property, plant and equipment, net	**17,841**	66,711
Cost of properties sold	**20,754**	522,840

* At 31 December 2018, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years (2017: Nil).

\# Various government grants have been received in respect of developing and promoting the tourist industry and organising performances that promoted the Chinese traditional culture.

8 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director is set out below:

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking									
Name	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Equity-settled share option expense HK$'000	Estimated money value of other benefits (note (a)) HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Remunerations paid or receivable in respect of accepting office as director HK$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking HK$'000	Total HK$'000
Independent Non-Executive Directors										
Dr. Fong Yun Wah (note (b))	284	-	-	-	-	-	-	-	-	284
Mr. Wong Man Kong, Peter (note (c))	350	-	-	-	-	-	-	-	-	350
Mr. Sze, Robert Tsai To (note (b))	284	-	-	-	-	-	-	-	-	284
Mr. Chan Wing Kee (note (b))	284	-	-	-	-	-	-	-	-	284
Mr. Tse Cho Che Edward (note (d))	66	-	-	-	-	-	-	-	-	66
Mr. Zhang Xiaoke (note (d))	66	-	-	-	-	-	-	-	-	66
Mr. Huang Hui (note (d))	66	-	-	-	-	-	-	-	-	66
Executive Directors										
Mr. Lo Sui On	240	-	-	-	-	-	-	-	-	240
Mr. Zhang Fengchun (note (e))	147	-	-	-	-	-	-	-	-	147
Mr. Fu Zhuoyang (note (f))	183	-	-	-	-	1,308	-	-	-	1,491
Mr. Zhang Xing (note (g))	195	604	266	602	-	-	97	-	-	1,764
Mr. Liu Fengbo (note (h))	152	518	453	599	-	-	10	-	-	1,732
Mr. Chen Xianjun(note (i))	240	-	-	-	-	-	-	-	-	240
Mr. Jiang Hong (note (d))	45	150	-	-	-	-	18	-	-	213
Mr. You Cheng (note (j))	44	145	-	-	-	-	3	-	-	192
Mr. Yang Hao (note (k))	12	-	-	-	-	-	-	-	-	12

8 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

The remuneration of every director is set out below:

For the year ended 31 December 2017:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking								Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
	Fees	Salary	Discretionary bonuses	Housing allowance	Equity-settled share option expense	Estimated money value of other benefits (note (a))	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director		Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Independent Non-Executive Directors										
Dr. Fong Yun Wah (note (b))	350	–	–	–	–	–	–	–	–	350
Mr. Wong Man Kong, Peter (note (c))	350	–	–	–	–	–	–	–	–	350
Mr. Sze, Robert Tsai To (note (b))	350	–	–	–	–	–	–	–	–	350
Mr. Chan Wing Kee (note (b))	350	–	–	–	–	–	–	–	–	350
Executive Directors										
Mr. Zhang Fengchun (note (e))	330	–	–	–	–	481	–	–	–	811
Mr. Lo Sui On	240	–	–	–	–	–	–	–	–	240
Mr. Zhang Xing (note (g))	204	605	143	545	379	–	94	–	–	1,970
Mr. Liu Fengbo (note (h))	204	668	500	758	–	–	–	–	–	2,130
Mr. Chen Xianjun (note (i))	204	–	–	–	246	–	–	–	–	450
Mr. Fu Zhuoyang (note (f))	36	–	–	–	–	–	–	–	–	36
Mr. Qu Simon Tao (note (l))	25	257	184	125	–	–	3	–	–	594

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 36 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 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

Notes:

(a) Other benefits include gain in exercise of share options

(b) Resigned on 24 October 2018

(c) Passed away on 11 March 2019

(d) Appointed on 20 August 2018

(e) Resigned on 13 June 2018

(f) Resigned on 24 February 2017 and appointed on 13 June 2018

(g) Appointed on 24 February 2017 and resigned on 24 October 2018

(h) Appointed on 24 February 2017 and resigned on 20 August 2018

(i) Appointed on 24 February 2018

(j) Appointed on 26 October 2018

(k) Appointed on 14 December 2018

(l) Resigned on 8 February 2017

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9 FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year include 1 director of the Company (2017: 1). Details of the remuneration of the five highest paid individuals for the year are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, housing allowances, other allowances and benefits in kind	**11,252**	10,006
Equity-settled share option expenses	**992**	1,131
Retirement benefit scheme contributions	**149**	71
	12,393	11,208

9 FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments fell within the following bands:

	Number of employees	
	2018	2017
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	2
HK$2,500,001 to HK$3,000,000	**2**	1
HK$3,000,001 to HK$3,500,000	**1**	–
	5	5

Share options were granted to the five highest paid individuals in respect of their services to the Group, further details of which are included in the disclosures in note 36 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

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

Under the Provisional Regulations on Land Appreciation Tax ("LAT"), all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

	2018 **HK$'000**	2017 HK$'000
Current – Hong Kong		
Charge for the year	**69,472**	59,815
Under/(over)-provision in prior years	**44**	(1,969)
Current – Mainland China and Macau		
Charge for the year	**141,697**	334,557
Over-provision in prior years	**(1,513)**	(46,355)
Current – Overseas		
Charge for the year	**4,704**	1,524
Over-provision in prior years	**–**	(642)
LAT	**663**	12,261
Deferred tax	**(6,119)**	(61,353)
Total tax charge for the year	**208,948**	297,838

10 TAXATION (Continued)

(b) A reconciliation of the tax expense of the Group applicable to profit before tax at the applicable tax 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:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**1,038,864**	1,562,079
Share of profits less losses of associates and joint ventures	**(339,373)**	(97,791)
	699,491	1,464,288
Tax at the applicable tax rates	**145,862**	329,883
Income not subject to tax	**(58,274)**	(60,026)
Expenses not deductible for tax purposes	**53,029**	45,884
Effect of withholding tax on the distributed/distributable profits of the Group's PRC subsidiaries, associates and joint ventures	**17,507**	24,145
Tax losses utilised from previous periods	**(360)**	(18,787)
Prior year unrecognised tax losses now recognised	**–**	(4,610)
Tax losses not recognised	**42,091**	18,054
LAT	**663**	12,261
Temporary differences not recognised	**9,899**	–
Over-provision in prior years, net	**(1,469)**	(48,966)
Tax charge at the Group's effective rate	**208,948**	297,838

The share of tax attributable to associates and joint ventures amounting to HK$77,555,000 (2017: HK$26,625,000) and HK$Nil (2017: HK$Nil) respectively, is included in "Share of profits less losses of associates and joint ventures" in the consolidated income statement.

(c) The gain on property revaluation as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK$4,775,000 (2017: HK$662,000).

(d) The share of hedging reserve of an associate as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK$Nil (2017: HK$264,000).

(e) The share of fair value changes in equity investments as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK$2,181,000 (2017: HK$Nil).

11 DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim dividend, paid, of HK3 cents (2017: HK3 cents) per ordinary share	**163,624**	163,428
Final dividend, proposed, Nil (2017: HK5.5 cents) per ordinary share	**–**	299,672
	163,624	463,100

At a board meeting held on 27 March 2019, the Board did not recommend the payment of a final dividend for the year ended 31 December 2018.

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

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

	2018	2017
Basic earnings per share		
Profit from continuing operations attributable to equity owners of the Company (HK$'000)	**687,076**	1,127,305
Profit from discontinued operations attributable to equity owners of the Company (HK$'000)	**–**	20,538
Profit attributable to equity owners of the Company (HK$'000)	**687,076**	1,147,843
Weighted average number of ordinary shares in issue	**5,453,076,128**	5,447,098,878
Basic earnings per share from continuing operations (HK cents)	**12.60**	20.69
Basic earnings per share from discontinued operations (HK cents)	**–**	0.38
	12.60	21.07

12 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY (Continued)

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share option is the only category of dilutive potential ordinary shares of the Group. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options together with the position of the fair value of the share options measured at their grant date, which is attributable to future periods. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2018	2017
Profit from continuing operations attributable to equity owners of the Company (HK$'000)	**687,076**	1,127,305
Profit from discontinued operations attributable to equity owners of the Company (HK$'000)	**–**	20,538
Profit attributable to equity owners of the Company (HK$'000)	**687,076**	1,147,843
Weighted average number of ordinary shares in issue	**5,453,076,128**	5,447,098,878
Adjustment for:		
– Share options	**14,152,779**	6,384,780
Weighted average number of ordinary shares for diluted earnings per share	**5,467,228,907**	5,453,483,658
Diluted earnings per share from continuing operations (HK cents)	**12.57**	20.67
Diluted earnings per share from discontinued operations (HK cents)	**–**	0.38
	12.57	21.05

