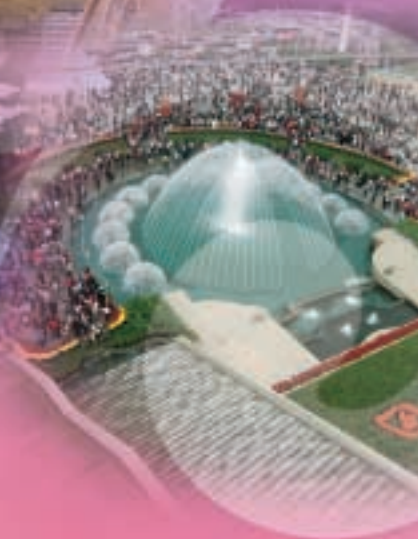


Management's Discussion and Analysis



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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

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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.

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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.



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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.

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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.



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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.



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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.

