ANNUAL REPORT 2006

香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 00308)


Freight Forwarding
Travel, Leisure & Entertainment
Transportation
Hospitality

Contents

Corporate Information

DIRECTORS

Zhang Xuewu *(Chairman)*
Xiong Weiping *(Vice Chairman, General Manager)*
Zheng Heshui *(Vice Chairman)*
Lo Sui On *(Vice Chairman)*
Zheng Hongqing
Jiang Yan
Mao Jianjun
Zhang Fengchun
Ng Chi Man, Michael
Liu Li
Yeh Meou Tsen, Geoffrey *
Yeh V Nee*
(Alternate Director to Yeh Meou Tsen, Geoffrey)
Fong Yun Wah*
Wong Man Kong, Peter*
Sze, Robert Tsai To*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Wong Man Kong, Peter *(Chairman)*
Yeh Meou Tsen, Geoffrey
Yen V Nee
(Alternate Director to Yeh Meou Tsen, Geoffrey)
Sze, Robert Tsai To

REMUNERATION COMMITTEE

Wong Man Kong, Peter *(Chairman)*
Yeh Meou Tsen, Geoffrey
Yeh V Nee
(Alternate Director to Yeh Meou Tsen, Geoffrey)
Sze, Robert Tsai To

COMPANY SECRETARY

Woo Wai See, Alice

REGISTERED OFFICE

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

AUDITORS

Ernst & Young

LEGAL ADVISORS

Johnson Stokes & Master

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas, Hong Kong Branch
Calyon, Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Societe Generale, Hong Kong Branch
Chong Hing Bank Limited
UBS AG

Financial Calendar and Investor Relation Information

Announcement of 2006 Final Results		12 April 2007
Announcement of 2006 Interim Results		5 September 2006
Dividends	2006 Final	HK 1 cent per share payable on 28 June 2007
	2006 Interim	HK 2 cents per share paid on 20 October 2006
	2005 Final	HK 3 cents per share paid on 26 May 2006
	2005 Interim	HK 3 cents per share paid on 28 October 2005
Closure of Register of Members		Period from 12 June to 15 June 2007
Annual General Meeting in 2007		15 June 2007
Listing Date		11 November 1992
Authorised Shares		7,000,000,000
Issued Shares		5,695,355,525 (as at 31 December 2006)
Website		www.iraisa.com/listco/hk/ctii
Stock Code		00308
Board Lot		2,000 shares
Financial Year End		December 31
Par Value		HK$0.10

Major Operations

Travel, Leisure & Entertainment

Tour Operation

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

Theme Parks

Splendid China
China Folk Culture Villages
Window of the World

Golf Club Operation

Shenzhen Tycoon Golf Club Co., Ltd.

Leisure Resort

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.

Hospitality

Hotels

Metropark Hotel Mongkok Hong Kong
Metropark Hotel Wanchai Hong Kong
Metropark Hotel Kowloon Hong Kong
Metropark Hotel Causeway Bay Hong Kong
Metropark Hotel Macau

Investment Holdings

Infrastructure

Shaanxi Weihe Power Co., Ltd.

Transportation

Freight Forwarding

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

Passenger Transportation

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

Financial Ratios Highlights

	2006	2005	2004
Income statement ratios			
Interest coverage ratio	**8.17**	15.21	16.84
Earnings per share (HK cents)	**6.86**	12.59	15.04
Dividend per share (HK cents)	**3.00**	6.00	10.00
Dividend payout ratio (%)	**43.73%**	47.66%	66.49%
Balance sheet ratios			
Current ratio	**1.83**	1.99	2.49
Quick ratio	**1.82**	1.98	2.48
Net assets value per share (HK$)	**1.95**	1.96	1.91
Net bank and other borrowings to equity	**(0.13)**	(0.02)	(0.03)
Rate of return ratios			
Return on average equity (%)	**4.37**	7.45	8.69
Return on total capital and borrowings (%)	**4.68**	6.03	7.54
Market price ratios			
Dividend yield			
Year low (%)	**1.14**	2.31	3.93
Year high (%)	**1.76**	4.05	8.55
Price to earning ratio			
Year low	**24.78**	11.76	7.78
Year high	**38.34**	20.65	16.89

Formula for financial ratios:

Interest coverage ratio	(Profit before tax + Finance costs)/(Finance costs + Capitalised Interest)
Current ratio	Current assets/Current liabilities
Quick ratio	(Current assets - Inventories) / Current liabilities
Net bank and other borrowings to equity	(Bank and other borrowings – Cash and cash equivalents)/Equity
Return on average equity	Profit for the year/Average equity
Return on total capital and borrowings	(Profit before tax + Finance costs)/(Total liabilities + Equity)

Five Year Financial Summary

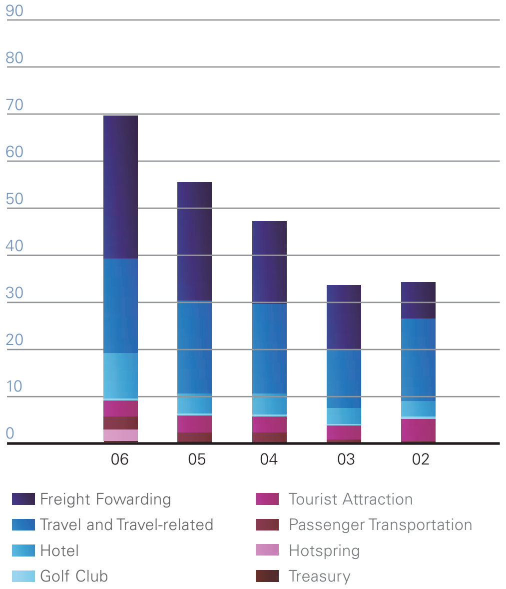
A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	2006 **HK$'000**	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Results					
REVENUE	**6,979,546**	5,635,743	4,794,224	3,297,553	3,398,204
Cost of sales	**(5,336,361)**	(4,283,620)	(3,598,131)	(2,394,484)	(2,248,399)
Gross profit	**1,643,185**	1,352,123	1,196,093	903,069	1,149,805
Other income and gains	**126,677**	90,021	105,682	57,867	82,913
Selling and distribution costs	**(348,901)**	(165,072)	(123,222)	(49,730)	(62,221)
Administrative expenses	**(973,673)**	(812,388)	(693,463)	(821,831)	(848,597)
Revaluation surplus of hotel properties and investment properties and impairment of items of property, plant and equipment, net	**27,536**	58,107	83,636	(201,713)	(88,210)
Fair value gains on derivative financial instruments	**–**	99,204	–	–	–
Impairment of goodwill	**(16,591)**	–	–	–	–
Finance costs	**(79,561)**	(55,453)	(51,863)	(30,820)	(43,114)
Share of profits and losses of:					
Jointly-controlled entities	**134,077**	175,598	251,193	236,437	227,872
Associates	**57,433**	45,751	53,221	1,261	44,046
PROFIT BEFORE TAX	**570,182**	787,891	821,277	94,540	462,494
Tax	**(112,613)**	(102,759)	(114,127)	(53,143)	(43,268)
PROFIT FOR THE YEAR	**457,569**	685,132	707,150	41,397	419,226
Attributable to:					
Equity holders of the parent	**375,004**	612,660	639,288	6,872	351,681
Minority interests	**82,565**	72,472	67,862	34,525	67,545
	457,569	685,132	707,150	41,397	419,226
Assets, liabilities and deferred income and minority interests					
Total assets	**13,892,454**	13,989,656	11,586,977	11,441,915	10,251,030
Total liabilities and deferred income	**(2,799,047)**	(4,126,637)	(3,064,707)	(3,687,549)	(2,353,319)
Minority interests	**(443,482)**	(405,520)	(386,313)	(334,755)	(332,827)
	10,649,925	9,457,499	8,135,957	7,419,611	7,564,884

Financial Review

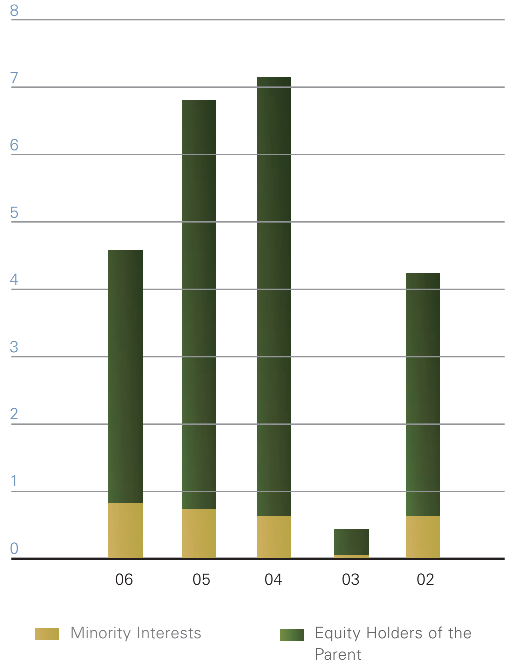
Turnover by Principal Activities

HK$(100 million)



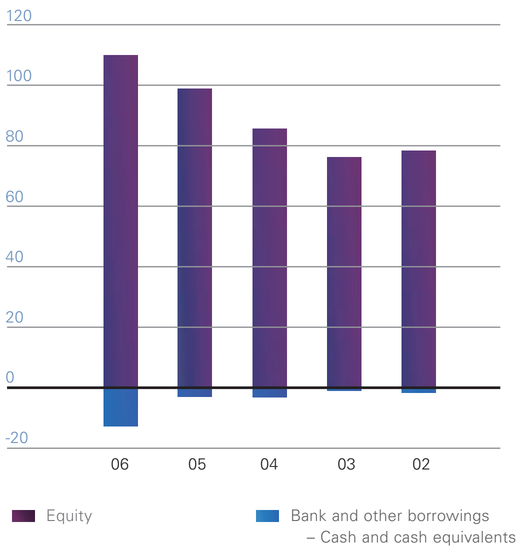
Profit for the year

HK$(100 million)



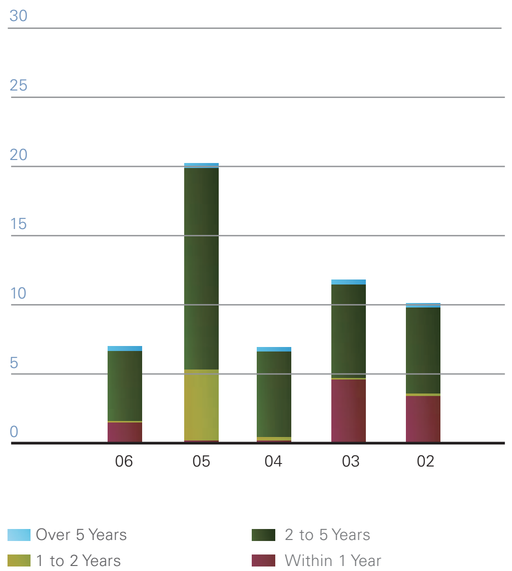
Net bank and other borrowings to Equity

HK$(100 million)



Debt Maturity Profile

HK$(100 million)



Biographies of Directors and Senior Management

Executive Directors

MR. ZHANG XUEWU *Chairman & Executive Director*

Aged 52, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company, and also the Chairman of China Guo Feng Group Ltd., a subsidiary of CTS (Holdings). He is a qualified Senior Economist. Mr. Zhang has extensive experience in corporate management in Mainland of China and Overseas. He was the Executive Vice President and Director of Minmetals UK Limited (China), the Senior Vice President of China National Metals & Minerals Import and Export Corp., and the President of Minmetals Development Co., Ltd., a listed company. Mr. Zhang is a committee member of the Chinese General Chamber of Commerce. He was a member of the Tourism Strategy Group of the HKSAR Government. Mr. Zhang holds a master's degree in Business Administration.

