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香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

ONGOING CONNECTED TRANSACTIONS WAIVER RENEWAL

The Stock Exchange has previously granted a waiver to the Company from strict compliance with the announcement/shareholders' approval requirement in connection with certain ongoing connected transactions.

The waiver expired on 31 December 2003 and the Company has applied to the Stock Exchange for a new waiver in connection with the Ongoing Connected Transactions.

1. BACKGROUND INFORMATION

The Group has in the past entered into certain ongoing connected transactions with CTS Holdings Group in the following categories:

- (a) Provision of Travel Permit Administration on behalf of CTS Holdings
- (b) Provision of insurance brokerage services by CTS Holdings Group
- (c) Provision of decoration and maintenance services by CTS Holdings Group
- (d) Provision of sightseeing cruiser services by CTS Holdings Group
- (e) Sale of tourism services/products to CTS Holdings Group
- (f) Provision of stevedoring services by CTS Holdings Group
- (g) Lease arrangements
- (h) Provision of ASP related services to CTS Holdings Group

CTS Holdings is the controlling shareholder of the Company and holds about 58.95% of the issued share capital of the Company.

The Stock Exchange has previously granted a waiver to the Company from strict compliance with the announcement/shareholders' approval requirement in connection with the above categories of ongoing connected transactions. The waiver expired on 31 December 2003. The Company has applied to the Stock Exchange for a new waiver from strict compliance with the disclosure in connection with the Ongoing Connected Transactions (except for the Travel Permit Administration), and apply to the Stock Exchange for a new waiver from strict compliance with the announcement/shareholders' approval in connection with the Travel Permit Administration. Please refer to the Paragraph headed "5. Waiver for Travel Permit Administration" below.

The Ongoing Connected Transactions will continue to be conducted in the ordinary and usual course of businesses of the Group and its counter-parties, and on normal commercial terms determined on an arm's length basis. In view of past operational convenience and benefits brought to the Group, the Board considers it to be in the interest of the Group to continue to engage in the Ongoing Connected Transactions.

2. PARTICULARS OF THE ONGOING CONNECTED TRANSACTIONS

Set out below are the particulars of the Ongoing Connected Transactions:

(a) Provision of Travel Permit Administration on behalf of connected person

Transaction nature

CTS HK will continue to provide Travel Permit Administration to travel permit applicants on behalf of CTS Holdings.

Pricing basis

In accordance with the terms of the agency agreement determined on an arm's length basis between the parties, CTS Holdings should pay CTS HK 45% of the gross fee revenue from permit application for the services provided by CTS HK in relation to Travel Permit Administration.

(b) Provision of insurance brokerage services by connected person

Transaction nature

CT Insurance, a wholly-owned subsidiary of the Company's controlling shareholder, will continue to provide insurance brokerage services to the Group in relation to the selection of appropriate insurance policies and negotiation with insurance underwriters.

Pricing basis

The prices of these services shall not exceed the prevailing market price at which these services are available to the Group from independent third parties.

(c) Provision of decoration and maintenance services by connected person

Transaction nature

It is envisaged that CT Building, a wholly-owned subsidiary of the Company's controlling shareholder, may from time to time provide office decoration and maintenance services to the Group.

Pricing basis

The decoration and maintenance services to be provided by CT Building will be charged on normal commercial terms which will be determined after arm's length negotiation. The prices of these services shall not exceed the prevailing market price at which these services are available to the Group from independent third parties.

(d) Provision of sightseeing cruiser services by connected person

Transaction nature

It is envisaged that HYR Splendid, a subsidiary of the Company's controlling shareholder, may from time to time provide sightseeing cruiser services to CTS HK.

Pricing basis

The prices at which the sightseeing cruiser to be provided to CTS HK shall not exceed the prevailing market price at which similar services are available to CTS HK from independent third parties.

(e) Sale of tourism services/products to connected person

Transaction nature

CTS HK will continue to provide/sell its tourism services/products to the following connected persons, which are subsidiaries of the Company's controlling shareholder:

- (i) China Travel Service, Inc. (91.8% owned by CTS Holdings);

- (ii) China Travel Service (Thailand) Co. Ltd. (60% owned by CTS Holdings); and
- (iii) China Travel System (M) Sdn. Bhd. (a wholly-owned subsidiary of CTS Holdings).