13 PROPERTY, PLANT AND EQUIPMENT

	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 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	5,431,639	2,369,816	1,731,118	1,340,386	2,876,632	13,749,591
Accumulated depreciation and impairment	(2,367,695)	(1,046,713)	(1,092,077)	(676)	(1,844,081)	(6,351,242)
	3,063,944	1,323,103	639,041	1,339,710	1,032,551	7,398,349
At 1 January 2018	3,063,944	1,323,103	639,041	1,339,710	1,032,551	7,398,349
Additions	–	707,575	41,444	319,594	352,115	1,420,728
Disposals and write-off	–	(3,621)	(8,323)	(75,238)	(16,654)	(103,836)
Depreciation	(81,769)	(65,476)	(31,289)	–	(288,516)	(467,050)
Transfer from completed properties held for sale	3,184	–	–	–	–	3,184
Transfer to investment properties	(12,568)	(4,689)	–	–	–	(17,257)
Transfer within property, plant and equipment	382,090	40,514	226	(671,352)	248,522	–
Impairment	–	–	–	–	(5,020)	(5,020)
Currency translation differences	(30,951)	(44,313)	(29,221)	(57,188)	(41,467)	(203,140)
At 31 December 2018	3,323,930	1,953,093	611,878	855,526	1,281,531	8,025,958
At 31 December 2018:						
Cost	5,726,332	3,021,033	1,673,007	856,171	3,199,938	14,476,481
Accumulated depreciation and impairment	(2,402,402)	(1,067,940)	(1,061,129)	(645)	(1,918,407)	(6,450,523)
	3,323,930	1,953,093	611,878	855,526	1,281,531	8,025,958

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	5,374,910	2,735,430	1,559,764	1,240,275	2,590,519	13,500,898
Accumulated depreciation and impairment	(2,236,044)	(1,152,175)	(983,168)	(1,432)	(1,676,216)	(6,049,035)
	3,138,866	1,583,255	576,596	1,238,843	914,303	7,451,863
At 1 January 2017	3,138,866	1,583,255	576,596	1,238,843	914,303	7,451,863
Additions	–	26,073	1,042	455,344	139,099	621,558
Acquisitions of subsidiaries (note 37)	–	–	–	–	24,389	24,389
Disposals and write-off	–	(10,174)	(13,991)	(25,934)	(19,911)	(70,010)
Depreciation	(96,805)	(57,241)	(56,880)	–	(193,243)	(404,169)
Transfer to prepaid land lease payments	(6,735)	(285,522)	–	(149,668)	(1,079)	(443,004)
Transfer to investment properties	–	(31,361)	–	–	–	(31,361)
Transfer within property, plant and equipment	–	65,988	91,068	(276,846)	119,790	–
Impairment	–	(21,229)	–	(652)	–	(21,881)
Currency translation differences	28,618	53,314	41,206	98,623	49,203	270,964
At 31 December 2017	3,063,944	1,323,103	639,041	1,339,710	1,032,551	7,398,349
At 31 December 2017:						
Cost	5,431,639	2,369,816	1,731,118	1,340,386	2,876,632	13,749,591
Accumulated depreciation and impairment	(2,367,695)	(1,046,713)	(1,092,077)	(676)	(1,844,081)	(6,351,242)
	3,063,944	1,323,103	639,041	1,339,710	1,032,551	7,398,349

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2018, included in the Group's land and buildings amounting to HK$537,462,000 (2017: HK$73,474,000) 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 2018, certain of the Group's buildings with net carrying amounts of HK$1,460,000 (2017: HK$1,295,000) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

At 31 December 2018, accumulated impairment losses amounted to HK$399,216,000 (2017: HK$396,987,000).

During the year ended 31 December 2018, due to continued underperformance of Zhuhai Ocean Spring Resort ("Zhuhai Resort") and Xianyang Ocean Spring Resort ("Xianyang Resort"), the management conducted impairment assessments of Zhuhai Resort and Xianyang Resort.

As at 31 December 2018, the major assets of Zhuhai Resort are land and properties with carrying values amounting to HK$1,164,089,000 (2017: HK$1,252,876,000) which belongs to tourist attraction and related operations segment. The recoverable amounts of relevant assets have been determined based on fair value less costs of disposal, which are higher than the carrying value.

As at 31 December 2018, the major assets of Xianyang Resort are land and properties with carrying values amounting to RMB238,236,000 (approximately to HK$271,897,000) (2017: RMB253,213,000 (approximately to HK$302,919,000)) which belongs to tourist attraction and related operations segment. The recoverable amounts of relevant assets have been determined based on fair value less costs of disposal, which are higher than the carrying value.

14 INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At fair value		
At 1 January	**1,754,106**	1,567,692
Changes in fair value recognised in income statement	**26,542**	80,843
Gain on property valuation recognised in other comprehensive income	**31,711**	26,141
Transfer from property, plant and equipment and prepaid land lease payments	**19,104**	31,361
Currency translation differences	**(37,227)**	48,069
At 31 December	**1,794,236**	1,754,106

The fair value of investment properties is determined by using valuation techniques. For the judgement and assumptions involved, please refer to note 43 of the consolidated financial statements.

15 PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
At 1 January	**2,278,794**	452,056
Additions and transfer from property, plant and equipment	**50,161**	1,758,227
Amortisation	**(25,020)**	(31,700)
Transfer to investment properties	**(1,847)**	–
Impairment	**–**	(1,761)
Currency translation differences	**(105,487)**	101,972
At 31 December	**2,196,601**	2,278,794
Current portion included in deposits, prepayments and other receivables	**(25,020)**	(28,442)
Non-current portion	**2,171,581**	2,250,352

At 31 December 2018, included in the Group's prepaid land lease payments amounting to HK$1,721,071,000 (2017: HK$1,612,835,000) were certain land payments of which the Group was in the progress of applying the land use right certificate as at the end of the reporting period.

16 GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January		
Cost	**1,629,961**	1,626,724
Accumulated impairment	**(306,133)**	(306,133)
Net book amount	**1,323,828**	1,320,591
At 31 December		
Cost	**1,629,961**	1,626,724
Accumulated impairment	**(306,133)**	(306,133)
Acquisition of a subsidiary (note 37(b))	**–**	3,237
Net book amount	**1,323,828**	1,323,828

Impairment testing of goodwill

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

- Travel agency, travel document and related operations
- Tourist attraction operations
- Passenger transportation operations

16 GOODWILL (Continued)

Travel agency, travel document and related operations cash-generating unit

The recoverable amount of the travel agency, travel document 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% (2017: 13%) 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 and related 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% (2017: 13%) per annum. Cash flows beyond the five-year period are extrapolated without growth.

Passenger transportation operations cash-generating unit

The recoverable amount of the passenger transportation operations 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% (2017: 13%) 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, travel document and related operations		Tourist attraction and related operations		Passenger transportation operations		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Carrying amount of goodwill	**1,244,769**	1,244,769	**75,822**	75,822	**3,237**	3,237	**1,323,828**	1,323,828

Key assumptions were used in the value in use calculation of the travel agency, travel document and related operations and tourist attraction operations cash-generating units for the years ended 31 December 2018 and 2017. 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, travel document 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.

17 OTHER INTANGIBLE ASSETS

	Ticketing operation rights HK$'000	Trademarks HK$'000	Passenger service licences and quota HK$'000	Total HK$'000
Net book value				
At 1 January 2018	**100,648**	**34,291**	**75,743**	**210,682**
Amortisation	**(3,100)**	**–**	**–**	**(3,100)**
Currency translation differences	**(4,516)**	**–**	**–**	**(4,516)**
At 31 December 2018	**93,032**	**34,291**	**75,743**	**203,066**
At 31 December 2018:				
Cost	**119,509**	**34,291**	**75,743**	**229,543**
Accumulated amortisation	**(26,477)**	**–**	**–**	**(26,477)**
	93,032	**34,291**	**75,743**	**203,066**
At 1 January 2017	94,680	34,291	34,105	163,076
Acquisition of a subsidiary	–	–	41,638	41,638
Amortisation	(3,020)	–	–	(3,020)
Currency translation differences	8,988	–	–	8,988
At 31 December 2017	100,648	34,291	75,743	210,682
At 31 December 2017:				
Cost	125,270	34,291	75,743	235,304
Accumulated amortisation	(24,622)	–	–	(24,622)
	100,648	34,291	75,743	210,682

Amortisation of HK$3,100,000 for the year ended 31 December 2018 (2017: HK$3,020,000) is included in administrative expenses in the consolidated income statement.

18 SUBSIDIARIES

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

Material non-controlling interests

The total non-controlling interests as at 31 December 2018 is HK$1,098,557,000, of which HK$300,671,000 is attributable to Shenzhen The World Miniature Co., Ltd. ("Window of the World") representing for 49% of equity for non-controlling interest, HK$236,680,000 is attributed to CTS (Ningxia) Shapotou Tourist Spot Co., Ltd ("Shapotou") representing for 54% of equity for non-controlling interest and HK$263,086,000 is attributed to CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd ("CTS (Dengfeng)") representing for 49% of equity for non-controlling interest. The non-controlling interests in respect of other subsidiaries are not material individually.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Window of the World		Shapotou		CTS (Dengfeng)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Non-current assets	**412,285**	357,475	**403,813**	388,676	**403,182**	336,817
Current assets	**411,336**	455,519	**170,497**	315,688	**210,090**	302,443
Non-current liabilities	**–**	–	**(38,462)**	(107,347)	**–**	–
Current liabilities	**(205,127)**	(158,201)	**(113,930)**	(110,121)	**(147,948)**	(126,960)
Net assets	**618,494**	654,793	**421,918**	486,896	**465,324**	512,300

Summarised income statement

	Window of the World		Shapotou		CTS (Dengfeng)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Revenue	**577,169**	560,925	**190,615**	230,996	**298,816**	276,286
Profit/(loss) after taxation and total comprehensive income	**180,280**	253,638	**(22,792)**	12,194	**36,156**	66,468
Total comprehensive income attributable to non-controlling interests	**88,337**	124,261	**(12,308)**	(355)	**17,717**	30,318
Dividends paid to non-controlling interests	**(106,109)**	(99,560)	**(9,701)**	(35,312)	**(29,334)**	–

18 SUBSIDIARIES (Continued)

Summarised cash flows

	Window of the World		Shapotou		CTS (Dengfeng)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Net cash flows generated from operating activities	**287,649**	238,501	**32,149**	72,454	**50,968**	41,485
Net cash flows used in investing activities	**(49,154)**	(54,637)	**(19,402)**	(326,764)	**(114,592)**	(61,503)
Net cash flows used in financing activities	**(216,549)**	(203,185)	**(28,326)**	(49,279)	**(12,968)**	(2,973)
Net increase/(decrease) in cash and cash equivalents	**21,946**	(19,321)	**(15,579)**	(303,589)	**(76,592)**	(22,991)
Cash and cash equivalents at end of year	**115,939**	99,350	**63,288**	82,079	**85,914**	167,440

The financial information above is the amount before inter-company eliminations.