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

Aged 50, is the Vice Chairman and General Manager of CTS (Holdings), and the Chairman and a director of a number of subsidiaries of the Group. Prior to joining the Group, he was the Vice-Chancellor and Dean of the Faculty of Management, Professor and Instructor of PhD. students of Central South Industrial University. Mr. Xiong subsequently was the deputy general manager of China Copper, Lead and Zinc Group Company and Aluminum Corporation of China. Mr. Xiong was an executive director and the President of Aluminum Corporation of China Limited which is a main board listed company in New York & Hong Kong. Mr. Xiong obtained a PhD. in Mining Engineering from Central South Industrial University in China and completed post-doctoral research in economics from Peking University. He is currently a part-time Professor and Instructor of PhD. students of Guanghua School of Management of Peking University.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 56, is a director of CTS (Holdings). He joined the Group in 1993. Mr. Zheng is currently the Chairman and a director of a number of subsidiaries of CTS (Holdings) and the Group. Mr. Zheng has over 20 years' experience in economic development. He graduated from Xiamen University in China.

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

Aged 56, is a director of CTS (Holdings), he is also a director of a number of subsidiaries of CTS (Holdings) and the Group. Mr. Lo is currently a director and the general manager of China Travel Service (Hong Kong) Limited and responsible for the Group's tourism service. Mr. Lo has over 30 years of operation and management experience in the tourism industry. Mr. Lo is a member of Hong Kong Tourism Board, a member of Central Policy Unit Panel on Pan-Pearl River Delta, a member of The Selection Committee for the Second & Third Government of the HKSAR, a member of the HKSAR Government's Election Committee on Deputy of the Tenth National People's Congress of the PRC, a committee member of the Ninth Chinese People's Political Consultative Committee of Inner Mongolia Autonomous Region of China, the Chairman of Committee on Tourism of The Hong Kong Chinese Enterprises Association and the President of Hong Kong Association of China Travel Organisers Limited. In addition, Mr. Lo was appointed as a Director of the Travel Industry Council of Hong Kong and a member of the Tourism Strategy Group of the HKSAR Government.

MR. ZHENG HONGQING *Executive Director*

Aged 59, is a director of CTS (Holdings), he is also a director of a number of subsidiaries of CTS (Holdings). He joined the Group in 1996. Mr. Zheng is a qualified Senior Economist. He has more than 20 years of experience in economic work. Mr. Zheng was a committee member of the State Commission for Restructuring Economic System in China, a director of the Comprehensive Research Department and a general manager of the China Container Corporation. Mr. Zheng graduated from the Planning and Statistics Department of Renmin University of China and obtained a Master's degree in Economics.

MS. JIANG YAN *Executive Director*

Aged 50, has been appointed as a Director of CTS (Holdings) since October 2001. She is a deputy general manager of CTS (Holdings). Prior to joining CTS (Holdings), Ms. Jiang worked in State Oceanic Administration and All-China Women's Federation. She was also the Senior Assistant of the Director General of Personnel Office and Division Chief of The Liaison office of the Central People's Government in HKSAR. Ms. Jiang obtained a Master's degree in Business Administration from University of South Australia.

MR. MAO JIANJUN *Executive Director*

Aged 57, has been appointed as a Director of CTS (Holdings) since July 2000. He is also a deputy general manager of CTS (Holdings). Prior to joining CTS (Holdings), Mr. Mao was the Section Chief of General Office of Jinan Municipal Government, the Chief of General Office of Shan Dong Provincial Government, the Chief of General Office of Ministry of Construction P.R. China, the Assistant of Mayor of Xiamen Municipal Government and the deputy general manager of China Construction International Corporation. Mr. Mao graduated from Tongji University with a Master's Degree in Business Management.

MR. ZHANG FENGCHUN *Executive Director*

Aged 42, is a director and the chief financial officer of CTS (Holdings) and a director of a number of subsidiaries of the Group. Mr. Zhang joined the CTS (Holdings) in 1994. He is a Certified Public Accountant in China. He has extensive experience in investment planning, financial operation and business management. Mr. Zhang graduated from the Accounting Department of Renmin University of China and obtained a Bachelor's degree in Economics in 1987. In January 2006, he graduated from the School of Economics and Management of Tsinghua University with an Executive Master Degree of Business Administration (EMBA).

MR. NG CHI MAN, MICHAEL *Executive Director & Deputy General Manager*

Aged 48, is responsible for the Group's overall financial activities, strategic investment and planning as well as the hospitality operation. He is also the Chief Executive Officer of Mangocity.com Limited. Mr. Ng is a member of the American Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has significant experience in corporate and financial management of listed companies in Hong Kong. Mr. Ng was the Group Financial Controller of Consolidated Electric Power Asia Limited and Chief Financial Officer of Hong Kong Construction (Holdings) Limited. He was also a director of Citybus Group Limited, Netalone.com Limited and Vision Century Corporation Limited. Mr. Ng obtained a Master's degree in Business Administration from St John's University in New York.

Biographies of Directors and Senior Management

MR. LIU LI *Executive Director & Deputy General Manger*

Aged 53, joined CTS (Holdings) as the general manager of audit department in 1997. Mr. Liu is a qualified Senior Auditor and Certified Public Accountant in China. He has extensive experience in corporate and administrative operation. Prior to joining the Group, Mr. Liu was the executive director and vice secretary-general of the Auditing Association of Guangdong Province. Mr. Liu graduated from the Finance and Trade College of Jilin in China and obtained a Bachelor's degree in Finance.

Independent Non-Executive Director

DR. YEH MEOU TSEN, GEOFFREY *S.B.S., M.B.E., J.P., D.C.S., Independent Non-Executive Director*

Aged 75, is a member of Audit Committee and Remuneration Committee of the Company. Dr. Yeh is an independent non-executive director of Hysan Development Company Limited which is a listed company in Hong Kong. Prior to his retirement, he was the chairman of Hsin Chong Construction Group Ltd. Dr. Yeh was also the chairman of The Hong Kong Futures Exchange Limited until its merger into The Hong Kong Exchanges and Clearing Limited. He obtained a Master degree of Science from the Graduate School of Arts & Sciences of Harvard University in 1954 and a Bachelor degree of Science in Civil Engineering from the University of Illinois in 1953. He is the father of Mr. Yeh V Nee.

MR. YEH V NEE *B.A., J.D. American Attorney-at-law*

Alternate Director to Dr. Yeh Meou Tsen, Geoffrey, Independent Non-Executive Director

Aged 48, is a member of Audit Committee and Remuneration Committee of the Company. Mr. Yeh is the chairman of Hsin Chong Construction Group Ltd. and a director of Arnhold Holdings Limited, Kingway Brewery Holdings Limited, Next Media Limited, listed companies in Hong Kong as well as Uni-Asia Finance Corporation. He is also a co-founder of Value Partners Limited and the chairman of Argyle Street Management Limited. Mr. Yeh was a council member of The Stock Exchange of Hong Kong Limited ("SEHK") until its merger into the Hong Kong Exchanges and Clearing Limited and remains a member of the SEHK's Listing Committee. He was a member of the Listing Committee of the China Securities Regulatory Commission through 2003. Mr. Yeh also sits on the Takeovers & Mergers Panel, the Takeovers Appeals Committee and SFC Dual Filing Advisory Group of Securities and Futures Commission. Mr. Yeh graduated at the School of Law at Columbia University and was admitted a member of the California Bar Association in 1984. He is the son of Dr. Yeh Meou Tsen, Geoffrey.

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

Aged 82, is the Chairman of The Hip Shing Hong Group, Kam Wah Investment Co., Ltd., Fong Shu Fook Tong Foundation and Fong's Family Foundation. Dr. Fong is also the honorary adviser of the Real Estate Developers Association of Hong Kong and the council member of United College at the Chinese University of Hong Kong. He has been appointed as honorary professor and honorary adviser of a number of Universities in the PRC and has also served as the chairman and council member of many charitable organisations in Hong Kong. He was a member of the Selection Committee for the First Government of the HKSAR and was awarded the Silver Bauhinia Star in 2000 by the Government of the HKSAR.

MR. WONG MAN KONG, PETER *B.B.S.,J.P., BSc, F.C.I.T., MRINA Independent Non-Executive Director*
Aged 58, is the Chairman of Audit Committee and Remuneration Committee of the Company. Mr. Wong has over 25 years of experience in industrial, commercial and public service. He is the Chairman of M.K. Corporation Ltd. and North West Development Ltd., as well as the director of Hong Kong Ferry (Holdings) Co. Ltd., Glorious Sun Enterprises Limited, Sun Hung Kai & Co., Limited and Chinney Investments, Limited and Sino Hotels (Holdings) Limited. Mr. Wong serves as a deputy of the Tenth National People's Congress of the PRC. He graduated from the University of California at Berkeley in U.S.A. with a Bachelor of Science degree in Mechanical Engineering (Naval Architecture).

