
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in China Travel International Investment Hong Kong Limited (“Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.



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)

(Stock Code: 0308)

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

**Independent financial adviser to the Independent Board Committee of
China Travel International Investment Hong Kong Limited**

Watterson Asia Limited

A letter from the Independent Board Committee is set out on page 10 of this Circular. A letter from Watterson Asia Limited containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 12 to 15 of this Circular.

A notice convening an extraordinary general meeting of the Company to be held at Cafe du Parc, 2/F., Metropark Hotel, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Thursday, 13 May 2004 at 2:31 p.m. (or as soon thereafter as the annual general meeting of the Company convened for the same date and place, shall have been concluded or adjourned) is set out on pages 21 to 22 of this circular. Whether or not you are able to attend the meeting, please complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the registered office of the Company at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong as soon as possible and, in any event, by no later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

Hong Kong, 19 April 2004

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DEFINITIONS

In this Circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2003 Annual Report”	the Company’s annual report for the year ended 31 December 2003, a copy of which is to be delivered to you on or about 19 April 2004
“Acquisition”	the Company’s acquisition of CTS HK from CTS Holdings as described below
“Agency Agreement”	the agency agreement dated 15 May 2001 between CTS HK and CTS Holdings in relation to Travel Permit Administration
“AGM”	the annual general meeting of the Company to be held at 2:30 p.m. convened for the same date and place as the Extraordinary General Meeting
“associate”	as defined in the Listing Rules
“Board”	board of Directors
“Business Day”	any day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for business
“Cap”	HK\$410 million, being the maximum aggregate annual value for the Continuing Connected Transaction as proposed by the Company
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	China Travel International Investment Hong Kong Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“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 below

DEFINITIONS

“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
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at 2:31 p.m. (or as soon thereafter as the AGM shall have been concluded or adjourned), notice of which is set out on pages 21 to 22 of this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising, Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah and Mr. Wong Man Kong, Peter, all of whom are independent non-executive directors
“Independent Shareholder(s)”	the shareholder(s) of the Company other than CTS Holdings and its associates
“Latest Practicable Date”	15 April 2004, being the latest practicable date prior to the printing of this Circular for ascertaining certain information for inclusion in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	as defined in the Listing Rules
“Travel Permit Administration”	the general administration services provided in Hong Kong for applications for tourist visas and travel permits for entry into the PRC
“Watterson Asia”	Watterson Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction, is a registered investment adviser and dealer under the SFO
“HK\$” and “cents”	Hong Kong dollars and Hong Kong cents respectively

LETTER FROM THE BOARD



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)

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
Mr. Zheng Hongqing
Mr. Zhang Fengchun
Mr. Ng Chi Man, Michael
Mr. Liu Li

Registered Office:

12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

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

19 April 2004

To Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

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 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**”).

LETTER FROM THE BOARD

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

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 announced on 19 April 2004 to convene the EGM to seek Independent Shareholders' approval as required under the Listing Rules for the new Cap for the Continuing Connected Transaction.

The purpose of this circular is to provide you with the particulars of Travel Permit Administration, the letter from the Independent Board Committee, the letter from the independent financial adviser/to the Independent Board Committee and the Independent Shareholders and to seek your approval on the Continuing Connected Transaction.

2. PARTICULARS OF TRAVEL PERMIT ADMINISTRATION

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

Transaction nature

Pursuant to the Agency Agreement, 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 from 15 May 2001 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.

LETTER FROM THE BOARD

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 of the Company. 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 is set out in the section headed “Letter from the Independent Board Committee” in this circular) 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	2002	2003
	HK\$ '000	HK\$ '000	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) <i>(Note)</i>	3,401,695 (Re-stated) <i>(Note)</i>	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 were set out in the 2003 Annual Report.

LETTER FROM THE BOARD

3. BENEFITS OF CONTINUING CONNECTED TRANSACTION

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

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 is set out in the section headed "Letter from the Independent Board Committee" in this circular) 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 of the Company as a whole.

4. INFORMATION FOR THE SHAREHOLDERS

The Directors expect the aggregate annual value of the Continuing Connected Transaction will exceed 2.5% under the revenue test under Rule 14.07 of the Listing Rules or HK\$10,000,000, and will therefore be subject to disclosure and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

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 level of the Cap was arrived at taking into account the internal management projected turnover figures attributable to Travel Permit Administration for the three financial years ended 31 December 2006.

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.

LETTER FROM THE BOARD

5. EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting is set out on pages 21 to 22 of this circular.

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong no later than 48 hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting if you so wish.

6. POLL PROCEDURE

As at the Latest Practicable Date, CTS Holdings was interested in 58.95% of the issued share capital of the Company and a connected person of the Company. 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 Extraordinary General Meeting in this regard. The votes to be taken at the Extraordinary General Meeting will be taken by poll, the results of which will be announced after the Extraordinary General Meeting.