Pricing basis

The prices at which the services/products of CTS HK are provided/sold to the connected persons mentioned in (i) to (iii) above shall not be lower than the price at which these tourism services/products are provided/sold by CTS HK to independent third parties.

(f) Provision of stevedoring services by connected person

Transaction nature

Tai Sun, a subsidiary of the Company's controlling shareholder, will continue to provide stevedoring services to the Group.

Pricing basis

The fee charged for the stevedoring services to be provided to the Group by Tai Sun shall not be higher than the fees charged by Tai Sun to independent third parties.

(g) Lease arrangements

Connected person as lessor

Transaction nature

It is envisaged that the Company, Tycoon (Hong Kong), CTS HK and CT Net will renew the respective tenancy agreements with CTS Holdings, pursuant to which, the Company, Tycoon (Hong Kong), CTS HK and CT Net will rent office premises with a lettable area of about 46,069 sq.ft. in aggregate located at CTS House, 78-83 Connaught Road Central, Hong Kong from CTS Holdings.

Rental payable by the Company

Rental: HK\$89,880 per month (inclusive of rates, Government rent, management fees and air-conditioning charges, water charges, cleaning charges and electricity charges).

Effective Date: The new tenancy agreement to be entered into by the Company with CTS Holdings shall take effect retrospectively from 1 September 2003, when the subsisting tenancy expired, and shall expire on 31 December 2006.

Rental payable by Tycoon (Hong Kong), CTS HK and CT Net

Rental: About HK\$860,678 per month (inclusive of rates, Government rent, management fees and air-conditioning charges, water charges, cleaning charges and electricity charges)

Effective Date: The new tenancy agreements to be entered into by Tycoon (Hong Kong), CTS HK and CT Net respectively with CTS Holdings shall take effect from 1 January 2004, when the current tenancy agreements expired, and shall expire on 31 December 2006.

Pricing basis

The rental and other charges charged by CTS Holdings to the Company, Tycoon (Hong Kong), CTS HK and CT Net shall not exceed the prevailing market rate.

(h) Provision of ASP related services to connected person

Transaction nature

It is envisaged that CT Net will continue to provide ASP related services to CT Computer Service, a wholly-owned subsidiary of the Company's controlling shareholder.

Pricing basis

The ASP related services to be provided by CT Net to CT Computer Service will be charged by reference to fees charged by CT Net to other independent third parties or the costs for the provision of such services plus a margin of not less than 10%, whichever is higher.

The following is a summary of the amount of connected transactions pursuant to the above-mentioned categories for each of the two years ended 31 December 2002, and the six months ended 30 June 2003:

	Year ended 31 December		Six months ended 30 June
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>(unaudited) HK\$'000</i>
(a) Provision of Travel Permit Administration on behalf of connected person	234,731	326,029	101,577
<i>The Group's turnover</i>	2,329,235	2,869,964	889,066
<i>Transaction value of item (a) expressed as a percentage against the Group's turnover</i>	10.08%	11.36%	11.43%
(b) Provision of insurance brokerage services by connected person	6,195	8,003	4,180
(c) Provision of decoration and maintenance services by connected person	4,072	544	–
(d) Provision of sightseeing cruiser services by connected person	789	924	–
(e) Sale of tourism services/products to connected persons	2,640	2,776	608
(f) Provision of stevedoring services by connected person	2,426	2,167	875
(g) Lease arrangements Connected person as lessor	8,479	13,982	7,258
(h) Provision of ASP related services to connected person	18,225	14,800	3,939
<i>Aggregate transactions value of items (b) to (h)</i>	42,826	43,173	16,860
<i>The Group's net tangible assets</i>	6,803,408	6,812,831	6,079,517
<i>Aggregate transactions value of items (b) to (h) expressed as a percentage against the Group's net tangible assets</i>	0.63%	0.63%	0.28%

3. BENEFITS OF THE ONGOING CONNECTED TRANSACTIONS

The Ongoing Connected Transactions will continue to be conducted in the ordinary and usual course of business of the Group and its counter-parties, and on normal commercial terms determined on an arm's length basis. In view of past operational convenience and benefits brought to the Group, the Board considers it to be in the interests of the Company to continue to engage in the Ongoing Connected Transactions.

