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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in China Travel International Investment Hong Kong Limited, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)  
(Stock Code: 00308)

**RENEWAL OF CONTINUING CONNECTED TRANSACTION  
IN CONNECTION WITH TRAVEL PERMIT ADMINISTRATION**

**Independent financial adviser to the Independent Board Committee  
and Independent Shareholders**



**SOMERLEY LIMITED**

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A letter from the Board is set out on pages 3 to 8 of this circular and a letter from Independent Board Committee is set out on page 9 of this circular. The text of a letter of advice from Somerley Limited to the Independent Board Committee and Independent Shareholders is set out on pages 10 to 16 of this circular.

A notice convening an EGM of the Company to be held at 2:30 p.m. on Friday, 22 December 2006 at Cafe du Parc, 2/F, Metropark Hotel Causeway Bay Hong Kong, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong is set out on page 24 of this circular.

Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon 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 delivery of the proxy form shall not preclude you from attending and voting at the Extraordinary General Meeting or any adjournment thereof should you so wish.

5 December 2006

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the following terms and expressions shall have the following meanings:*

“Acquisition”	the Company’s acquisition of CTS HK from CTS Holdings as described in this circular
“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”	the maximum aggregate annual value for the Travel Permit Administration 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), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“connected person”, “substantial shareholder(s)”	each of which has the meaning ascribed to it under the Listing Rules
“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 52.56% of the issued share capital of the Company and a connected person of the Company
“Directors”	the directors of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at Cafe du Parc, 2/F, Metropark Hotel Causeway Bay Hong Kong, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Friday, 22 December 2006 at 2:30 p.m. to consider and approve, if thought fit, amongst other things, the Travel Permit Administration and the Cap, a notice of which is set out on page 24 of this circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board appointed by the Board to advise the Independent Shareholders in respect of the Travel Permit Administration, comprising the independent non-executive directors, namely, Dr. Yeh Meou Tsen, Geoffrey (Mr. Yeh V Nee being the alternative Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To
“Independent Shareholder(s)”	the shareholder(s) of the Company other than CTS Holdings and its associates
“Latest Practicable Date”	1 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information 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)
“Shareholder(s)”	shareholder(s) of the Company
“Sommerley Limited”	Sommerley Limited, a corporation licensed to carry on type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Travel Permit Administration
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 by CTS HK to CTS Holdings

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## LETTER FROM THE BOARD

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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)*

(Stock Code: 00308)

*Executive Directors: –*

Mr. Zhang Xuewu (*Chairman*)

Mr. Xiong Weiping (*Vice Chairman, General Manager*)

Mr. Zheng Heshui (*Vice Chairman*)

Mr. Lo Sui On (*Vice Chairman*)

Mr. Zheng Hongqing

Ms. Jiang Yan

Mr. Mao Jianjun

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

Mr. Sze, Robert Tsai To

5 December 2006

*To the Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION IN CONNECTION WITH TRAVEL PERMIT ADMINISTRATION**

#### **1. BACKGROUND INFORMATION**

Reference is made to the announcement made by the Company dated 16 April 2004 and the circular of the Company dated 19 April 2004 in connection with Travel Permit Administration.

CTS HK and CTS Holdings entered into the Agency Agreement on 15 May 2001 to document the transactions relating to Travel Permit Administration for a fixed term of 46 years. Travel Permit Administration became a continuing connected transaction of the Company on 15 May 2001 when the Acquisition was completed.

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## LETTER FROM THE BOARD

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At the extraordinary general meeting of the Company held on 13 May 2004, the then Independent Shareholders approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and the maximum aggregate annual value of HK\$410 million for the Travel Permit Administration for each of the three years ending 31 December 2006. As the Agency Agreement has not expired and remains in force until 30 June 2047, the Cap under the Agency Agreement for three years ending 31 December 2009 is required to comply with the Listing Rules.