19 INTEREST IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**1,277,163**	1,080,528
Provision for impairment	**(3,626)**	(3,626)
	1,273,537	1,076,902

(Expressed in Hong Kong dollars unless otherwise indicated)

19 INTEREST IN ASSOCIATES (Continued)

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

Name	Particulars of issued share capital	Place of incorporation/ operations	Percentage of equity and profit sharing attributable to the Group		Principal activities
			2018	2017	
All China Express Limited#	10,000 Ordinary shares HK$10,000	Hong Kong	**30**	30	Passenger transportation
Changsha Colorful World Company Limited#	RMB100,000,000	PRC/Mainland China	**26**	26	Scenic spot operations
Huangshan Taiping Cable Car Co. Ltd.#	US$6,975,000	PRC/Mainland China	**30**	30	Cable car operations
Huangshan Yuping Cable Car Company Ltd.#	RMB19,000,000	PRC/Mainland China	**20**	20	Cable car operations
Shun Tak-China Travel Shipping Investments Limited ("Shun Tak-China Travel") #	10,000 Ordinary shares of US$1 each	British Virgin Islands ("BVI")/Hong Kong	**29**	29	Shipping operations
CDD International Holding Limited #	1,000,000 Ordinary shares HK$1,000,000	Hong Kong	**40**	40	Time share resort management
珠海市恒大海泉灣置業有限公司("恒大海泉灣") #	RMB821,812,000	PRC/Mainland China	**49**	49	Property development

Not audited by KPMG.

(a) 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.

19 INTEREST IN ASSOCIATES (Continued)

Summarised financial information for associates

Set out below are the summarised financial information for material associates which are accounted for using the equity method.

	Shun Tak – China Travel		恒大海泉灣		Other associates in aggregate		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Non-current assets	**738,308**	782,306	**13,058**	136,086	**777,661**	721,334	**1,529,027**	1,639,726
Current assets	**1,464,892**	1,501,446	**2,251,280**	2,304,664	**511,784**	568,185	**4,227,956**	4,374,295
Non-current liabilities	**(23,524)**	(29,568)	**–**	–	**(14,401)**	(15,280)	**(37,925)**	(44,848)
Current liabilities	**(391,115)**	(470,875)	**(1,212,354)**	(1,811,133)	**(309,279)**	(246,399)	**(1,912,748)**	(2,528,407)
Net assets	**1,788,561**	1,783,309	**1,051,984**	629,617	**965,765**	1,027,840	**3,806,310**	3,440,766
Revenue	**2,358,366**	2,553,957	**1,630,934**	–	**489,593**	702,207	**4,478,893**	3,256,164
Profit/(loss) after taxation	**241,559**	291,156	**467,231**	(59,188)	**175,476**	195,811	**884,266**	427,779
Other comprehensive income	**(32,307)**	4,602	**–**	–	**–**	–	**(32,307)**	4,602
Total comprehensive income	**209,252**	295,758	**467,231**	(59,188)	**175,476**	195,811	**851,959**	432,381
Dividends received from associates	**(59,160)**	(87,000)	**–**	–	**(39,418)**	(22,027)	**(98,578)**	(109,027)

The financial information of the associates above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

19 INTEREST IN ASSOCIATES (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to share of net assets of its interest in associates

	Shun Tak– China Travel		恒大海泉灣		Other associates in aggregate		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Net assets								
At 1 January	**1,783,309**	1,787,551	**629,617**	643,465	**1,027,840**	778,044	**3,440,766**	3,209,060
Profit/(loss) for the year	**241,559**	291,156	**467,231**	(59,188)	**175,476**	195,811	**884,266**	427,779
Other comprehensive income	**(32,307)**	4,602	**–**	–	**–**	–	**(32,307)**	4,602
Capital contribution to associates	**–**	–	**–**	–	**62,252**	109,690	**62,252**	109,690
Currency translation differences	**–**	–	**(44,864)**	45,340	**(108,492)**	47,807	**(153,356)**	93,147
Dividend	**(204,000)**	(300,000)	**–**	–	**(191,311)**	(103,512)	**(395,311)**	(403,512)
At 31 December	**1,788,561**	1,783,309	**1,051,984**	629,617	**965,765**	1,027,840	**3,806,310**	3,440,766
Group's interest	**29%**	29%	**49%**	49%	**–**	–	**–**	–
Carrying amount in the consolidated financial statements	**518,683**	517,160	**515,472**	308,512	**243,008**	254,856	**1,277,163**	1,080,528

20 INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Share of net assets	**–**	7,084

(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 consolidated income statement:

	2018 HK$'000	2017 HK$'000
Non-current assets	**–**	10,554
Current assets	**–**	6,188
Current liabilities	**–**	(9,658)
Net assets	**–**	7,084
Revenue	**–**	–
Expenses	**–**	(619)
Taxation	**–**	–
Profit after taxation and total comprehensive income	**–**	(619)
Dividends received from a joint venture	**–**	–

(b) During the year, the Group disposed all of the interest in a joint venture.

21 OTHER FINANCIAL ASSETS

	Notes	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Equity securities designated at FVOCI (non-recycling)	(i), (ii)			
– Unlisted equity investments		**40,129**	67,210	–
Available-for-sale financial assets	(ii)			
– Unlisted equity investments		**–**	–	30,041

(i) The unlisted equity investments represent shares in companies engaging in the passenger transportation, tours attraction and travel agency operations. The Group designated its investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the year (2017: Nil). There was no disposal and no transfers of the cumulative gain or loss within equity during the year ended 31 December 2018.

(ii) Available-for-sale financial assets were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 2.1(a)(i)).

22 INVENTORIES

	2018 HK$'000	2017 HK$'000
Food and beverages	**9,946**	11,145
Spare parts and consumables	**940**	1,366
General merchandise	**8,039**	8,828
	18,925	21,339

23 PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
At 1 January	**1,883,541**	2,071,597
Additions	**33,154**	290,254
Transfer to completed properties held for sale	**–**	(611,647)
Cost adjustment	**(154,537)**	–
Currency translation differences	**(78,896)**	133,337
At 31 December	**1,683,262**	1,883,541

	2018 HK$'000	2017 HK$'000
Properties under development comprise:		
Land use rights	**1,090,848**	1,159,686
Construction cost and capitalised expenditures	**592,414**	723,855
	1,683,262	1,883,541

The amounts of properties under development are expected to be recovered after more than one year.

24 COMPLETED PROPERTIES HELD FOR SALE

	2018 HK$'000	2017 HK$'000
At 1 January	**92,092**	–
Transfer from properties under development	**–**	611,647
Transfer to property, plant and equipment	**(3,184)**	–
Sold during the year	**(20,754)**	(522,840)
Cost adjustment	**(3,497)**	–
Currency translation differences	**(6,820)**	3,285
At 31 December	**57,837**	92,092

25 TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**165,778**	177,978
Less: loss allowance	**(20,280)**	(19,494)
	145,498	158,484

Ageing analysis

At 31 December 2018 and 2017, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**129,952**	141,790
Over 3 months to 6 months	**10,161**	9,486
Over 6 months to 12 months	**3,898**	3,448
Over 1 year to 2 years	**947**	3,435
Over 2 years	**540**	325
	145,498	158,484

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 43.

The movement in the loss allowance account in respect of trade receivables during the year is as follow:

	2018 HK$'000	2017 HK$'000
Balance at 31 December under HKAS 39	**19,494**	15,683
Additional credit loss recognised at 1 January 2018	**–**	–
Adjusted balance at 1 January	**19,494**	15,683
Impairment losses recognised during the year	**1,089**	6,908
Impairment losses reversed	**(45)**	(3,434)
Currency translation differences	**(258)**	337
Balance at 31 December	**20,280**	19,494

25 TRADE RECEIVABLES (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2.13(i)(B) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$16,694,000 was past due but not determined to be impaired. The aging analysis of trade receivables that were past due but not considered to be impaired was as follows:

	2017 HK$'000
Over 3 months to 6 months	9,486
Over 6 months to 12 months	3,448
Over 1 year to 2 years	3,435
Over 2 years	325
	16,694

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2018, trade receivables of HK$20,280,000 (2017: HK$19,494,000) were impaired and fully provided for. The ageing analysis of these receivables, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Over 3 months to 6 months	**861**	31
Over 6 months to 12 months	**1,619**	5,771
Over 1 year to 2 years	**5,353**	2,788
Over 2 years	**12,447**	10,904
	20,280	19,494

The provision and reversal of provision for impairment loss on trade 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.

