



香港中旅國際投資有限公司 CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code: 308)

(incorporated in Hong Kong under the Companies Ordinance)

COMPLIANCE WITH THE REVISED LISTING RULES IN RELATION TO THE CONTINUING CONNECTED TRANSACTION IN CONNECTION WITH TRAVEL PERMIT ADMINISTRATION

CTS HK, a wholly-owned subsidiary of the Company, has been providing general administration services in Hong Kong for applications for tourist visas and travel permits for entry into the PRC to CTS Holdings, a substantial shareholder of the Company, as continuing connected transaction since 2001.

CTS HK will continue to provide Travel Permit Administration during its ordinary and usual course of business. 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. As such, the continuing provision of Travel Permit Administration will be classified as non-exempt continuing connected transaction of the Company under Rule 14A.35 of the Listing Rules.

The Stock Exchange had granted a waiver to the Company from strict compliance with the continuing announcement/shareholders' approval requirements in connection with Travel Permit Administration. As such waiver has expired, the Company will convene the EGM to seek Independent Shareholders' approval.

A circular containing the particulars of Travel Permit Administration, a letter from the Independent Board Committee, a letter from the independent financial adviser and the notice convening the EGM, will be despatched to Shareholders as soon as practicable.

1. BACKGROUND INFORMATION

The principal businesses of the Group include tour operations, theme parks, hotel operations, passenger and freight transportation, golf club and infrastructure investments.

CTS HK, a wholly owned subsidiary of the Company, and CTS Holdings, a company interested in 58.95% of the issued share capital of the Company, entered into an agreement on 15 May 2001 (the "Agency Agreement") to document the transactions relating to Travel Permit Administration for a fixed term of 46 years (the "Continuing Connected Transaction"). Travel Permit Administration became a continuing connected transaction of the Company on 15 May 2001, when the Company's acquisition of CTS HK from CTS Holdings completed (the "Acquisition").

Both the Acquisition and the Continuing Connected Transaction were approved on 4 May 2001 by Independent Shareholders.

CTS HK will continue the Continuing Connected Transaction 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. As such, the Continuing Connected Transaction will be classified as non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules.

The Stock Exchange had granted a waiver to the Company from strict compliance with the continuing announcement/shareholders' approval requirements in connection with Travel Permit Administration. Please refer to the Company's announcement dated 12 January 2004 for details of the expiry of the waiver.

As such waiver expired after 31 December 2003, the Company will convene the EGM to seek Independent Shareholders' approval.

2. PARTICULARS OF TRAVEL PERMIT ADMINISTRATION

Set out below are the particulars of the Travel Permit Administration:

Transaction nature

CTS HK and CTS Holdings agreed that CTS HK would provide general administration services in Hong Kong to CTS Holdings for applications for tourist visas and travel permits for entry into the PRC, for a fixed term until 30 June 2047.

Pricing basis

In accordance with the terms of the Agency Agreement CTS Holdings should pay CTS HK, on a monthly basis, 45% of the gross fee revenue from permit application for the services provided by CTS HK in relation to Travel Permit Administration. The rate of 45% was determined on an arm's length basis between the parties having taking into account the necessary resources which CTS HK are required to commit to Travel Permit Administration.

Term of the Agency Agreement

CTS HK and CTS Holdings entered into the Agency Agreement on 15 May 2001 to document the transaction relating to Travel Permit Administration for a fixed term of 46 years. The 46-year term of the Agency Agreement was part and parcel of the term of the Acquisition, which was then approved by the Independent Shareholders. The Company believes that a fixed contractual term of 46 years enabling CTS HK to provide Travel Permit Administration until 2047 (i.e. 50 years after 1997) is necessary and is in the best interests of the Company.

The Directors (including the independent non-executive directors whose opinion will be included in the circular to be despatched to Shareholders) consider that the term of the Agency Agreement are fair and reasonable, and in the best interests of the Company and the Shareholders as a whole.

