



香港 **中旅** 國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code: 00308)

海泉灣OCEAN SPRING RESORT

ANNUAL REPORT 2005 年報

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Corporate Information

DIRECTORS

Che Shujian (*Chairman*)
Zhang Xuewu (*Vice Chairman*)
Shen Zhuying (*Vice Chairman, General Manager*)#
Zheng Heshui (*Vice Chairman*)
Lo Sui On (*Vice Chairman*)
Zheng Hongqing
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*

Resigned on 7 April 2006

AUDIT COMMITTEE

Wong Man Kong, Peter (*Chairman*)
Yeh Meou Tsen, Geoffrey
Yeh 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
Liu Chong Hing Bank Limited
UBS AG

Financial Calendar and Investor Relation Information

Announcement of 2005 Final Results	28 March 2006	
Announcement of 2005 Interim Results	21 September 2005	
Dividends	2005 Final 2005 Interim 2004 Final 2004 Interim	HK 3 cents per share – payable on 26 May 2006 HK 3 cents per share paid on 28 October 2005 HK 5 cents per share paid on 24 June 2005 HK 5 cents per share paid on 22 September 2004
Closure of Register of Members	Period from 10 May to 12 May 2006	
Annual General Meeting for 2006	12 May 2006	
Listing Date	11 November 1992	
Authorised Shares	7,000,000,000	
Issued Shares	5,038,843,875 (as at 31 December 2005)	
Website	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	(100%)
China Travel International Ltd.	(100%)
Mangocity.com Limited	(100%)

Theme Parks

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

Golf Club Operation

Shenzhen Tycoon Golf Club Co., Ltd.	(100%)
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Leisure Resort

China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.	(100%)
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Hospitality

Hotels

Hotel Concourse	(100%)
Hotel New Harbour	(100%)
The Metropole Hotel	(100%)
Metropark Hotel	(100%)
Hotel Grandeur Macau	(100%)

Investment Holdings

Infrastructure

Shaanxi Weihe Power Co., Ltd.	(51%)
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Transportation

Freight Forwarding

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

Passenger Transportation

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

Financial Ratios Highlights

	2005	2004 (Restated)	2003 (Restated)
Profit & loss account ratios			
Interest coverage ratio	15.21	16.84	4.07
Earnings per share (HK cents)	12.59	15.04	0.16
Dividend per share (HK cents)	6.00	10.00	4.00
Dividend payout ratio (%)	47.66%	66.49%	246.61%
Balance sheet ratios			
Current ratio	1.99	2.49	2.08
Quick ratio	1.98	2.48	2.07
Net assets value per share (HK\$)	1.96	1.91	1.83
Net interest-bearing debt to equity	(0.02)	(0.03)	0.00
Rate of return ratios			
Return on average equity (%)	7.45	8.69	0.53
Return on total capital and borrowings (%)	6.03	7.54	1.10
Market price ratios			
Dividend yield			
Year low (%)	2.31	3.93	2.42
Year high (%)	4.05	8.55	4.65
Price to earning ratio			
Year low	11.76	7.78	529.16
Year high	20.65	16.89	1,016.78

Formula for financial ratios:

Interest coverage ratio	$\frac{\text{Profit before tax} + \text{Finance costs}}{\text{Finance costs} + \text{Capitalised Interest}}$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$
Net interest-bearing debt to equity	$\frac{\text{Interest bearing debts} - \text{Cash and cash equivalents}}{\text{Equity}}$
Return on average equity	$\frac{\text{Profit for the year}}{\text{Average equity}}$
Return on total capital and borrowings	$\frac{\text{Profit before tax} + \text{Finance costs}}{\text{Total liabilities} + \text{Equity}}$

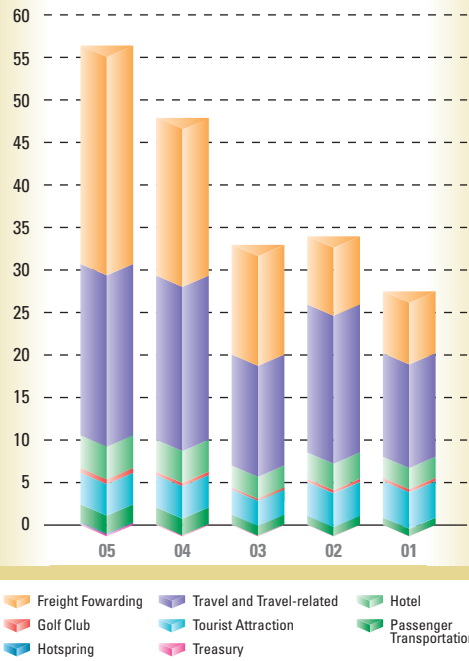
Five Year Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policies, as detailed in note 2.2 to the financial statements.

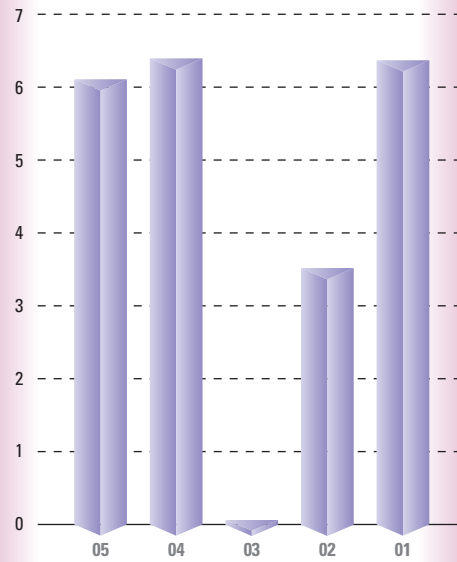
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Results					
REVENUE	5,646,620	4,802,021	3,300,916	3,401,695	2,758,579
Cost of sales	(4,294,424)	(3,605,928)	(2,397,847)	(2,251,890)	(1,730,929)
Gross profit	1,352,196	1,196,093	903,069	1,149,805	1,027,650
Other income and gains	90,021	105,682	57,867	82,913	180,534
Selling and distribution costs	(165,072)	(123,222)	(49,730)	(62,221)	(41,082)
Administrative expenses	(805,596)	(667,143)	(658,481)	(666,226)	(584,444)
Other expenses, net	(6,865)	(26,320)	(163,350)	(182,371)	(22,813)
Revaluation surplus of hotel properties and investment properties and impairment of items of property, plant and equipment, net	58,107	83,636	(201,713)	(88,210)	–
Fair value gains on derivative financial instruments	99,204	–	–	–	–
Finance costs	(55,453)	(51,863)	(30,820)	(43,114)	(66,579)
Share of profits and losses of:					
Jointly-controlled entities	175,598	251,193	236,437	227,872	232,943
Associates	45,751	53,221	1,261	44,046	28,972
PROFIT BEFORE TAX	787,891	821,277	94,540	462,494	755,181
Tax	(102,759)	(114,127)	(53,143)	(43,268)	(43,722)
PROFIT FOR THE YEAR	685,132	707,150	41,397	419,226	711,459
Attributable to:					
Equity holders of the parent	612,660	639,288	6,872	351,681	633,638
Minority interests	72,472	67,862	34,525	67,545	77,821
	685,132	707,150	41,397	419,226	711,459
Assets, liabilities and deferred income and minority interests					
Total assets	13,989,656	11,586,977	11,441,915	10,251,030	10,632,370
Total liabilities and deferred income	(4,126,637)	(3,064,707)	(3,687,549)	(2,353,319)	(2,629,474)
Minority interests	(405,520)	(386,313)	(334,755)	(332,827)	(353,003)
	9,457,499	8,135,957	7,419,611	7,564,884	7,649,893

Financial Review

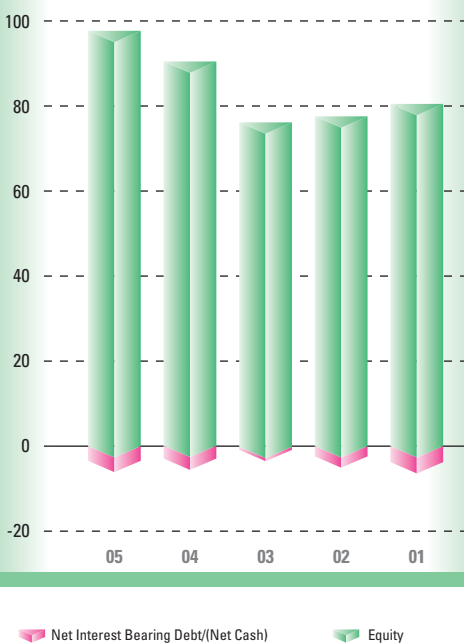
Turnover by Principal Activities
HK\$ (100 million)



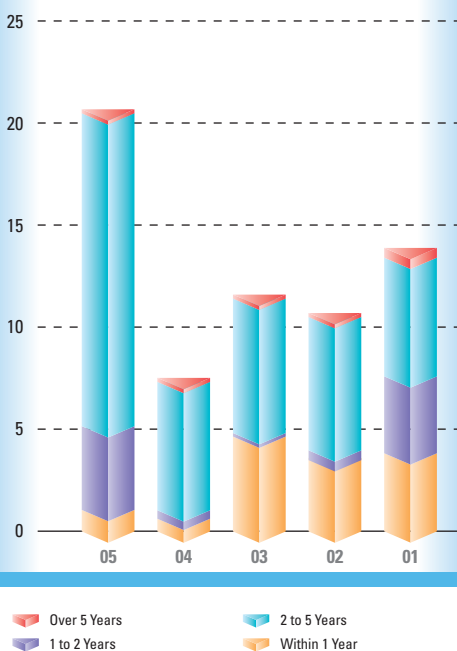
Profit Attributable to Ordinary Equity Holders of Parent
HK\$ (100 million)



Net Debt to Equity
HK\$ (100 million)



Debt Maturity Profile
HK\$ (100 million)



Biographies of Directors and Senior Management

Executive Directors

MR. CHE SHUJIAN *Chairman & Executive Director*

Aged 63, is the Chairman of China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)"), the holding company of the Company. Mr. Che has extensive experience in economic development and corporate management. Prior to joining the Group, he was the Dean of the Designing Laboratory, the Deputy Director and subsequently the Director of the Northeast Academy of the China Civil Engineering Institute during 1968 and 1991. He also was the Director of the Administrative Affairs Office of the Ministry of Construction and Development of The State Council of China from 1991 to 1998. From 1998 to 2000, he served as a specially appointed investigator of The State Council of China. Mr. Che graduated from the School of Economics of Jilin University in China and was entitled Senior Engineer of Economic Management.

MR. ZHANG XUEWU *Vice Chairman & Executive Director*

Aged 51, is the Vice Chairman and General Manager of CTS (Holdings). Mr. Zhang is also the chairman and a director of a number of subsidiaries of the Group. He has extensive experience in corporate management in Mainland and Overseas. Mr. Zhang 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 and is a qualified Senior Economist.

MR. SHEN ZHUYING *Vice Chairman, General Manager & Executive Director*

Aged 58, is a director of CTS (Holdings). He is also a director of a number of subsidiaries of CTS (Holdings) and the Group. Mr. Shen has more than 20 years of experience in corporate management and extensive experience in managing listed company. Mr. Shen was the Managing Director of the Company from 1992 to 1997.

MR. ZHENG HESHUI *Vice Chairman & Executive Director*

Aged 55, is a director of CTS (Holdings). He joined the Group in 1993. Mr. Zheng is currently 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.

Biographies of Directors and Senior Management

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

Aged 55, 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 tourism. 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 Election Committee for the Second 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 HKSAR Government.

MR. ZHENG HONGQING *Executive Director*

Aged 58, is a director of CTS (Holdings). He joined CTS (Holdings) in 1996. He is also a director of a number of subsidiaries of CTS (Holdings). Mr. Zheng has more than 20 years of experience in economic work. He 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. He is a qualified Senior Economist.

MR. ZHANG FENGCHUN *Executive Director*

Aged 41, is a director and the chief financial officer of CTS (Holdings). Mr. Zhang joined CTS (Holdings) in 1994. He is also a director of a number of subsidiaries of CTS (Holdings). Mr. Zhang has extensive experience in investment planning, financial operation and business management. He graduated from the Accounting Department of Renmin University of China and obtained a Bachelor's degree in Economics in 1987. In January 2006, Mr. Zhang graduated from the School of Economics and Management of Tsinghua University with an Executive Master Degree of Business Administration (EMBA). He is a Certified Public Accountant in China.

Biographies of Directors and Senior Management

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

Aged 47, 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 has significant experience in corporate and financial management of listed companies in Hong Kong. He 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. He is a member of the American Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

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

Aged 52, joined CTS (Holdings) as a general manager of audit department in 1997. 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. He is a qualified Senior Auditor and Certified Public Accountant in China.

Independent Non-executive Directors

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

Aged 74, is a member of Audit Committee and Remuneration Committee of the Company. Dr. Yeh is a 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.

Biographies of Directors and Senior Management

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 47, 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, Ocean Grand Chemicals Holdings Limited, listed companies in Hong Kong and Transpac Industrial Holdings Limited, a listed company in Singapore as well as Uni-Asia Finance Corporation and Compass Technology Holdings Limited. 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 81, 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.

Biographies of Directors and Senior Management

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

Independent Non-Executive Director

Aged 57, 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 65, 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.

Biographies of Directors and Senior Management

Senior Management

MR. HAN LIXIN

Aged 50, is a deputy general manager of the Company. Mr. Han is also 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. WANG CHANGLE

Aged 50, is a director and the Chief Executive Officer of China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. He was the deputy general manager and financial controller of Shenzhen The World Miniature Co., Ltd. Mr. Wang has over 15 years' experience in corporate and financial management. He graduated from the Accountancy Department of Renmin University of China and received a Master's Degree in Business Administration.

MR. ZHOU PING

Aged 44, is a director and the general manager of Shenzhen The World Miniature Co., Ltd. He was the office director of Shenzhen East Overseas Chinese Town (OCT) Preparatory Office during May 2003 and October 2005. Mr. Zhou graduated from Huazhong University of Science & Technology in Wuhan and obtained a Master's degree in Engineering Management.

MR. LI YANZHONG

Aged 44, is a director and the general manager of Shenzhen The Splendid China Development Co., Ltd. He joined the Group in January 2001. Prior to joining the Group, he worked in the Overseas Chinese Office of The State Council. He holds a Master's degree in Business Administration.

MR. GUO ZHENMING

Aged 49, is a director and the general manager of China Travel Service (Cargo) Hong Kong Limited. Mr. Guo worked in the China Travel Service Office of Fujian Province and joined CTS (Holdings) in 1998. He graduated in Tourism from Huaqiao University in China.

Biographies of Directors and Senior Management

MR. FENG WEIXIANG

Aged 43, is a director of China Travel Tours Transportation Services Hong Kong Limited ("CTTT") and holds directorships in several subsidiary companies and joint venture companies of CTTT. Prior to joining the Group, he worked with Guangzhou Soft Science Limited and the Economic Department of Policy Researching Office of Guangdong Province. He has extensive experience in corporate management and economic research both in Hong Kong and the PRC as well as the passenger management experience in Hong Kong, Mainland and cross-border passenger transportation between Hong Kong/Macau and Guangdong Province. He joined CTS (Holdings) in 1994 as manager of the General Manager Office and subsequently the assistant general manager of the Corporate Management Department. Mr. Feng is the chairman of China Hong Kong and Macau Boundary Crossing Bus Association Limited. He holds a Bachelor degree from the College of Arts of Jinan University in China and obtained the Diploma in Economics and Management.