26 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	**2018 HK$'000**	2017 HK$'000
Deposits, prepayments and other receivables		**481,057**	433,101
Entrustment loan receivables from non-controlling shareholders	(a)	**273,910**	275,149
Amounts due from non-controlling shareholders	(b)	**33,011**	38,818
Amounts due from associates	(c)	**32,887**	29,907
Amount due from a related company	(c)	**14,733**	8,438
		835,598	785,413
Less: non-current portion of prepayments		**(99,152)**	(32,644)
non-current portion of other receivables		**(3,880)**	(4,666)
		732,566	748,103

None of the above assets is past due. Management has monitored above balances including amounts due from non-controlling shareholders (note (b)) and concluded that no risk on recoverability.

The carrying amounts of the Group's deposits 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 Shenzhen Splendid China Development Co., Ltd ("Splendid China") and Window of the World, which are the Company's 51% owned subsidiaries, with RMB103 million and RMB171 million (2017: RMB80 million and RMB150 million) withdrawn respectively, as at 31 December 2018. 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 People's Bank of China ("PBOC") Benchmark Lending Rate.

(b) The balances include the amount due from a non-controlling shareholder of CTS (Dengfeng), a 51% owned subsidiary of the Company, approximately RMB16 million (2017: RMB32 million), which is unsecured and the principal bears interest at 5.52% per annum.

(c) The balances are unsecured, interest-free and recoverable on demand.

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group had certain investments with certain financial institutions, which are classified as financial assets at fair value through profit or loss. The investments based on respective contracts have maturity of 1 year or less.

Their notional amount approximate their fair values and as follows:

	2018 **HK$'000**	2017 HK$'000
Within 1 year	**942,993**	1,411,711

The fair value hierarchy used for determining and disclosing the fair values are further disclosed in note 43.

28 CASH AND BANK BALANCES

(a)

	2018 **HK$'000**	2017 HK$'000
Cash and bank balances	**910,822**	1,244,427
Time deposits	**1,738,344**	2,064,697
	2,649,166	3,309,124
Less: Pledged time deposits	**(46,884)**	(37,720)
Cash and bank balances in the consolidated statement of financial position	**2,602,282**	3,271,404
Less: Deposits with maturity of more than three months	**(1,500,381)**	(766,012)
Cash and cash equivalents in the consolidated cash flow statement	**1,101,901**	2,505,392

	2018 **HK$'000**	2017 HK$'000
Maximum exposure to credit risks	**2,639,900**	3,298,518

The Group has pledged bank deposits to banks to secure: (a) certain credit facilities granted by suppliers to the Company's subsidiaries; and (b) 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 RMB amounted to HK$1,795,079,000 (2017: HK$1,937,756,000). 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 Provisions", 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 CASH AND BANK BALANCES (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other borrowings HK$'000	Loans from a holding company HK$'000	Interest payable HK$'000	Total HK$'000
At 1 January 2017	98,528	–	–	98,528
Changes from financing cash flows:				
Proceeds from new bank loans	195,076	–	–	195,076
Repayment of bank loans	(201,879)	–	–	(201,879)
Proceeds from new loans from a holding company	–	79,600	–	79,600
Finance cost paid	–	–	(4,966)	(4,966)
Total changes from financing cash flows	(6,803)	79,600	(4,966)	67,831
Other change				
Finance costs (note 6)	–	–	4,966	4,966
Currency translation differences	6,730	2,945	–	9,675
At 31 December 2017 and 1 January 2018	**98,455**	**82,545**	**–**	**181,000**
Changes from financing cash flows:				
Proceeds from new bank loans	**1,292,515**	**–**	**–**	**1,292,515**
Repayment of bank loans	**(1,139,480)**	**–**	**–**	**(1,139,480)**
Finance cost paid	**–**	**–**	**(10,314)**	**(10,314)**
Total changes from financing cash flows	**153,035**	**–**	**(10,314)**	**142,721**
Other change				
Finance costs (note 6)	**–**	**–**	**10,314**	**10,314**
Currency translation differences	**(4,244)**	**(3,796)**	**–**	**(8,040)**
At 31 December 2018	**247,246**	**78,749**	**–**	**325,995**

29 BALANCES WITH HOLDING COMPANIES AND FELLOW SUBSIDIARIES

Except for loan to a fellow subsidiary and loans from a holding company, all other balances with holding companies and fellow subsidiaries of the Group mainly represent receivables and payables which are of trade nature.

The loan to a fellow subsidiary is unsecured, interest-bearing at the six month United Stated dollars London Interbank Offered Rate plus 2.6% per annum and repayable on 17 May 2019.

The loans from a holding company are unsecured, interest-bearing at 1.2% per annum and repayable on demand.

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

The ageing analysis based on invoiced dates of the balances with holding companies and fellow subsidiaries is as follows:

	2018 HK$'000	2017 HK$'000
Amounts due from holding companies		
Within 1 year	**25,549**	18,115
Over 1 year to 2 years	**613**	1,609
	26,162	19,724
Amounts due from fellow subsidiaries		
Within 1 year	**40,140**	83,733
Over 1 year to 2 years	**–**	71
Over 2 years	**53**	56
	40,193	83,860

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.

	2018 HK$'000	2017 HK$'000
Amounts due to holding companies		
Within 1 year	**1,232**	57,487
Amounts due to fellow subsidiaries		
Within 1 year	**7,871**	6,455

30 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:

	2018 **HK$'000**	2017 HK$'000
Within 3 months	**270,474**	343,884
Over 3 months to 6 months	**13,078**	16,100
Over 6 months to 12 months	**15,871**	4,617
Over 1 year to 2 years	**9,559**	5,532
Over 2 years	**24,420**	27,073
	333,402	397,206

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

31 OTHER PAYABLES AND ACCRUALS

	Note	**2018** **HK$'000**	2017 HK$'000
Construction in progress payables		**634,660**	749,348
Accrued employee benefits		**334,319**	336,174
Receipts in advance	(a)	**256,605**	200,245
Amounts due to the non-controlling shareholders		**21,687**	5,671
Amounts due to an associate and a joint venture	(b)	**68,746**	71,679
Other payable and accruals	(a),(c)	**985,515**	1,196,933
		2,301,532	2,560,050

Notes:

(a) Included in receipts in advance and other payable and accruals, amount of HK$254,544,000 (2017: HK$264,974,000) represent the receipts the Group received from customers in advance of completion of sales of goods or provision of services, and are recognised as contract liabilities. Amount of HK$264,974,000 of contract liabilities as at 1 January 2018 are recognised as revenue during the year.

(b) Amounts due to an associate and a joint venture are unsecured, interest-free and repayable on demand.

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

32 DEFERRED INCOME

Deferred income primarily represents government grant income.

33 BANK AND OTHER BORROWINGS

	2018			2017		
	Contractual interest rate per annum (%)	**Maturity**	**HK$'000**	Contractual interest rate per annum (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	**3-Year PBOC Benchmark loan interest rate**	**2019**	**62,771**	3-Year PBOC Benchmark loan interest rate	2018	23,926
Bank loans – unsecured	**2.74**	**2019**	**30,000**	–	–	–
Bank loans – unsecured	**3.3-3.5**	**2019**	**148,745**	–	–	–
Bank loans – unsecured	**1.975**	**2019**	**511**	1.975	2018	499
Bank loans – unsecured	**1.5**	**2019**	**925**	1.5	2018	1,287
Other borrowings – unsecured	**Interest-free**	**on demand**	**3,957**	Interest-free	on demand	3,957
Other loans – unsecured	**Interest-free**	**on demand**	**–**	Interest-free	on demand	1,196
			246,909			30,865
Non-current						
Bank loan – unsecured	**3-Year PBOC Benchmark loan interest rate**	**2019**	**–**	3-Year PBOC Benchmark loan interest rate	2019	65,796
Bank loan – unsecured	**1.975**	**2020**	**337**	1.975	2020	829
Bank loan – unsecured	**1.5**	**2019**	**–**	1.5	2019	965
			337			67,590
Total bank and other borrowings			**247,246**			98,455

33 BANK AND OTHER BORROWINGS (Continued)

The bank and other borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
U.S. dollar	**123,745**	–
Hong Kong dollar	**58,957**	3,957
Renminbi	**62,771**	90,919
Japanese Yen	**848**	1,328
Korean Won	**925**	2,251
	247,246	98,455

At 31 December 2018, the Group's borrowings were repayable as follows:

	2018 HK$'000	2017 HK$'000
Bank loans:		
Within 1 year	**242,952**	25,712
Between 1 and 2 years	**337**	67,260
Between 2 and 5 years	**–**	330
	243,289	93,302
Other borrowings:		
Within 1 year	**3,957**	5,153
	247,246	98,455

The carrying amounts of the Group's borrowings approximate their fair values.