MR. SZE, ROBERT TSAI TO *Independent Non-Executive Director*
Aged 66, is a member of Audit Committee and Remuneration Committee of the Company. Mr. Sze is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He was a partner in an international firm of accountants with which he practised for over 20 years. He is also a director of a number of Hong Kong listed companies. Mr. Sze serves as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

Senior Management

MR. HAN LIXIN *Deputy General Manager*
Aged 51, is a director and the general manager of China Travel International Ltd. Prior to joining the Group, he was a deputy general manager of China Youth Travel Service Head Office, general manager of China Travel Service Head Office, chief representative of Thomas Cook (Australia) Ltd. in China and general director of Hainan Provincial Tourism Administration. He has gained extensive experience in serving the tourism industry. Mr. Han graduated from Hei Long Jiang University with a Bachelor degree of Arts in English Language and obtained a Master degree in Business Administration from Maastricht School of Management of The Netherlands in 2002.

MR. MIAO ZHUANG *Deputy General Manager*
Aged 42, is a Director and the deputy general manager of Shenzhen The World Miniature Co., Ltd. Prior to joining the Group, Mr. Miao was the deputy general manager of the board of directors' office of CTS (Holdings), the assistant of a specially appointed investigator of The State Council of China, the section chief of Secretary bureau of General Office of the State Council of China. He has significant experience in corporate and administration management. He holds a Master's Degree in Economics from Chinese Academy of Social Sciences.

MR. WEI QING *Deputy General Manager*
Aged 54, assisting the General Manager in charge of the Group's daily operation. Mr. Wei joined CTS (Holdings) in 1997. He was the general manager of investment strategy and management department of CTS (Holdings), Director and General Manager of China Travel Hotel Management Services H.K. Limited. He has extensive experience in management and investment. Mr. Wei holds an Executive Master Degree of Business Administration (EMBA).

Chairman's Statement

On behalf of the Board of Directors (the "Board") of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together the "Group"), I would like to announce that the Group has recorded an audited consolidated net profit attributable to shareholders of HK$375 million for the year ended 31 December 2006, representing a decrease of 38.8% as compared to HK$613 million in 2005. Without taking the effect of the non-recurring revaluation surplus of investment properties and hotel properties, impairment of goodwill and the fair value gains on convertible bonds, the net profit attributable to shareholders decreased by 18% as compared to last year. The decrease in net profit was mainly due to the enormous set up costs and promotional expenses incurred for the operations of the two new businesses – Mangocity.com on-line travel consolidator and Zhuhai Ocean Spring Resort. Having said, the Group still recorded a growth in operating profits in its core businesses. As at 31 December 2006, the Group' s consolidated net asset value was HK$11,093 million, representing an increase of 12.5% as compared to HK$9,863 million in last year. The Board has recommended the payment of a final dividend of HK1 cent per ordinary share, which is expected be paid on 28 June 2007 following the approval at the Annual General Meeting.

The economy in Mainland China and Hong Kong continued to grow rapidly in 2006, leading to the prosperous development of the tourism industry. The pace of growth in Mainland China's domestic and outbound travel sectors remained strong, while Hong Kong's travel sector achieved a steady growth, registering a substantial increase in both the travelers' spending amount and the number of tourist arrivals in Hong Kong during the year. The tourism industry is a sunrise industry with vast dynamics and potentials in the Greater China Region. During the year, the Group strived for devoting more resources into its key tourism projects, so as to enhance overall core competitiveness in the sector. Meanwhile, the Group was able to maintain its leading position in the tourism industry in both Mainland China and Hong Kong by fully capitalizing on its existing travel agency network with an aim to explore the markets proactively. In 2006, the benefits of Group's efforts to integrate internal resources of tourism and related sectors began to realized, resulting in a sustained and steady growth in its operations such as travel agency, hotel, passenger transport, theme park and performing arts, while the logistics operations continued to grow in a fast pace.

Zhuhai Ocean Spring Resort, a key investment of the Group in 2006, commenced operation smoothly in January 2006, and its operating scale, class and facilities rank top amongst the industry players. Zhuhai Ocean Spring Resort not only enriched the travel products of the Group, but will also become a new profit centre of the Group's core tourism business.

Zhang Xuewu | *Chairman*

An online electronic trading platform for travelers - "Mangocity.com" - also officially commenced operation at the end of March 2006. In merely nine months since operation commenced, it was able to build up the brand rapidly with registered members of over 1.6 million, thus becoming a fresh driving force in China's online travel industry.

The lookout for the economy of Mainland China and Hong Kong in 2007 will continue its growth momentum. The move of the State-owned Assets Supervision and Administration Commission to accelerate the restructuring of national enterprises under the Central Government will offer a scarce opportunity for the Group to achieve great-leap development. However, competition is set to further intensify with the full deregulation of the Chinese domestic tourism market. Mainland China's intensified measures on the macro-economy management policy and uncertainties on the global economy will also pose potential threats to the Group's business. In view of this, the Board believes that the Group must closely monitor market changes, exploit on every opportunity, set a clear direction and manage risk. In addition, the Company has formulated a number of development strategies and plans to manage these potential opportunities and risks together with the support of a committed management team and sound financial position of the Company, it is expected that we will be able to lay a solid foundation for the Group's sustainable growth in 2007.

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

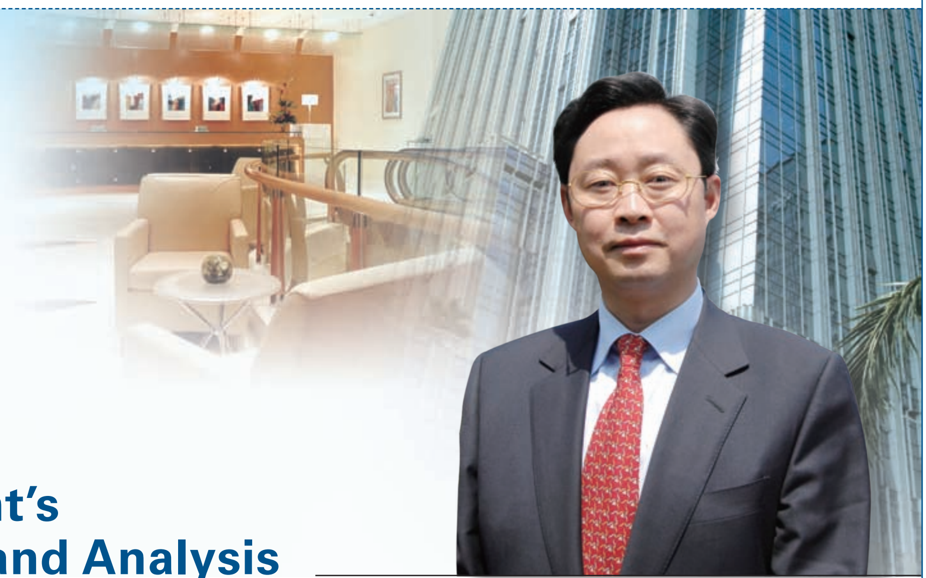
By Order of the Board

Zhang Xuewu
Chairman

Hong Kong, 12 April 2007

Management's Discussion and Analysis

Management's Discussion and Analysis



Xiong Weiping | ***Vice Chairman, General Manager***

BUSINESS REVIEW

In 2006, the audited consolidated revenue of the Group was HK$6,980 million, which represented an increase of HK$1,344 million and 23.8% from HK$5,636 million of last year. All Group's business segments sustained growth. Among all, turnover of the Group's freight forwarding operation increased by HK$348 million over last year. The newly launched businesses including on-line travel consolidator (Mangocity.com) and Zhuhai Ocean Spring Resort ("OSR") generated HK$568 million turnover for the Group. The consolidated profit attributable to shareholders was HK$375 million, which was a decrease of HK$238 million and 38.8% from HK$613 million of last year. The reasons for the decrease in the consolidated profit attributable to shareholders were partly caused by non-recurring items, including goodwill impairment of HK$17 million, a decrease of HK$38 million in surplus from revaluations of hotels and investment properties, and the fair value gains on convertible bonds amounting to HK$99 million in 2005. Without taking into account these non-recurring items, the Group's consolidated profit attributable to shareholders decreased by HK$84 million, or 18.8%, over last year, mainly due to the fact that the Group had invested heavily in the start-up cost and marketing for the newly-launched Mangocity.com and OSR so as to lay solid foundation for their future growth. These two investments did not contribute profits to the Group in 2006. The Group's consolidated net asset value was HK$11,093 million as at 31 December 2006, representing an increase of HK$1,230 million and 12.5% from the end of last year.

Tour Operation and Leisure Business

The Group's tour operation and leisure business comprise ground travel agencies, on-line travel consolidator (Mangocity.com), OSR, three theme parks and a golf club in Shenzhen, and art performance produced by China Heaven Creation International Performance Art Co. Ltd. ("China Heaven"). The Group continued to invest heavily in core travel business during 2006. The Group's travel agencies actively targeted MICE (meetings, incentives, conference, and events) market and corporate travel markets to expand business in high end market. OSR and Mangocity.com, two of the major investment projects of the Group, commenced operation in early 2006. Splendid China and Window of the World continued to invest in remodeling and creating new attraction programs. All these investments significantly increased the Group's long term competency in core travel business. During the year, the turnover of the Group's tour operation and leisure business was HK$3,368 million, representing an increase of 37.6% over last year. The net profit was HK$167 million, representing a decrease of 47.5%. The decrease was mainly due to the Group's heavy investment in Mangocity.com and OSR.

Management's Discussion and Analysis

During the year, China Travel Service (Hong Kong) Limited ("CTSHK") actively pursued a branding strategy of being an "Expert of China Tour" as well as targeted MICE and specialty tours markets. CTSHK is the authorized General Sales Agent ("GSA") in Hong Kong for the 2008 Olympics Games ticketing sales. CTSHK was awarded with the Gold prize in the Hong Kong Top Service Brand Award during the year. China Travel International Limited ("CTI") and Shanghai China Travel International Limited ("CTI Shanghai") launched series of new travel products such as "Island Tour", "Individual Travelers Tour", "Cruise Trip", etc. Destinations of tour package products include Japan, Korea, Singapore, Australia, and England. CTI successfully won a contract with Visa International to host guests during 2008 Olympics Games. CTI Shanghai was rewarded the title of "Recommended Service Provider" for the 2010 World Exhibition in Shanghai. CTI, CTI Shanghai, and China Travel International (Shandong) Ltd. were all ranked among the top 100 travel agencies in China in 2006. Our travel agencies in Australia, New Zealand, US, Canada, Northern Europe, and South Korea all contributed to the Group's results.