MR. WANG FEI

Aged 41, is a director and the general manager of Shenzhen Tycoon Golf Club Co., Ltd. Mr. Wang served in The State Bureaus of the PRC Government and Shenzhen Overseas Chinese Town Holdings Company. He worked for Lao Aviation (International) Company Ltd. in 1994 and subsequently joined CTS (Holdings) in 1996. Mr. Wang graduated from the School of Economics and Management of Beijing Jiaotong University in China.

MR. LIU JINGPING, JEAN PAUL

Aged 46, is the general manager of Hotel Concourse. He currently also is the general manager of Hotel Division and Travel Products Division of Mangocity.com Limited. Mr. Liu has over 20 years experience in hotel operation and administration management. He was the deputy general manager of Beijing City Hotel, general manager of 3I Apartments Building managed by Swiss Belhotel Group, deputy chief of Hotel Section in the China National Tourism Administration and deputy general manager of China Travel Hotel Management Services Hong Kong Limited. Mr. Liu graduated from the Lausanne Hotel School of Switzerland.

MR. XU MUHAN, JEREMY

Aged 45, is the general manager of The Metropole Hotel. Mr. Xu has over 10 years of experience in hotel management. He was a general manager in a number of 4-star and 5-star hotels in the PRC and Overseas. Mr. Xu obtained a Master's degree in Hotel Management from Hong Kong Polytechnic University. He also participated in General Manager's Program in Hotel School of Cornell University and received professional trainings from Manchester University Business School.

Biographies of Directors and Senior Management

MR. NG KAI WAH, KAIVIN

Aged 47, is the general manager of Hotel Grandeur in Macau. Mr. Ng has almost 30 years' experience in hotel operation and administration. He joined CTS (Holdings) in 1995 and was a Resident Manager of Hotel Concourse and The Metropole Hotel. Prior to joining the Group, he worked with a number of hotels in Hong Kong and Singapore including Mandarin Oriental in Hong Kong, Peninsula Group Hong Kong and Orchid Hotel Singapore. He graduated from the Hong Kong Polytechnic University with a Bachelor degree in Hotel and Catering Management and a Master degree in Hotel and Tourism Management respectively.

MR. NG KAM HUNG

Aged 47, is the general manager of Hotel New Harbour. Mr. Ng has over 20 years of experience in hotel operation and administrative management. He joined CTS (Holdings) in 1990 and worked as executive positions at Hotel Concourse. Mr. Ng also worked with a number of hotels in Hong Kong and the PRC including Furama Intercontinental Hotel, Holiday Inn, Ramada Hotel, Far East Hotel Group and the Hot Spring Hotel in Fuzhou. Mr. Ng holds the professional qualification of Certified Hotel Administrator (CHA) designated by the American Hotel and Motel Association.

MR. KWOK WING CHEUNG, WILLIAM

Aged 51, is the general manager of Metropark Hotel. Mr. Kwok has almost 30 years of experience in hotel industry. He worked as general manager and front office manager with a number of hotels in the PRC, Hong Kong and Macau. He was also the project manager of Golden Mile Hotel Management Company and the general manager of Nanhai Asia Aluminium Factory Co., Ltd., a subsidiary of Asia Aluminum Group of Companies. Mr. Kwok was a lecturer of the hotel management course at University of East Asia in Macau.

MR. YANG CUNQUAN

Aged 49, is a director and the general manager of China Travel Hi-Tech Computer Hong Kong Limited. Mr. Yang possesses extensive experience in the fields of computer technology and e-commerce. He joined CTS (Holdings) in 1998. He worked with the Information Network Centre of Huaqiao University and was responsible for computer networking, web application design and system development. Mr. Yang holds a Master degree in Business Administration.

MR. CAO XIAONING

Aged 49, is a director and the general manager of China Heaven Creation International Performing Arts Co., Ltd. Mr. Cao has gained extensive management experience in the field of performing art. He joined CTS (Holdings) in 1996. Mr. Cao was the director of Illohot National Song and Dance Troupe, director and executive deputy general manager of Shenzhen The Splendid China Development Co., Ltd., director and president of Florida Splendid China, Inc., USA., executive director of Gateway Tours Co, Inc. (Day Inn, Orlando) and director & acting president of China Travel International Investment U.S. Ltd. He graduated from the Culture Management Institute of Inner Mongolia.

Chairman's Statement



CHE SHUJIAN
Chairman

On behalf of the Board of Directors (the "Board") of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (together the "Group"), I would like to announce that the Group has recorded an audited consolidated net profit attributable to shareholders of HK\$613 million for the year ended 31 December 2005, which is a decrease of 4.17% as compared with last year net profit attributable to shareholders of HK\$639 million restated according to the new accounting standard. As at 31 December 2005, the Group's consolidated net asset value was HK\$9,863 million, representing an increase of 15.73% over last year consolidated net asset value of HK\$8,522 million restated according to the new accounting standard. The Board has resolved to recommend the payment of a final dividend of HK3 cents per ordinary share, which is expected to be paid on 26 May 2006 following the approval at the Annual General Meeting.

In recent years, the tourism industry in Mainland China has been growing rapidly and has become an emerging industry with vigor and vast potentials. In 2005, the number of inbound tourists and domestic travelers in Mainland China registered double digits growth. In Hong Kong, the tourism industry sustained growth momentum and the number of tourist arrivals in Hong Kong reached 23.36 million in 2005 as stimulated by the Individual Visit Scheme travelers. The Group focuses on the investment of complementary services like resort and electronic platform to go in line with the trend of travel industry development. At the same time, by adopting measures such as leveraging on its advantages in travel agency network and resources, strengthening internal management and stepping up market development efforts, the Group maintained its leading position in the tourism industry in Mainland China and Hong Kong.

In 2005, the Group continued to expand its travel agency network in Mainland China and established travel agency and retails outlets in the strategic cities. At the same time, the travel business started to develop premier customers with high-end travel products. In addition, the Group continued to strengthen the travel

Chairman's Statement

related businesses, like passenger transportation and hotels in order to increase the economies of scale and economics benefits. The leading position of passenger transportation in Hong Kong market is the typical example of the success. The development of other travel related businesses like entertainment operation was also significant and fast. In 2005, Zhuhai Ocean Spring Resort, a major investment of the Group, was completed. Its operating scale, standard and facilities are the top amongst the industry players. Zhuhai Ocean Spring Resort not only enriched the travel products of the Group, but also uplifted the core competence of the Group, which is going to facilitate the profit growth of the core travel business.

The electronic platform "Mangocity.com" has soft-launched at the end of 2005 and the operation system will be streamlined continually. The commencement of operation of Mangocity will have significant impacts on the integration of the Group's travel resources and bring new business model to the Group.

In addition, the Group's freight forwarding and cargo transportation services in Mainland China and Hong Kong achieved substantial progress. In particular, CTS International Transportation Company Limited, with headquarter in Shanghai and focus in Yangtze River Delta, continued to grow rapidly and ranked highly among the 100 Best China International Freight Forwarders in terms of various freight forwarding businesses.

In 2006, the economy in Mainland China and Hong Kong shall maintain its growth momentum, thus providing favorable opportunities for the Group to grow its core travel businesses to achieve the vision of leading market player. However, market competition will continue to intensify as the Mainland travel market liberalizes further. Together with other negative factors such as the spread of Avian Flu, they pose certain potential threats to the Group's core travel businesses. At the same time, due to the uncertainty of coal and oil prices in year 2006, the power generation operations and passenger transportation operations will be affected. The Board considers the Group must closely monitor the market changes and increase the capability to deal with adverse events, focus on the brand building and resources integration and strengthen the corporate management and control, in order to maximize the shareholders' benefits.

On behalf of the Board, I would like to thank our Independent Non-Executive Directors, Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee, Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To for their invaluable contributions to the Group. I would also like to thank all our staff for their hard work and dedication during the year.

By Order of the Board,

Che Shujian

Chairman

Hong Kong, 28 March 2006

Management's Discussion and Analysis



Management's Discussion and Analysis

Business Review

In 2005, the audited consolidated turnover of the Group was HK\$5,647 million, which is an increase of 17.6% as compared with HK\$4,802 million of last year, and the consolidated net profit attributable to shareholders was HK\$613 million, which is a decrease of 4.17% as compared with last year's net profit attributable to shareholders of HK\$639 million, as restated according to the new accounting standards. The Group's consolidated net asset value was HK\$9,863 million, representing an increase of 15.7% and an increase of HK\$1,341 million over last year's restated figure.

In 2005, the Group continued to develop the core travel business. Two joint venture travel agencies, namely China Travel International (Hang Zhou) Limited and China Travel International (Da Tong) Limited were formed in Mainland China. Besides, negotiations with local joint venture partner was in progress to set up joint venture travel agency in Shenyang. The Group's major travel agencies set up conference and specialty travel divisions to target the conference and specialty travel market. There were further integration of and coordination between the Group's travel agencies in Mainland China, Hong Kong and overseas. The Group's travel agencies jointly promoted tours of new destinations and travel products on Hong Kong Disneyland. The Group's four hotels in Hong Kong maintained their profits at relatively high levels. Zhuhai Ocean Spring Resort and Mangocity, the major investment projects of the Group, have commenced operation successfully and increase the competitive capability of the core travel business.

Tour Operation and Leisure Business

The Group's tour operation and leisure business comprises travel and travel-related operations, tourist attraction operations, golf club operations and art performance operations. In 2005, the turnover of the Group's tour operation and leisure business was HK\$2,458 million, representing an increase of 4.2% over last year. The net profit was HK\$287 million, representing an increase of 8.3%. During the year, China Travel Service (Hong Kong) Limited ("CTSHK") established a conference and specialty travel division, which handled 171 conferences such as the "2005 China Investment Forum" and "International Computer Exchange Conference", to tap the international premier customer market. To enhance customer loyalty, CTSHK launched a membership program "Friends of CTSHK". In addition, CTSHK co-operated with Mainland travel agencies to sell travel products on Hong Kong Disneyland and was ranked among the top three sales agencies of Hong Kong Disneyland. CTSHK won the Gold prize in the Hong Kong Top Service Brand Award voted by more than 200,000 Mainland tourists traveling under the Individual Visit Scheme ("IVS"). During the year, the Group's Mainland travel agencies established branches and sales outlets to broaden their local sales channels, thus strengthening the Mainland sales network further. After several

Management's Discussion and Analysis

years of efforts, China Travel International Limited, Shanghai

China Travel International Limited and Suzhou China

Travel International Limited have already achieved

high rankings among the top 100 international travel

agencies in Mainland China. The Group's overseas

travel agencies also developed further the business,

including specialty travel and charter flight business.

CTS (France) committed to establish the brand of

"CTS Sport" and CTS (Germany) successfully developed

the "BUS-REISE" as the specialty travel product. CTS

(Australia) and CTS (New Zealand) worked with airlines of Australia,

New Zealand and Singapore to develop new travel products. The number of website visitors and the

number of members of China Travel Net Hong Kong Limited, which was renamed to Mangocity.com

Limited at the end of 2005, increased by 138.7% and 23%, respectively.



Due to the increased market competition, the revenue of the Group's three theme parks, namely Window

of the World, Splendid China and China Folk Culture Villages, of HK\$ 380 million was at similar level with

last year. New evening stage shows were launched successfully by Window of the World and were well

received. A small hotel project along the European Street in the park was completed to complement the

operations of Window of the World. During the year, Splendid China launched various attractive programs

and themed festivals, renovated its villages and improved the quality of services.

In recognition of the quality of its art performance programs, China Heaven was invited to launch its mega

stage shows "The legend of KungFu" in the United States and Canada. In addition, project development

work of China Heaven in Europe, Singapore and Macau all achieved steady progress.



The revenue of Tycoon Golf Club in Shenzhen was HK\$54 million

representing an increase of 27% over last year. In 2005 Tycoon

Golf Club received awards from several Award Ceremony

hosted by Chinese industry organizations. The new wing of

the Club, which is a small hotel, commenced operation during

the year.

Management's Discussion and Analysis

The construction works of Zhuhai Ocean Spring Resort was completed at the end of 2005, and the operation commenced in early 2006. With its distinctive Mediterranean grandeur, glamorous and comfortable hotels, hotspring centre, 5 Asian leading game attractions and the large-scale stage performance "A Dream by the Sea", Zhuhai Ocean Spring Resort is impressive and will attract visitors. The successful opening of Zhuhai Ocean Spring Resort has strengthened the travel resources and core competence of the Group. In the last Chinese New Year Golden Week holiday, Zhuhai Ocean Spring Resort was the most popular resort in "Pearl River Delta" region. During the 7-day holiday, it received 150,000 visitors.

The IT platform "Mangocity.com" has already soft-launched in 2005 and the operation system will be continually streamlined. Mangocity.com successfully signed contracts of room quota with over 1,000 hotels, established the database of air-ticket fares for 2,500 routes and signed up corporate customers. The operation of Mangocity.com facilitates the business integration, the resources sharing and the process re-engineering of travel business. The establishment of IT platform benefits the integration of travel businesses, broaden the distribution channels of travel products and strengthen the market position of our travel business. During the year, pre-opening expenses in respect of Zhuhai Ocean Spring Resort and Mangocity.com were incurred and that accounted partially for the decrease in consolidated net profit of the Group in 2005.



Hotel Operation

The revenue and net profit of the Group's five hotels was HK\$389 million and HK\$112 million respectively, representing an increase of 4.5 % and 4.8% over last year respectively. The average occupancy rate of the Group's four hotels in Hong Kong reached 89%, representing a decrease of 1% over last year, and the average room rate increased by 11%. Due to the increased market supply of hotel rooms in Macau, the average occupancy rate and average room rate of Hotel Grandeur in Macau were slightly decreased compared with last year.



Management's Discussion and Analysis



Transportation

Regarding the passenger transportation operations, the number of passengers carried by China Travel Tours Transportation Development (HK) Limited ("CT Tours") reached 1.63 million in 2005, representing an increase of 4% as compared with last year. Turnover increased by 7.73% to HK\$230 million. Turnover, the number of passengers carried and the number of safety mileages, all achieved new records. CT Tours has become one of the largest cross-border bus companies and its businesses were developed all over Hong Kong, Macau, Guangdong, Guangxi and Zhejiang. However, due to the increasing oil price and the loss incurred on developing Macau business, the net profit was decreased by 27% over last year. The profit contribution from joint venture passenger ferry operation of Shun Tak China Travel Shipping Investments Limited has also decreased by 13% over last year.

Regarding the freight forwarding operation, the turnover and net profit increased by 38.33% and 36.1% to reach HK\$2,569 million and HK\$52 million respectively in 2005. CTS International Transportation Company Limited ("CTS International") in Shanghai, with its stronghold in Yangtse River Delta region, continued to establish branches in Dalian, Suzhou, Yanzhou, Changzhou of China and New York of the USA. Turnover and net profit of CTS International have increased by 40.4% and 36.48% respectively. The freight forwarding, air-freight and sea-freight businesses of CTS International were among the top 10 in China.