CTS Holdings is a substantial shareholder of the Company, and thus a connected person of the Company. It is expected that the annual turnover to be generated from Travel Permit Administration for three years ending 31 December 2009 will exceed 2.5% of the Group's total turnover. Accordingly, the continuing provision of Travel Permit Administration will be classified as a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and will need to comply with the relevant disclosure and independent shareholders' approval requirements in accordance with Chapter 14A of the Listing Rules.

The Company will convene the EGM to seek Independent Shareholders' approval on the Travel Permit Administration and the Cap for three years ending 31 December 2009.

The Independent Board Committee has been set up to advise the Independent Shareholders on the terms of the Travel Permit Administration (including the Cap and the term of the Agency Agreement). Somerley Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. The recommendation of the Independent Board Committee and the advice of Somerley Limited are also included in this circular.

The purpose of this circular is (i) to provide you with further information on the Travel Permit Administration (including the Cap and the term of the Agency Agreement); (ii) to set out the opinions and recommendations of the Independent Board Committee and Somerley Limited; and (iii) to give you notice of the EGM at which the resolutions set out therein will be proposed. An EGM will be held on Friday, 22 December 2006 for the purpose of, inter alia, obtaining the approval from the Independent Shareholders for the Travel Permit Administration (including the Cap and the term of the Agency Agreement) by way of poll. CTS Holdings and its associates (as defined under the Listing Rules) will abstain from voting at the EGM.

Notice of the EGM is set out on page 24 in the circular.

## 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 the application for tourist visas and travel permits for entry into the PRC, for a fixed term until 30 June 2047.

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## LETTER FROM THE BOARD

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### **Pricing basis**

In accordance with the terms of the Agency Agreement determined on an arm's length basis between the parties, CTS Holdings agreed to pay CTS HK 45% of the gross fee revenue from permit applications for the services provided by CTS HK in relation 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 nature of Travel Permit Administration is very unique in that it involves the provision of administration services relating to the application and issuance of PRC visas and entry permits by CTSHK to CTS Holdings, and 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. A longer term on the Agency Agreement would allow the Group to secure a source of revenue by acting as CTS Holding's exclusive agent in Hong Kong handling Travel Permit Administration.

In view of the foregoing, 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 and the Shareholders as a whole.

The Directors (other than members of the Independent Board Committee whose opinion is set out on page 9 of this circular) consider that the terms of the Agency Agreement are on normal commercial terms and that the terms of the Agency Agreement and the Caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### **Historical figures**

According to the audited consolidated accounts of the Group for the three years ended 31 December 2005 and the unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2006 that are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the Companies Ordinance (Chapter 32 of the laws of Hong Kong), the amount of the continuing connected transaction in connection with Travel Permit

## LETTER FROM THE BOARD

Administration for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 is as follows:

	For the year ended 31 December			For the six months ended
	2003	2004	2005	30 June 2006
	(Audited)	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of Travel Permit Administration on behalf of connected person	241,490	281,068	318,749	159,976
Turnover of the relevant financial period	3,300,916	4,802,021	5,646,620	3,162,124
Transaction value expressed as a percentage against turnover	7.32%	5.85%	5.64%	5.06%
Maximum annual aggregate value	660,183	410,000	410,000	410,000

According to the unaudited management accounts of the Group for the nine months ended 30 September 2006, the amount of the continuing connected transaction in connection with Travel Permit Administration for the nine months ended 30 September 2006 was approximately HK\$247.3 million.

### 3. BENEFITS OF THE TRAVEL PERMIT ADMINISTRATION

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 (other than members of the Independent Board Committee whose opinion is set out on page 9 of 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 Travel Permit Administration are fair and reasonable and in the interests of the Shareholders as a whole.

### 4. OTHER INFORMATION FOR THE SHAREHOLDERS

The principal businesses of the Group include tour operations, theme parks, hotel and resort operations, passenger and freight transportation, golf club and power generation. CTS Holdings is principally engaged in travel business, industrial investment in steel production, real estate development, logistics and trading.



