



香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00308)

2005 RESULTS ANNOUNCEMENT

FINAL RESULTS

The Board of Directors (the "Board") of China Travel International Investment Hong Kong Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
REVENUE	3	5,646,620	4,802,021
Cost of sales		<u>(4,294,424)</u>	<u>(3,605,928)</u>
Gross profit		1,352,196	1,196,093
Other income and gains	4	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	5	(55,453)	(51,863)
Share of profits and losses of:			
Jointly-controlled entities		175,598	251,193
Associates		<u>45,751</u>	<u>53,221</u>
PROFIT BEFORE TAX	6	787,891	821,277
Tax	7	<u>(102,759)</u>	<u>(114,127)</u>
PROFIT FOR THE YEAR		<u>685,132</u>	<u>707,150</u>
Attributable to:			
Equity holders of the parent		612,660	639,288
Minority interests		<u>72,472</u>	<u>67,862</u>
		<u>685,132</u>	<u>707,150</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK CENTS)	8		
Basic		12.59	15.04
Diluted		<u>12.00</u>	<u>14.55</u>
DIVIDEND PER SHARE (HK CENTS)			
Interim		3.00	5.00
Proposed final	9	<u>3.00</u>	<u>5.00</u>
		<u>6.00</u>	<u>10.00</u>

CONSOLIDATED BALANCE SHEET

31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		4,342,549	2,172,430
Investment properties		223,605	189,076
Prepaid land lease payments		3,109,552	3,072,791
Properties under development		3,270	466,112
Goodwill:			
Goodwill		1,260,837	1,259,479
Negative goodwill		–	(113,737)
Interests in jointly-controlled entities		1,375,421	1,490,831
Interests in associates		418,913	416,548
Available-for-sale equity investments		20,009	23,096
Held-to-maturity investments		15,477	–
Deferred tax assets		15,641	4,719
		<hr/>	<hr/>
Total non-current assets		10,785,274	8,981,345
CURRENT ASSETS			
Short term investments		1,427	13,008
Inventories		19,182	14,031
Trade receivables	<i>10</i>	572,914	459,635
Tax recoverable		1,580	665
Prepayments, deposits and other receivables		313,166	297,950
Pledged time deposits		4,306	4,053
Cash and cash equivalents		2,258,655	1,781,739
Amount due from ultimate holding company		27,886	31,315
Amounts due from fellow subsidiaries		5,266	3,236
		<hr/>	<hr/>
Total current assets		3,204,382	2,605,632
CURRENT LIABILITIES			
Trade payables	<i>11</i>	609,801	555,380
Tax payable		29,156	41,818
Other payables and accruals		951,616	435,269
Interest-bearing bank and other borrowings		13,311	7,430
Amounts due to fellow subsidiaries		4,509	4,492
		<hr/>	<hr/>
Total current liabilities		1,608,393	1,044,389
NET CURRENT ASSETS		<hr/> 1,595,989	<hr/> 1,561,243
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 12,381,263	<hr/> 10,542,588

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

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations (“HK-Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial results also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Except for hotel properties, investment properties and certain financial instruments, which are measured at fair value or revalued amounts, as appropriate, the consolidated financial statements have been prepared under the historical cost convention. The accounting policies and basis of preparation adopted in the preparation of the consolidated financial statements are the same as those used in the audited financial statements for the year ended 31 December 2004, except in relation to the changes in accounting policies following the first-time adoption in the current year of the new and revised HKFRSs which are effective for accounting years commencing on or after 1 January 2005.

The application of HKFRSs has resulted in a change in the presentation of the income statement and balance sheet. In particular, the presentation of minority interests, share of tax of associates and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new and revised HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented, and the impact is shown in note 2 herein:

(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 building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Except as mentioned in noted 1(c) below, this change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts on the consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of 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 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.

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

HK-Int 2 “The Appropriate Accounting Policies for Hotel Properties” clarifies the accounting policy 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. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (See note 2 for the financial impact).

(d) 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 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.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the consolidated financial statements. The effects of the above changes are summarised in note 2 to the consolidated financial statements.

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

In prior years, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve 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 lives of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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 entry to the cost of goodwill and to derecognise 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 to the consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

The following tables summarise the impact on consolidated income statement for the year ended 31 December 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKASs 39, 40 and HKFRS 3, the amounts shown for the year ended 31 December 2004 may not be comparable to the amounts shown for the current year.

(b) 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 Share of post- tax profits and losses of jointly- controlled entities and associates HK\$'000	HKAS 32 & HKAS 39 Convertible bonds and derivative financial instruments HK\$'000	HKAS 40 Surplus on revaluation of investment properties HK\$'000	HKFRS 3 Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income HK\$'000	HK(SIC)- Int 21 Deferred tax on revaluation of investment properties HK\$'000	HK-Int 2 & HKAS 17 Hotel properties 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

	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	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Hotspring resort 2004 HK\$'000	Corporate and others 2004 HK\$'000	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

	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	Travel and travel- related operations 2004 HK\$'000	Golf club operations 2004 HK\$'000	Power generation 2004 HK\$'000	Hotspring resort 2004 HK\$'000	Corporate and others 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
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	22,789	27,000	-	-	-	-	-	56,658

(b) Geographical segments

The following table presents revenue of the Group's geographical segments for the years ended 31 December 2005 and 2004.