Under the Company's Articles of Association, a poll can be demanded by

- (a) the Chairman;
- (b) at least three members present in person or by proxy;
- (c) any member or members present in person or by proxy and representing not less than one tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) any member or members present in person or by proxy and holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Chairman will demand a poll at the Extraordinary General Meeting.

LETTER FROM THE BOARD

7. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 10 of this Circular which contains its recommendation to the Independent Shareholders as to voting at the Extraordinary General Meeting regarding the Continuing Connected Transaction. Your attention is also drawn to the letter of advice received from Watterson Asia which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction and the principal factors and reasons considered by it in concluding its advice. The letter from Watterson Asia is set out on pages 12 to 15 of this Circular.

Your attention is also drawn to the additional information set out in the appendix to this Circular.

Yours faithfully,

By Order of the Board

China Travel International Investment Hong Kong Limited

Che Shujian

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

To the Independent Shareholders

19 April 2004

Dear Sir or Madam,

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

We refer to the circular dated 19 April 2004 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Continuing Connected Transaction and to advise the Independent Shareholders whether, in our opinion, the terms of the Continuing Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned. Watterson Asia has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transaction (including the Cap and the term of the Agency Agreement).

We wish to draw your attention to the letter from the Board set out on pages 4 to 9 of the Circular which contains, inter alia, information about the Continuing Connected Transaction, and the letter of advice from Watterson Asia set out on pages 12 to 15 of the Circular which contains its advice in respect of the terms of the Continuing Connected Transaction (including the Cap and the term of the Agency Agreement).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taking into account the advice of Watterson Asia, we consider the terms of the Continuing Connected Transaction (including the Cap and the term of the Agency Agreement), to be fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Continuing Connected Transaction and the Cap.

Yours faithfully,

The Independent Board Committee

Mr. Yeh V Nee

(Alternate Director to Dr. Yeh Meou Tsen, Geoffrey)

Dr. Fong Yun Wah

Mr. Wong Man Kong, Peter

Independent Non-Executive Directors

LETTER FROM WATTERSON ASIA

The following is the text of a letter received from Watterson Asia setting out its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transaction for inclusion in this Circular.

Watterson Asia Limited

19 April 2004

The Independent Board Committee and the Independent Shareholders of
China Travel International Investment Hong Kong Limited
12th Floor, CTS House
78 – 83 Connaught Road Central
Hong Kong

Dear Sirs,

Continuing Connected Transaction In connection with Travel Permit Administration in Hong Kong

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the Continuing Connected Transaction as described in the letter from the Board contained in the document dated 19 April 2004 to the Shareholders (the “**Circular**”). Our letter is made for incorporation into the Circular.

Background and details for the Continuing Connected Transaction are set out in the letter from the Board in the Circular. Our role as independent financial adviser is to give our opinion as to whether the terms of the Continuing Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned. Capitalised terms used in this letter have the same meanings as defined in the Circular.

In putting forth our recommendations in respect of the Continuing Connected Transaction, we have relied on the Company to provide us with all relevant information including the Agency Agreement and the fees generated by CTS HK in respect of the provision of Travel Permit Administration’s services to both residents of Hong Kong SAR and Taiwan for the five years to 31 December 2003. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation.

The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation or audit into the businesses or affairs of the Company or any of its subsidiaries.

LETTER FROM WATTERSON ASIA

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO CONTINUING CONNECTED TRANSACTION

In arriving at our opinion on the terms of the Continuing Connected Transaction, we have taken into consideration the following factors and reasons:

Background and reasons for the Continuing Connected Transaction

The Group is one of Hong Kong's most established travel related and hotel investment companies. It operates package tours to Hong Kong and Macau for PRC residents, passenger transportation services between Hong Kong, Macau and the Pearl River Delta as well as theme parks and golf clubs in Shenzhen. In addition, the Group owns and operates four hotels in Hong Kong and one in Macau.