34 DEFERRED TAX

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

	Depreciation allowance in excess of related depreciation	Surplus on revaluation of properties	Surplus on revaluation of financial assets	Fair value adjustments arising from acquisition of subsidiaries	Withholding tax	Political relocation impact	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	**114,912**	**93,928**	**–**	**230,892**	**13,337**	**–**	**453,069**
Impact on initial application of HKFRS 9	**–**	**–**	**4,554**	**–**	**–**	**–**	**4,554**
Adjusted balance at 1 January 2018	**114,912**	**93,928**	**4,554**	**230,892**	**13,337**	**–**	**457,623**
Deferred tax (credited)/charged to the income statement	**(1,446)**	**1,989**	**–**	**(10,452)**	**687**	**–**	**(9,222)**
Currency translation differences	**(236)**	**(539)**	**–**	**–**	**–**	**–**	**(775)**
Deferred tax charged/(credited) to other comprehensive income	**–**	**4,775**	**(2,181)**	**–**	**–**	**–**	**2,594**
Reclassification	**–**	**–**	**–**	**–**	**–**	**119,370**	**119,370**
At 31 December 2018	**113,230**	**100,153**	**2,373**	**220,440**	**14,024**	**119,370**	**569,590**
At 1 January 2017	110,688	73,637	–	229,731	10,436	–	424,492
Deferred tax charged to the income statement	4,224	21,046	–	1,161	2,901	–	29,332
Currency translation differences	(961)	(755)	–	–	–	–	(1,716)
Acquisition of a subsidiary	961	–	–	–	–	–	961
At 31 December 2017	114,912	93,928	–	230,892	13,337	–	453,069

34 DEFERRED TAX (Continued)

Deferred tax assets

	Unrealised gain on land contribution to associate HK$'000	Provision and accruals HK$'000	Depreciation in excess of related depreciation allowance HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	**(38,307)**	**(87,584)**	**(15,989)**	**(6,110)**	**(147,990)**
Deferred tax charged/(credited) to the income statement	**14,672**	**(3,349)**	**7,454**	**(15,674)**	**3,103**
Currency translation differences	**5,168**	**4,028**	**689**	**–**	**9,885**
Reclassification	**–**	**83,556**	**–**	**–**	**83,556**
At 31 December 2018	**(18,467)**	**(3,349)**	**(7,846)**	**(21,784)**	**(51,446)**
At 1 January 2017	(34,854)	–	(15,789)	(83)	(50,726)
Deferred tax (credited)/charged to the income statement	(852)	(84,459)	653	(6,027)	(90,685)
Currency translation differences	(2,601)	(3,125)	(853)	–	(6,579)
At 31 December 2017	(38,307)	(87,584)	(15,989)	(6,110)	(147,990)

The following is an analysis of the deferred tax balance of the Group for financial reporting purposes:

	2018 HK$'000	2017 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(51,446)**	(147,990)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**569,590**	453,069
	518,144	305,079

The Group has tax losses arising in Hong Kong of HK$90,177,000 (2017: HK$80,709,000) 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$464,108,000 (2017: HK$370,584,000) and overseas of HK$18,410,000 (2017: HK$17,844,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

35 SHARE CAPITAL

	2018 Number of shares	2018 HK$'000	2017 Number of shares	2017 HK$'000
Issued and fully paid:				
Ordinary shares				
At 1 January	**5,448,585,525**	**9,102,708**	5,445,901,525	9,096,434
Share issued upon share option scheme	**7,328,000**	**17,128**	2,684,000	6,274
At 31 December	**5,455,913,525**	**9,119,836**	5,448,585,525	9,102,708

36 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 and 2012 Share Option Scheme include the Company's Directors and employees 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. Each option is settled gross in shares.

36 SHARE OPTION SCHEME (Continued)

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.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2018 Weighted average exercise price HK$ per share	**2018** Number of options '000	2017 Weighted average exercise price HK$ per share	2017 Number of options '000
At 1 January	**2.233**	**176,354**	2.231	192,538
Forfeited during the year	**2.304**	**(43,600)**	2.304	(13,500)
Cancelled during the year	**2.304**	**(47,640)**	–	–
Exercised during the year	**1.700**	**(7,328)**	1.700	(2,684)
At 31 December	**2.200**	**77,786**	2.233	176,354

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

2018 Number of options '000	**Exercise price# HK$ per share**	**Exercise period**
4,015	1.700	18 June 2012 – 17 June 2020
4,015	1.700	18 June 2013 – 17 June 2020
5,356	1.700	18 June 2014 – 17 June 2020
–	2.304	15 September 2018 – 14 September 2021
28,815	2.304	15 September 2019 – 14 September 2021
29,689	2.304	15 September 2020 – 14 September 2021
–	2.304	30 December 2018 – 29 December 2021
2,904	2.304	30 December 2019 – 29 December 2021
2,992	2.304	30 December 2020 – 29 December 2021
77,786		

36 SHARE OPTION SCHEME (Continued)

2017 Number of options '000	Exercise price# HK$ per share	Exercise period
6,214	1.700	18 June 2012 – 17 June 2020
6,214	1.700	18 June 2013 – 17 June 2020
8,286	1.700	18 June 2014 – 17 June 2020
45,949	2.304	15 September 2018 – 14 September 2021
45,949	2.304	15 September 2019 – 14 September 2021
47,342	2.304	15 September 2020 – 14 September 2021
5,412	2.304	30 December 2018 – 29 December 2021
5,412	2.304	30 December 2019 – 29 December 2021
5,576	2.304	30 December 2020 – 29 December 2021
176,354		

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 fair value of the share options granted in September 2016 and December 2016 was HK$0.53 and HK$0.46 per share option respectively and, of which the Company recognised in profit or loss a reversal of share option expense of HK$3,743,000 (2017: charge of share option expense of HK$29,055,000) during the year ended 31 December 2018.

The fair value of equity-settled share options granted during the year ended 31 December 2018 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:

	Granted in 2016
Weighted average dividend yield (%)	3.34%
Weighted average expected volatility (%)	37.26%
Weighted average risk-free interest rate (%)	0.88%
Weighted average expected life of options (year)	5
Weighted average share price (HK$ per share)	2.304

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

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

37 BUSINESS COMBINATIONS

(a) A joint venture company transferred to a subsidiary

On 1 January 2017, Macao CTS Passenger Road Transport Company LTD. became subsidiary of the Group pursuant to the revised articles that confer the Group the exclusive decision making rights in all significant activities, including but not limited to operation and financing activities.

The following table summarises the net assets of the company at the date of acquisition. The joint venture company had a carrying value of HK$73,424,000 before the change of control. The acquisition resulted in a net cash inflow of HK$52,234,000 during the year ended 31 December 2017 and no goodwill or bargain purchase was recognised from this transaction.

	1 January 2017 HK$'000
Purchase consideration	
– Carrying value of equity interest in above companies held before the business combination	36,712
– Fair value adjustment on purchase consideration	3,542
Total purchase consideration	40,254
Recognised amounts of identifiable assets acquired and liabilities assumed fair value	
Cash and bank balances	52,234
Property, plant and equipment	13,925
Available-for-sale investments	11,477
Other non-current assets	1,005
Inventories	33
Accounts receivables, prepayments and other receivables	25,394
Accounts payables, receipt in advance, accruals and other payables	(23,559)
Total identifiable net assets	80,509
Non-controlling interest	(40,254)
	40,255
Inflow of cash to acquire business	
– cash and bank balances in subsidiary acquired	52,234

The acquired business contributed revenues of HK$147,215,000 and net profit of HK$9,507,000 to the Group for the period from 1 January 2017 to 31 December 2017.

37 BUSINESS COMBINATIONS (Continued)

(b) Acquisition of a subsidiary

On 30 March 2017, the Group acquired 100% of the issued shares in Associated Motor Service and Repair Limited, a company focus on passenger transportation, for consideration of HK$51,855,000.