The Group's on-line travel consolidator, Mangocity.com, officially commenced operation on 31 March 2006. Mangocity.com successfully executed a creative marketing strategy and built up a young and energetic image in Mainland China. It has entered contracts with 3,450 hotels, offered discount airfares in over 2,500 flight routes, and launched more than one thousand travel package products. Its delivery network covers more than 40 major cities in China. Total number of membership amounted to over 1.6 million. Mangocity.com is rapidly becoming one of the most prominent on-line travel consolidators in China.

OSR commenced operation on 22 January 2006. With its strong competitive edge to provide multiple facilities and services catering for different recreational and business purposes, OSR has rapidly become one of the leading resorts in Zhuhai City as well as in the Pearl River Delta region. Total number of customers reached three million in 2006, contributing to turnover of HK$332 million. Most recently, the city government of Zhuhai is planning to zone an area of 30 square kilometers surrounding OSR to develop a satellite city especially for tourism purpose. This will further facilitate OSR's growth in the future.

In light of the intense market competition, the Group's three theme parks, namely the Window of the World, Splendid China and China Folk Culture Villages, continued to invest in remodeling, launched new performance shows and theme activities to generate traffics. Turnover from the three theme parks was HK$415 million for 2006, an increase of 9.2% over last year.

Turnover of Tycoon Golf Club in Shenzhen was HK$50 million, representing an increase of 14.6% over last year. During the year, Tycoon Golf Club adopted innovative marketing strategy to bundle its membership sales with China Merchants – Overseas Chinese Town Group's villa property promotion campaign and expect to reach agreement in 2007, and explore new customer base in Korea.

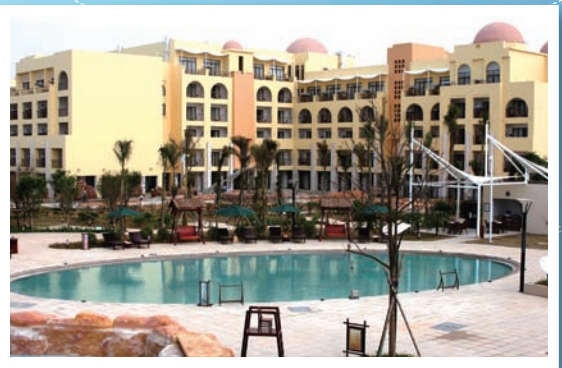
During the year, China Heaven launched revised versions of "The Legend of KungFu" and "The Romantic River Li". "The Legend of KungFu" won Gold prize as the best stage shows in foreign countries, and will be invited to perform in Japan in 2007.

Hotel Operation

During 2006, the Group's five hotels in Hong Kong and Macau strengthened their cooperation with Mangocity.com to increase the mix of business travelers and individual guests so as to gear up average room prices and gross margins. The five hotels actively participated in industry shows in order to promote their branding and acquire new customers. Average occupancy rate increased by 3% to 88% and average room price increased by 11% over last year. Metropark Hotel Wanchai Hong Kong completed a major remodeling and successfully upgraded itself into a boutique hotel targeting business travelers. However, as Metropark Hotel Wanchai Hong Kong suspended operation between April and November for remodeling, turnover of the Group's five hotels was HK$423 million, an increase of only 8.8% over last year; net profit was HK$74 million, a decrease of 10.9% over last year. Metropark Hotel Wanchai Hong Kong reopened in November and its average room price increased by 20%. The result of the remodeling was to the Management's satisfaction.

Transportation

Regarding the passenger transportation operations, the number of passengers carried by China Travel Tours Transportation Development (HK) Limited ("CT Tours") reached 2.33 million in 2006, representing an increase of 28.9% as compared with last year. Turnover increased by 17.7% over last year to HK$270 million. CT Tours' turnover, the number of passengers carried and the number of safety mileages all achieved new record high. CT Tours has become one of the largest cross-border bus companies and its business is developed all over the greater Pearl River Delta region, including Hong Kong, Macau, Guangdong and Guangxi Province. The cross-border shuttle bus service between Hong Kong and Shenzhen sustained steady



Management's Discussion and Analysis

growth. CT Tours' operation in Macau recorded significant growth during the year. As a result, CT Tours' net profit increased by 10.6% over last year. The profit contribution from the ferry operation in the joint venture of Shun Tak China Travel Shipping Investments Limited increased by 26.5% over last year as a result of Macau's robust tourism and the increase of number of passengers in some of the new routes.

Regarding the freight forwarding operation, the consolidated turnover and net profit increased by 13.6% and 14.1%, respectively, to reach HK$2,917 million and HK$95 million respectively in 2006. CTS International Transportation Company Limited ("CTS International") in Shanghai, with its stronghold in Yangtse River Delta region, further enhanced its presence in northern China and regions around the gulf of Bohai Sea. During the year, CTS International set up business branches in Wuhan, and Chengdu, and extended its sea freight and air freight forwarding business network internationally to Korea, Dubai, and Los Angeles. Overall gross profit from sea freight forwarding operation increased by 20%. Turnover and profit after tax of CTS International in Shanghai increased by 14.2% and 17.7%, respectively, and are expected to sustain health growth.

Infrastructure

During the year, the Group's share of profit of Shaanxi Weihe Power Company Limited was HK$131 million, a decrease of 25.4% as compared with last year. The decrease of share of profit was mainly due to decrease in amount of on-grid electricity and continuous rise in coal and fuel prices.

NUMBER AND REMUNERATION OF EMPLOYEE

At the end of 2006, the Group had approximately 12,807 employees. The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Board of Directors considers that financial position of the Group is strong. At the end of 2006, the cash and bank balance of the Group amounted to HK$2,157 million whereas the interest bearing bank borrowings amounted to HK$680 million. The net interest bearing debt to equity ratio was -0.13.

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

As at 31 December 2006, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant tenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amount outstanding as at 31 December 2006	Final maturity date of the loan facilities
HK$500 million	2 January 2009

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

As at 31 December 2006, the Group had no significant pledge of its assets. The contingent liability increased to HK$10.25 million from HK$2.14 million as at 31 December 2005.

In 2006, 656,511,650 bonus warrants were exercised for 656,511,650 shares of HK$0.10 each at a subscription price of HK$1.508 per share. Accordingly, the number of issued share capital of the Company increased from 5,038,843,875 shares as at 31 December, 2005 to 5,695,355,525 shares as at 31 December 2006.

FUTURE PROSPECTS

Hong Kong's tourism industry is expected to sustain steady growth in 2007. The number of Mainland China's cities that are entitled to IVS is expected to increase. The Hong Kong Government will continue to sponsor various events to attract tourists from around the world. The number of tourist arrivals in Hong Kong is expected to reach 26 million in 2007, an increase of 4.6% over 2006. As Mainland China's per capita income increases, travel spending shall continue to increase. Business travel will also become increasingly frequent as a result of the rapidly growing economy. The PRC government has indicated clearly in its 11th 5-year Plan to actively encourage the development of Mainland China's travel industry. As a consequence, travel industry in Mainland China shall sustain rapid growth.

The Group will seize opportunity to regroup its ground travel agency network and integrate the ground travel agency network with the online travel platform, Mangocity.com, and leverage on its travel resources to increase market share. OSR will continue to increase new leisure facilities and improve quality of service so as to bring in additional customers from Hong Kong, Macau, Taiwan, Pearl River Delta and the MICE market. OSR is modifying its Phase II development plan, which involves an area of 3.8 square kilometers, to complement with Phase I facilities to cater for different market segments. The Group has launched a campaign of "Year of Quality Service" in 2007, striving to become one of the leading and reputable players to offer quality services in Mainland China's travel industry, and further enhance the Group's corporate image. The Group will pursue a rigorous 3-year cost saving plan to reduce cost and expense so to create higher value for shareholders. The Group will also pursue a branding strategy to develop "CTS" into one of the leading brand names internationally. The Group's strategic goal is to continuously enhance the core travel business competency, and to lay solid foundation to develop into one of the leading travel business groups in Mainland China as well as in Asia, and one of the most prominent companies in the world travel industry.

The Board and the Management are of the view that although the market environment has placed the Group in a favorable position, the Group is facing various uncertainties and unfavorable factors such as global warming and natural disasters. Increasing coal and fuel prices will pose threats to the bottom line of Group's passenger transportation operations and power generation operations. Mangocity.com will require additional investment to facilitate its growth. The Management shall continuously improve the Group's corporate governance standard, rigorously execute the 3-year cost saving plan, conduct stringent risk management measures and streamline existing businesses, so as to strive for healthy growth of the Group.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 150.

An interim dividend of HK2 cents per ordinary share was paid on 20 October 2006. The Directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year to shareholders on the register of members on 11 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets.

SUMMARY FINANCIAL INFORMATION

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year are set out in notes 35 and 36 to the financial statements.

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$70,030,000 of which HK$56,954,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$8,357,579,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

Report of the Directors

DIRECTORS

During the year, the Directors of the Company were:

Executive Directors:

Mr. Zhang Xuewu *(Chairman)*

Mr. Xiong Weiping *(Vice Chairman, General Manager) (Appointed on July 17, 2006)*

Mr. Zheng Heshui *(Vice Chairman)*

Mr. Lo Sui On *(Vice Chairman)*

Mr. Zheng Hongqing

Ms. Jiang Yan *(Appointed on July 17, 2006)*

Mr. Mao Jianjun *(Appointed on July 17, 2006)*

Mr. Zhang Fengchun

Mr. Ng Chi Man, Michael

Mr. Liu Li

Mr. Che Shujian *(Resigned on July 17, 2006)*

Mr. Shen Zhuying *(Resigned on April 7, 2006)*

Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey

Mr. Yeh V Nee *(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)*

Dr. Fong Yun Wah

Mr. Wong Man Kong, Peter

Mr. Sze, Robert Tsai To

The Company has received annual confirmations of independence from Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To and still considers them to be independent.