CTS Holdings, being a substantial shareholder of the Company, has been entrusted by the PRC Central Government to administer the issue of travel permits and tourist visas to Chinese residents in Hong Kong and Taiwan. On 15 May 2001, CTS HK, a wholly owned subsidiary of the Company, entered into the Agency Agreement with CTS Holdings to document the transactions relating to the provision of Travel Permit Administration in Hong Kong for a fixed term of 46 years to 30 June 2047. The above ongoing connected transaction was approved by Independent Shareholders on 4 May 2001 under the old Listing Rules. Following the promulgation of the new Listing Rules, which became effective on 31 March 2004, ongoing connected transactions that exceed 2.5% of the Group's total turnover or HK\$10 million will have to be subject to the approval of Independent Shareholders. Pursuant to the Agency Agreement, CTS HK expects its annual turnover to be generated from Travel Permit Administration for each year, beginning 2004, will exceed 2.5% of the Group's total turnover or HK\$10 million. Consequently, the Continuing Connected Transactions will be classified as non-exempt continuing connected transactions under the new Listing Rules, which requires the approval of Independent Shareholders. In addition, under the new Listing Rules, the period of the agreement in connection with the ongoing connected transactions must not exceed three years. However, we note that the Agency Agreement was signed in 2001 and that it is a legally binding contract between CTS Holdings and CTS HK. Consequently, under the circumstance, the option available to the Group is to seek the approval of the Independent Shareholders of the terms of the Continuing Connected Transaction again and that of the Cap amount in relation to the above for the three years to 31 December 2006.

Terms of the Agency Agreement

Under the Agency Agreement, CTS HK will be responsible for providing general administrative services in Hong Kong to those applying for travel permits and tourist visas for entry into the PRC whereas CTS Holdings will be responsible for liaising with the relevant PRC Government for the processing of such applications in the PRC. In this connection, CTS

LETTER FROM WATTERSON ASIA

HK is responsible for costs associated with receiving and despatching travel permits and tourist visas in Hong Kong whereas costs relating to the handling of such applications between CTS Holdings and the issuing authority within the PRC Government is borne by CTS Holdings. Under the Agency Agreement, CTS HK and CTS Holdings will each be entitled to 45% and 55% of gross fee revenue from such permit applications respectively.

So far as the Group is concerned, Travel Permit Administration service is an ancillary services attached to its own CTS HK travel agencies' branches in Hong Kong. Currently, twelve of the CTS HK travel agency branches, out of a total of 38 in Hong Kong, offer such Travel Permit Administration services. For the three years ended 31 December 2003, the Group's revenue derived from the provision of Travel Permit Administration services amounted to approximately HK\$234.7 million, HK\$326.0 million and HK\$241.5 million respectively, representing approximately 8.5%, 9.6% and 7.3% of the Group's total turnover during the above period. We understand from the Company that there was no increase in charges per travel permit and tourist visa issued during the three years to 31 December 2003.

As the Group's servicing cost relating to receiving and despatching travel permits and tourist visas from applicants in Hong Kong is minimal and that the provision of such services brings in significant revenue and cash flow to the Group, we are of the opinion that the Agency Agreement is beneficial to the Group and that the terms are fair and reasonable to the Independent Shareholders.

The term of the Agency Agreement is for a period up to 30 June 2047 (i.e. fifty years from the revision of sovereignty of Hong Kong from Britain to the PRC on 1 July 1997). As revenue from Travel Permit Administration services is expected to grow, from additional visitors to the PRC and/or from an increase in travel permit and visa fees from applicants, the Group is expected to benefit in this regard. On that basis, we are of the view that the term of the Agency Agreement, which was approved by the Independent Shareholders in May 2001, is in the interest of the Group and is fair and reasonable so far as the Independent Shareholders are concerned.

The Cap

For the three years ended 31 December 2003, the Group's revenue derived from the provision of Travel Permit Administration services amounted to approximately HK\$234.7 million, HK\$326.0 million and HK\$241.5 million respectively. We understand from the Group that CTS HK started Travel Permit Administration arrangement with CTS Holdings in March 2001; as such, annualised revenue in respect of such services in 2001 amounted to approximately HK\$302.5 million.

LETTER FROM WATTERSON ASIA

Compared to the figure above in 2001, revenue from Travel Permit Administration services in 2002 increased by approximately 7.8%. This was due to increased travelling to the PRC and the fact that re-entry travel permit was changed from a booklet into a card format beginning in late 1999. As it is more convenient to carry a card for travelling purpose, applications for new travel permit cards increased gradually.

Revenue derived from Travel Permit Administration Services in 2003 dropped by approximately 25.9%, compared to 2002. This was due to the effect of Severe Acute Respiratory Syndrome (SARS) in the PRC, Hong Kong and Taiwan. As a result of the SARS outbreak, travel restrictions were implemented in PRC, Hong Kong and Taiwan for the period from April to June 2003. These restrictions had the effect of curtailing the applications of travel permits by Hong Kong and Taiwanese residents during the above period. Consequently, we are of the view that the revenue for 2003 cannot be relied upon as a base for determining the Cap amount for the next three years.