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## LETTER FROM THE BOARD

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The Company proposes to set the Cap at HK\$400 million for each of the three years ending 31 December 2009 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 and the expected growth in Hong Kong-PRC leisure and business travel in the next few years, which is mainly based on historical data of visitor arrivals from Hong Kong to the PRC and the targeted annual growth of 8% of inbound visitors to the PRC as set out in the 11th Five-Year Plan of the PRC Government. The Cap is arrived at with reference to a projected 8% per annum increase based on the historical average annual growth rates and the highest amount of annual revenue derived from Travel Permit Administration for the last three financial years. By annualizing the revenues generated in the first nine months ended 30 September 2006, the compound annual growth rate of the revenues from Travel Permit Administration for the period between 2004 and 2006 is approximately 8.3%.

The Company does not propose a separate Cap for each of the three years ending 31 December 2009 because the projected 8% per annum increase is an average and the growth rate of the revenue from Travel Permit Administration may fluctuate as reflected in the last few years. Based on the annual growth rates in the recent years, the annual revenue for the Travel Permit Administration for each of the three years ending 31 December 2009 may become close to the Cap of HK\$400 million.

If during the period ending 31 December 2009 the aggregate annual value of the Travel Permit Administration exceeds the Cap or there is a material change to the Agency Agreement, the Company will take the necessary steps to ensure compliance with the Listing Rules as required.

The Travel Permit Administration 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.

At the EGM, the Company will seek Independent Shareholders' approval for the Travel Permit Administration (including the Cap and the term of the Agency Agreement). In view of the interest of CTS Holdings and its associates in the Travel Permit Administration, 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.

### **5. POLL PROCEDURE**

The procedures for demanding a poll are set out in Appendix II to this circular. The Company will announce the results of the poll in accordance with the Listing Rules following the EGM.

### **6. RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 9 of this circular. The Independent Board Committee, having taken into account the advice of Somerley Limited, considers that the terms of the Travel Permit Administration (including the Cap and the term of the Agency Agreement) are fair and reasonable and the Travel Permit Administration (including the Cap and the term of the Agency Agreement) are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolution to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### 7. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Xiong Weiping**  
*Vice Chairman & General Manager*



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: 00308)

5 December 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTION  
IN CONNECTION WITH TRAVEL PERMIT ADMINISTRATION**

We refer to the circular dated 5 December 2006 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 Travel Permit Administration and to advise the Independent Shareholders whether, in our opinion, the terms of the Travel Permit Administration are fair and reasonable so far as the Independent Shareholders are concerned. Somerley Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Travel Permit Administration (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 3 to 8 of the Circular which contains, inter alia, information about the Travel Permit Administration, and the letter of advice from Somerley Limited set out on pages 10 to 16 of the Circular which contains its advice in respect of the terms of the Travel Permit Administration (including the Cap and the term of the Agency Agreement).

Having taking into account the advice of Somerley Limited, we consider the terms of the Travel Permit Administration (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 Travel Permit Administration and the Cap.

Yours faithfully,

**The Independent Board Committee**

**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**

**Mr. Sze, Robert Tsai To**

*Independent Non-Executive Directors*

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## LETTER FROM SOMERLEY LIMITED

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*The following is the letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



### **SOMERLEY LIMITED**

Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

5 December 2006

*To: the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION IN CONNECTION WITH TRAVEL PERMIT ADMINISTRATION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders as regards the continuing provision of general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC by CTS HK (a wholly-owned subsidiary of the Company) to CTS Holdings (the 52.56% controlling shareholder of the Company).

Following completion of the Company's acquisition of CTS HK from CTS Holdings on 15 May 2001, CTS HK became a wholly-owned subsidiary of the Company and remained as such as at the Latest Practicable Date. On 15 May 2001, CTS HK and CTS Holdings entered into the Agency Agreement, pursuant to which, CTS HK has agreed to 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. Accordingly, such a provision of general administration services to CTS Holdings which is expected to continue in the coming three years ending 31 December 2009 will constitute a continuing connected transaction for the Company under the Listing Rules.