In accordance with Article 101 of the Company's Articles of Association ("the Articles"), Messrs. Zheng Heshui, Lo Sui On, Zheng Hongqing, Wong Man Kong, Peter and Dr. Fong Yun Wah will retire by rotation, being eligible, Messrs. Zheng Heshui, Lo Sui On, Wong Man Kong, Peter and Dr. Fong Yun Wah offer themselves for re-election at the forthcoming annual general meeting (the "AGM"), and Mr. Zheng Hongqing will not offer himself for re-election at the AGM. The Company understands that Mr. Zheng Hongqing will resign as a Director of the Company before the AGM and the Company will make a separate announcement after his resignation takes effect in accordance with Rule 13.51(2) of the Listing Rules.

In accordance with Article 92 of the Articles, Messrs. Xiong Weiping, Mao Jianjun and Ms. Jiang Yan who were appointed by the board of Directors (the "Board") on 17 July 2006, will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

(i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the controlling shareholder of the Company, 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.

(ii) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Metrocity Hotel Limited which are the owners of Metropark Hotel Kowloon Hong Kong (formerly known as Metropole Hotel), Metropark Hotel Mongkok Hong Kong (formerly known as Hotel Concourse) and Metropark Hotel Wanchai Hong Kong (formerly known as Hotel New Harbour) respectively, entered into hotel management agreements with CTS H.K. Metropark Hotels Management Company Limited (previously known as China Travel Hotel Management Services Hong Kong Limited) ("CT Hotel").

CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to these hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of such hotels for the year. The maximum aggregate annual value on the hotel management fees payable by the Group to CT Hotel under these hotel management agreements for each of the two years ending 31 December 2007 are HK$10,000,000 and HK$10,000,000 respectively.

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

Pursuant to these hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term from 1 September 2006 to 31 December 2007 with an option of renewal for further 3 years provided that the shareholders of these companies approved such renewal and at an annual remuneration, which is calculated at 2% of the total revenue and 5% of the gross profit of such hotels for the year. The maximum aggregate annual value on the hotel management fees payable by the Group to CT Hotel under these hotel management agreement for the four months ended 31 December 2006 and the year ending 31 December 2007 are HK$3,200,000 and HK$8,500,000 respectively.

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year of 2006, the Group had the following transactions, details of which are as follows:

Connected Transactions

On 8 November 2006, China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven"), a subsidiary of the Company held as to 70% by Mr. Du Xinjian ("the Nominee") and 30% by Shenzhen The Splendid China Development Co., Ltd. ("Splendid China"), a subsidiary of the Company, proposed to increase its registered capital from RMB10 million (approximately HK$9.97 million) to RMB40 million (approximately HK$39.88 million). The additional capital was contributed solely by the Company through the Nominee. As direct foreign investment in formation of art and cultural show performance group in the PRC is currently restricted under PRC law and regulations, the Company directly contributed to the investment in the additional capital by entering into the following contractual arrangements on 8 November 2006 with the Nominee:

- a loan agreement pursuant to which the Company will grant a non-interest bearing loan in an aggregate value of RMB30 million (approximately HK$29.49 million) to the Nominee solely for financing his contribution to the additional capital;

- a share pledge agreement pursuant to which the Nominee pledges the additional capital as security for the performance of his obligations under the loan agreement and the option agreement; and

- an option agreement pursuant to which the Company has been granted an option, exercisable by the Company at its sole discretion, by the Nominee to acquire the additional capital as and when direct investment in China Heaven by the Company is allowed under PRC law and regulations.

As Shenzhen Overseas Chinese Town Holding Company, which owns 49% interest in Splendid China, also owns 49% interest in Shenzhen The World Miniature Co., Ltd., which is another non-wholly owned subsidiary of the Company, China Heaven is a connected person of the Company. Details of these transactions were set out in the announcement dated 8 November 2006.

In the opinion of the Company's Independent Non-Executive Directors, the above connected transactions were entered into in the ordinary and usual course of business and based on normal commercial terms agreed after arms' length negotiations between the parties and pursuant to the terms of the relevant agreement.

Continuing Connected Transactions

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

At the extraordinary general meeting of the Company held on 13 May 2004, the independent shareholders of the Company approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and a maximum aggregate annual value of HK$410 million for the Travel Permit Administration for each of the three years ended 31 December 2006.

(b) As the above independent shareholders' approval expired on 31 December 2006, the Company obtained independent shareholders' approval for renewal of Travel Permit Administration (including the maximum aggregate annual value) at the extraordinary general meeting held on 22 December 2006. The maximum aggregate annual value for the Travel Permit Administration shall not exceed HK$400 million for each of the three financial years ending 31 December 2009.

(ii) On 29 December 2006, the Company and U.S. China Travel Service Inc. ("USCTS"), a subsidiary of the Company, entered into a travel services agreement, pursuant to which the Company and USCTS have agreed to provide travel related services to each other for fees no less favorable than those charged by independent third parties. The maximum aggregate annual value for the service fees payable by the Group to USCTS provided under the travel services agreement for the three years ending 31 December 2009 is HK$5,303,000, HK$6,364,000 and HK$7,636,000 respectively. The maximum aggregate annual value for the service fees payable by USCTS to the Group provided under the travel services agreement for the three years ending 31 December 2009 are HK$7,470,000, HK$9,711,000 and HK$11,653,000 respectively.

On the same date, Pacific Travel and Trade Corporation ("Pacific Travel") and USCTS entered into a ticketing services agreement, pursuant to which Pacific Travel has agreed to provide ticketing related services and technical support services to USCTS for fees no less favorable than those charged by independent third parties. The respective maximum aggregate annual value for fees payable by USCTS to Pacific Travel for such ticketing related services and the technical support services for the three years ending 31 December 2009 are as follows:

	The year ending 31 December		
	2007	**2008**	**2009**
Ticketing related services	US$1,712,500 (approximately HK$13,271,875)	US$2,467,500 (approximately HK$19,123,125)	US$2,961,000 (approximately HK$22,947,750)
Technical support services	US$18,000 (approximately HK$139,500)	US$18,900 (approximately HK$146,475)	US$19,845 (approximately HK$153,799)
Total	US$1,730,500 (approximately HK$13,411,375)	US$2,486,400 (approximately HK$19,269,600)	US$2,980,845 (approximately HK$23,101,549)

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

The term of above transactions commenced on 1 January 2007 and will end on 31 December 2009. Details of these transactions were set out in the announcement dated 29 December 2006.

(iii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its subsidiaries ("CTS (Holdings) Group") in the following categories:

(a) Provision of insurance brokerage services by CTS (Holdings) Group;
(b) Provision of decoration and maintenance services by CTS (Holdings) Group;
(c) Provision of sightseeing cruiser services by CTS (Holdings) Group;
(d) Sale of tourism services/products to CTS (Holdings) Group;
(e) Provision of stevedoring services by CTS (Holdings) Group;
(f) Lease arrangements; and
(g) Provision of Application Service Provider related services to CTS (Holdings) Group.

On 13 July 2004, the Company entered into a master agreement (the "2004 Master Agreement") with CTS (Holdings) in relation to the above ongoing connected transactions for a term commencing on 1 January 2004 and ending on 31 December 2006, in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") which took effect on 31 March 2004. Details of the respective maximum aggregate annual value for each of these transactions were set out in the announcement dated 13 July 2004. The 2004 Master Agreement did not cover (i) a lease arrangement dated 1 August 2006 in respect of an office premise (the "Additional Premise") from a member of the CTS (Holdings) Group for a term starting from 1 October 2005 and expiring on 31 December 2006; or (ii) a lease arrangement in respect of certain car parking spaces (the "Car Parking Spaces") from a member of the CTS (Holdings) Group for the years 2004 to 2006. The amount payable to the CTS (Holdings) Group pursuant to such lease arrangements, when aggregated with the amount of the lease arrangements covered by the 2004 Master Agreement, exceeded the annual cap under the 2004 Master Agreement by HK$693,000 (approximately 6.1%), HK$30,600 (approximately 0.3%) and HK$1,184,000 (approximately 10.4%) for 2004, 2005 and 2006 respectively.

As the 2004 Master Agreement expired on 31 December 2006, the Company following an internal review entered into a master agreement (the "2006 Master Agreement") with CTS (Holdings) on 29 December 2006 to renew the terms of some of such continuing connected transactions for a term commencing from 1 January 2007 and ending on 31 December 2009, and to enlarge the scope of services of, and to increase the number of participants involved in, certain continuing connected transactions in the 2004 Master Agreement. The lease arrangements in respect of the Additional Premise and the Car Parking Spaces are now covered by the 2006 Master Agreement.

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

As CTS (Holdings) is a substantial shareholder of the Company, the members in CTS (Holdings) Group (i.e. CTS (Holdings) and its associates) are connected persons of the Company. In addition, as disclosed in the announcement of the Company dated 9 October 2006, after the transfer of the 100% interest in CTS (Holdings) to China CTS (HK) is implemented, China CTS (HK) became the sole shareholder of CTS (Holdings), and accordingly the members in China CTS (HK) Group are also connected persons of the Company.

The maximum aggregate annual consideration for each of the continuing connected transactions contemplated under the 2006 Master Agreement is as follows:

	The year ending 31 December		
	2007	**2008**	**2009**
	HK$'000	HK$'000	HK$'000
I. *Continuing connected transactions with CTS (Holdings) Group*			
(a) Provision of insurance brokerage services by CTS (Holdings) Group	7,490	7,870	8,270
(b) Lease arrangements with CTS (Holdings) Group as lessor	16,660	18,260	20,010
(c) Provision of ASP related services to CTS (Holdings) Group	14,230	14,230	14,230
II. *Continuing connected transactions with China CTS (HK) Group*			
Provision of travel related services to China CTS (HK) Group	11,090	17,500	13,730

Each of these transactions were set out in the announcement dated 29 December 2006.

(iv) The Group engaged CT Hotels to manage certain of its hotels, particulars of which are set out in the section headed "Management Contracts" on pages 25 to 26.

(v) During the year, the following transactions were recorded by Splendid China and Shenzhen The World Miniature Co., Ltd., which are 51% owned PRC subsidiaries of the Group, with their substantial shareholders or the associates of these substantial shareholders:

		Group	
		2006	2005
Name of Company	**Nature of transaction**	**HK$'000**	HK$'000
Paid or payable to:			
(i) 深圳特區華僑城水電有限公司	Water and electricity charges	**21,252**	20,245
(ii) 華僑城集團公司	Land use rights fees	**12,434**	12,338

The Company is taking steps to formalise the arrangements with 深圳特區華僑城水電有限公司 and 華僑城集團公司 in respect of the above continuing connected transactions in a form complying with Rule 14A.35 of the Listing Rules.