Management's Discussion and Analysis

Infrastructure

During the year, the Group's share of profit of Shaanxi Weihe Power Company Limited was HK\$186 million, which is a decrease 30% as compared with last year. The decrease was attributable to oversupply of electricity, continuous rise in coal and oil prices, and the "Coal-electricity price linkage mechanism" not yet being implemented. Such decrease accounted partially for the decrease in consolidated net profit attributable to shareholders in 2005.

Number and Remuneration of Employee

At the end of 2005, the Group had approximately 10,037 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 2005, the cash and the bank balance of the Group amounted to HK\$2,259 million whereas the interest bearing bank borrowings amounted to HK\$2,017 million. The net interest bearing debt to equity ratio was -0.02.

The net book value of the Group's fixed assets held under finance leases and hire purchase contracts included in the total amount of motor vehicles and furniture, fixtures, and equipment at 31 December 2005 amounted to HK\$1,257,000 (2004: HK\$1,324,000).

During the year, 141,138,200 bonus warrants were exercised for 141,138,200 shares of HK\$0.10 each at the subscription price of HK\$1.508 per share and US\$101.8 million of convertible bonds were converted into 431,547,127 shares of HK\$0.10 each at the conversion price of HK\$1.84 per share. Taking into account of the repurchase of 1.5 million shares of HK\$0.10 each by the Company during the year, the number of issued share capital of the Company increased from 4,467,658,548 shares at the end of 2004 to 5,038,843,875 shares at the end of 2005.



Management's Discussion and Analysis

As at 28 March 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 lenders according to the respective terms and conditions thereof. The details of the loan facilities outstanding as at 31 December 2005 are as follows:

Amount outstanding as at 31 December 2005	Final maturity of the loan facilities
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HK\$1,500 million	30 October 2007
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Interest is charged on the outstanding balance at 0.5% 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.

Future Prospects

Benefited from favorable factors such as the further opening of IVS cities in May 2006 from Mainland China, the launch of a series of promotional activities on tourism by the Hong Kong Government, the tourism industry in Hong Kong shall maintain steady growth. The number of tourist arrivals in Hong Kong is expected to reach 27 million in 2006. The policy to develop tourism aggressively was adopted by the

PRC Government in its 11th 5-year Plan and as a consequence, the tourism industry in Mainland China shall enter a period of rapid growth. As the income of PRC citizens continues to rise, spending on traveling activities gradually becomes their habits. Together with the pick up in business travel activities, the tourism industry in Mainland China will prosper further.



Management's Discussion and Analysis

The Group will seize the opportunity to expand its travel agency network in Mainland China, and increase the selling capability. In addition, the Group will leverage on its competitiveness in the ground travel agency network to support and coordinate with its online travel platform to enhance the core competitiveness of the Group's travel businesses. The Group will continue to improve the operations and quality of service of Zhuhai Ocean Spring Resort in order to develop the customers from Hong Kong, Macau, Taiwan and Pearl River Delta and the MICE market. It helps to build up the brand of the Zhuhai Ocean Spring Resort and increase the Group's revenues. At the same time, the Group will undertake a rigorous feasibility study of phase two of Zhuhai Ocean Spring Resort to lay down a solid foundation for the full development of the golf course and property projects. Phase two development complements the phase one project and shorten the payback period of Zhuhai projects. In addition, the Group shall give priority to managing the development of online booking platform "Mangocity.com" to increase the market share and increase the core competence of the core travel business. In 2006, the Management is of the view that although the market environment has placed the Group in a favorable position, there are still uncertain and unfavorable factors. The spread of worldwide Avian Flu poses a potential threat to tourism, and the increasing coal and oil prices poses an uncertainty to the passenger transportation operations and power generation operations. Together with the fact that Mangocity.com is still in development stage, the Management shall closely monitor the market changes and adopt appropriate policies. In addition, the Management will adopt stringent cost control measures, and improve the risk management and corporate governance, so as to strive for healthy development of all businesses 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 2005.

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 41 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 54 to 166.

An interim dividend of HK3 cents per ordinary share was paid on 28 October 2005. The Directors recommend the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders on the register of members on 12 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Summary Financial Information

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

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 118.

Share Capital, Share Options, Warrants and Convertible Bonds

Details of movements in the Company's share capital, share options, warrants and convertible bonds during the year, are set out in notes 37, 38 and 34 to the financial statements.

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

During the year, the Company repurchased a total of 1,500,000 shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the details of which are set out below:

Month	Number of shares repurchased	Price per share		Total price paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
October 2005	1,500,000	1.52	1.55	2,295,000
	1,500,000			2,295,000

All of the repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares, of HK\$2,145,000, has been charged to the retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from the share capital of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the mandate from shareholders granted to the Directors at the annual general meeting dated 25 May 2005, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Report of the Directors

Distributable Reserves

At 31 December 2005, 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\$288,615,000 of which HK\$151,165,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$7,433,211,000, 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 or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Directors

During the year, the Directors of the Company were:

Executive Directors:

Mr. Che Shujian (*Chairman*)
Mr. Zhang Xuewu (*Vice Chairman*)
Mr. Shen Zhuying (*Vice Chairman, General Manager*)
Mr. Zheng Heshui (*Vice Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Chen Shoujie (Retired on 25 October 2005)
Mr. Zheng Hongqing
Mr. Zhang Fengchun
Mr. Ng Chi Man, Michael
Mr. Liu Li

Report of the Directors

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. Zhang Xuewu, Zhang Fengchun, Ng Chi Man, Michael and Dr. Yeh Meou Tsen, Geoffrey will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

Biographies of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 15 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.

Report of the Directors

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 (formerly known as Smart Concord Enterprises Limited) (collectively, "the Companies") which are the owners of The Metropole Hotel, Hotel Concourse and Hotel New Harbour (collectively, "the Hotels"), respectively, entered into hotel management agreements with China Travel Hotel Management Services Hong Kong Limited ("CT Hotel").

CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to the hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of the 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 the Hotels for the year.

Messrs. Che Shujian, Zhang Xuewu, Shen Zhuying, Zheng Heshui, Lo Sui On, Zheng Hongqing and Zhang Fengchun are Directors of the Company and CTS (Holdings), as well as all the related companies as listed in note 45 to the financial statements. None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries referred to above.

Report of the Directors

Connected Transactions and Continuing Connected Transactions

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

Connected Transactions

- (i) On 4 April 2005, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement to dispose of its 100% interest in Shanghai Huajian Import-Export Company to seven individuals who are either senior management or directors of CTS International Transportation Co., Ltd., a 76%-owned subsidiary of the Group, for an aggregate consideration of approximately HK\$13.5 million (RMB14.3 million). The transaction was completed at 20 July 2005.
- (ii) On 14 June 2005, China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd., a wholly-owned subsidiary of the Group, entered into an agreement with China Ocean Shipping (Group) Company ("COSCO") to acquire the remaining 30% interest in CTI Cosco Travel Ltd., a then 70%-owned subsidiary of the Group for a consideration of approximately HK\$7.5 million (RMB8.0 million). The transaction was completed at 15 July 2005.

In the opinion of the Company's Independent Non-Executive Directors, all 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.

Report of the Directors

Continuing Connected Transactions

- (i) 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").

CTSHK continue to provide Travel Permit Administration during its ordinary and usual course of business and in accordance with the terms of the Agency Agreement. It is expected that the annual turnover to be generated from Travel Permit Administration for each year hereafter will exceed 2.5% of the Group's total turnover. The maximum aggregate annual value (the "Cap") for the Travel Permit Administration shall not exceed HK\$410 million for each of the three financial years ending 31 December 2006.

The Company obtained independent shareholders' approval for the Travel Permit Administration (including the Cap) at the extraordinary general meeting on 13 May 2004.

- (ii) 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 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.

Report of the Directors

- (iii) During the year, the following transactions were recorded by Shenzhen The Splendid China Development Co., Ltd. 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	
		2005	2004
Name of Company	Nature of transaction	HK\$'000	HK\$'000
<i>Paid or payable to:</i>			
(i) Overseas Chinese Town Water & Electricity Supply Co. Materials Factory	Water and electricity charges	20,245	19,457
(ii) Overseas Chinese Town Holdings Company	Land use rights fees	12,338	12,215

Conditional waivers have been granted by the Stock Exchange for strict compliance with the Listing Rules by the Company in respect of the transactions as set out in note 45(1),(3) to (6),(10),(15) to (17) to the financial statements under the heading of "Related Party Transactions".

These 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 favourable to the Group than terms available to or from independent third parties).

The remaining transactions as set out in note 45 to the financial statements under the heading of "Related Party Transactions" were also connected transactions.

Report of the Directors

Directors' Interests in the Shares, Underlying Shares and Debentures

As at 31 December 2005, 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 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
Mr. Shen Zhuying	Beneficial Owner	2,500,000	0.050%
Dr. Yeh Meou Tsen, Geoffrey	Beneficial Owner	3,536,000	0.070%
Dr. Fong Yun Wah	Interest of controlled corporations (<i>Note</i>)	50,000	0.001%

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

(ii) Long position in the underlying shares of the Company

bonus warrants of the Company (expiring on 31 May 2006)

Name of Directors	Capacity	Number of underlying shares held	% of the issued share capital
Mr. Shen Zhuying	Beneficial Owner	500,000	0.010%
Dr. Yeh Meou Tsen, Geoffrey	Beneficial Owner	1,240,000	0.025%

Save as disclosed above, as at 31 December 2005, 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).

Report of the Directors

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' Interests in the Shares, Underlying Shares and Debentures" above and in the share option scheme disclosures in note 38 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 38 to the financial statements.

Substantial Shareholders

As at 31 December 2005, 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)	2,596,693,940	51.5%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (Note 1, 3)	2,596,693,940	51.5%
Foden International Limited ("FIL")	Beneficial owner (Note 2)	17,250,000	0.34%

Report of the Directors

(ii) Long position in the underlying shares of the Company

bonus warrants of the Company (to be expired in May 2006)

Name of shareholders	Capacity	Number of underlying shares held	% of the issued share capital
CTS-PRC	Interest of controlled corporation (Note 1)	396,938,788	7.88%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (Note 1, 4)	396,938,788	7.88%
FIL	Beneficial Owner (Note 2)	3,450,000	0.068%

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

3 2,579,443,940 shares were held by CTS (Holdings) directly.

4 Bonus warrants with 393,488,788 underlying shares were held by CTS (Holdings) directly.

Save as aforesaid and disclosed under the heading "Directors' Interests in the Shares, Underlying Shares and Debentures" above, as at 31 December 2005, the Directors are not aware of any other person who had interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company are recorded in the register required to be kept by the Company under section 336 of the SFO.

Report of the Directors

Disclosures pursuant to Rule 13.21 of the Listing Rules

As at 31 December 2005, 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 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities outstanding as at 31 December 2005 are as follows:

Amount outstanding as at 31 December 2005	Final maturity of the loan facilities
HK\$1,500 million	30 October 2007

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 39 to 51.

Audit Committee

The Company's Audit Committee was established in 1999 which for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Audit Committee comprises the three independent non-executive directors of the Company, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr Yeh V Nee) and Mr. Sze, Robert Tsai To.

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.

Report of the Directors

The Remuneration Committee comprises the three independent non-executive directors of the Company, 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 Events

Details of significant events subsequent to the balance sheet date are set out in note 47 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

Che Shujian

Chairman

Hong Kong, 28 March 2006

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 2005.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) sets out the principles of good corporate governance (the “Principles”) and two levels of corporate governance practices:

- (a) code provisions (the “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.

During the year ended 31 December 2005 under review, the Company has applied the Principles and the Code Provisions as set out in the Code and complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.4.1 and E.1.1, details of which will be explained below.

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 Company’s business, and ensuring transparency and accountability of Company’s operations.

Corporate Governance Report

The key corporate governance principles and practices of the Company are summarised 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 Company's shareholders.

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

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that the Board 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 the 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 abovementioned 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 thirteen members, consisting of nine executive directors and four independent non-executive directors.

Corporate Governance Report

The Board of the Company comprises the following directors:

Executive directors:

Che Shujian (*Chairman*)

Zhang Xuewu (*Vice Chairman*)

Shen Zhuying (*Vice Chairman, General Manager*)

Zheng Heshui (*Vice Chairman*)

Lo Sui On (*Vice Chairman*)

Zheng Hongqing

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 page 8 to 15.

During the year ended 31 December 2005, 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.

Corporate Governance Report

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, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction 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.

With respect to Code Provision A.4.1, the non-executive directors of the Company have not been appointed for any specific terms since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Memorandum and Articles of Association of the Company.

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 will be proposed at the next forthcoming annual general meeting of the Company to amend the Articles so that all directors will 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.

Corporate Governance Report

The Board reviewed its own structure, size and composition regularly to ensure that 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.

One new independent non-executive director, Mr. Sze, Robert Tsai To, was appointed in 2005. His appointment was approved by the Executive Board meeting held on 29 December 2004. All executive directors except Mr. Chen Shoujie, Mr. Zheng Hongqing, Mr. Zhang Fengchun and Mr. Liu Li attended the meeting.

In accordance with the Company's Articles of Association, Mr Zhang Xuewu, Mr Zhang Fengchun, Mr Ng Chi Man, Michael and Dr. Yeh Meou Tsen, Geoffrey shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 13 April 2006 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

Code Provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals.

During the year ended 31 December 2005, the Board met twice for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005. The attendance rate at each meeting was 78.57% and 71.43% respectively.

The reasons for the Company to hold only two regular Board meetings are that the business operations were under the management and supervision of the executive directors of the Company, who had from time to time held meetings to resolve all material business or management issues. Transactions with material impact on the financial position of the Company were also reviewed by the independent non-executive directors of the Company. As a result, two regular Board meetings were held in 2005.

Corporate Governance Report

The individual attendance record of each director at the meetings of the Board and the Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	Attendance/Number of Meetings	
	Board	Audit Committee
Che Shujian	2/2	N/A
Zhang Xuewu	1/2	N/A
Shen Zhuying	2/2	N/A
Zheng Heshui	1/2	N/A
Lo Sui On	2/2	N/A
Zheng Hongqing	2/2	N/A
Zhang Fengchun	1/2	N/A
Ng Chi Man, Michael	2/2	N/A
Liu Li	0/2	N/A
Yeh Meou Tsen, Geoffrey	2/2	N/A
Yeh V Nee *	N/A	2/2
Fong Yun Wah	2/2	N/A
Wong Man Kong, Peter	1/2	2/2
Sze, Robert Tsai To	2/2	2/2
Chen Shoujie **	1/2	N/A

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

** Mr Chen Shoujie, an executive director, retired as director of the Company with effective from 25 October 2005. During the period from 1 January 2005 to 25 October 2005, two meetings of the Board were held.

N/A: Not applicable

Corporate Governance Report

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 papers 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 interests 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 CHIEF EXECUTIVE OFFICER

The Company fully 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 Che Shujian and Mr Shen Zhuying 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 the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

Corporate Governance Report

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 organisational 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 the 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> and are available to shareholders upon request.