	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
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
	<u>1,673,780</u>	<u>1,619,161</u>	<u>3,628,803</u>	<u>2,840,588</u>	<u>390,471</u>	<u>426,718</u>	<u>5,693,054</u>	<u>4,886,467</u>
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

4. Other Revenue and Gains**For the year ended 31 December**

	2005	2004
	HK\$'000	HK\$'000
Gross rental income	16,693	13,412
Interest income	43,587	21,189
Reinvestment tax credit	–	37,563
Dividend income from listed investments	–	47
Gain on disposal of items of property, plant and equipment, net	754	3,941
Exchange gains, net	7,982	8,514
Write-back of long outstanding payables	3,771	8,908
Gain on disposal of available-for-sale equity investments	1,341	–
Fair value gains on short term investments	–	248
Gain on disposal of short term investments	–	66
Gain on disposal of a jointly-controlled entity	–	1,936
Others	15,893	9,858
	<u>90,021</u>	<u>105,682</u>

5. Finance Costs**For the year ended 31 December**

	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 finance lease and hire purchase contracts	–	4
Interest on convertible bonds	6,964	39,441
	<u>55,453</u>	<u>51,863</u>

6. Profit Before Tax

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

For the year ended 31 December

	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Depreciation	157,269	153,292
Prepaid land lease payments amortisation	57,395	54,900
Revaluation surplus of investment properties	(36,882)	(30,632)
Revaluation surplus of hotel properties	(28,725)	(54,444)
Goodwill amortisation for the year	–	34,377
Negative goodwill recognised as income during the year	–	(2,586)

7. Tax

For the year ended 31 December

	2005 HK\$'000	2004 HK\$'000 (Restated)
Current:		
The People's Republic of China:		
Hong Kong	64,821	56,126
Elsewhere	39,265	35,665
Overseas	556	680
Overprovision in prior years	(1,780)	(3,648)
Deferred tax	(103)	25,304
Total tax charge for the year	<u>102,759</u>	<u>114,127</u>

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.

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.

8. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share 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 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.

9. Final Dividend

The Board has resolved to declare a final dividend of HK3 cents (2004: HK5 cents) per share for the year ended 31 December 2005. The final dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 12 May 2006. The final dividend will be paid on or around Friday, 26 May 2006.

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

	2005 HK\$'000	2004 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
	<u>572,914</u>	<u>459,635</u>

Trade receivables are non-interest bearing.

11. Trade Payables

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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
	<u>609,801</u>	<u>555,380</u>

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

12. Share Capital

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

13. Comparative Amounts

As further explained in note 1 to the financial statements, following the first-time adoption in the current year of the new and revised HKFRS which are effective for accounting periods commencing on or after 1 January 2005, 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 adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

MANAGEMENT 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 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.

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, hot spring 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.

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.

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 debts amounted to HK\$2,017 million. The net interest bearing debt to equity ratio was -0.03%

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.

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 tenders 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
HK\$1,500 million

Final maturity of the loan facilities
30 October 2007

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.

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.

FINAL DIVIDEND

The Board of Directors has resolved to recommend the payment of a final dividend of HK3 cents (2004: final dividend of HK5 cents) per ordinary share for the year ended 31 December 2005.

Subject to shareholders' approval with regard to the proposed payment of the final dividends at the forthcoming annual general meeting to be held on Friday, 12 May 2006, the proposed dividends are expected to be paid on Friday, 26 May 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 10 May 2006 to Friday, 12 May 2006, both days inclusive, for the purposes of determining entitlement to the proposed final dividends. In order to qualify for the proposed dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 May 2006. Warrant holders who wish to convert their warrants into shares in order to qualify for the proposed final dividend must lodge the duly completed subscription form together with the relevant warrant certificates accompanied by the subscription monies with the Company's Registrar not later than 4:30 p.m. on Tuesday, 9 May 2006.

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

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
		Highest HK\$	Lowest HK\$	
October 2005	1,500,000	1.55	1.52	2,295,000
	<u>1,500,000</u>			<u>2,295,000</u>

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 retained profits 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 Company.

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.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the financial year ended 31 December 2005 except for the following deviations:

- With respect to Code Provision A.1.1, the board meetings of the Company were not held at least four times a year. 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.
- 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.
- 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.
- No Remuneration Committee meeting has been held in 2005 as the board of the Company discussed the remuneration related matters briefly in one of the board meetings. The first Remuneration Committee Meeting of the Company is scheduled to be held in June 2006.

AUDIT COMMITTEE

The Audit Committee consists of 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. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed the auditing, internal controls and financial reporting matters including a review of the audited final results of the Company for the year ended 31 December 2005.

DIRECTORS

As at the date of this announcement, the Executive Directors are Messrs. Che Shujian, Zhang Xuewu, Shen Zhuying, Zheng Heshui, Lo Sui On, Zheng Hongqing, Zhang Fengchun, Ng Chi Man, Michael and Liu Li and the Independent Non-Executive Directors are Dr. Yeh Meou Tsen, Geoffrey (Mr. Yeh V Nee being the Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr Sze, Robert Tsai To.

By Order of the Board
Shen Zhuying
Vice Chairman, General Manager

Hong Kong, 28 March 2006