The following table summarises the consideration paid for Associated Motor Service and Repair Limited, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	30 March 2017 HK$'000
Purchase consideration	
– Cash paid	49,800
– Payable	2,055
Total purchase consideration	51,855
Recognised amounts of identifiable assets acquired and liabilities assumed fair value	
Cash at bank	229
Property, plant and equipment	10,464
Intangibles:	
– PSL	21,600
– Quota	20,038
Other receivables	351
Accounts payables	(3,103)
Deferred tax liabilities	(961)
Total identifiable net assets	48,618
Goodwill	3,237
	51,855
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	51,855
– cash and bank balances in subsidiary acquired	(229)
Cash outflow on acquisition	51,626

The acquired business contributed revenues of HK$9,658,000 and net profit of HK$2,049,000 to the Group for the period from 1 April 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated profit for the year ended 31 December 2017 would have been HK$12,877,000 and HK$2,732,000 respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operation	Particulars of issued share capital	Proportion of ordinary shares held by the group (%) 2018	2017	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,300,000	**100**	100	Travel and air ticketing agency
Aldington International Ltd. [4]	Western Samoa	10 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
China Heaven Creation International Performing Arts Co., Ltd. [3,4,5]	PRC/Mainland China	RMB29,640,000	**78**	78	Production of arts performances
China Travel (HK & Macau Tour) Management Hong Kong Ltd.	Hong Kong	500,000 ordinary shares HK$500,000	**100**	100	Tour operations
China Travel Advertising Hong Kong Ltd.	Hong Kong	10 ordinary shares HK$1,000 5,000 non-voting deferred shares HK$500,000	**100**	100	Provision of printing and advertising agency services
China Travel Air Service Hong Kong Ltd.	Hong Kong	10 ordinary shares HK$1,000 10,000 non-voting deferred shares HK$1,000,000	**100**	100	Air ticketing agency
China Travel and Trading (Deutschland) GmbH [4]	Germany	EUR380,000	**100**	100	Travel and air ticketing agency
China Travel Express Ltd.	Hong Kong	10,000 ordinary shares HK$10,000	**100**	100	Passenger transportation
China Travel Hi-Tech Computer Hong Kong Ltd.	Hong Kong	10,000,000 ordinary shares HK$10,000,000	**100**	100	Trading of computer equipment, provision of computer services and investment holding

(Expressed in Hong Kong dollars unless otherwise indicated)

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operation	Particulars of issued share capital	Proportion of ordinary shares held by the group (%) 2018	2017	Principal activities
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. [2,5]	PRC/Mainland China	US$231,000,000	**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
China Travel Service (Hong Kong) Ltd.	Hong Kong	10 ordinary shares HK$1,000 1,000,000 non-voting deferred shares HK$100,000,000	**100**	100	Tour operations, PRC entry permit handling agency, investment holding and travel agency
China Travel Service (Korea) Co., Ltd. [4]	Korea	KRW500,000,000	**100**	100	Travel and air ticketing agency
China Travel Service (N.Z.) Ltd.	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 redeemable preference shares of GBP1 each	**100**	100	Travel and air ticketing agency
China Travel Tours Transportation Services Hong Kong Ltd.	Hong Kong	2 ordinary shares HK$200 5,000 non-voting deferred shares HK$500,000	**100**	100	Passenger transportation
CTS H.K. Metropark Hotels Management Company Ltd.	Hong Kong	100,001 ordinary shares HK$100,001	**100**	100	Hotel management
CTS (Dengfeng) [1,5]	PRC/Mainland China	RMB300,000,000	**51**	51	Tourist attraction operations

(Expressed in Hong Kong dollars unless otherwise indicated)

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operation	Particulars of issued share capital	Proportion of ordinary shares held by the group (%) 2018	2017	Principal activities
北京港中旅維景國際酒店管理有限公司[3,4]	PRC/Mainland China	HK$5,000,000	100	100	Hotel management
CTS Scenery Resort Investment Company Ltd. [2,4]	PRC/Mainland China	RMB132,250,000	100	100	Investment in and management of resort hotels and scenic spots
Golf Club [2]	PRC/Mainland China	RMB326,000,000	100	100	Golf club operations
Glading Development Ltd.	Hong Kong	2 ordinary shares HK$2 2 non-voting deferred shares HK$2	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 Ltd.	BVI/Hong Kong	1 ordinary 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
Mart Harvest Ltd.	Hong Kong	2 ordinary shares HK$2 100 non-voting deferred shares HK$100	100	100	Property investment holding
Metrocity Hotel Ltd.	BVI/Hong Kong	1 ordinary share of US$1 each 100 non-voting deferred shares of US$1 each	100	100	Property investment holding and hotel operations
Mutual Great (Hong Kong) Ltd. [5]	Hong Kong	1 ordinary share HK$1	100	100	Investment holding

(Expressed in Hong Kong dollars unless otherwise indicated)

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operation	Particulars of issued share capital	Proportion of ordinary shares held by the group (%) 2018	2017	Principal activities
New Bus Holdings Ltd.	Hong Kong	1,000,000 ordinary shares HK$1,000,000	**80**	80	Passenger transportation
Splendid China [1,5]	PRC/Mainland China	RMB184,000,000	**51**	51	Tourist attraction operations
Window of the World [1,5]	PRC/Mainland China	US$29,500,000	**51**	51	Tourist attraction operations
Sociedade De Fomento Predial Fu Wa (Macau), Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Triumph King Ltd.	Hong Kong	2 ordinary shares HK$2 100 non-voting deferred shares HK$100	**100**	100	Property investment holding
U.S. China Travel Service, 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 Ocean Spring Resort Co., Ltd.[1]	PRC/Mainland China	RMB451,000,000	**89.14**	89.14	Hot spring resort 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
珠海市港中旅快線有限公司[2,4]	PRC/Mainland China	RMB10,000,000	**100**	100	Passenger transportation
CTS (Anji) Tourism Development Co., Ltd. [1,5]	PRC/Mainland China	US$82,834,661	**96.38**	96.38	Tourist attraction operations

(Expressed in Hong Kong dollars unless otherwise indicated)

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operation	Particulars of issued share capital	Proportion of ordinary shares held by the group (%) 2018	2017	Principal activities
珠海海泉灣博派會展服務有限公司[3]	PRC/Mainland China	RMB6,000,000	**60**	60	Conference and exhibition operations
Shapotou [1,5,6]	PRC/Mainland China	RMB192,117,800	**46**	46	Tourist attraction operations
CTS (Ningxia) Shapotou Cable Car Co., Ltd. [1,5]	PRC/Mainland China	RMB8,100,000	**51**	51	Tourist attraction operations
港中旅(深圳)旅遊管理有限公司[2,4,5]	PRC/Mainland China	RMB1,000,000	**100**	100	Tourist attraction management
內蒙古港中旅天創景區建設管理有限公司[3,4]	PRC/Mainland China	RMB50,000,000	**78**	78	Tourist attraction management
CTSHK Transportation (Macao) Company Limited[4]	Macau	MOP5,000,000	**100**	–	Passenger transportation
中旅風景(北京)旅遊管理有限公司[1,4,5]	PRC/Mainland China	RMB5,000,000	**100**	–	Tourist attraction consulting services
廣西寧明中旅岜來旅遊文化有限公司[3]	PRC/Mainland China	RMB5,000,000	**51**	–	Tourist attraction operations

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

The English names of certain subsidiaries referred to in the Consolidated Financial Statements represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

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 KPMG, Hong Kong or another member firm of the KPMG global network

5 Directly owned by the Company

6 Proportion of ordinary shares held by the Group is less than 51%, but the Group remains control over the entity

39 CONTINGENT LIABILITIES

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

	2018 **HK$'000**	2017 HK$'000
Performance bond given to a customer for due performance of a sales contract	**300**	300

40 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its certain property, plant and equipment and investment properties (notes 13 and 14) 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 2018, the Group had future aggregate minimum lease receivables under non-cancellable operating leases with its tenants as follows:

	2018 **HK$'000**	2017 HK$'000
Investment properties:		
Within one year	**70,082**	52,918
In the second to fifth years, inclusive	**75,428**	56,060
	145,510	108,978
Equipment and motor vehicles:		
Within one year	**6,711**	4,567
In the second to fifth years, inclusive	**372**	576
	7,083	5,143

40 OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 HK$'000	2017 HK$'000
Land, buildings, equipment and motor vehicles#:		
Within one year	**67,674**	62,137
In the second to fifth years, inclusive	**72,838**	109,866
Later than five years	**266,360**	279,156
	406,872	451,159

\# Other than disclosed above, certain lease payments will be subject to further negotiation and reach an agreement between both parties after the expiry of the existing payment term.

41 COMMITMENTS

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

	2018 HK$'000	2017 HK$'000
Property project, land and buildings:		
Contracted, but not provided for	**242,691**	742,768
Plant and equipment and motor vehicles:		
Contracted, but not provided for	**29,089**	49,746
Authorised, but not contracted for	**387,230**	54,405
Scenic spots:		
Contracted, but not provided for	**416,734**	127,265
Unpaid capital contribution to an associate:		
Contracted, but not provided for	**19,973**	20,935

42 RELATED PARTY TRANSACTIONS

In addition to those related party balances and transactions disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions and balances with related parties during the year:

(a) Significant transactions with related parties

	Note	2018 HK$'000	2017 HK$'000
Travel-related income from	(a)		
– immediate holding company#*		**251,229**	201,586
– fellow subsidiaries*		**16,311**	27,049
– associates		**68,808**	71,837
– other related parties*		**233**	3,017
Hotel-related income from	(a)		
– immediate holding company		**1,294**	2,502
– fellow subsidiaries		**1,802**	2,002
Management income from	(b)		
– fellow subsidiaries*		**5,456**	9,416
– associates		**9,892**	9,991
– a non-controlling shareholder		**29,076**	66,961
Rental income from	(c)		
– fellow subsidiaries*		**6,111**	5,487
– an associate		**43,540**	41,661
– a non-controlling shareholder		**3,002**	2,601
– a related party		**3,314**	1,945

42 RELATED PARTY TRANSACTIONS (Continued)

(a) Significant transactions with related parties (Continued)

	Note	2018 HK$'000	2017 HK$'000
Interest income from a loan to			
– a fellow subsidiary		**7,637**	3,986
Travel-related expenses paid to	(a)		
– fellow subsidiaries*		**(64,424)**	(51,498)
– associates		**(3,878)**	(2,430)
– other related parties*		**(2,558)**	(12,094)
– a non-controlling shareholder		**(1,502)**	(1,497)
Management expenses paid to	(b)		
– fellow subsidiaries*		**(11,876)**	(10,328)
Rental expenses paid to	(c)		
– immediate holding company*		**(15,372)**	(16,053)
– fellow subsidiaries*		**(3,380)**	(2,903)
– an associate		**(1,083)**	(2,097)
– a non-controlling shareholder		**(2,619)**	(2,607)
– other related parties		**(23,587)**	(22,516)
Other operating expenses paid to			
– a related party		**(26,090)**	(24,732)

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.