We understand the Cap amount of HK\$410 million is arrived at based on a projected 8% per annum increase in revenue growth from the provision of such services for the three years to 2006. Such increase was made based on the revenue of HK\$326.0 million derived from such services in 2002. Given that the revenue growth rate achieved in 2002 was 7.8%, we are of the view that the Cap amount so derived is fair and reasonable. More importantly, we believe that the provision of the Travel Permit Administration services is beneficial to the Group. Consequently, we are of the view that the Cap amount so determined is fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Group and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Continuing Connected Transaction is on normal commercial terms, in the ordinary course of business and beneficial to the Group and the Shareholders as a whole; and that the terms of the Agency Agreement, including the Cap, are fair and reasonable and in the interest of the Company and the Independent Shareholders. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Continuing Connected Transaction for the three years to 31 December 2006 on the condition that the Cap amount will be not more than HK\$410 million at the upcoming Extraordinary General Meeting.

Yours faithfully,
For and on behalf of
WATTERSON ASIA LIMITED
David Tsang
Managing Director

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up.

DISCLOSURE OF INTERESTS**(A) Interests of Directors and Chief Executives**

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

All interests disclosed below represent long position in shares of the Company:

Long position in shares of the Company:

Name of Director	Notes	Number of Shares held			Total	% of the issued share capital
		Personal Interests	Corporate Interests	Other Interests		
Mr. Shen Zhuying		2,500,000	—	—	2,500,000	0.059%
Dr. Yeh Meou Tsen, Geoffrey		8,300,000	—	—	8,300,000	0.196%
Dr. Fong Yun Wah	1,2	—	50,000	502,000	552,000	0.013%

Notes: 1. These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested pursuant to Divisions 7 and 8 of Part XV of the SFO.

2. These shares are beneficially owned by certain charitable foundation in which Dr. Fong Yun Wah is the chairman and has non-beneficial interests.

- (i) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.
- (ii) as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2003 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (iii) as at the Latest Practicable Date, none of the Directors are materially interested in any contract or arrangement which was significant in relation to the business of the Group taken as a whole.

(B) Interests of shareholders discloseable pursuant to the SFO

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the shares of the Company:

Name of Shareholders	Notes	Number of issued shares held	% of the issued share capital
Foden International Limited (“ Foden ”)	<i>1</i>	17,250,000	0.41%
CTS Holdings	<i>1, 2</i>	2,494,693,940	58.95%
China Travel Service Head Office of the PRC (“ CTS-PRC ”)	<i>2</i>	2,494,693,940	58.95%

Notes: 1. 17,250,000 shares are held by Foden which is a wholly-owned subsidiary of CTS Holdings.

2. 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.

All interests disclosed above represent long position in shares of the Company.

(C) Substantial shareholding in other members of the Group

The Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

LITIGATION

As at the Latest Practical Date, the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

CONSENT AND EXPERT

Watterson Asia has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and set out in this Circular and references to its name in the form and context in which they respectively appear in this Circular.

QUALIFICATION OF EXPERT

The following is the qualification of the expert which has given its opinion or advice which is contained in this Circular:

Name	Qualification	Date of opinion	Nature of opinion or advice
Watterson Asia Limited	Deemed licensed under the SFO to advise on securities and corporate finance, to deal in securities, and to engage in asset management	19 April 2004	Letter of advice to the Independent Board Committee

As at the Latest Practicable Date, Watterson Asia does not have any shareholding interest, directly or indirectly, in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any members of the Group.

As at the Latest Practicable Date, Watterson Asia does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up.

LANGUAGE

In the event of inconsistency, the English text of this Circular will prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Agency Agreement is available for inspection at the registered office of the Company at 12th Floor, CTS House, 78-83 Connaught Road, Central, Hong Kong, during normal business hours on any weekday (Saturdays and Sundays excepted) up to and including 12 May 2004.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Travel International Investment Hong Kong Limited (the “**Company**”) will be held at Cafe du Parc, 2/F., Metropark Hotel, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Thursday, 13 May 2004 at 2:31 p.m. (or as soon thereafter as the annual general meeting of the Company convened for the same date and place, shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:-

“**THAT** the Continuing Connected Transaction (as defined and described in the circular to the shareholders of the Company dated 19 April 2004 (the “**Circular**”), a copy of which has been produced to the meeting marked “A” and signed by the Chairman hereof for the purpose of identification) for the three financial years ending 31 December 2006 be and are hereby approved on the condition that the annual aggregate transaction value thereof shall not exceed HK\$410 million each year AND the directors of the Company be and are hereby authorised to sign, execute and deliver all such documents and take all such actions as they may consider necessary or desirable for the purpose of or in connection with the Continuing Connected Transaction.”

By Order of the Board
WOO WAI SEE, ALICE
Company Secretary

Hong Kong, 19 April 2004

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to attend and, vote instead of him. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.
- (2) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (3) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's registered office at 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong, by no later than 48 hours before the time appointed for holding of the meeting.

- (4) In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

- (5) The votes to be taken at the meeting will be taken by poll.