All the members of each Board committee 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 expenses.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the 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 collecting and administrating of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the General Manager/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

Corporate Governance Report

No Remuneration Committee meeting has been held in 2005 as the Board discussed the remuneration related matters briefly in the Board meetings on 11 April 2005. All directors except Mr. Zheng Heshui, Mr. Liu Li and Mr. Wong Man Kong, Peter attended that meeting. The first Remuneration Committee Meeting of the Company is scheduled to be held in June 2006.

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 judgments 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 two meetings during the year ended 31 December 2005 to review the financial results and reports, the financial reporting and compliance procedures, the report of 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.

Corporate Governance Report

The Company's annual results for the year ended 31 December 2005 has 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 2005.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Written Guidelines") for securities transactions by the 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 the 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 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 52 to 53.

Corporate Governance Report

Save as disclosed in note 6 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2005, other significant non-audit service assignments for the year include:

	HK\$
1. Review of interim results, implementation of new accounting standards and issuance of SAS 700 report	1,580,000
2. Financial review on potential investment	500,000
	2,080,000

INTERNAL CONTROLS

Though Code Provision C.2.1 and disclosure requirement under the Listing Rules in relation to internal controls are only effective for the accounting period commenced on or after 1 July 2005, the Board would like to disclose the following details of the internal control of the Company:-

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The internal audit department, which is independent of the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

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 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.

Corporate Governance Report

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.

During the year ended 31 December 2005, with respect to Code Provision E.1.1, each retiring director was not re-elected by a separate resolution. China Travel Service (Holdings) Hong Kong Limited, which was interested in more than 50% interest of the issued share capital of the Company at the relevant time, had indicated to the Company before the annual general meeting held on 25 May 2005 that it would vote in favour of all those resolutions for such re-election. As there would be sufficient votes for the passing of all such resolutions, a single resolution was proposed at that annual general meeting to approve the re-election of all the retiring directors. However, in order to comply strictly with Code Provision E.1.1, directors shall be elected by means of a separate resolution at the forthcoming annual general meeting.

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, the investors can access the Company's information through the websites of the Stock Exchange and <http://www.irasia.com>. To promote effective communication, the Company proposes to establish a website where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information will be posted.

Report of the Auditors



To the members

China Travel International Investment Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 54 to 166 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the 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.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report of the Auditors

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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

28 March 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
REVENUE	5	5,646,620	4,802,021
Cost of sales		(4,294,424)	(3,605,928)
Gross profit		1,352,196	1,196,093
Other income and gains	5	90,021	105,682
Selling and distribution costs		(165,072)	(123,222)
Administrative expenses		(805,596)	(667,143)
Other expenses, net		(6,865)	(26,320)
Revaluation surplus of hotel properties and investment properties and impairment of items of property, plant and equipment, net		58,107	83,636
Fair value gains on derivative financial instruments		99,204	–
Finance costs	7	(55,453)	(51,863)
Share of profits and losses of:			
Jointly-controlled entities		175,598	251,193
Associates		45,751	53,221
PROFIT BEFORE TAX	6	787,891	821,277
Tax	10	(102,759)	(114,127)
PROFIT FOR THE YEAR		685,132	707,150
Attributable to:			
Equity holders of the parent	11	612,660	639,288
Minority interests		72,472	67,862
		685,132	707,150
DIVIDENDS	12		
Interim		151,204	211,817
Proposed final		151,165	223,383
Adjustment to 2004 final dividend		27,094	–
		329,463	435,200
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CENTS)			
Basic	13	12.59	15.04
Diluted		12.00	14.55

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	4,342,549	2,172,430
Investment properties	15	223,605	189,076
Prepaid land lease payments	16	3,109,552	3,072,791
Properties under development	17	3,270	466,112
Goodwill:	18		
Goodwill		1,260,837	1,259,479
Negative goodwill		–	(113,737)
Interests in jointly-controlled entities	20	1,375,421	1,490,831
Interests in associates	21	418,913	416,548
Available-for-sale equity investments	22	20,009	23,096
Held-to-maturity investments	23	15,477	–
Deferred tax assets	36	15,641	4,719
Total non-current assets		10,785,274	8,981,345
CURRENT ASSETS			
Short term investments	27	1,427	13,008
Inventories	24	19,182	14,031
Trade receivables	25	572,914	459,635
Tax recoverable		1,580	665
Prepayments, deposits and other receivables	26	313,166	297,950
Pledged time deposits	28	4,306	4,053
Cash and cash equivalents	29	2,258,655	1,781,739
Amount due from ultimate holding company	30	27,886	31,315
Amounts due from fellow subsidiaries	30	5,266	3,236
Total current assets		3,204,382	2,605,632
CURRENT LIABILITIES			
Trade payables	31	609,801	555,380
Tax payable		29,156	41,818
Other payables and accruals	32	951,616	435,269
Interest-bearing bank and other borrowings	33	13,311	7,430
Amounts due to fellow subsidiaries	30	4,509	4,492
Total current liabilities		1,608,393	1,044,389
NET CURRENT ASSETS		1,595,989	1,561,243
TOTAL ASSETS LESS CURRENT LIABILITIES		12,381,263	10,542,588

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		12,381,263	10,542,588
NON-CURRENT LIABILITIES AND DEFERRED INCOME			
Deferred income		145,726	127,553
Interest-bearing bank and other borrowings	33	2,008,022	709,455
Convertible bonds	34	–	833,780
Deferred tax liabilities	36	364,496	349,530
Total non-current liabilities and deferred income		2,518,244	2,020,318
Net assets		9,863,019	8,522,270
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	503,885	446,766
Reserves	39	8,802,449	7,465,808
Proposed final dividend	12	151,165	223,383
		9,457,499	8,135,957
Minority interests	39	405,520	386,313
Total equity		9,863,019	8,522,270

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		8,348,330	7,252,063
Prior year and opening adjustments		(319,368)	167,547
As restated		8,028,962	7,419,610
Exchange differences on translation of the financial statements of foreign entities	39	34,051	6,023
Surplus on revaluation of hotel and investment properties	39	6,249	52,564
Total income and expense recognised directly in equity		40,300	58,587
Net profit for the year	39	612,660	639,288
Total income and expense for the year		652,960	697,875
Share of reserve of an associate	39	1,283	–
Dividends paid		(401,681)	(381,105)
Issue of new shares	37	57,269	23,746
Premium on issue of new shares	39	1,121,001	379,376
Repurchase of own shares	37, 39	(2,295)	(3,545)
Total equity at 31 December		9,457,499	8,135,957

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		787,891	821,277
Adjustments for:			
Finance costs	7	55,453	51,863
Interest income	5	(43,587)	(21,189)
Dividend income from listed investments	5	–	(47)
Gain on disposal of items of property, plant and equipment, net	5	(754)	(3,941)
Write-back of long outstanding payables	5	(3,771)	(8,908)
Gain on disposal of short term investments	5	–	(66)
Gain on disposal of a jointly-controlled entity	5	–	(1,936)
Gain on disposal of available-for-sale equity investments	5	(1,341)	–
Fair value gains on short term investments	5	–	(248)
Depreciation	6	157,269	153,292
Prepaid land lease payments amortisation	6	57,395	54,900
Goodwill amortisation	6	–	34,377
Negative goodwill recognised as income	6	–	(2,586)
Provisions for doubtful debts, net	6	6,484	2,870
Impairment of available-for-sale equity investments	6	381	–
Write-back of impairment of interests in jointly-controlled entities	6	–	(7,479)
Impairment of interest in an associate	6	–	210
Write-off of properties under development	6	–	1,301
Impairment of items of property, plant and equipment	6	7,500	1,440
Revaluation surplus of investment properties	6	(36,882)	(30,632)
Revaluation surplus of hotel properties	6	(28,725)	(54,444)
Fair value gains on derivative financial instruments	6	(99,204)	–
Provisions for slow-moving inventories	6	20	44
Share of profits and losses of jointly-controlled entities		(175,598)	(251,193)
Share of profits and losses of associates		(45,751)	(53,221)
Operating profit before working capital changes		636,780	685,684

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
Operating profit before working capital changes	636,780	685,684
Increase in inventories	(5,171)	(486)
Increase in trade receivables, prepayments, deposits and other receivables	(132,232)	(160,443)
Decrease in short term investments	11,581	–
Decrease/(increase) in an amount due from ultimate holding company	3,429	(472)
Decrease/(increase) in amounts due from fellow subsidiaries	(2,030)	2,619
Increase in trade payables, other payables and accruals	73,831	73,084
Increase/(decrease) in amounts due to fellow subsidiaries	17	(18,552)
Increase in deferred income	18,173	35,757
Increase in amounts due from jointly-controlled entities	(12,475)	(84,846)
Increase in amounts due to jointly-controlled entities	632	–
Increase in amounts due from associates	(8,172)	(6,802)
Decrease in amounts due to associates	(702)	–
Effect of foreign exchange rate changes, net	14,146	7,851
Cash generated from operations	597,807	533,394
Hong Kong, PRC and Macau profits tax paid	(116,439)	(75,051)
Overseas taxes paid	–	(1,503)
Net cash inflow from operating activities	481,368	456,840

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Net cash inflow from operating activities		481,368	456,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		43,587	21,189
Dividend income from listed investments		–	47
Dividends received from an associate		53,543	49,125
Dividends received from jointly-controlled entities		210,590	200,515
Proceeds from disposal of a jointly-controlled entity		–	4,968
Proceeds from disposal of short term investments		–	951
Proceeds from disposal of available-for-sale equity investments		4,185	–
Purchases of items of property, plant and equipment	14	(278,702)	(145,035)
Investment in a jointly-controlled entity		(1,415)	–
Purchase of held-to-maturity investments		(15,477)	–
Proceeds from disposal of items of property, plant and equipment		22,677	16,768
Additions to properties under development	17	(1,132,725)	(344,821)
Prepayment of land lease payments	16	(8,332)	(849)
Purchases of short term investments		–	(885)
Acquisition of subsidiaries	40(b)	–	(904)
Acquisition of minority interests		(10,265)	–
Return of capital from a jointly-controlled entity		94,517	–
Decrease/(increase) in pledged time deposits		(253)	270
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		(264,566)	129,447
Receipt from liquidation of subsidiaries	40(c)	–	5,782
Net cash outflow from investing activities		(1,282,636)	(63,432)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(48,489)	(10,888)
Interest element of finance lease and hire purchase contract payments		–	(4)
Dividends paid		(401,681)	(381,105)
Dividends paid to minority shareholders		(53,832)	(16,007)
Contributions from minority shareholders		1,415	1,365
Proceeds from issue of new shares	37	212,837	50,057
Repurchase of own shares	37	(2,295)	(3,545)
New bank loans		1,318,335	6,257
Repayment of bank loans		(12,370)	(460,905)
Capital element of finance lease and hire purchase contract payments		(302)	(1,502)
Net cash inflow/(outflow) from financing activities		1,013,618	(816,277)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		212,350	(422,869)

Consolidated Cash Flow Statement

Year ended 31 December 2005

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000 (Restated)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		212,350	(422,869)
Cash and cash equivalents at beginning of year		1,710,653	2,133,522
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		1,923,003	1,710,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	1,046,051	1,148,116
Non-pledged time deposits with original maturity of less than three months when acquired		876,952	562,537
		1,923,003	1,710,653

Balance Sheet

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,459	3,176
Investment property	15	1,950	–
Interests in subsidiaries	19	7,742,112	6,750,739
Investment in a jointly-controlled entity	20	1,415	–
Available-for-sale equity investment	22	13,949	13,949
Total non-current assets		7,760,885	6,767,864
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	5,463	19,020
Cash and cash equivalents	29	479,045	293,379
Amount due from ultimate holding company	30	44	180
Total current assets		484,552	312,579
CURRENT LIABILITIES			
Other payables and accruals	32	19,376	20,592
Total current liabilities		19,376	20,592
NET CURRENT ASSETS		465,176	291,987
Net assets		8,226,061	7,059,851
EQUITY			
Issued capital	37	503,885	446,766
Reserves	39	7,571,011	6,389,702
Proposed final dividend	12	151,165	223,383
Total equity		8,226,061	7,059,851

Shen Zhuying
Director

Ng Chi Man, Michael
Director

Notes to Financial Statements

31 December 2005

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
- power generation (conducted through a jointly-controlled entity)
- investment holding

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

Notes to Financial Statements

31 December 2005

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, accounting principles generally accepted in Hong Kong and the 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 amounts are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. 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 during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the 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 in the results and net assets of the Company’s subsidiaries.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 37, 38, HKFRS 2, HKFRS 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated summary statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adoption the other HKFRSs is summarised as follows:

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. 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.

This change in accounting policy has had no effect on the income statement and retained profits. The comparative amounts in the consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the long term investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$23,096,000 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments *(Continued)*

(ii) Convertible bonds

In prior years, convertible bonds were stated at amortised cost. Upon the adoption of HKAS 32, the conversion options of the convertible bonds are separated from the liability component of the convertible bonds. In accordance with HKAS 32, comparative amounts of the liability component of the convertible bonds have been restated. The conversion options of the convertible bonds are derivative financial instruments and are stated at fair value. In accordance with the transitional provisions of HKAS 39, comparative amounts of the derivative financial instruments have not been restated.

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits has been restated to reflect this change retrospectively. The effects of the above change are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(Continued)*

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 the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve 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.

The effects of the above changes are summarised in note 2.4 to the financial statements.