Historical figures

The following is a summary of the amount of continuing connected transactions in connection with Travel Permit Administration for each of the three years ended 31 December 2003:

	Year ended 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Provision of Travel Permit Administration on behalf of connected person	234,731	326,029	241,490
Turnover of the relevant financial period	2,755,837 (Re-stated) (Note)	3,401,695 (Re-stated) (Note)	3,300,916
Transaction value expressed as a percentage against turnover	8.52%	9.58%	7.32%

Note: Starting from 2003, the Group has aligned the accounting policy of certain PRC subsidiary with those subsidiaries in Hong Kong so that the turnover from such PRC subsidiary is recorded at the invoiced sales amount and direct cost are recorded as cost of sales. Further details of such change in accounting policy will be set out in the annual report of the Company for the year 2003.

3. BENEFITS OF CONTINUING CONNECTED TRANSACTION

CTS HK is the only commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out Travel Permit Administration on behalf of CTS Holdings. In view of past operational convenience and benefits brought to the Group, the Board (including the independent non-executive directors whose opinion will be included in the circular to be despatched to the Shareholders) considers it to be in the interests of the Company to continue to engage in Travel Permit Administration and that the terms of the Continuing Connected Transaction are fair and reasonable and in the interests of the Shareholders as a whole.

4. OTHER INFORMATION FOR THE SHAREHOLDERS

The Company proposes to set the maximum aggregate annual value for the Continuing Connected Transaction at HK\$410 million (the "Cap") for a term of not more than three years ending 31 December 2006 on the condition that the Company would re-comply with the Listing Rules when the term of the Cap expires. The Cap

was determined based on historical transaction amounts, taking into account the expected growth in Hong Kong-PRC leisure and business travel in the next few years, and is arrived at with reference to a projected 8% per annum increase based on the highest amount of annual revenue derived from Travel Permit Administration for the last three financial years. If during the period ending 31 December 2006 the aggregate annual value of the Continuing Connected Transaction exceeds the Cap or there is a material change to the Agency Agreement, the Company will take necessary steps to ensure compliance with the Listing Rules.

The Continuing Connected Transaction will also be subject to the annual review requirement and the reporting requirement respectively under Rules 14A.37 to 14A.41, and Rules 14A.45 and 14A.46 of the Listing Rules.

An EGM will be convened to seek Independent Shareholders' approval for the Continuing Connected Transaction (including the Cap). In view of the interest of CTS Holdings and its associates in the Continuing Connected Transaction, CTS Holdings and its associates (as defined in the Listing Rules) will abstain from voting at the EGM in this regard. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

An independent board committee has been appointed to advise the Independent Shareholders whether or not to vote in favour of the Continuing Connected Transaction. Watterson Asia Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders on whether the Continuing Connected Transaction (including the Cap and the term of the Agency Agreement) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

A circular containing the particulars of Travel Permit Administration, a letter from the Independent Board Committee, a letter from the independent financial adviser and the notice convening the EGM, will be despatched to Shareholders as soon as practicable.

5. DEFINITIONS

"Acquisition"	the Company's acquisition of CTS HK from CTS Holdings as described above
"Agency Agreement"	the agency agreement dated 15 May 2001 between CTS HK and CTS Holdings in relation to Travel Permit Administration
"Board"	the board of Directors
"Cap"	HK\$410 million, being the maximum aggregate annual value for the Continuing Connected Transaction as proposed by the Company
"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
"Continuing Connected Transaction"	the connected transaction in connection with Travel Permit Administration to be continued between the Group and its connected person on an ongoing basis and as described above
"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
"Directors"	the directors of the Company, namely, Mr. Che Shujian, Mr. Zhang Xuewu, Mr. Shen Zhuying, Mr. Zheng Heshui, Mr. Lo Sui On, Mr. Chen Shoujie, Mr. Zheng Hongqing, Mr. Zhang Fengchun, Mr. Ng Chi Man, Michael, Mr. Liu Li, Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee (Alternative Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter
"EGM"	the extraordinary general meeting of the Company to be held to consider and approve, if thought fit, amongst other things, the Continuing Connected Transaction
"Group"	the Company and its subsidiaries
"Independent Board Committee"	an independent committee of the Board appointed by the Board to advise the Independent Shareholders in respect of the Continuing Connected Transaction, comprising the independent non-executive directors, namely, Mr. Yeh V Nee (Alternative Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter
"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
"PRC"	The People's Republic of China
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Travel Permit Administration"	the general administration services provided in Hong Kong for applications for tourist visas and travel permits for entry into the PRC

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

Hong Kong, 16 April 2004

Please also refer to the published version of this announcement in The Standard and Hong Kong Economic Times.