RHL Appraisal Ltd., a firm of independent property valuers, has confirmed that in view of the prevailing market conditions and the rental level of similar properties at the vicinity, the rental payable under the lease arrangements as set out above are fair and reasonable .

4. DISCLOSURE REQUIREMENT AND NEW WAIVER SOUGHT

Under Chapter 14 of the Listing Rules, the Ongoing Connected Transactions will constitute connected transactions of the Company which would normally require disclosure by way of press announcement, and in the case of the transaction in connection with the Travel Permit Administration prior approval of the Independent Shareholders in an extraordinary general meeting, each time as such transaction occurs.

The Board expects that:

- (A) the aggregate annual transaction value for all the Ongoing Connected Transactions (except for the Travel Permit Administration) for each year hereafter may exceed the higher of HK\$1,000,000 or 0.03% of the net tangible assets value of the Group but below the higher of HK\$10,000,000 or 3% of the net tangible assets value of the Group; and
- (B) the annual transaction amount in connection with the Travel Permit Administration for each year hereafter may exceed the higher of HK\$10,000,000 or 3% of the net tangible assets value of the Group. However, it is expected that the transaction amount in connection with the Travel Permit Administration will not exceed the higher of HK\$10,000,000 or 3% of the net tangible assets value of the Group before the forthcoming AGM, which is expected to take place before end of June 2004.

The Board believes that strict compliance with the ongoing disclosure approval requirement in respect of the Ongoing Connected Transactions would be impractical and unduly onerous on the part of the Group as they are of a regular and continuing nature. As such, the Company has made an application to the Stock Exchange for waivers from strict compliance with Rule 14.25 of the Listing Rules in relation to the disclosure requirement under the Listing Rules in connection with all the Ongoing Connected Transactions (except for the Travel Permit Administration) with effect from 1 January 2004, on the following conditions–

- (i) the Ongoing Connected Transactions (except for the Travel Permit Administration) shall be entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
 - (c) in accordance with the relevant agreement governing them; and
 - (d) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

- (ii) the Ongoing Connected Transactions (except for the Travel Permit Administration) will not exceed the relevant caps set forth below:

In relation to all the other Ongoing Connected Transactions (except for the Travel Permit Administration) for each financial year hereafter:

Types of transactions	Annual cap on the aggregate annual transaction value for the other Ongoing Connected Transactions <i>(except for the Travel Permit Administration)</i> <i>Based on the Group's net tangible assets value</i>
(b) Provision of insurance brokerage services by connected person	
(c) Provision of decoration and maintenance services by connected person	
(d) Provision of sightseeing cruiser services by connected person	3%
(e) Sale of tourism services/products to connected persons	
(f) Provision of stevedoring services by connected person	
(g) Lease arrangements – Connected person as lessor	
(h) Provision of ASP related services to connected person	
(iii) details of the Ongoing Connected Transactions (except for the Travel Permit Administration) will be disclosed in the Company's annual report as described in Rule 14.25(1)(A) to (D) of the Listing Rules;	
(iv) the independent non-executive Directors shall review the Ongoing Connected Transactions (except for the Travel Permit Administration) annually and confirm in the Company's next annual report and accounts that the relevant Ongoing Connected Transactions (except for the Travel Permit Administration) have been entered into:	
(a) in the ordinary and usual course of business of the Group;	
(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;	
(c) in accordance with the relevant agreement governing them; and	
(d) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.	
(v) each year the auditors of the Company shall provide a letter (the " Letter ") to the Board with a copy to the Stock Exchange confirming that each of the Ongoing Connected Transactions (except for the Travel Permit Administration):	
(a) has received the approval of the Board;	
(b) has been entered into in accordance with the terms of the relevant agreement governing such transaction;	

- (c) has not exceeded the relevant cap amount set out in paragraph (ii) above; and
- (d) are in accordance with the pricing policies of the Group if the transactions involve provisions of goods or services by the Group.