* These related party transactions contain connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules (the "Listing Rules"). The disclosures required by the Listing Rules are provided in section "Connected transactions and continuing connected transactions" of the Directors' Report. The amounts disclosed above included certain income/expenses which are exempted from the announcements and reporting requirement as they are below de minimis threshold under the Listing Rule 14A.76(1).

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.

42 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant balances with related parties

(i) On 26 May 2017, China National Travel Service Group Corporation ("China CTS"), as lender, entered into the Loan Agreement with Shapotou, as borrower, for a term of three years commencing from 26 May 2017 and with repayable on demand clause, pursuant to which China CTS has agreed to provide a loan of RMB30,000,000 to Shapotou. The interest rate shall be the fixed rate 1.2% per annum. As at 31 December 2018, the arrangement remained effective with RMB30,000,000 withdrawn.

(ii) On 24 May 2017, China CTS, as lender, entered into the Loan Agreement with CTS (Anji) Tourism Development Company Limited ("Anji"), as borrower, for a term of three years commencing from 24 May 2017 and with repayable on demand clause, pursuant to which China CTS has agreed to provide a loan of RMB39,000,000 to Anji. The interest rate shall be the fixed rate 1.2% per annum. As 31 December 2018, the arrangement remained effective with RMB39,000,000 withdrawn.

(iii) On 19 May 2017, the Company, as lender, entered into the Loan Agreement with China Travel Financial Investment Holdings Co., Ltd. ("CTS Finance Investment"), as borrower, for a term of one year commencing from 19 May 2017 and ending on 18 May 2018, pursuant to which the Company has agreed to provide a loan of USD20,000,000 to CTS Finance Investment. On 18 May 2018, the Company entered into an extension agreememt with CTS Finance Investment to extend the Loan maturity date to 17 May 2019. Under both agreements, the interest rate shall be the six month US$ LIBOR plus 2.6% per annum, which will be fixed at the loan drawdown date and re-fixed on the date falling 6 months from the loan drawdown date. As at 31 December 2018, the arrangement remained effective with USD20,000,000 withdrawn. These transactions also constitute connected transactions as defined under Listing Rules.

(iv) On 29 September 2016, a 1-year (extendable for up to two years beyond the initial term) entrustment loan arrangement of RMB300 million was entered into between Window of the World and Splendid China, 51% owned subsidiaries of the Company, Shenzhen Overseas Chinese Town Co., Ltd., a state-owned enterprise, and a bank. The interest rate is 1 year Benchmark Lending Rate set by PBOC. As at 31 December 2018, the arrangement remained effective with RMB240 million withdrawn. The balance is included in deposits, prepayments and other receivables.

(v) On 14 January 2016, the Company and China National Travel Service (HK) Finance Company Limited ("CTS Finance") entered into a financial services framework agreement in respect of the provision of (i) deposit services, (ii) the comprehensive credit line services, (iii) the entrustment loan services; and (iv) the cross-border RMB cash pooling services by CTS Finance for a term commenced from 14 January 2016 and ending on 31 December 2018. As at 31 December 2018, the related deposit balance was RMB465,232,000. These transactions also constitute continuing connected transactions as defined under Listing Rules.

42 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant balances with related parties (Continued)

(vi) On 24 August 2017, the Company entered into a share transfer agreement with China International Travel Service Group Corporation ("CITS Corporation"), pursuant to which the Company agreed to dispose of and CITS Corporation agreed to acquire the 5% registered capital of Shapotou (the "Target Company") for a consideration of RMB38,173,300. On the same date, the Company and CITS Corporation entered into a concert party agreement, pursuant to which CITS Corporation unconditionally agreed to vote all its interests in the Target Company in the same way after the completion of the disposal, and the financial results and financial positions of the Target Company will continue to be consolidated into the financial statements of the Group.

(c) Transactions with the PRC government related entities

(i) On 4 January 2010, Henan Province Songshan Scenic Spot Management Committee entered into a franchise agreement pursuant to which CTS (Dengfeng) will be authorised 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.

(d) Key management personnel remuneration

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

	2018 **HK$'000**	2017 HK$'000
Short term employee benefits	**11,871**	10,929
Equity-settled share option expense	**399**	1,174
Total remuneration paid to key management personnel	**12,270**	12,103

Total remuneration is included in "employee benefit expenses" (see note 7).

(e) Commitments with related parties

(i) On 6 May 2012, 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 2032.

(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.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets and liabilities mainly comprise other financial assets, trade and other receivables, financial assets at fair value through profit or loss, pledged time deposits, cash and bank balances, trade payables, 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.

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:

	2018		
	Within 1 year or on demand HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**333,402**	**–**	**333,402**
Other payables and accruals	**2,301,532**	**–**	**2,301,532**
Loans from a holding company	**78,749**	**–**	**78,749**
Amounts due to holding companies	**1,232**	**–**	**1,232**
Amounts due to fellow subsidiaries	**7,871**	**–**	**7,871**
Bank and other borrowings	**249,909**	**339**	**250,248**
	2,972,695	**339**	**2,973,034**

	2017		
	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	397,206	–	397,206
Other payables and accruals	2,560,050	–	2,560,050
Loans from a holding company	82,545	–	82,545
Amounts due to holding companies	57,487	–	57,487
Amounts due to fellow subsidiaries	6,455	–	6,455
Bank and other borrowings	35,183	70,742	105,925
	3,138,926	70,742	3,209,668

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash balance is limited because the counterparties are banks and financial institutions with sound credit ratings, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The allowance for expected credit losses is insignificant.

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.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Increase/ decrease in RMB rate	Increase/ decrease in profit before tax
	%	HK$'000
2018		
If Hong Kong dollar weakens/strengthens against RMB	**5**	**2,247**
If Hong Kong dollar weakens/strengthens against RMB	**10**	**4,494**
2017		
If Hong Kong dollar weakens/strengthens against RMB	5	54,960
If Hong Kong dollar weakens/strengthens against RMB	10	109,920

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 2018, it is estimated that a general increase/decrease in 1% of the borrowing rate, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK$2,433,000 (2017: HK$933,000). 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$13,246,000 (2017: HK$16,546,000).

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 2018 and 31 December 2017.

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 holding companies and fellow subsidiaries. Capital represents equity attributable to equity owners of the Company.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

During 2018, the Group's strategy, which remained unchanged from that of 2017, 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.

	2018 **HK$'000**	2017 HK$'000
Trade payables	**333,402**	397,206
Other payables and accruals	**2,301,532**	2,560,050
Loans from a holding company	**78,749**	82,545
Amounts due to holding companies	**1,232**	57,487
Amounts due to fellow subsidiaries	**7,871**	6,455
Bank and other borrowings	**247,246**	98,455
Debt	**2,970,032**	3,202,198
Capital	**16,013,467**	16,212,629
Debt-to-capital ratio	**19%**	20%

Fair value estimation

The following hierarchy is used for determining and disclosing the fair values:

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)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2017: Nil).

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

The following table presents the Group's assets that are measured at fair value:

	2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Investment properties	**–**	**–**	**1,794,236**	**1,794,236**
Other financial assets	**–**	**–**	**40,129**	**40,129**
Financial assets at fair value through profit or loss	**–**	**942,993**	**–**	**942,993**
	–	**942,993**	**1,834,365**	**2,777,358**

	2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties	–	–	1,754,106	1,754,106
Financial assets at fair value through profit or loss	–	1,411,711	–	1,411,711
	–	1,411,711	1,754,106	3,165,817

(i) **Investment properties**

The following table analyses the investment properties of the Group carried at fair value, using a valuation technique with significant unobservable inputs (level 3).

	2018 HK$'000	2017 HK$'000
Recurring fair value measurements		
Hong Kong:		
– Commercial properties	**910,000**	865,000
Outside Hong Kong:		
– Commercial properties	**884,236**	889,106
	1,794,236	1,754,106

The Group measures their investment properties at fair value. The investment properties were revalued on 31 December 2018 by RHL Appraisal Ltd. and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers, at HK$1,794,236,000 (2017: HK$1,754,106,000). For all investment properties, their current use equates to the highest and best use.

The Group assigns a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management and the audit committee. Discussions of valuation processes and results are held between management, audit committee and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

(Expressed in Hong Kong dollars unless otherwise indicated)

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

(i) Investment properties (Continued)

Significant inputs used to determine fair value

At each financial year end the team:

- Verify all major inputs to the independent valuation report;
- Assess property valuations movements by comparing with the prior year valuation report;
- Hold discussions with the independent valuers.

The fair value of investment properties are determined by direct comparison approach, on the market basis assuming sale with immediate vacant possession and taking reference to their respective existing states and comparable sales evidence. The valuations take into account the characteristics of the properties including the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with higher characteristics will result in a higher fair value measurement.