Since the Board expects that the annual value of the Travel Permit Administration for each of the three years ending 31 December 2009 will exceed 2.5% of the Group's total turnover and be more than HK\$10,000,000, the Company must comply with the Independent Shareholders' approval requirements described in Rule 14A.48 of the Listing Rules, in addition to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. In this connection, the Company will seek from Independent Shareholders the approval of the Travel Permit Administration including the Cap.

Details of the Travel Permit Administration including the Cap are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 5 December 2006 (the "Circular"), of which this letter forms part. Unless otherwise defined herein, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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## LETTER FROM SOMERLEY LIMITED

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CTS Holdings and its associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Travel Permit Administration including the Cap. Such resolution will be taken by way of poll.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee (alternative Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To, has been established to make a recommendation to the Independent Shareholders as regards to whether the terms of the Travel Permit Administration are on normal commercial terms and in the ordinary course of business of the Group, and whether the Travel Permit Administration (including the Cap and the term of the Agency Agreement) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and remain true, accurate and complete up to the time of the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, nor doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or CTS Holdings.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation on the terms of the Travel Permit Administration, we have taken the following principal factors and reasons into consideration:

#### **1. Background of and reasons for the Travel Permit Administration**

The Group is principally engaged in the tour operations, theme parks, hotel and resort operations, passenger and freight transportation, golf club and power generation. The management considers that the Travel Permit Administration is incidental and conducive to the Group's tourist business.

CTS Holdings is principally engaged in travel business, industrial investment in steel production, real estate development, logistic and trading. CTS Holdings has been appointed by the PRC Government to provide general administration services in Hong Kong for the application of tourist visas and travel permits for entry into the PRC. On 15 May 2001, CTS HK and CTS Holdings entered into the Agency Agreement to document the transactions relating to Travel Permit Administration for a fixed term of 46 years to 30 June 2047. Travel Permit Administration became a continuing connected transaction of the Company since the completion of the Acquisition on 15 May 2001.

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## LETTER FROM SOMERLEY LIMITED

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At the extraordinary general meeting of the Company held on 13 May 2004, the then Independent Shareholders approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and the maximum aggregate annual value of HK\$410 million for the Travel Permit Administration for each of the three years ending 31 December 2006. As the Agency Agreement has not expired and remains in force until 30 June 2047, the Cap under the Agency Agreement for three years ending 31 December 2009 is required to comply with the Listing Rules.

In view of the expiry of the annual cap on 31 December 2006 and taking into consideration the growing revenue generated from the Travel Permit Administration in the past years, the Group intends to continue providing such services to CTS Holdings. For the three years ended 31 December 2005, the Group's revenue derived from the Travel Permit Administration services amounted to approximately HK\$241.5 million, HK\$281.1 million and HK\$318.7 million respectively, representing approximately 7.32%, 5.85% and 5.64% of the Group's total turnover. Pursuant to the Agency Agreement, CTS HK is responsible for costs associated with receiving and despatching travel permits and tourist visas in Hong Kong. In view of past operational convenience and benefits brought to the Group, the Directors consider that it would be in the interests of the Group to continue to engage in Travel Permit Administration given that 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.

### **2. Principal terms of the Travel Permit Administration**

Pursuant to the Agency Agreement, CTS HK has agreed to provide the general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC to CTS Holdings until 30 June 2047. CTS Holdings is responsible for liaising with the relevant PRC Government for the processing of such applications in the PRC, and the costs relating to the handling of such applications between CTS Holdings and the issuing authority within the PRC Government. CTS Holdings could not appoint any other party to handle the Travel Permit Administration or provide such service itself in Hong Kong unless with the consent of CTS HK. CTS HK is responsible for cost associated with receiving and despatching travel permits and tourist visas in Hong Kong. CTS Holdings agreed to pay CTS HK 45% of the gross fee revenue from permit applications for the Travel Permit Administration. Payments are made by CTS Holdings in arrears on a monthly basis which has to be settled within three business days after the end of each month. If CTS Holdings cannot settle the payments in accordance with the terms of the Agency Agreement, the outstanding amount will be charged an interest at prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited as at the end of the relevant month plus 1% accruing from the last day of the relevant month up to the actual payment date.