(e) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

(f) HK-Int 2 – The Appropriate Accounting Policies for Hotel Properties

HK-Int 2 clarifies the accounting policies for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. HK-Int 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for its hotel properties using the revaluation model.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(f) HK-Int 2 – The Appropriate Accounting Policies for Hotel Properties *(Continued)*

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Notes to Financial Statements

31 December 2005

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

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HKFRS-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting								Total
	HKAS 1#	HKAS 17#	HKAS 32#	HKAS 39*	HKAS 40#	HKFRS 3*	HK(SIC)-Int 21#	HK-Int 2#	
Effect of new policies	Presentation	Prepaid land	Convertible	Derivative	Surplus on	Derecognition	Deferred tax on	Hotel	Total
		lease payments	bonds	financial	revaluation of	of negative	revaluation of	properties	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets									
Property, plant and equipment	(189,076)	(540,922)	-	-	-	-	-	(2,758,010)	(3,488,008)
Investment properties	189,076	-	-	-	-	-	-	-	189,076
Prepaid land lease payments	-	529,499	-	-	-	-	-	2,543,292	3,072,791
Negative goodwill	-	-	-	-	-	113,737	-	51,653	165,390
Prepayments, deposits and other receivables	-	11,423	(14,466)	-	-	-	-	44,372	41,329
									(19,422)
Liabilities/equity									
Convertible bonds	-	-	(26,204)	-	-	-	-	-	(26,204)
Derivative financial instruments	-	-	-	(220,732)	-	-	-	-	(220,732)
Deferred tax liabilities	-	-	-	-	-	-	(9,959)	(43,051)	(53,010)
Share premium account	-	-	15,926	-	-	-	-	-	15,926
Capital reserve	-	-	-	-	-	745,100	-	(575,100)	170,000
Hotel property revaluation reserve	-	-	-	-	-	-	-	92,924	92,924
Investment property revaluation reserve	-	-	-	-	34,500	-	-	-	34,500
Retained profits	-	-	24,744	220,732	(34,500)	(858,837)	9,959	643,920	6,018
									19,422

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect on the consolidated balance sheet (Continued)

At 31 December 2005	Effect of adopting						Total
	HKAS 1#	HKAS 17#	HKAS 40#	HKFRS 3*	HK(SIC)-Int 21#	HK-Int 2# & HKAS 17#	
			Surplus on revaluation of		Deferred tax on revaluation of		
Effect of new policies	Presentation	Prepaid land lease payments	investment properties	Derecognition of negative goodwill	investment properties	Hotel properties	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Property, plant and equipment	(223,605)	(624,805)	-	-	-	(2,743,010)	(3,591,420)
Investment properties	223,605	-	-	-	-	-	223,605
Prepaid land lease payments	-	610,638	-	-	-	2,498,914	3,109,552
Negative goodwill	-	-	-	113,737	-	51,653	165,390
Deferred tax assets	-	-	-	-	-	12,105	12,105
Prepayments, deposits and other receivables	-	14,167	-	-	-	44,375	58,542
							(22,226)
Liabilities/equity							
Deferred tax liabilities	-	-	-	-	(16,053)	(50,678)	(66,731)
Capital reserve	-	-	-	745,100	-	(575,100)	170,000
Hotel property revaluation reserve	-	-	-	-	-	86,674	86,674
Investment property revaluation reserve	-	-	58,416	-	-	-	58,416
Retained profits	-	-	(58,416)	(858,837)	16,053	675,067	(226,133)
							22,226

* Adjustment taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting					Total HK\$'000
	HKAS 32	HKFRS 3	HKAS 40	HK(SIC)-Int 21	HK-Int 2	
	& HKAS 39		Surplus on	Deferred tax	& HKAS 17	
	Convertible bonds and derivative financial instruments	Negative goodwill	revaluation of investment properties	on revaluation of investment properties	Hotel properties	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
1 January 2004						
Capital reserve	-	-	-	-	575,100	575,100
Hotel property revaluation reserve	-	-	-	-	3,980	3,980
Retained profits	(2,754)	-	-	5,894	(414,673)	(411,533)
						167,547
1 January 2005						
Share premium account	(15,926)	-	-	-	-	(15,926)
Capital reserve	-	(745,100)	-	-	575,100	(170,000)
Hotel property revaluation reserve	-	-	-	-	(92,924)	(92,924)
Investment property revaluation reserve	-	-	(34,500)	-	-	(34,500)
Retained profits	(245,476)	858,837	34,500	(9,959)	(643,920)	(6,018)
						(319,368)

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting						Total HK\$'000
	HKAS 1	HKAS 32 & HKAS 39	HKAS 40	HKFRS 3	HK(SIC)-Int 21	HK-Int 2 & HKAS 17	
	Share of post-tax profits and losses of jointly-controlled entities and associates	Convertible bonds and derivative financial instruments	Surplus on revaluation of investment properties	Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income	Deferred tax on revaluation of investment properties	Hotel properties	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Year ended 31 December 2005							
Increase in administrative expenses	-	-	-	-	-	(68,496)	(68,496)
Increase in revaluation surplus of investment property	-	-	23,916	-	-	-	23,916
Decrease in other expenses, net	-	-	-	31,209	-	-	31,209
Increase in fair value gains on derivative financial instruments	-	99,204	-	-	-	-	99,204
Decrease in share of profits and losses of jointly-controlled entities	(28,157)	-	-	-	-	-	(28,157)
Decrease in share of profits and losses of associates	(3,872)	-	-	-	-	-	(3,872)
Decrease/(increase) in tax	32,029	-	-	-	(6,094)	(8,625)	17,310
Total increase/(decrease) in profit	-	99,204	23,916	31,209	(6,094)	(77,121)	71,114
Increase/(decrease) in basic earnings per share	-	2.04 cents	0.49 cents	0.64 cents	(0.13) cents	(1.58) cents	1.46 cents
Increase/(decrease) in diluted earnings per share	-	1.94 cents	0.47 cents	0.61 cents	(0.12) cents	(1.51) cents	1.39 cents
Year ended 31 December 2004							
Increase in administrative expenses	-	-	-	-	-	(66,371)	(66,371)
Increase in other expenses, net	-	-	-	-	-	(1,072)	(1,072)
Increase in finance costs	-	(21,990)	-	-	-	-	(21,990)
Decrease in revaluation surplus of hotel properties	-	-	-	-	-	(185,317)	(185,317)
Decrease in share of profits and losses of jointly-controlled entities	(43,461)	-	-	-	-	-	(43,461)
Decrease in share of profits and losses of associates	(4,893)	-	-	-	-	-	(4,893)
Decrease/(increase) in tax	48,354	-	-	-	(11,128)	23,512	60,738
Total decrease in profit	-	(21,990)	-	-	(11,128)	(229,248)	(262,366)
Decrease in basic earnings per share	-	(0.52) cents	-	-	(0.26) cents	(5.39) cents	(6.17) cents
Decrease in diluted earnings per share	-	(0.50) cents	-	-	(0.25) cents	(5.22) cents	(5.97) cents

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are companies, other than jointly-controlled entities or associates, in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital/registered capital or controls the composition of their boards of directors.

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.

Joint venture companies

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

The joint venture agreement between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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 company 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;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (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 company's registered capital and is in a position to exercise significant influence over the joint venture company; 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 company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture company 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. 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.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 “Business Combinations” in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss 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 (applicable to business combinations for which the agreement date is on or after 1 January 2005)

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 assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(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 parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Notes to Financial Statements

31 December 2005

2.5 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%

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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.

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 fixed assets when completed and ready for use.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities are determined by the directors with reference to the fair values of the underlying assets and liabilities of each investment.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities are determined by the directors with reference to the fair values of the underlying assets and liabilities of each investment.

The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Short term investments (Continued)

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, or 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 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, i.e., the date that the Group commits to purchase 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 classified as held for trading are included in the category “short term investments”. 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.

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. Other long term investments that are intended to be held to maturity, such as bonds, 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. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

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 carried at amortised cost using the effective interest method. 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets (applicable to the year ended 31 December 2005)

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(Continued)*

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 profit or loss.

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.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(Continued)*

Available-for-sale financial assets

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

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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 in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to derivative financial instrument that is recognised and included in non-current liabilities, net of transaction costs. The carrying amount of derivative financial instrument is remeasured in subsequent years.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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 profit or loss for the year.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) *(Continued)*

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

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.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability 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, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability 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.

Notes to Financial Statements

31 December 2005

2.5 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 profit or loss. 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 the 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.

Notes to Financial Statements

31 December 2005

2.5 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.

Retirement benefits scheme

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.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of freight forwarding and transportation services, passenger transportation services, travel-related services and hotel services, when 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.

Deferred income

Deferred income represents the proceeds received and receivable on the sale of memberships 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 2005

2.5 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 term deposits, which are not restricted as to use.

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.

Notes to Financial Statements

31 December 2005

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

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties (Continued)

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 investment property.

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 unit 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 2005 was HK\$1,260,837,000 (2004: HK\$1,259,479,000). Further details are given in note 18.

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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 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 tour 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 hot spring resort segment is the operation of Zhuhai Ocean Hotspring Resort; and
- (h) 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.

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.

Notes to Financial Statements

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Passenger transportation services	Tourist attraction operations	Freight forwarding and trans- portation services	Hotel operations	Travel and related operations	Golf club operations	Power generation	Hot spring resort	Corporate and others	Eliminations	Consolidated
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:											
Sales to external customers	229,650	379,669	2,568,916	389,085	2,014,644	54,494	-	203	9,959	-	5,646,620
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	54,494	9,525	203	38,941	(53,119)	5,693,054
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 and unallocated gains											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 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	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	161,542	788,133	730,643	3,593,910	3,526,196	351,537	308	2,323,214	702,618	-	12,178,101
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											17,221
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 derivatives											
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 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2004 HK\$'000 (Restated)	Tourist attraction operations 2004 HK\$'000	Freight and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000 (Restated)	Travel and travel- related operations 2004 HK\$'000 (Restated)	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000 (Restated)	Hot spring resort 2004 HK\$'000 (Restated)	Corporate and others 2004 HK\$'000 (Restated)	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000 (Restated)
Segment revenue:											
Sales to external customers	213,166	379,514	1,857,028	372,488	1,935,272	42,933	-	-	1,620	-	4,802,021
Intersegment revenue	3,164	2,531	109	8,877	88,925	-	-	-	28,841	(132,447)	-
Other income and gains	2,732	10,200	16,127	4,076	8,728	385	22,670	165	19,363	-	84,446
Total	219,062	392,245	1,873,264	385,441	2,032,925	43,318	22,670	165	49,824	(132,447)	4,886,467
Segment results	40,238	136,080	55,258	97,629	226,621	(12,149)	21,399	(8,856)	(8,730)	-	547,490
Interest income and unallocated gains											21,236
Finance costs											(51,863)
Share of profits and losses of:											
Jointly-controlled entities	-	-	(670)	-	5,076	-	246,787	-	-	-	251,193
Associates	53,161	115	(2)	-	(2)	-	-	-	(51)	-	53,221
Profit before tax											821,277
Tax											(114,127)
Profit for the year											707,150

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Passenger transportation services 2004 HK\$'000	Tourist attraction operations 2004 HK\$'000	Freight forwarding and trans- portation services 2004 HK\$'000	Hotel operations 2004 HK\$'000 (Restated)	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Hot spring resort 2004 HK\$'000 (Restated)	Corporate and others 2004 HK\$'000 (Restated)	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000 (Restated)
Segment assets	137,200	776,647	594,040	3,655,198	2,581,136	286,852	8,499	426,596	549,875	-	9,016,043
Interests in jointly-controlled entities	-	-	(494)	-	51,138	-	1,440,187	-	-	-	1,490,831
Interests in associates	415,038	-	(200)	-	187	-	-	-	1,523	-	416,548
Unallocated assets											663,555
Total assets											11,586,977
Segment liabilities	22,916	75,404	340,091	62,028	384,985	164,966	2,019	53,441	21,601	-	1,127,451
Unallocated liabilities											1,937,256
Total liabilities											3,064,707
Other segment information:											
Capital expenditure	27,836	12,495	71,734	3,152	77,836	16,774	-	271,748	16,649	-	498,224
Depreciation and amortisation	16,707	68,113	11,214	67,268	58,207	15,667	-	370	2,437	-	239,983
Impairment losses recognised/(reversed)											
in the income statement	-	-	(6,039)	-	-	-	-	-	210	-	(5,829)
Other non-cash expenses	30	1,282	1,393	410	2,798	44	-	-	-	-	5,957
Surplus/(deficit) on revaluation recognised											
in the income statement	-	-	(847)	54,444	24,779	-	-	-	6,700	-	85,076
Surplus on revaluation											
recognised directly in equity	-	-	6,869	18,695	27,000	-	-	-	-	-	52,564

Notes to Financial Statements

31 December 2005

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 2005 and 2004.

Group

	Hong Kong		Mainland China		Overseas		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue:								
Sales to external customers	1,657,127	1,600,456	3,603,564	2,781,445	385,929	420,120	5,646,620	4,802,021
Other income and gains	16,653	18,705	25,239	59,143	4,542	6,598	46,434	84,446
	1,673,780	1,619,161	3,628,803	2,840,588	390,471	426,718	5,693,054	4,886,467
Other segment information:								
Segment assets	7,124,658	6,749,692	6,405,236	4,215,226	459,762	622,059	13,989,656	11,586,977
Capital expenditure	54,721	51,961	1,845,157	441,344	20,589	4,919	1,920,467	498,224

Notes to Financial Statements

31 December 2005

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	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Revenue		
Freight forwarding and transportation services	2,568,916	1,857,028
Travel and travel-related operations	2,014,644	1,935,272
Hotel operations	389,085	372,488
Golf club operations	54,494	42,933
Tourist attraction operations	379,669	379,514
Passenger transportation services	229,650	213,166
Others	10,162	1,620
	5,646,620	4,802,021
Other income		
Interest income	43,587	21,189
Gross rental income	16,693	13,412
Reinvestment tax credit	–	37,563
Others	15,893	9,858
	76,173	82,022
Gains		
Exchange gains, net	7,982	8,514
Write-back of long outstanding payables	3,771	8,908
Gain on disposal of items of property, plant and equipment, net	754	3,941
Gain on disposal of available-for-sale equity investments	1,341	–
Gain on disposal of a jointly-controlled entity	–	1,936
Gain on disposal of short term investments	–	66
Fair value gains on short term investments	–	248
Dividend income from listed investments	–	47
	13,848	23,660
Other income and gains	90,021	105,682

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6. PROFIT BEFORE TAX

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

	2005 HK\$'000	2004 HK\$'000 (Restated)
Depreciation	157,269	153,292
Prepaid land lease payments amortisation	57,395	54,900
Goodwill amortisation	–	34,377
Negative goodwill recognised as income	–	(2,586)
Auditors' remuneration:		
Current year	10,228	8,226
Underprovision in the prior year	614	506
	10,842	8,732
Staff costs (including directors' remuneration (note 8)):		
Wages and salaries	729,979	585,523
Pension scheme contributions	43,423	37,830
Less: Forfeited contributions	(1,364)	(2,284)
Net pension contributions (i)	42,059	35,546
Total staff costs	772,038	621,069
Minimum lease payments under operating leases:		
Land and buildings	54,790	47,349
Plant and machinery and motor vehicles	31,939	21,547
Provisions for doubtful debts, net	6,484	2,870
Impairment of items of property, plant and equipment	7,500	1,440
Provisions for slow-moving inventories	20	44
Impairment of available-for-sale equity investments (ii)	381	–
Impairment of interest in an associate	–	210
Write-off of properties under development	–	1,301
Revaluation surplus of investment properties	(36,882)	(30,632)
Revaluation surplus of hotel properties	(28,725)	(54,444)
Net rental income	(12,245)	(10,984)
Fair value gains on derivative financial instruments (iii)	(99,204)	–
Write-back of impairment of interests in jointly-controlled entities	–	(7,479)

Notes to Financial Statements

31 December 2005

6. PROFIT BEFORE TAX *(Continued)*

Notes:

- (i) At 31 December 2005, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).
- (ii) The impairment of available-for-sale equity investments is included in "Other expenses, net" on the face of the consolidated income statement.
- (iii) The fair value gains on derivative financial instruments related to the conversion options of the USD denominated convertible bonds issued in 2003, details of which are set out in note 34 to the financial statements. 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.

7. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Interest on bank loans, overdrafts and other loans		
wholly repayable within five years	48,489	12,418
Interest on convertible bonds	6,964	39,441
Interest on finance lease and hire purchase contracts	–	4
	55,453	51,863

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8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees:		
Executive directors	2,070	2,000
Independent non-executive directors	920	600
	2,990	2,600
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	9,913	8,153
Pension scheme contributions	199	209
	10,112	8,362
	13,102	10,962

(a) Independent non-executive directors

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

	2005	2004
	HK\$'000	HK\$'000
Dr. Yeh Meou Tsen, Geoffrey	230	200
Dr. Fong Yun Wah	230	200
Mr. Wong Man Kong, Peter	230	200
Mr. Sze, Robert Tsai To	230	–
	920	600

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
2004					
Executive directors:					
Mr. Che Shujian	260	—	—	—	260
Mr. Zhang Xuewu	220	—	—	—	220
Mr. Shen Zhuying	190	2,009	231	93	2,523
Mr. Zheng Heshui	190	—	—	—	190
Mr. Lo Sui On	190	904	—	92	1,186
Mr. Chen Shoujie	190	—	—	—	190
Mr. Zheng Hongqing	190	—	—	—	190
Mr. Zhang Fengchun	190	—	—	—	190
Mr. Ng Chi Man, Michael	190	3,323	510	12	4,035
Mr. Liu Li	190	960	216	12	1,378
	2,000	7,196	957	209	10,362

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,585	1,154
Pension scheme contributions	12	12
	1,597	1,166

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

	Number of employees	
	2005	2004
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
	1	1

Notes to Financial Statements

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 HK\$'000	2004 HK\$'000 (Restated)
Group:		
The People's Republic of China:		
Current – Hong Kong		
Charge for the year	63,093	53,786
Overprovision in prior years	(1,204)	(3,648)
Current – Elsewhere	40,417	38,005
Overseas – Current tax charge for the year	556	680
Deferred tax (<i>note 36</i>)	(103)	25,304
Total tax charge for the year	102,759	114,127

Notes to Financial Statements

31 December 2005

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates 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 – 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)	(17.7)	(44)	0.9	(57,764)	(7.3)
Adjustments in respect of current tax of previous periods	(1,204)	(0.3)	(576)	(0.2)	–	–	(1,780)	(0.2)
Effect on opening deferred tax of decrease in rates	–	–	(6,959)	(2.1)	–	–	(6,959)	(0.9)
Profits and losses attributable to jointly- controlled entities and associates	(8,023)	(1.7)	(26,325)	(8.0)	–	–	(34,348)	(4.4)
Income not subject to tax	(33,254)	(7.1)	(2,497)	(0.8)	(222)	4.3	(35,973)	(4.6)
Expenses not deductible for tax	25,068	5.4	19,601	6.0	2,588	(50.0)	47,257	6.0
Tax losses utilised from previous periods	(1,059)	(0.2)	–	–	(355)	6.9	(1,414)	(0.2)
Tax losses not recognised	5,955	1.2	374	0.1	55	(1.1)	6,384	0.8
Tax charge at the Group's effective rate	69,096	14.8	33,713	10.3	(50)	1.0	102,759	13.0

Notes to Financial Statements

31 December 2005

10. TAX (Continued)

Group – 2004

	Hong Kong		Mainland China (including Macau)		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Restated)		(Restated)				(Restated)	
Profit/(loss) before tax	370,993		456,493		(6,209)		821,277	
Tax at the applicable tax rate	64,924	17.5	150,643	33.0	(2,484)	40.0	213,083	25.9
Lower tax rate for specific provinces or local authority	–	–	(79,716)	(17.5)	202	(3.3)	(79,514)	(9.7)
Adjustments in respect of current tax of previous periods	(3,648)	(1.0)	–	–	–	–	(3,648)	(0.4)
Profits and losses attributable to jointly-controlled entities and associates	(9,303)	(2.5)	(37,783)	(8.3)	–	–	(47,086)	(5.7)
Income not subject to tax	(29,361)	(7.9)	(2,103)	(0.4)	(937)	15.1	(32,401)	(3.9)
Expenses not deductible for tax	42,102	11.3	8,769	1.9	3,899	(62.8)	54,770	6.7
Tax losses utilised from previous periods	(1,603)	(0.4)	(562)	(0.1)	–	–	(2,165)	(0.3)
Tax losses not recognised	7,745	2.1	3,343	0.7	–	–	11,088	1.3
Tax charge at the Group's effective rate	70,856	19.1	42,591	9.3	680	(11.0)	114,127	13.9

The share of tax attributable to jointly-controlled entities and associates amounting to HK\$28,157,000 (2004: HK\$43,461,000) and HK\$3,872,000 (2004: HK\$4,893,000), respectively is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

Notes to Financial Statements

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK\$391,916,000 (2004: HK\$354,042,000) (note 39).

12. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim – HK3 cents (2004: HK5 cents) per ordinary share	151,204	211,817
Proposed final – HK3 cents (2004: HK5 cents) per ordinary share	151,165	223,383
Adjustment to 2004 final dividend	27,094	–
	329,463	435,200

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 amount is based on the net profit for the year attributable to ordinary equity holders of the parent of HK\$612,660,000 (2004: HK\$639,288,000 (as restated)), and the weighted average of 4,867,459,714 (2004: 4,251,613,372) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the net profit attributable to ordinary equity holders of the parent for the year of HK\$612,660,000 (2004: HK\$639,288,000 (as restated)). The weighted average number of ordinary shares used in the calculation is the weighted average of 4,867,459,714 (2004: 4,251,613,372) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 238,408,446 (2004: 142,962,367) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all bonus warrants outstanding during the year. The Company's convertible bonds during the year had an anti-dilutive effect on the basic earnings per share for the year.

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14. PROPERTY, PLANT AND EQUIPMENT

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	–	1,328,744	570,194	951,361	2,850,299
At 31 December 2005 valuation	1,492,250	–	–	–	1,492,250
	1,492,250	1,328,744	570,194	951,361	4,342,549

Notes to Financial Statements

31 December 2005

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

Group

	Hotel properties HK\$'000 (Restated)	Buildings HK\$'000 (Restated)	Scenic spots establishment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000 (Restated)
31 December 2004					
At 1 January 2004:					
Cost or valuation	964,930	655,317	779,377	861,782	3,261,406
Accumulated depreciation and impairment	–	(190,469)	(442,852)	(532,988)	(1,166,309)
Net carrying amount	964,930	464,848	336,525	328,794	2,095,097
At 1 January 2004, net of accumulated depreciation and impairment	964,930	464,848	336,525	328,794	2,095,097
Additions	–	50,393	172	94,650	145,215
Disposals and write-off	–	(980)	(76)	(8,371)	(9,427)
Acquisition of subsidiaries (note 40(b))	–	–	–	7,339	7,339
Surplus on revaluation	60,069	–	–	–	60,069
Impairment	–	–	–	(1,440)	(1,440)
Depreciation provided during the year	(21,999)	(24,681)	(29,626)	(76,986)	(153,292)
Transfer from properties under development	–	4,742	798	2,698	8,238
Transfer to investment properties, net	–	(3,358)	–	–	(3,358)
Reclassification	133	23,863	(34,796)	10,800	–
Write-back of depreciation	21,999	–	–	–	21,999
Exchange realignment	–	1,285	484	221	1,990
At 31 December 2004, net of accumulated depreciation and impairment	1,025,132	516,112	273,481	357,705	2,172,430
At 31 December 2004:					
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
Analysis of cost or valuation:					
At cost	–	516,112	273,481	357,705	1,147,298
At 31 December 2004 valuation	1,025,132	–	–	–	1,025,132
	1,025,132	516,112	273,481	357,705	2,172,430

Notes to Financial Statements

31 December 2005

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

Company

	Building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixture and equipment HK\$'000	Motor vehicles HK\$'000	Total 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

31 December 2005

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

Company

	Building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2004					
At 1 January 2004:					
Cost	1,430	803	2,072	2,431	6,736
Accumulated depreciation	–	(282)	(1,448)	(1,522)	(3,252)
Net carrying amount	1,430	521	624	909	3,484
At 1 January 2004, net of accumulated depreciation					
Additions	–	–	354	20	374
Depreciation provided during the year	–	(156)	(277)	(249)	(682)
At 31 December 2004, net of accumulated depreciation					
	1,430	365	701	680	3,176
At 31 December 2004:					
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

Notes to Financial Statements

31 December 2005

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

Particulars of the hotel properties held by the Group as at 31 December 2005 were as follows:

Location	Use	Group's interest	Lease term
Hotel Concourse 20-46 Lai Chi Kok Road Mongkok Kowloon Hong Kong	Hotel	100%	Medium
Hotel New Harbour 41-49 Hennessy Road 4 and 6 Fenwick Road Wanchai Hong Kong	Hotel	100%	Long
The Metropole Hotel 75 Waterloo Road Kowloon Hong Kong	Hotel	100%	Long
Metropark Hotel 148 Tung Lo Wan Road Causeway Bay Hong Kong	Hotel	100%	Long
Hotel Grandeur Macau Rua de Pequim 199 Macau	Hotel	100%	Medium
Ocean Spring Hotel Pingsha Zhuhai China	Hotel	100%	Medium

The Group's hotel properties were revalued at 31 December 2005 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\$1,147,220,000.

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 2005 amounted to HK\$1,257,000 (2004: HK\$1,324,000).

Notes to Financial Statements

31 December 2005

15. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January	189,076	123,440	–	–
Disposals	–	(3,400)	–	–
Surplus on revaluation	36,882	65,132	520	–
Transfer from/(to) property, plant and equipment, net	(9,447)	3,358	1,430	–
Transfer from/(to) prepaid land lease payments, net	7,259	(797)	–	–
Exchange realignment	(165)	1,343	–	–
Carrying amount at 31 December	223,605	189,076	1,950	–

The investment properties are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Group			
Long term leases	62,570	6,493	69,063
Medium term leases	129,750	24,792	154,542
	192,320	31,285	223,605
Company			
Medium term lease	–	1,950	1,950

The Group and Company's investment properties were revalued on 31 December 2005 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK\$223,605,000 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 43(a) to the financial statements.

Notes to Financial Statements

31 December 2005

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Carrying amount at 1 January		
As previously reported	–	–
Effect of adopting HKAS 17 (note 2.2(a))	3,128,586	3,181,840
As restated	3,128,586	3,181,840
Transfer from/(to) investment properties, net	(7,259)	797
Transfer from properties under development	89,985	–
Additions	8,332	849
Recognised during the year	(57,395)	(54,900)
Exchange realignment	5,845	–
Carrying amount at 31 December	3,168,094	3,128,586
Current portion included in prepayments, deposits and other receivables	(58,542)	(55,795)
Non-current portion	3,109,552	3,072,791

The Group's leasehold land is held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Long term leases	2,263,900	62,642	2,326,542
Medium term leases	490,977	350,575	841,552
	2,754,877	413,217	3,168,094

The land use right for a piece of the Group's land with a carrying value of HK\$110,850,000 (2004: HK\$109,590,000) will expire on 17 August 2007. The Group has applied for an extension of the relevant land use right for an additional 30 years up to 17 August 2037 and is in the process of applying to obtain a new land use right certificate for the extended tenure. Accordingly, the amortisation of the cost (including the extension premium paid) of the relevant land use right has been calculated by reference to the extended land use right tenure up to 17 August 2037.

Notes to Financial Statements

31 December 2005

17. PROPERTIES UNDER DEVELOPMENT

Group

	1 January 2005 HK\$'000	Additions HK\$'000	Transfer to property, plant and equipment HK\$'000	Transfer to prepaid land lease payments HK\$'000	Exchange realignment HK\$'000	31 December 2005 HK\$'000
Buildings and plant	53,264	31,011	(48,479)	(36,814)	1,196	178
Scenic spots establishment	403,030	1,597,600	(1,953,205)	(53,171)	8,595	2,849
Golf course	9,818	4,822	(14,695)	–	298	243
	466,112	1,633,433	(2,016,379)	(89,985)	10,089	3,270

Upon completion, the balances will be transferred to the appropriate category of property, plant and equipment or prepaid land lease payments.

No interest and borrowing costs were capitalised in properties under development at the balance sheet date.

Notes to Financial Statements

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18. GOODWILL/NEGATIVE GOODWILL

Group	Goodwill HK\$'000	Negative goodwill HK\$'000
31 December 2005		
At 1 January 2005:		
Cost as previously reported	1,549,075	(188,295)
Effect of adopting HKFRS 3 (<i>note 2.2(d)</i>)	(289,596)	188,295
Cost as restated	1,259,479	–
Accumulated amortisation and impairment as previously reported	(289,596)	22,905
Effect of adopting HK-Int 2 (<i>note 2.2(f)</i>)	–	51,653
Effect of adopting HKFRS 3 (<i>note 2.2(d)</i>)	289,596	(74,558)
Accumulated amortisation and impairment as restated	–	–
Net carrying amount	1,259,479	–
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	1,260,837	–
At 31 December 2005:		
Net carrying amount	1,260,837	–

Notes to Financial Statements

31 December 2005

18. GOODWILL/NEGATIVE GOODWILL (Continued)

Group

	Goodwill HK\$'000	Negative goodwill HK\$'000 (Restated)
31 December 2004		
At 1 January 2004:		
Cost as previously reported	1,539,422	(188,295)
Accumulated amortisation and impairment as previously reported	(255,801)	19,247
Effect of adopting HK-Int2 (note 2.2(f))	–	52,725
Accumulated amortisation and impairment as restated	(255,801)	71,972
Net carrying amount	1,283,621	(116,323)
Cost at 1 January 2004, net of accumulated amortisation and impairment	1,283,621	(116,323)
Acquisition of a subsidiary (note 40(b))	9,653	–
Recognised as income/(amortisation provided) during the year	(33,795)	2,586
Cost at 31 December 2004, net of accumulated amortisation and impairment	1,259,479	(113,737)
Cost and carrying amount at 31 December 2004:		
Cost	1,549,075	(188,295)
Accumulated amortisation and impairment	(289,596)	74,558
Net carrying amount	1,259,479	(113,737)

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life.

Notes to Financial Statements

31 December 2005

18. GOODWILL/NEGATIVE GOODWILL *(Continued)*

As further detailed in note 2.2 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 the consolidated reserves.

The amounts of goodwill and negative goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were approximately HK\$959 million and HK\$745 million (as restated), respectively, as at 31 December 2004. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of approximately HK\$745 million was derecognised with a corresponding adjustment to the opening balance of retained profits.

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 12% and due to the uncertainty, cash flows beyond the five-year period are extrapolated using a conservative growth rate ranging from 0% to 6%.

Passenger transportation services operations cash-generating unit

The recoverable amount of the passenger transportation services operations cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12%. Due to the uncertainty, no growth rate was used to extrapolate the cash flows of the passenger transportation services operations unit beyond the five-year period.

Notes to Financial Statements

31 December 2005

18. GOODWILL/NEGATIVE GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Passenger transportation services operations cash-generating unit (Continued)

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	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount of goodwill	1,253,463	1,252,105	7,374	7,374	1,260,837	1,259,479

Key assumptions were used in the value in use calculation of the travel and travel-related operations and passenger transportation services operations cash-generating units for the year ended 31 December 2005 and 31 December 2004. 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.

Notes to Financial Statements

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19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Unlisted shares, at cost	4,479,595	3,726,361
Due from subsidiaries	3,752,994	3,359,294
Loans to subsidiaries	2,172,663	1,472,663
Due to subsidiaries	(2,355,186)	(1,499,625)
	8,050,066	7,058,693
Less: Provisions against amounts due from subsidiaries and loans to subsidiaries	(307,954)	(307,954)
	7,742,112	6,750,739

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

All loans to subsidiaries are interest-free, unsecured and not repayable within one year.

Particulars of the Company's principal subsidiaries are set out in note 41 to the financial statements.

