

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.

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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.

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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

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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.

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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.

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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.

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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.

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(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:

Name of Company	Nature of transaction	Group	
		2005 HK\$'000	2004 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.

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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).

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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 (<i>Note 1</i>)	2,596,693,940	51.5%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (<i>Note 1, 3</i>)	2,596,693,940	51.5%
Foden International Limited ("FIL")	Beneficial owner (<i>Note 2</i>)	17,250,000	0.34%

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(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 <i>(Note 1)</i>	396,938,788	7.88%
CTS (Holdings)	Interest of controlled corporation and beneficial owner <i>(Note 1, 4)</i>	396,938,788	7.88%
FIL	Beneficial Owner <i>(Note 2)</i>	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.

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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.

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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