The above continuing connected transactions have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that these transactions were entered into by the Group:

(i) in the ordinary and usual course of business of the Group and on normal commercial terms;

(ii) are fair and reasonable so far as the shareholders of the Company are concerned; and

(iii) in accordance with the terms of the agreements governing such transactions (or where there is no such agreement, on terms no less favorable to the Group than terms available to or from independent third parties).

The remaining material transactions as set out in note 42 to the financial statements under the heading of "Related Party Transactions" were also connected transactions.

Save as disclosed above, the Company confirms that the disclosure requirements for connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules have been complied with.

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

As at 31 December 2006, the interests and short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any 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 ("Model Code") were as follows:-

(i) Long position in the shares of the Company

ordinary shares of HK$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	% of the issued share capital
Yeh Meou Tsen, Geoffrey	Beneficial owner	5,686,000	0.100%
Fong Yun Wah	Interest of controlled corporations *(Note)*	50,000	0.001%

Note: These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive and/or any of their respective associates had any interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' Interests in the Shares and Short Positions in Shares, Underlying Shares and Debentures" above and in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 36 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long position in the shares of the Company

ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of shares held	% of the issued share capital
China Travel Service Head Office of the PRC ("CTS-PRC")	Interest of controlled corporation *(Note 1, 4)*	2,993,632,728	52.56%
CTS (Holdings)	Interest of controlled corporation and beneficial owner *(Note 1, 3)*	2,993,632,728	52.56%
Foden International Limited ("FIL")	Beneficial owner *(Note 2)*	20,700,000	0.36%

Notes:

1. The entire issued share capital of CTS (Holdings) is beneficially owned by CTS-PRC. CTS (Holdings) is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS (Holdings).

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

3. 2,972,932,728 shares were held by CTS (Holdings) directly.

4. Pursuant to the restructuring approved by the State-owned Assets Supervision Commission of the State Council of the PRC on 10 August 2006, CTS-PRC agreed to transfer its 100% interest in CTS (Holdings), the immediate controlling shareholder of the Company, to China CTS(HK) Group at nil consideration. The restructuring was completed on 14 February 2007 and China CTS(HK) replaced CTS-PRC as the sole shareholder of CTS (Holdings) on that date.

Save as aforesaid and disclosed under the heading "Directors' Interests in the Shares and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31 December 2006, the Directors are not aware of any other person who had an 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.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 2006, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant tenders according to the respective terms and conditions thereof. The details of the loan facilities outstanding as at 31 December 2006 are as follows:

Amount outstanding as at 31 December 2006	Final maturity date of the loan facilities
HK$500 million	2 January 2009

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 37 to 50.

AUDIT COMMITTEE

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

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

Report of the Directors

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises three Independent Non-Executive Directors, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

POST BALANCE SHEET EVENT

Details of the significant event subsequent to the balance sheet date are set out in note 44 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD

Zhang Xuewu
Chairman
Hong Kong, 12 April 2007

Corporate Governance Report

The Board of Directors ("the Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2006.

The Group considers that good corporate governance is vital to the healthy and sustainable development of the Group. To ensure a high standard of corporate governance, the Group shall strive to enhance the standard of corporate governance continuously, strictly comply with the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and actively apply the principles of the Code.

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

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

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

The Company has complied with all the Code Provisions throughout the accounting period for the year ended 31 December 2006 except for the following deviation:

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

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

Corporate Governance Report

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

THE BOARD

Responsibilities

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

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

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

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

Composition

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

The Board currently comprises fourteen members, consisting of ten executive directors and four independent non-executive directors.

The Board of the Company comprises the following directors:

Executive Directors:

Zhang Xuewu *(Chairman)*

Xiong Weiping *(Vice Chairman, General Manager)*

Zheng Heshui *(Vice Chairman)*

Lo Sui On *(Vice Chairman)*

Zheng Hongqing

Jiang Yan

Mao Jianjun

Zhang Fengchun

Ng Chi Man, Michael *(Deputy General Manager)*

Liu Li *(Deputy General Manager)*

Independent Non-Executive Directors:

Yeh Meou Tsen, Geoffrey *(member of Audit Committee and Remuneration Committee)*

Yeh V Nee *(Alternate director to Yeh Meou Tsen, Geoffrey)*

Fong Yun Wah

Wong Man Kong, Peter *(Chairman of Audit Committee and Remuneration Committee)*

Sze, Robert Tsai To *(member of Audit Committee and Remuneration Committee)*

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

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

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

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

Appointment and Succession Planning of Directors

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

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

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

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

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

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

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

Mr. Xiong Weiping, Ms. Jiang Yan and Mr. Mao Jianjun were appointed as executive directors of the Company on 17 July 2006. Their appointments were approved by the Executive Board meeting held on 17 July 2006. All executive Directors except Messrs. Ng Chi Man, Michael and Liu Li attended the meeting. In accordance with Article 92 of the Articles, they will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 101 of the Articles, Messrs. Zheng Heshui, Lo Sui On, Zheng Hongqing, Wong Man Kong, Peter and Dr. Fong Yun Wah will retire as Directors by rotation at the forthcoming annual general meeting. Messrs. Zheng Heshui, Lo Sui On, Wong Man Kong, Peter and Dr. Fong Yun Wah, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The Company understands that Mr. Zheng Hongqing will resign as a Director of the Company before the forthcoming annual general meeting and the Company will make a separate announcement after his resignation takes effect in accordance with Rule 13.51(2) of the Listing Rules.

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

The Company's circular dated on 30 April 2007 contains detailed information of the directors standing for re-election.

Training for Directors

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

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

Corporate Governance Report

Board Meetings

Number of Meetings and Directors' Attendance

During the year ended 31 December 2006, the Board met four times. On 28 March 2006, the Board met to review the annual results, the report from the first Audit Committee meeting, retirement and re-election of directors and connected transactions. On 27 July 2006, the Board met to review the interim results, connected transactions and to discuss strengthening of policy control and management of investment projects and subsidiaries. On 5 September 2006, the Board met to review the results for the first nine months, the report from the second Audit Committee meeting, and to arrange for review of the internal control systems of the Company. On 8 December 2006, the Board met to review the progress report on review of the internal control system of the Company, the report from the Remuneration Committee, investment projects and connected transactions. The attendance rate at each meeting was 85%, 85%, 93% and 64% respectively.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2006 is set out below:

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

* Mr. Yeh V Nee is an alternate director to Dr. Yeh Meou Tsen, Geoffrey.

** Mr Che Shujian resigned from the offices of Chairman and Executive Director of the Company with effect from 17 July 2006. During the period from 1 January 2006 to 17 July 2006, one meeting of the Board was held.

*** Mr Shen Zhuying resigned from the offices of Vice Chairman, Executive Director and General Manager of the Company with effect from 7 April 2006. During the period from 1 January 2006 to 7 April 2006, one meeting of the Board was held.

Practices and Conduct of Meetings

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

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

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

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

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

CHAIRMAN AND GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

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

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

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

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

BOARD COMMITTEES

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

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

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

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of directors and senior management.

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

One Remuneration Committee meeting was held on 8 December 2006 to review major remuneration policies such as remuneration standard, performance evaluation and bonuses of directors and senior management. In addition, the procedures for determining remuneration and remuneration standards of executive Directors and senior management were reviewed and discussed in the meeting and recommendations were made to the Board.

Corporate Governance Report

Audit Committee

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

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held three meetings during the year ended 31 December 2006 to consider independent opinions of external auditors on the Company and to review the financial results and reports, financial reporting and compliance procedures, the report of the internal audit department on the Company's internal control and risk management review and the processes and the re-appointment of the external auditors.

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

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

The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2006.

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

No incident of non-compliance of the Written Guidelines by employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 51 to 52.

Save as disclosed in note 7 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2006, other significant non-audit service assignments for the year include:

		HK$
1.	Review of interim results	880,000
2.	Financial review on potential investment	1,150,000
		2,030,000

INTERNAL CONTROLS

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

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

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

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

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

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

In strict compliance with the requirements of Code Provision C.2.1, the Group has conducted a comprehensive review of the internal control system under the guidance of the Board and the senior management in 2006. The review assessed the prevailing internal control and risk management practices of the Group and covered various aspects including financial control, operational control, compliance control and risk management.

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

Poll results will be published in newspapers on the business day following the Shareholders' meeting and posted on the website of the Stock Exchange.

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

Corporate Governance Report

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

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

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of China Travel International Investment Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of China Travel International Investment Hong Kong Limited set out on pages 53 to 150, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

Independent Auditors' Report

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
12 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**6,979,546**	5,635,743
Cost of sales		**(5,336,361)**	(4,283,620)
Gross profit		**1,643,185**	1,352,123
Other income and gains	5	**126,677**	90,021
Selling and distribution costs		**(348,901)**	(165,072)
Administrative expenses		**(973,673)**	(812,388)
Revaluation surplus of hotel properties and investment properties and impairment of items of property, plant and equipment, net		**27,536**	58,107
Fair value gains on derivative financial instruments		**–**	99,204
Impairment of goodwill		**(16,591)**	–
Finance costs	6	**(79,561)**	(55,453)
Share of profits and losses of:			
Jointly-controlled entities		**134,077**	175,598
Associates		**57,433**	45,751
PROFIT BEFORE TAX	7	**570,182**	787,891
Tax	10	**(112,613)**	(102,759)
PROFIT FOR THE YEAR		**457,569**	685,132
Attributable to:			
Equity holders of the parent	11	**375,004**	612,660
Minority interests		**82,565**	72,472
		457,569	685,132
DIVIDENDS	12		
Interim		**113,907**	151,204
Proposed final		**56,954**	151,165
Adjustments to 2005/2004 final dividend		**15,809**	27,094
		186,670	329,463
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CENTS)	13		
Basic		**6.86**	12.59
Diluted		**N/A**	12.00