Notes to Financial Statements

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investment, at cost	–	–	1,415	–
Share of net assets	1,150,221	1,287,538	–	–
Goodwill on acquisition (<i>Note</i>)	10,877	10,877	–	–
Due from jointly-controlled entities	219,146	196,607	–	–
Due to jointly-controlled entities	(2,115)	(1,483)	–	–
	1,378,129	1,493,539	1,415	–
Less: Provisions for impairment	(2,708)	(2,708)	–	–
	1,375,421	1,490,831	1,415	–

Note:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Goodwill on acquisition:		
Cost at beginning and at end of year	10,877	11,653
Less: Accumulated amortisation at beginning of year	–	(194)
Amortisation provided during the year	–	(582)
Net book value	10,877	10,877

The amount of goodwill remaining in the consolidated reserves 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.

Except for the balances of 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.

Notes to Financial Statements

31 December 2005

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		Principal activities
			2005	2004	
Chongqing Long Sight International Container Co., Ltd. #*	Corporate	PRC	25	25	Provision of cargo transportation services
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
China Travel International (Hangzhou) Travel Service Co., Ltd. #**	Corporate	PRC	62.5	–	Tour operations
China Travel International (Datong) Travel Service Co., Ltd. #*	Corporate	PRC	51	–	Tour 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:

	2005 HK\$'000	2004 HK\$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	897,038	1,063,859
Current assets	652,880	603,907
Current liabilities	(397,790)	(377,578)
Non-current liabilities	(1,907)	(2,650)
Net assets	1,150,221	1,287,538
Share of the jointly-controlled entities' results:		
Revenue	1,097,340	1,102,006
Other income and gains	2,074	502
Total revenue	1,099,414	1,102,508
Total expenses	(895,659)	(807,854)
Tax	(28,157)	(43,461)
Profit after tax	175,598	251,193

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21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	400,580	407,089
Due from associates	18,543	10,371
Due to associates	–	(702)
	419,123	416,758
Less: Provisions for impairment	(210)	(210)
	418,913	416,548

The amount of goodwill remaining in the consolidated reserves 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.

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		Principal activities
			2005	2004	
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	21	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 Arts Co., Ltd. ("China Heaven").

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21. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the Group's associates:

	2005 HK\$'000	2004 HK\$'000
Total assets	2,016,641	2,000,031
Total liabilities	(635,356)	(597,764)
Revenue	1,996,079	1,774,821
Profit after tax	159,038	184,392

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Listed equity investments outside Hong Kong, at fair value	357	2,646	–	–
Unlisted equity investments, at cost	19,652	20,450	13,949	13,949
	20,009	23,096	13,949	13,949

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

23. HELD-TO-MATURITY INVESTMENTS

	Group 2005 HK\$'000	2004 HK\$'000
Unlisted debt investments, at amortised cost	15,477	–

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24. INVENTORIES, AT COST

	Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	11,623	7,041
Spare parts and consumables	3,975	2,715
General merchandise	3,584	4,275
	19,182	14,031

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	
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with age:		
Less than 1 month	315,896	239,102
Within:		
1 to 3 months	211,531	183,981
4 to 6 months	28,444	26,848
7 to 12 months	12,722	6,612
1 to 2 years	2,526	2,263
Over 2 years	1,795	829
	572,914	459,635

Trade receivables are non-interest bearing.

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred borrowing costs	2,923	4,383	–	–
Prepayments, deposits and other debtors	308,512	291,094	5,463	19,020
Amounts due from minority shareholders	1,731	2,473	–	–
	313,166	297,950	5,463	19,020

27. SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	–	1,759
Elsewhere	–	1
Unlisted equity investments, at fair value	1,427	11,248
	1,427	13,008

28. PLEDGED TIME DEPOSITS

The Group has pledged bank deposits of approximately HK\$4,306,000 (2004: HK\$4,053,000) (note 29) 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.

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29. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	1,046,051	1,148,116	253,551	268,490
Time deposits	1,216,910	637,676	225,494	24,889
	2,262,961	1,785,792	479,045	293,379
Less: Pledged time deposits (note 28)	(4,306)	(4,053)	–	–
Cash and cash equivalents	2,258,655	1,781,739	479,045	293,379

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$636,774,000 (2004: HK\$474,397,000). 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.

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30. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

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

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

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

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from ultimate holding company				
Within 1 year	26,152	30,800	44	180
1 to 2 years	1,690	515	–	–
Over 2 years	44	–	–	–
	27,886	31,315	44	180
Amounts due from fellow subsidiaries				
Within 1 year	4,002	3,215	–	–
1 to 2 years	884	18	–	–
Over 2 years	380	3	–	–
	5,266	3,236	–	–
Amounts due to fellow subsidiaries				
Within 1 year	4,505	3,874	–	–
1 to 2 years	–	450	–	–
Over 2 years	4	168	–	–
	4,509	4,492	–	–

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31. TRADE PAYABLES

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with age:		
Less than 1 month	434,673	341,759
Within:		
1 to 3 months	121,099	168,559
4 to 6 months	15,721	19,302
7 to 12 months	15,919	10,251
1 to 2 years	7,465	11,508
Over 2 years	14,924	4,001
	609,801	555,380

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

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and other liabilities	769,919	324,884	12,175	18,311
Staff bonus and welfare fund	72,344	65,708	7,201	2,281
Receipts in advance from customers	109,074	44,497	–	–
Amounts due to minority shareholders	279	180	–	–
	951,616	435,269	19,376	20,592

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK\$'000	2004 HK\$'000
Current				
Finance lease and hire purchase				
contract payables (<i>note 35</i>)	4.84	2006	200	322
Other bank loans – unsecured	2.12 – 5.22	2006	13,111	7,108
			13,311	7,430
Non-current				
Finance lease and hire purchase				
contract payables (<i>note 35</i>)	4.84	2009	98	278
Syndicated bank loans – secured *	HIBOR + 0.5	2007	1,500,000	700,000
Other bank loans – unsecured	2.55 – 6.29	2009 – 2014	3,767	5,020
Other bank loans – secured *	HIBOR + 0.28			
	– HIBOR +0.32	2007	500,000	–
Golf club debentures	Interest-free	2008 – 2024	4,157	4,157
			2,008,022	709,455
Total interest-bearing bank and other borrowings			2,021,333	716,885

* The loans are secured by the corporate guarantee given by the Company.

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	13,111	7,108
In the second year	502,353	5,020
In the third to fifth years, inclusive	1,501,414	700,000
	2,016,878	712,128
Other borrowings repayable:		
Within one year	200	322
In the second year	98	180
In the third to fifth years, inclusive	–	98
Beyond five years	4,157	4,157
	4,455	4,757
Total interest-bearing bank and other borrowings	2,021,333	716,885

Other interest rate information:

	Group					
	2005			2004		
	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	–	298	–	–	600	–
Syndicated bank loans						
– secured	–	–	1,500,000	–	–	700,000
Other bank loans						
– secured	–	–	500,000	–	–	–
Other bank loans						
– unsecured	–	16,878	–	–	12,128	–
Golf club debentures	4,157	–	–	4,157	–	–

Notes to Financial Statements

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

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

34. CONVERTIBLE BONDS

On 30 September 2003, a wholly-owned subsidiary of the Company, China Chance Developments Limited ("China Chance"), issued an aggregate principal amount of approximately HK\$1,163,250,000 (US\$150,000,000) zero coupon guaranteed convertible bonds (the "Bonds") due September 2008 to independent third parties. China Chance raised approximately HK\$1,134,959,000 (US\$146,352,000), net of expenses.

Each Bond is, at the option of the holder, convertible on or after 10 November 2003 up to and including 19 September 2008, into fully paid ordinary shares of the Company with a par value of HK\$0.10 each, at an adjusted conversion price of HK\$1.84, subject to adjustment in certain events. The number of shares to be issued on conversion of Bonds will be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.7993 = US\$1.00) by the conversion price in effect at the conversion date.

In last year, Bonds with principal amount of HK\$375,848,000 (US\$48,190,000) were converted into ordinary shares of the Company. The remaining Bonds with principal amount of HK\$794,047,000 (US\$101,810,000) have been converted into ordinary shares of the Company during the year.

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35. 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 four 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 2005 HK\$'000	Minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2005 HK\$'000	Present value of minimum lease payments 2004 HK\$'000
Amounts repayable:				
Within one year	200	322	200	322
In the second year	36	180	36	180
In the third to fifth years, inclusive	62	98	62	98
Total minimum lease payments	298	600	298	600
Future finance charges	–	–		
Total net lease payables	298	600		
Portion classified as current liabilities (note 33)	(200)	(322)		
Long term portion (note 33)	98	278		

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36. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	Surplus on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2004				
As previously reported	64,946	184,128	(8,485)	240,589
Prior year adjustments	(8,425)	89,094	33	80,702
As restated	56,521	273,222	(8,452)	321,291
Deferred tax charged to the income statement during the year (<i>note 10</i>)	2,408	13,215	3,053	18,676
Deferred tax charged to equity during the year	–	9,563	–	9,563
At 31 December 2004 and 1 January 2005 (as restated)	58,929	296,000	(5,399)	349,530
Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>)	(4,689)	16,896	(1,388)	10,819
Deferred tax charged to equity during the year	–	4,147	–	4,147
At 31 December 2005	54,240	317,043	(6,787)	364,496

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36. DEFERRED TAX (Continued)

Deferred tax assets

Group

	Accelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Surplus/ (deficit) on revaluation of properties HK\$'000	Losses available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2004					
As previously reported	6,767	34,520	(39,616)	(13,018)	(11,347)
Prior year adjustments	–	–	–	–	–
As restated	6,767	34,520	(39,616)	(13,018)	(11,347)
Deferred tax charged/(credited) to the income statement during the year (note 10)	4,902	–	6,612	(4,886)	6,628
At 31 December 2004 and 1 January 2005 (as restated)	11,669	34,520	(33,004)	(17,904)	(4,719)
Deferred tax charged/(credited) to the income statement during the year (note 10)	(1,784)	–	(10,042)	904	(10,922)
At 31 December 2005	9,885	34,520	(43,046)	(17,000)	(15,641)

The Group has cumulative tax losses arising from operations in Hong Kong of HK\$209,668,000 (2004: HK\$229,052,000) 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.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures 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.

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37. SHARE CAPITAL

Shares

	2005 HK\$'000	2004 HK\$'000
Authorised:		
7,000,000,000 ordinary shares of HK\$0.10 each	700,000	700,000
Issued and fully paid:		
5,038,843,875 (2004: 4,467,658,548) ordinary shares of HK\$0.10 each	503,885	446,766

During the year, the movements in share capital were as follows:

- (a) 141,138,200 ordinary shares of HK\$0.10 each were issued for cash 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\$212,837,000 before expenses;
- (b) The conversion rights attaching to the Bonds with principal amount of HK\$794,046,733 (US\$101,810,000) were exercised at the conversion price of HK\$1.84 per share, resulting in the issuance of 431,547,127 ordinary shares of HK\$0.10 each; and
- (c) The cancellation of 1,500,000 ordinary shares of HK\$0.10 each upon the repurchase of shares by the Company on The Stock Exchange of Hong Kong Limited at market prices ranging from HK\$1.52 to HK\$1.55 per share resulting in an aggregate cash consideration of HK\$2,295,000.

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37. SHARE CAPITAL (Continued)

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

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2004	4,232,198,475	423,220	5,932,834	6,356,054
Shares issued upon exercise of bonus warrants	33,194,718	3,319	46,738	50,057
Shares issued upon conversion of the Bonds (as restated)	204,265,355	20,427	332,638	353,065
Shares cancelled upon repurchase of own shares	(2,000,000)	(200)	–	(200)
At 31 December 2004 and 1 January 2005 (as restated)	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 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	5,038,843,875	503,885	7,433,211	7,937,096

Share options

Details of the Company's share option scheme are included in note 38 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, 141,138,200 bonus warrants were exercised for 141,138,200 shares of HK\$0.10 each at the subscription price of HK\$1.508 per share, resulting in the issue of 141,138,200 additional ordinary shares of HK\$0.10 each in the Company. At the balance sheet date, there were 672,106,777 bonus warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 672,106,777 additional shares of HK\$1.508 each.

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38. SHARE OPTION SCHEMES

On 3 June 2002, a new share option scheme (the “New Scheme”) was adopted by the Company to replace the share option scheme which was approved by the shareholders of the Company on 21 October 1992 (the “Old Scheme”). The Old Scheme was terminated on 20 October 2002. There were no options outstanding under the Old Scheme as at 1 January 2005 and 31 December 2005.

The Company operates the New 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 New Scheme include the Company’s executive directors and employees of the Group. The New 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 New 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 New Scheme at any time during a period to be notified by the Company’s board of directors to each grantee and, in any event, such period of time shall not exceed a period of 10 years from the date of grant of the relevant option.

The offer of a grant of share options may be accepted within 28 days from the date of the 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 2005, no share option was outstanding under the New Scheme and none of the Company’s directors and none of the Group’s employees were granted share options during the year.

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39. RESERVES

Group	Attributable to equity holders of the parent									
	Share	Capital		Hotel	Investment	Enterprise	Exchange	Retained		Minority
	premium	redemption	Capital	property	property	expansion/	fluctuation	profits	Total	interests
	account	reserve	reserve	revaluation	revaluation	reserve funds	reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	(Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004										
As previously reported	5,932,834	-	(842,196)	148,002	-	71,590	7,709	1,341,616	6,659,555	334,755
Prior year adjustments	-	-	575,100	3,979	-	-	-	(411,532)	167,547	-
As restated	5,932,834	-	(267,096)	151,981	-	71,590	7,709	930,084	6,827,102	334,755
Premium on issue of new shares										
on exercise of bonus warrants										
and conversion of the Bonds (as restated)	379,376	-	-	-	-	-	-	-	379,376	-
Repurchase of own shares	-	200	-	-	-	-	-	(3,545)	(3,345)	-
Exchange realignments	-	-	-	-	-	-	6,023	-	6,023	293
Surplus on revaluation (as restated)	-	-	-	22,789	29,775	-	-	-	52,564	-
Transfer from retained profits	-	-	-	-	-	10,567	-	(10,567)	-	-
Net profit for the year (as restated)	-	-	-	-	-	-	-	639,288	639,288	67,862
Liquidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,333)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	4,281
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	1,365
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(16,007)
Share of reserves	-	-	-	-	-	-	-	-	-	1,097
2004 interim dividend (note 12)	-	-	-	-	-	-	-	(211,817)	(211,817)	-
Proposed 2004 final dividend (note 12)	-	-	-	-	-	-	-	(223,383)	(223,383)	-
At 31 December 2004	6,312,210	200	(267,096)	174,770	29,775	82,157	13,732	1,120,060	7,465,808	386,313

Notes to Financial Statements

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39. RESERVES (Continued)

Group	Attributable to equity holders of the parent										
	Share	Capital			Hotel	Investment	Enterprise				
	premium	redemption	Hedging	Capital	property	property	expansion/	Exchange	Retained		Minority
	account	reserve	reserve	reserve	revaluation	revaluation	reserve funds	fluctuation	profits	Total	interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	(Note)	reserve	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005											
As previously reported	6,328,136	200	-	(842,196)	267,694	34,500	82,157	13,732	1,793,958	7,678,181	386,313
Prior year and opening adjustments	(15,926)	-	-	(170,000)	(92,924)	(34,500)	-	-	(6,018)	(319,368)	-
As restated	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 realignments	-	-	-	-	-	-	-	34,051	-	34,051	8,475
Surplus on revaluation	-	-	-	-	6,249	-	-	-	-	6,249	-
Transfer from retained profits	-	-	-	-	-	-	2,522	-	(2,522)	-	-
Net profit for the year	-	-	-	-	-	-	-	-	612,660	612,660	72,472
Dividend 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	-	-	-	-	-	-	-	-	(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

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.