Where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Stock Exchange as soon as practicable.

- (vi) In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of the proposed waiver application on transactions of the kind to which the Ongoing Connected Transactions (except for the Travel Permit Administration) belong, the Company will take immediate steps to ensure compliance with such requirements within a reasonable period.

The annual caps for the Ongoing Connected Transactions (except for the Travel Permit Administration) as set out in paragraph (ii) above are determined with reference to historical transaction value and taking into account the need to allow flexibility to cope with future business demands.

5. WAIVER FOR TRAVEL PERMIT ADMINISTRATION

The Board expects that the transaction amount in connection with the Travel Permit Administration will not exceed the higher of HK\$10,000,000 or 3% of the net tangible assets value of the Group before the forthcoming AGM, which is expected to take place before end of June 2004.

As such, the Company will make an application to the Stock Exchange to seek a waiver from strict compliance with Rule 14.26 of the Listing Rules in relation to the disclosure and shareholders' approval requirement under the Listing Rules in connection with the Travel Permit Administration, before the cap of 3% is exceeded. It is envisaged that the shareholders' approval required for such further waiver application in relation to Travel Permit Administration could be obtained in the AGM or an extraordinary general meeting held immediately after the AGM. A further announcement will be made when such an application is made.

The Company will monitor the value of the transactions in connection with the Travel Permit Administration during the period before the AGM and ensure compliance with the Listing Rules in relation thereto.

6. DEFINITIONS

“AGM”	the forthcoming annual general meeting of the Company
“ASP”	internet and computer application service provider
“Board”	the board of Directors
“Company”	China Travel International Investment Hong Kong Limited (香港中旅國際投資有限公司)
“connected person”	as defined in the Listing Rules
“CT Building”	China Travel Building Contractors Hong Kong Limited (香港中旅建築有限公司), a wholly-owned subsidiary of CTS Holdings
“CT Computer Service”	China Travel Computer Services (HK) Limited (香港中旅電腦服務有限公司), a wholly-owned subsidiary of CTS Holdings
“CT Insurance”	China Travel Insurance Advisers Hong Kong Limited (香港中旅保險顧問有限公司), a wholly-owned subsidiary of CTS Holdings

“CT Net”	China Travel Net Limited (中旅網絡有限公司), a wholly-owned subsidiary of the Company
“CTHT”	China Travel Hi-Tech Computer Hong Kong Limited (香港中旅科技電腦有限公司), a wholly-owned subsidiary of CT Net and the Company
“CTS HK”	China Travel Service (Hong Kong) Limited (香港中國旅行社有限公司), a wholly-owned subsidiary of the Company
“CTS Holdings”	China Travel Service (Holdings) Hong Kong Limited (香港中旅(集團)有限公司), a company interested in 58.95% of the issued share capital of the Company and a connected person of the Company
“CTS Holdings Group”	CTS Holdings and its subsidiaries
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HYR Splendid”	Hubei Yangtze River Splendid China Cruise Co. Ltd. (湖北揚子江錦繡中華游船有限公司), a subsidiary of CTS Holdings
“Independent Shareholder(s)”	the shareholder(s) of the Company other than CTS Holdings and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ongoing Connected Transactions”	the connected transactions to be entered into/or to be continued between the Group and its connected persons on an ongoing basis as described in the paragraph headed “Particulars of the Ongoing Connected Transactions” above
“PRC”	The People’s Republic of China
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Sun”	Tai Sun Services Company Limited (大新服務有限公司), a subsidiary of CTS Holdings
“Travel Permit Administration”	the general administration services provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC
“Tycoon (Hong Kong)”	Shenzhen Tycoon Golf Club Co., Limited (深圳聚豪會高爾夫球會有限公司), a wholly-owned subsidiary of the Company

By Order of the Board of
China Travel International Investment Hong Kong Limited
Shen Zhuying
Vice Chairman, General Manager

Hong Kong, 12 January 2004