At 31 December 2018 and 31 December 2017, the range of premium/(discount) used in the direct comparison approach is as follows:

	2018 Range of premium/ (discount)
Hong Kong	**-30% to 20%**
Outside Hong Kong	**-30% to 10%**

	2017 Range of premium/ (discount)
Hong Kong	-20% to 15%
Outside Hong Kong	-30% to -7%

(Expressed in Hong Kong dollars unless otherwise indicated)

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

(ii) Other financial assets

	Valuation techniques	Significant unobservable inputs	Range
Unlisted available-for-sale equity securities	Market comparable companies	Discount for lack of marketability	14.9% to 24.4%

The fair value of unlisted equity securities is determined using the price/earning ratios or enterprise value/earning before interest, taxes, depreciation and amortisation ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 1% would have increased/decreased the Group's other comprehensive income by HK$525,000.

(iii) Financial assets at fair value through profit or loss

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.

The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2018: 3.2%-4.5%; 2017: 3.9%-4.9%). The fair values are within level 2 of the fair value hierarchy.

(iv) Contingent consideration

The disposal of the Group's interest in Chadwick Developments Limited ("Chadwick"), which held an equity interest in Weihe Power, include a contingent consideration. If the audited net profits after tax of Weihe Power ("Weihe Power profits"), for each of the two years ending 31 December 2015 and 31 December 2016 and the four months ending 30 April 2017 are larger from the base value of RMB452 million, RMB392 million and RMB112 million respectively for each of the two years ending 31 December 2015 and 31 December 2016 and the four months ending 30 April 2017 by 10%, the base value will be adjusted upwards by 10% and the purchaser will pay the Group the difference between the upward adjusted base value and the Weihe Power profits. If the Weihe Power profits are less than their respective base value of year or period by 10%, the base value will be adjusted downwards by 10% and the Group will pay the purchaser the difference between downward adjusted base value and Weihe Power profits.

For the year ended 31 December 2017, the Group used discounted cash flow analysis to estimate contingent consideration by comparing respective year Weihe Power profits and estimated future period Weihe Power profits to respective base value. During the year ended 31 December 2017, the Group recorded a net gain of HK$21 million, and the amount is included in discontinued operations in the consolidated income statement.

44 DISCONTINUED OPERATIONS

In March 2015, the Company entered into an agreement with its immediate holding company, CTS (Holdings), to dispose of the entire interest of its wholly-owned subsidiary, Chadwick for a consideration of RMB510 million (equivalent to approximately HK$643 million and subject to future adjustments).

Chadwick owns 51% equity interest in Weihe Power, which is principally engaged in the operation of power generation in Mainland China and was an associate of the Group.

As power generation operation was identified as one of separate operating business of the Group by management, the operations of Weihe Power was classified as discontinued operations in the consolidated financial statements.

The disposal was completed in June 2015. During the year ended 31 December 2017, the contingent consideration was finalised and a net gain of approximately HK$21 million was recognised. The results from discontinued operations are attributable entirely to equity owners of the Company.

45 DISPOSAL OF A SUBSIDIARY

In 2016, a wholly-owned subsidiary of the Company, Wisepak Enterprises Limited, entered into an agreement with a third party to dispose of the entire 60% interest of its indirect non-wholly-owned subsidiary, Yangzhou Hotel, at consideration of approximately RMB52,650,000. The Yangzhou Hotel operates hotel in Mainland China. The transaction was completed in February 2017. The gain on disposal of HK$28,570,000 is recognised during the year ended 31 December 2017 and included in other income and gains, net of the consolidated income statement.

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	As at 31 December	
		2018	2017
		HK$'000	HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,014**	1,942
Investment property		**3,700**	3,800
Interests in subsidiaries		**5,667,615**	5,662,336
Intangible asset		**3,426**	–
Other financial asset		**23,054**	13,948
Total non-current assets		**5,698,809**	5,682,026
Current assets			
Inventories		**99**	62
Deposits, prepayments, and other receivables		**35,524**	29,769
Amounts due from subsidiaries		**7,612,979**	7,599,699
Amounts due from fellow subsidiaries		**270**	45,875
Loan to a fellow subsidiary		**157,363**	156,831
Cash and bank balances		**324,483**	686,675
Total current assets		**8,130,718**	8,518,911
Total assets		**13,829,527**	14,200,937

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Statement of financial position of the Company (Continued)

		As at 31 December	
	Note	**2018 HK$'000**	2017 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**9,119,836**	9,102,708
Reserves	(a)	**3,788,340**	4,240,247
		12,908,176	13,342,955
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**1,478**	592
Total non-current liabilities		**1,478**	592
Current liabilities			
Other payables and accruals		**70,565**	67,204
Amounts due to subsidiaries		**617,860**	648,289
Amounts due to holding companies		**2,595**	55,967
Amounts due to fellow subsidiaries		**833**	784
Bank and other borrowings		**148,745**	–
Tax payable		**79,275**	85,146
Total current liabilities		**919,873**	857,390
Total liabilities		**921,351**	857,982
Total equity and liabilities		**13,829,527**	14,200,937

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf:

Fu Zhuoyang **Jiang Hong**

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Statement of financial position of the Company (Continued)

Note (a) Reserve movement of the Company

	Share option reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	18,045	–	3,906,764	3,924,809
Profit for the year and total comprehensive income for the year	–	–	560,462	560,462
Equity-settled share option arrangement	31,611	–	–	31,611
Exercise of share options	(1,711)	–	–	(1,711)
Forfeiture of share options	(2,556)	–	–	(2,556)
2016 final dividend paid	–	–	(108,940)	(108,940)
2017 interim dividend paid	–	–	(163,428)	(163,428)
At 31 December 2017 and 1 January 2018	**45,389**	**–**	**4,194,858**	**4,240,247**
Impact on initial application of HKFRS 9	**–**	**26,950**	**–**	**26,950**
Adjusted balance at 1 January 2018	**45,389**	**26,950**	**4,194,858**	**4,267,197**
Profit for the year and total comprehensive income for the year	**–**	**–**	**11,912**	**11,912**
Equity investments at FVOCI – net movement in fair value reserve (non-recycling)	**–**	**(18,754)**	**–**	**(18,754)**
Equity-settled share option arrangement	**12,598**	**–**	**–**	**12,598**
Exercise of share options	**(4,670)**	**–**	**–**	**(4,670)**
Forfeiture of share options	**(21,964)**	**–**	**–**	**(21,964)**
Cancellation of share options	**5,623**	**–**	**–**	**5,623**
2017 final dividend paid	**–**	**–**	**(299,978)**	**(299,978)**
2018 interim dividend paid	**–**	**–**	**(163,624)**	**(163,624)**
At 31 December 2018	**36,976**	**8,196**	**3,743,168**	**3,788,340**

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 capital when related options are exercised, or be transferred to retained profits should the related options expire or be lapsed.

47 SUBSEQUENT EVENTS

On 1 March 2019, the Company and Daxin County People's Government entered into the Cooperation Agreement in respect of the Detian Tourism Project, pursuant to which the Company will establish the Project Company as a vehicle to invest in the Detian Tourism Project and carry out operations in the Detian Waterfall Scenic Spot in particular:

(1) the Project Company will have the exclusive right of operations of the Detian Waterfall Scenic Spot for the term of the right of operations stipulated in the Cooperation Agreement; and

(2) The Project Company will invest in Daxin County in accordance with the total investment amount, progress and projects as set out in the terms of the Cooperation Agreement.

The total planned investment amount which will be made by the Company and the Project Company in Daxin County is approximately RMB1.45 billion, which has been determined based on the needs of the Detian Tourism Project after negotiation between the parties on arm's length basis.

The registered capital of the Project Company is RMB1 billion and will be contributed in cash. The Group shall hold 51% or more of the equity interest in the Project Company. The remaining equity interest in the Project Company shall be held by the Group's partners (with the written consent of Daxin County People's Government) who have the advantage of resources such as capital.

The time limit for the contribution of the registered capital shall be subject to the terms of the Project Company's articles of association. The registered capital will be contributed according to the following schedule: (1) the registered capital of not less than RMB500 million will be contributed within one year from the date of establishment of the Project Company, and (2) the registered capital of not less than RMB300 million will be contributed in the year when the Project Company will acquire not less than 50% of the construction land (about 300 Mu) for the Detian town project through public bidding.

PARTICULARS OF PRINCIPAL HOTEL PROPERTIES

31 December 2018

Location	Attributable interest of the Group	Lease term
CTS (HK) Grand Metropark Hotel Beijing No. 338 Guanganmen Nei Street, Xicheng 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
Kew Green Hotel Wanchai Hong Kong (formerly known as Metropark Hotel Wanchai Hong Kong) 41-49 Hennessy Road, Wanchai, Hong Kong	100%	Long
Zhuhai 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	89.14%	Medium

PARTICULARS OF PRINCIPAL INVESTMENT PROPERTIES

31 December 2018

Location	Use	Lease term
Portions of Basement Levels 2 and 3, 1st to 9th, 11th, 12th and 16th Floor CTS (HK) Grand Metropark Hotel Beijing No. 338 Guanganmen Nei Street, Xicheng District, Beijing, PRC	Carpark/Shop/Office	Medium
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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(Stock Code : 308)