Notes to Financial Statements

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39. RESERVES (Continued)

Company	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2004	5,932,834	–	161,995	6,094,829
Premium on issue of new shares on exercise of bonus warrants and conversion of the Bonds (as restated)	379,376	–	–	379,376
Repurchase of own shares	–	200	(3,545)	(3,345)
Net profit for the year	–	–	354,042	354,042
2004 interim dividend (note 12)	–	–	(211,817)	(211,817)
Proposed 2004 final dividend (note 12)	–	–	(223,383)	(223,383)
At 31 December 2004 and 1 January 2005 (as restated)	6,312,210	200	77,292	6,389,702
Additional 2004 final dividend upon conversion/exercise of the Bonds and share options	–	–	(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)
Net 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	7,433,211	350	137,450	7,571,011

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40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries and certain bank guarantees given in lieu of utility and rental deposits, as further explained in note 28 to the financial statements.

(b) Acquisition of subsidiaries

	2004
	HK\$'000
Net assets acquired:	
Fixed assets	7,339
Interest in an associate	1,373
Long term investments	1,511
Inventories	59
Cash and bank balances	9,436
Trade receivables and other receivables	16,315
Amounts due from fellow subsidiaries	2,433
Amounts due to fellow subsidiaries	(18,566)
Trade payables, other payables and accruals	(10,641)
Tax payable	(119)
Minority interests	(4,281)
	4,859
Goodwill on acquisition	9,653
	14,512
Accounted for and satisfied by:	
Cash	10,340
Prepayment	922
Reclassification to interests in subsidiaries from interests in associates	2,823
Reclassification to interests in subsidiaries from interests in jointly-controlled entities	427
	14,512

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40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004
	HK\$'000
Cash consideration	(10,340)
Cash and bank balances acquired and included in the cash consideration	9,436
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(904)

In the prior year, the Group acquired the following subsidiaries.

Date of acquisition	Name	Percentage of equity interest acquired	Principal activities	Consideration RMB
From independent third parties				
20 January 2004	China Travel International (Xian) Ltd.	51%	Tour operations	1,820,000
From CTS (Holdings)				
1 January 2004	Shenzhen CTS Cargo Transportation Co., Ltd.*	100%	Provision of freight forwarding and cargo transportation services and investment holding	980,000
1 January 2004	Shenzhen China Travel Service (Cargo) Hong Kong Ltd.	51%	Provision of freight forwarding and cargo transportation services	—**
10 August 2004	China Heaven	50%	Production of art performances	9,167,000

Notes to Financial Statements

31 December 2005

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

The subsidiaries acquired in the prior year contributed HK\$78,093,000 to the Group's turnover and loss of HK\$1,616,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004. In the case of the jointly-controlled entity and associate which were reclassified to subsidiaries, these results exclude the former jointly-controlled entity's and associate's contribution to the results prior to their becoming subsidiaries.

* The English name of the subsidiary is direct translation of its Chinese registered name.

** This company is a joint venture company formed by Shenzhen CTS Cargo Transportation Co., Ltd. and China Travel Service (Cargo) Hong Kong Limited, a wholly-owned subsidiary of the Company.

(c) Liquidation of subsidiaries

	2004
	HK\$'000
Net assets disposed of:	
Cash and bank balances	3,235
Prepayment and other debtors	13,115
Minority interests	(7,333)
	9,017
Satisfied by:	
Cash	9,017

An analysis of the net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries is as follows:

	2004
	HK\$'000
Cash consideration	9,017
Cash and bank balances realised and included in the cash consideration	(3,235)
Net inflow of cash and cash equivalents in respect of the liquidation of subsidiaries	5,782

The results of the subsidiary liquidated during the year had no significant impact on the Group's consolidated turnover or profit after tax for last year.

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41. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
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@ 10,000 non-voting deferred shares of HK\$1@	100	100	Investment holding
China Chance (Note)	British Virgin Islands	1 share of US\$1	100	100	Provision of financial services
China Heaven	PRC	RMB10,000,000	85.3	65.3	Production of art performances
China Travel and Trading (Deutschland) GmbH	Germany	EURO125,267	100	100	Travel and air ticketing agent
China Travel (HK & Macau Tour) Management Hong Kong Limited	Hong Kong	500,000 ordinary shares of HK\$1@	100	100	Tour operations
China Travel Advertising Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Provision of printing and advertising agency services
China Travel Air Service Hong Kong Limited	Hong Kong	10 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Air ticketing agent

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
China Travel (Cargo) Logistics Centre Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	100	100	Provision of logistic services
China Travel Express Limited	Hong Kong	10,000 ordinary shares of HK\$1@	70	70	Passenger transportation
China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd.** <i>(Note)</i>	PRC	US\$128,700,000	100	100	Operation of a hot spring resort
China Travel Hi-Tech Computer Hong Kong Limited	Hong Kong	10,000,000 ordinary shares of HK\$1@	100	100	Trading of computer equipment, provision of computer service and investment holding
China Travel International Ltd.** <i>(Note)</i>	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
China Travel International (Shanxi) Travel Service Co., Ltd.	PRC	RMB5,000,000	71	71	Tour operations

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
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 <i>(Note)</i>	Hong Kong	2 ordinary shares of HK\$100@ 10,000 non-voting deferred shares of HK\$100@	100	100	Provision of freight forwarding and transportation services
China Travel Service (France) SARL#	France	EURO220,000	100	100	Travel and air ticketing agent
China Travel Service (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$100@ 1,000,000 non-voting deferred shares of HK\$100@	100	100	Tour operations, PRC entry permit handling agent, investment holding and travel agency

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
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@ 1,072,000 preference shares of £1@	100	100	Travel and air ticketing agent
China Travel Tours Transportation Services Hong Kong Limited	Hong Kong	2 ordinary shares of HK\$100@ 5,000 non-voting deferred shares of HK\$100@	100	100	Passenger transportation
Coastline Development Limited	Hong Kong	2 ordinary shares of HK\$1@	100	100	Property investment holding
Common Well Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding
CTI Business Travel Management Company Ltd.**	PRC	RMB10,000,000	100	100	Air ticketing agent

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
CTI Cosco Travel Ltd.*	PRC	RMB26,287,300	100	70	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@ 2 non-voting deferred shares of HK\$1@	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@	100	100	Property investment holding and hotel operations
Invincible Limited	Western Samoa/ Hong Kong	7,200,000 shares of US\$1@	100	100	Investment holding
Mangocity.com Limited (Formerly known as China Travel Net Hong Kong Limited)	Hong Kong	150,000 ordinary shares of HK\$1 @	100	100	Sales of travel-related products through an electronic platform
Mangocity.com Ltd. ** (Formerly known as Starsoft Computer Services (Shenzhen) Co. Ltd.)	PRC	RMB1,200,000	100	100	Sales of travel-related products through an electronic platform
Mart Harvest Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Metrocity Hotel Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 100 non-voting deferred shares of US\$1@	100	100	Property investment holding and hotel operations
New Bus Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK\$1@	80	80	Passenger transportation
Princess Capital Limited <i>(Note)</i>	British Virgin Islands/ Hong Kong	1 share of US\$1	100	100	Securities trading
Rida Investment Company Limited	Macau	MOP99,000	100	100	Property investment holding
Shenzhen China Travel (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.* <i>(Note)</i>	PRC	RMB184,000,000	51	51	Tourist attraction operations

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
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@	100	100	Provision of leisure services
Shenzhen Tycoon Golf Club Co., Ltd.**	PRC	RMB100,000,000	100	100	Golf club operations
Singa China Travel Service Pte. Limited	Singapore	SGD6,740,000	100	100	Travel and air ticketing agent
Sociedade De Fomento Predial Fu Wa (Macau) Limitada	Macau	MOP200,000	100	100	Property investment holding and hotel operations
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@	100	100	Investment holding
Tonkin Limited	Hong Kong	10,000 ordinary shares of HK\$1@	100	100	Property investment holding
Triumph King Limited	Hong Kong	2 ordinary shares of HK\$1@ 100 non-voting deferred shares of HK\$1@	100	100	Property investment holding

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

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Universal Loyalty Marketing (formerly Known as Full Partner Limited)	Hong Kong	2 ordinary shares of HK\$1 @	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

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.

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42. CONTINGENT LIABILITIES

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

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank guarantees given in lieu of utility and rental deposits	2,141	2,611	1,724	1,724
Corporate guarantees given to suppliers in connection with credit facilities granted to and utilised by subsidiaries	–	–	127,184	108,636
Corporate guarantees given to banks in connection with credit facilities granted to and utilised by subsidiaries	–	–	2,000,000	700,000
Guarantees given to banks in connection with facilities granted to and utilised by an associate	–	90,392	–	90,392
Guarantee given to a supplier in connection with credit facilities granted	–	1,801	–	–
	2,141	94,804	2,128,908	900,752

Notes to Financial Statements

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43. 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 ranging from one to two years. The terms of the leases generally require the tenants to pay security deposits.

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	7,853	9,219
In the second to fifth years, inclusive	2,471	5,831
After five years	47	–
	10,371	15,050
Equipment:		
Within one year	1,081	1,023
In the second to fifth years, inclusive	327	298
	1,408	1,321

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43. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	38,454	38,236
In the second to fifth years, inclusive	52,498	74,387
After five years	68,789	59,571
	159,741	172,194
Plant and machinery and motor vehicles:		
Within one year	343	370
In the second to fifth years, inclusive	712	405
	1,055	775

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44. COMMITMENTS

In addition to the operating lease commitments as detailed in note 43(b) above, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties under development:				
Contracted, but not provided for	29,862	651,166	–	561
Authorised, but not contracted for	–	824,115	–	819,444
	29,862	1,475,281	–	820,005
Plant and equipment and motor vehicles:				
Contracted, but not provided for	14,889	14,644	743	743
Authorised, but not contracted for	11,025	7,725	–	–
	25,914	22,369	743	743
Leasehold improvements:				
Contracted, but not provided for	2,169	3,090	–	–
Authorised, but not contracted for	–	–	–	–
	2,169	3,090	–	–
Unpaid capital contribution to jointly-controlled entities:				
Contracted, but not provided for	775	777	–	–
Unpaid capital contribution to subsidiaries:				
Contracted, but not provided for	–	–	–	651,460

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45. 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 CTS (Holdings) or its subsidiaries, associates and a jointly-controlled entity during the year which also constitute connected transactions as defined in the Listing Rules:

		Group	
		2005	2004
Name of company	Nature of transaction	HK\$'000	HK\$'000
Paid or payable to:			
(1) China Travel Hip Kee Godown Hong Kong Limited	Car parking fees	1,358	1,512
(2) China Travel Hip Kee Godown Hong Kong Limited	Storage charges	319	330
(3) CTS (Holdings)	Office rental	9,857	10,588
(4) China Travel Insurance Advisers Hong Kong Limited	Insurance premium	10,581	10,467
(5) Tai Sun Services Company Limited	Stevedoring services and coolie charges	1,313	1,214
(6) China Travel Hotel Management Services Hong Kong Limited	Hotel management fees	6,282	5,717
(7) Shenzhen Windsor Square Industrial Co., Ltd.	Hotel room rental	1,165	1,057

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45. RELATED PARTY TRANSACTIONS (Continued)

		Group	
Name of company	Nature of transaction	2005 HK\$'000	2004 HK\$'000
Received or receivable from:			
(8) China Travel Hip Kee Godown Hong Kong Limited	Application service provider services	272	312
(9) CTS (Holdings)	Hotel room rental	222	162
(10) CTS (Holdings)	Travel permit administration income (Note)	318,749	281,068
(11) CTS (Holdings)	Sale of computer equipment and commission	275	355
(12) CTS (Holdings)	Sale of visa materials	1,746	–
(13) CTS (Holdings)	Application service provider services	522	248
(14) CTS (Holdings)	Advertising and printing	501	606
(15) China Travel Computer Service H.K. Limited	Application service provider services	12,491	12,938
(16) China Travel Service (Thailand) Co. Ltd.	Sale of tourism services /products	989	867
(17) China Travel Service, Inc.	Sale of tourism services /products	619	1,096
(18) Tai Sun Services Company Limited	Management service income	–	652
(19) Hong Kong China Travel Services Investment (China) Ltd.	Sales of computer equipment and application service provider services	30	45
(20) 深圳華僑城股份有限公司	Land use rights fee	12,338	12,215
(21) 深圳華僑城水電有限公司	Water and electricity charges	20,245	19,457
(22) 北京港中旅大廈有限公司	Rental charges	4,452	

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.

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45. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) On 4 April 2005, China Travel Service Cargo (Investment) Limited, a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement to dispose of its 100% interest in Shanghai Huajian Import-Export Company to seven individuals who are either senior management or directors of CTS International Transportation Co., Ltd, a 76%-owned subsidiary of the Group, for an aggregate consideration of approximately HK\$13.5 million (RMB14.3 million). The transaction was completed on 20 July 2005.
- (c) On 14 June 2005, China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd., a wholly-owned subsidiary of the Group, entered into an agreement with China Ocean Shipping (Group) Company ("COSCO") to acquire the remaining 30% interest in CTI Cosco Travel Ltd., a then 70%-owned subsidiary of the Group for a consideration of approximately HK\$7.5 million (RMB8.0 million). The transaction was completed on 15 July 2005.
- (d) During the year, the remuneration paid/payable to the Company's directors by the Group amounted to HK\$13,102,000 (2004: HK\$10,962,000), details of which are set out in note 8 to the financial statements.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets and liabilities mainly comprises short term investments, 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.

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 each individual trade receivable to ensure that adequate impairment provisions are made against the irrecoverable amounts.

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31 December 2005

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

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.

Interest rate risk

One of the Group's most significant sources of interest rate risk is the repricing risk caused by timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank and other borrowings. The Group has an interest rate risk management policy in place to monitor and mitigate interest rate risk within tolerable risk limits.

Price risk

It is the Group's policy to measure its listed available-for-sale investments and short term investments at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. It is the Group's policy to manage this exposure by maintaining a portfolio of investment with different risk profiles.

47. POST BALANCE SHEET EVENTS

- (a) On 3 January 2006, two of the Company's wholly-owned subsidiaries, Well Done Enterprises Inc. and Hotel Metropole Holdings Limited, entered into a loan agreement for a 3-year term loan and revolving credit facilities of up to HK\$1.5 billion with Calyon, Hong Kong Branch as original lender. Details of the financing arrangement are set out in the Company's announcement dated 3 January 2006.
- (b) Subsequent to the balance sheet date and up to the date of approval of these financial statements, 45,161,543 ordinary shares of HK\$0.10 each of the Company were issued for cash 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, before expenses, of HK\$68,104,000.

48. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.