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,464,151**	4,342,549
Investment properties	15	**240,085**	223,605
Prepaid land lease payments	16	**3,056,985**	3,109,552
Properties under development	17	**–**	3,270
Goodwill	18	**1,244,769**	1,260,837
Interests in jointly-controlled entities	20	**1,151,917**	1,375,421
Interests in associates	21	**418,996**	418,913
Available-for-sale investments	22	**18,898**	20,009
Held-to-maturity investments	23	**15,547**	15,477
Deferred tax assets	34	**11,839**	15,641
Total non-current assets		**10,623,187**	10,785,274
CURRENT ASSETS			
Available-for-sale investments	22	**–**	1,427
Inventories	24	**17,831**	19,182
Trade receivables	25	**704,253**	572,914
Tax recoverable		**2,974**	1,580
Prepayments, deposits and other receivables	26	**356,255**	313,166
Pledged time deposits	27	**4,176**	4,306
Cash and cash equivalents	28	**2,157,297**	2,258,655
Amount due from the ultimate holding company	29	**23,202**	27,886
Amounts due from fellow subsidiaries	29	**3,279**	5,266
Total current assets		**3,269,267**	3,204,382
CURRENT LIABILITIES			
Trade payables	30	**731,617**	609,801
Tax payable		**45,093**	29,156
Other payables and accruals	31	**822,234**	951,616
Interest-bearing bank and other borrowings	32	**179,733**	13,311
Amount due to the ultimate holding company	29	**1,421**	–
Amounts due to fellow subsidiaries	29	**3,138**	4,509
Total current liabilities		**1,783,236**	1,608,393
NET CURRENT ASSETS		**1,486,031**	1,595,989
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,109,218**	12,381,263

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,109,218**	12,381,263
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		**149,002**	145,726
Interest-bearing bank and other borrowings	*32*	**504,843**	2,008,022
Deferred tax liabilities	*34*	**361,966**	364,496
Total non-current liabilities and deferred income		**1,015,811**	2,518,244
Net assets		**11,093,407**	9,863,019
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*35*	**569,536**	503,885
Reserves	*37*	**10,023,435**	8,802,449
Proposed final dividend	*12*	**56,954**	151,165
		10,649,925	9,457,499
Minority interests	*37*	**443,482**	405,520
Total equity		**11,093,407**	9,863,019

Zhang Xuewu
Director

Xiong Weiping
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
Total equity at 1 January		**9,457,499**	8,028,962
Exchange differences on translation of the financial statements of foreign entities	*37*	**111,252**	34,051
Surplus on revaluation of hotel and investment properties, net of deferred tax	*37*	**2,684**	6,249
Total income and expense for the year recognised directly in equity		**113,936**	40,300
Profit for the year	*37*	**375,004**	612,660
Total income and expense for the year		**488,940**	652,960
Share of reserve of an associate	*37*	**(5,652)**	1,283
Dividends paid		**(280,881)**	(401,681)
Issue of new shares	*35*	**65,651**	57,269
Premium on issue of new shares	*35, 37*	**924,368**	1,121,001
Repurchase of own shares	*37*	**–**	(2,295)
Total equity at 31 December		**10,649,925**	9,457,499

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**570,182**	787,891
Adjustments for:			
Finance costs	*6*	**79,561**	55,453
Interest income	*5*	**(71,161)**	(43,587)
Gain on disposal of items of property, plant and equipment, net	*5*	**(1,140)**	(754)
Write-back of long outstanding payables	*5*	**(2,958)**	(3,771)
Loss/(gain) on disposal of available-for-sale investments	*7*	**1,757**	(1,341)
Depreciation	*7*	**306,397**	157,269
Recognition of prepaid land lease payments	*7*	**60,396**	57,395
Provision for doubtful debts, net	*7*	**6,976**	6,484
Provision for slow-moving inventories	*7*	**–**	20
Impairment of available-for-sale investments	*7*	**299**	381
Impairment/(reversal of impairment) of items of property, plant and equipment	*7*	**(259)**	7,500
Impairment of goodwill	*7*	**16,591**	–
Reversal of impairment of interests in jointly-controlled entities	*7*	**(2,708)**	–
Write-off of properties under development	*7*	**1,073**	–
Revaluation surplus of investment properties	*7*	**(11,516)**	(36,882)
Revaluation surplus of hotel properties	*7*	**(16,020)**	(28,725)
Fair value gains on derivative financial instruments	*7*	**–**	(99,204)
Share of profits and losses of jointly-controlled entities		**(134,077)**	(175,598)
Share of profits and losses of associates		**(57,433)**	(45,751)
		745,960	636,780

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
		745,960	636,780
Decrease/(increase) in inventories		**1,351**	(5,171)
Increase in trade receivables, prepayments, deposits and other receivables		**(179,463)**	(132,232)
Decrease in available-for-sale investments		**–**	11,581
Decrease in an amount due from the ultimate holding company		**6,105**	3,429
Decrease/(increase) in amounts due from fellow subsidiaries		**1,987**	(2,030)
Increase in trade payables, other payables and accruals		**251,782**	73,831
Increase/(decrease) in amounts due to fellow subsidiaries		**(1,371)**	17
Increase in deferred income		**3,276**	18,173
Increase in amounts due from jointly-controlled entities		**(13,975)**	(12,475)
Increase in amounts due to jointly-controlled entities		**1,256**	632
Decrease/(increase) in amounts due from associates		**8,687**	(8,172)
Increase/(decrease) in amounts due to associates		**7,642**	(702)
Effect of foreign exchange rate changes, net		**11,864**	14,146
Cash generated from operations		**845,101**	597,807
Hong Kong, PRC and Macau profits tax paid		**(97,051)**	(116,439)
Overseas taxes paid		**(751)**	–
Net cash inflow from operating activities		**747,299**	481,368
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**71,161**	43,587
Dividends received from an associate		**35,380**	53,543
Dividends received from jointly-controlled entities		**267,080**	210,590
Proceeds from disposal of available-for-sale investments		**571**	4,185
Purchases of items of property, plant and equipment		**(559,469)**	(278,702)
Purchase of investment properties	*15*	**(4,202)**	–
Investment in a jointly-controlled entity		**–**	(1,415)
Purchases of held-to-maturity investments		**–**	(15,477)
Proceeds from disposal of items of property, plant and equipment		**7,965**	22,677
Additions to properties under development	*17*	**–**	(1,132,725)
Additions to land lease payments	*16*	**(6,029)**	(8,332)
Acquisition of minority interests		**–**	(10,265)
Return of capital from a jointly-controlled entity		**105,700**	94,517
Decrease/(increase) in pledged time deposits		**130**	(253)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(333,666)**	(264,566)
Net cash outflow from investing activities		**(415,379)**	(1,282,636)

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash outflow from investing activities		**(415,379)**	(1,282,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(79,561)**	(48,489)
Dividends paid		**(280,881)**	(401,681)
Dividends paid to minority shareholders		**(63,918)**	(53,832)
Contributions from minority shareholders		**4,943**	1,415
Proceeds from shares issued upon exercise of bonus warrants	*35*	**990,019**	212,837
Repurchase of own shares	*37*	**–**	(2,295)
New bank loans		**1,538,937**	1,318,335
Repayment of bank loans		**(2,876,283)**	(12,370)
Capital element of finance lease and hire purchase contract payments		**(200)**	(302)
Net cash inflow/(outflow) from financing activities		**(766,944)**	1,013,618
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(435,024)**	212,350
Cash and cash equivalents at beginning of year		**1,923,003**	1,710,653
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,487,979**	1,923,003
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*28*	**847,528**	1,046,051
Non-pledged time deposits with original maturity of less than three months when acquired		**640,451**	876,952
		1,487,979	1,923,003

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**989**	1,459
Investment property	*15*	**1,950**	1,950
Interests in subsidiaries	*19*	**8,609,167**	7,742,112
Investment in a jointly-controlled entity	*20*	**1,415**	1,415
Available-for-sale investment	*22*	**13,949**	13,949
Total non-current assets		**8,627,470**	7,760,885
CURRENT ASSETS			
Prepayments, deposits and other receivables	*26*	**3,151**	5,463
Cash and cash equivalents	*28*	**390,930**	479,045
Amount due from the ultimate holding company	*29*	**–**	44
Total current assets		**394,081**	484,552
CURRENT LIABILITIES			
Other payables and accruals	*31*	**22,713**	19,376
Amount due to the ultimate holding company	*29*	**1,343**	–
Total current liabilities		**24,056**	19,376
NET CURRENT ASSETS		**370,025**	465,176
Net assets		**8,997,495**	8,226,061
EQUITY			
Issued capital	*35*	**569,536**	503,885
Reserves	*37*	**8,371,005**	7,571,011
Proposed final dividend	*12*	**56,954**	151,165
Total equity		**8,997,495**	8,226,061

Zhang Xuewu
Director

Xiong Weiping
Director

Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

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

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The principal changes in accounting policies are as follows:

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

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

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

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

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

Notes to Financial Statements

31 December 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

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

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

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

Associates

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

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

Goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

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

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

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill previously eliminated against consolidated retained profits

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

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than hotel properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Buildings	Over the shorter of the lease terms and 40 years
Hotel properties	Over the shorter of the lease terms and 75 years
Scenic spots establishment	3.6% to 19%
Other fixed assets:	
Carpet, cutlery and crockery, linen and uniforms	Replacement basis
Leasehold improvements	20%
Furniture, fixture and equipment	9% to 30%
Motor vehicles	14.3% to 20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

Investment properties

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

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

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

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

Available-for-sale financial assets

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

Financial liabilities including trade and other payables, amounts due to the ultimate holding company and fellow subsidiaries, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedging *(Continued)*

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

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

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

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

Cash flow hedges

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

Inventories

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

Deferred income

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. The capitalisation rate is based on the actual cost of the related borrowings.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Paid leave carried forward

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

Pension schemes

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$1,244,769,000 (2005: HK$1,260,837,000). Further details are given in note 18.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses available for offset against future taxable profit at 31 December 2006 was HK$25,405,000 (2005: HK$23,787,000). The amount of unrecognised cumulative tax losses at 31 December 2006 was HK$316,960,000 (2005: HK$303,865,000). Further details are contained in note 34 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

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

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

(a) Business segments

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

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

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

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

Notes to Financial Statements

31 December 2006

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

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

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

Notes to Financial Statements

31 December 2006

7. PROFIT BEFORE TAX *(Continued)*

Notes:

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

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

(iii) The fair value gains on derivative financial instruments related to the conversion options of the United States Dollar denominated convertible bonds issued in 2003. The derivative financial instruments are included in the balance sheet as liabilities and transferred to share premium account upon conversion of the convertible bonds. The changes in fair value of the derivative financial instruments are recognised in the income statement.

8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees:		
Executive directors	**2,350**	2,070
Independent non-executive directors	**940**	920
	3,290	2,990
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**5,709**	7,761
Performance related bonuses	**2,255**	2,152
Pension scheme contributions	**156**	199
	8,120	10,112
	11,410	13,102

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

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

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

10. TAX

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

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

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

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

10. TAX *(Continued)*

Group – 2005

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

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

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

12. DIVIDENDS

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

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

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

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

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

Group

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

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

Company

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

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

Company

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

Notes to Financial Statements

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

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

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

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

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

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

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

15. INVESTMENT PROPERTIES

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

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

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
Group			
Long term leases	46,220	9,081	55,301
Medium term leases	149,750	18,707	168,457
Short term leases	–	16,327	16,327
	195,970	44,115	240,085
Company			
Medium term leases	–	1,950	1,950

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15. INVESTMENT PROPERTIES *(Continued)*

The Group and Company's investment properties were revalued on 31 December 2006 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK$240,085,000 and HK$1,950,000 respectively on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

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

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

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

17. PROPERTIES UNDER DEVELOPMENT

Group

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

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

18. GOODWILL

Group

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

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

18. GOODWILL *(Continued)*

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

Impairment testing of goodwill

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

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

Travel and travel-related operations cash-generating unit

The recoverable amount of the travel and travel-related operations cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 11% and due to the uncertainty, cash flows beyond the five-year period are extrapolated using a growth rate ranging from 2% to 3%.

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

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

18. GOODWILL *(Continued)*

Key assumptions were used in the value in use calculation of the travel and travel-related operations cash-generating units for the year ended 31 December 2006 and 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

19. INTERESTS IN SUBSIDIARIES

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

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

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

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

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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

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

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

Particulars of the jointly-controlled entities are as follows:

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

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

* *They are held indirectly through subsidiaries.*

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

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

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

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

21. INTERESTS IN ASSOCIATES

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

21. INTERESTS IN ASSOCIATES *(Continued)*

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

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

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

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

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

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

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

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

22. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

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

23. HELD-TO-MATURITY INVESTMENTS

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

24. INVENTORIES, AT COST

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

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25. TRADE RECEIVABLES

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

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

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

Trade receivables are non-interest bearing.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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27. PLEDGED TIME DEPOSITS

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

28. CASH AND CASH EQUIVALENTS

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

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$879,883,000 (2005: HK$636,774,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

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

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

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

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

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

30. TRADE PAYABLES

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

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

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

31. OTHER PAYABLES AND ACCRUALS

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

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

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

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

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

Other interest rate information:

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

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

33. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

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

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

Group

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

34. DEFERRED TAX

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

Deferred tax liabilities

Group

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

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34. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

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

At 31 December 2006, the Group has cumulative tax losses arising from operations in Hong Kong of HK$316,960,000 (2005: HK$303,865,000) which can be used to offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

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

35. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
7,000,000,000 ordinary shares of HK$0.10 each	**700,000**	700,000
Issued and fully paid:		
5,695,355,525 (2005: 5,038,843,875) ordinary shares of HK$0.10 each	**569,536**	503,885

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

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

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

35. SHARE CAPITAL *(Continued)*

Share options

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

Warrants

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

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

36. SHARE OPTION SCHEME

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

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

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

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

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

36. SHARE OPTION SCHEME *(Continued)*

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

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

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

37. RESERVES

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

37. RESERVES *(Continued)*

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

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

37. RESERVES *(Continued)*

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

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Agencia De Viagens E Turismo Grand, Limitada	Macau	MOP1,000,000	**100**	100	Travel and air ticketing agent
Chadwick Developments Limited *(Note)*	Hong Kong	1,000 ordinary shares of HK$1 each 10,000 non-voting deferred shares of HK$1 each	**100**	100	Investment holding
China Chance Development Limited *(Note)*	British Virgin Islands	1 share of US$1 each	**100**	100	Provision of financial services
China Heaven	PRC	RMB10,000,000	**85.3**	85.3	Production of art performances
China Travel (Cargo) Logistics Centre Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100**	100	Provision of logistic services
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK$1 each	**100**	100	Tour operations
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Provision of printing and advertising agency services

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**100**	100	Air ticketing agent
China Travel and Trading (Deutschland) GmbH#	Germany	EURO125,267	**100**	100	Travel and air ticketing agent
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**70**	70	Passenger transportation
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100**	100	Trading of computer equipment, provision of computer service and investment holding
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** *(Note)*	PRC	US$128,700,000	**100**	100	Hot spring resort operation
China Travel International Ltd.#** *(Note)*	PRC	RMB177,300,000	**100**	100	Tour operations
China Travel International (Chengdu) Ltd.#*	PRC	RMB4,220,000	**51**	51	Tour operations
China Travel International (Shandong) Ltd.#*	PRC	RMB3,000,000	**51**	51	Tour operations

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
China Travel International (Shanxi) Travel Service Co., Ltd.#	PRC	RMB5,000,000	**71**	71	Tour operations
China Travel International (Xiamen) ITG Travel Service Co., Ltd.#*	PRC	RMB6,000,000	**51**	51	Tour operations
China Travel International (Xian) Ltd.#*	PRC	RMB3,570,000	**51**	51	Tour operations
China Travel International (Xinjiang) Ltd.#*	PRC	RMB4,000,000	**51**	51	Tour operations
China Travel Service (Australia) Pty. Ltd.	Australia	AUD3,319,932	**100**	100	Travel and air ticketing agent
China Travel Service (Canada) Inc.#	Canada	CAD2,922,750	**100**	100	Travel and air ticketing agent
China Travel Service (Cargo) Hong Kong Limited *(Note)*	Hong Kong	2 ordinary shares of HK$100 each 10,000 non-voting deferred shares of HK$100 each	**100**	100	Provision of freight forwarding and transportation services
China Travel Service (France) SARL#	France	EURO220,000	**100**	100	Travel and air ticketing agent

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38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK$100 each 1,000,000 non-voting deferred shares of HK$100 each	**100**	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency
China Travel Service (Japan) Co., Ltd.#	Japan	¥95,000,000	**100**	100	Travel and air ticketing agent
China Travel Service (Korea) Co., Ltd.#	Korea	WON500,000,000	**100**	100	Travel and air ticketing agent
China Travel Service (N.Z.) Limited	New Zealand	NZD30,000	**100**	100	Travel and air ticketing agent
China Travel Service (U.K.) Ltd.	United Kingdom	486,000 ordinary shares of £1 each 1,072,000 preference shares of £1 each	**100**	100	Travel and air ticketing agent
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK$100 each 5,000 non-voting deferred shares of HK$100 each	**100**	100	Passenger transportation
Coastline Development Limited	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Property investment holding

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Common Well Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
CTI Cosco Travel Ltd.#*	PRC	RMB26,287,300	**100**	100	Tour operations
CTS International Transportation Co., Ltd.*	PRC	RMB50,000,000	**76**	76	Freight forwarding
Glading Development Limited	Hong Kong	2 ordinary shares of HK$1 each 2 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding and hotel operations
Hotel Metropole Holdings Limited	British Virgin Islands/ Hong Kong	1 share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
Invincible Limited#	Western Samoa/ Hong Kong	7,200,000 shares of US$1 each	**100**	100	Investment holding
Mangocity.com Limited	Hong Kong	150,000 ordinary shares of HK$1 each	**100**	100	Sale of travel-related products through an electronic platform

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Mangocity.com Limited**	PRC	RMB1,200,000	**100**	100	Sale of travel-related products through an electronic platform
Mangocity Travel Management Company Ltd.#** (Formerly Known as CTI Business Travel Management Company Limited)	PRC	RMB10,000,000	**100**	100	Air ticketing agent
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Metrocity Hotel Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 100 non-voting deferred shares of US$1 each	**100**	100	Property investment holding and hotel operations
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**80**	80	Passenger transportation
Princess Capital Limited *(Note)*	British Virgin Islands/ Hong Kong	1 share of US$1	**100**	100	Securities trading

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Rida Investment Company Limited#	Macau	MOP99,000	**100**	100	Property investment holding
Shenzhen China Travel Service (Cargo) Hong Kong Ltd.#*	PRC	US$1,500,000	**100**	100	Provision of freight forwarding and cargo transportation services
Shenzhen CTS Cargo Transportation Co., Ltd.#***	PRC	RMB5,000,000	**100**	100	Provision of freight forwarding and cargo transportation services and investment holding
Shenzhen The Splendid China Development Co., Ltd.* *(Note)*	PRC	RMB184,000,000	**51**	51	Tourist attraction operations
Shenzhen The World Miniature Co., Ltd.* *(Note)*	PRC	US$29,500,000	**51**	51	Tourist attraction operations
Shenzhen Tycoon Golf Club Co., Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.**	PRC	RMB100,000,000	**100**	100	Golf club operations

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Singa China Travel Service Pte. Limited	Singapore	SGD6,740,000	**100**	100	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	**100**	100	Property investment holding and hotel operations
Special Asia Travel AB	Sweden	SEK100,000	**100**	100	Travel and air ticketing agent
Starsoft Computer Services Limited	Hong Kong	4,000 ordinary shares of HK$100 each	**100**	100	Investment holding
Tonkin Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Property investment holding
Triumph King Limited	Hong Kong	2 ordinary shares of HK$1 each 100 non-voting deferred shares of HK$1 each	**100**	100	Property investment holding
Universal Loyalty Marketing	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Membership program operation
U.S. China Travel Service Inc.#	United States of America	US$4,890,000	**100**	100	Travel and air ticketing agent
Well Done Enterprises Inc.	British Virgin Islands/ Hong Kong	1 share of US$1	**100**	100	Property investment holding and hotel operations

38. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

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

Note: These subsidiaries are directly owned by the Company.

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

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

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

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

39. CONTINGENT LIABILITIES

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

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

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

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

40. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

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

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

41. COMMITMENTS

In addition to the operating lease commitments as detailed in note 40(b) above, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments

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

42. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

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

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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

42. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

The above transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.

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

(b) Key management personnel remuneration

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

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Liquidity risk

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

Notes to Financial Statements

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

Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the result that the Group thereby suffers financial loss. The Group manages the credit risk by set up of a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, it is the Group's policy to review regularly the recoverable amount of trade receivables to ensure that adequate impairment provisions are made against the irrecoverable amounts.

Foreign currency risk

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

44. POST BALANCE SHEET EVENT

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

45. COMPARATIVE AMOUNTS

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

46. APPROVAL OF THE FINANCIAL STATEMENTS

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