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## LETTER FROM SOMERLEY LIMITED

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Since CTS Holdings has been appointed by the PRC Government to provide general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC, we are of the view that it would be beneficial to the Group to enter into the Agency Agreement for a term as long as possible so as to secure a source of revenue by acting as CTS Holding's exclusive agent in Hong Kong handling the Travel Permit Administration. There is a termination clause in the Agency Agreement which gives CTS HK a right to terminate the Agency Agreement before its expiry in 2047. As advised by the Directors, the Group did not enter into any arrangement similar to Travel Permit Administration and we are not aware of public information regarding duration of similar contracts in the market.

### 3. Cap

The Travel Permit Administration is subject to the Listing Rules requirements and conditions as more particularly discussed under the section headed "Reporting requirements and conditions of the Travel Permit Administration" below. In particular, the Travel Permit Administration is subject to the Cap.

#### *Assessment of the Cap*

Set out below are the value of the past continuing connected transaction for each of the three years ended 31 December 2005 and the nine months period ended 30 September 2006:

	Historical figures for the year ended 31 December			Historical figures for the nine months ended 30 September
	2003	2004	2005	2006
	(audited)	(audited)	(audited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from Travel				
Permit Administration	241,490	281,068	318,749	247,300

We are advised by the Directors that the revenue from the Travel Permit Administration for the year ended 31 December 2003 dropped by approximately 25.9% as compared to the year ended 31 December 2002. This was mainly owing to the outbreak of the Severe Acute Respiratory Syndrome (SARS) in PRC, Hong Kong and Taiwan in 2003, which resulted in implementation of travel restrictions in the above regions for the period from April to June 2003. Such travel restrictions have significantly affected the number of applications of travel permits and tourist visas for entry into the PRC in Hong Kong during the above period. After the SARS outbreak in 2003, the leisure and business travel to the PRC recovered in 2004. Revenue generated from the Travel Permit Administration for the year ended 31

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## LETTER FROM SOMERLEY LIMITED

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December 2004 raised by about 16.4% to approximately HK\$281 million as compared to the year ended 31 December 2003. The revenue from Travel Permit Administration further rose by about 13.4% to approximately HK\$318.7 million in 2005. For the first nine months period ended 30 September 2006, the revenue from Travel Permit Administration was approximately HK\$247.3 million.

In assessing the reasonableness of the Cap, we have discussed with the management of the Company regarding the basis and assumptions underlying the projections of the Cap. The management of the Group advises us that the Cap for the Travel Permit Administration is determined based on, among other things, historical transaction amounts and the expected growth in Hong Kong-PRC leisure and business travel in the next few years, which is mainly based on i) historical data of visitor arrivals from Hong Kong to the PRC; and ii) the targeted annual growth of 8% of inbound visitors to the PRC as set out in the 11th Five-Year Plan of the PRC Government. The Cap 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. The Company does not propose a separate Cap particularly for each of the three years ending 31 December 2009 since the projected 8% annual growth is an average and the growth rate of the revenue from Travel Permit Administration may fluctuate as reflected in the past few years.

By annualizing the revenues generated in the first nine months of 2006, the compound annual growth rate of the revenues from Travel Permit Administration for the period from 2004 to 2006 is approximately 8.3%. Having also taken into account the pace of economic development, the extensive investments in manufacturing and international business activities being undertaken in the PRC, the development of the Western region of the PRC, the forthcoming international events like the 2008 Olympics in Beijing and the World Expo to be held in Shanghai in 2010, we are of the view that the Cap which is arrived at based on a projected annual growth rate of 8% in the revenue from the Travel Permit Administration for the three years ending 31 December 2009 is fair and reasonable.

The Travel Permit Administration are subject to annual review by the independent non-executive Directors and the Company's auditors, detail requirements are set out in the below paragraph headed "Reporting requirements and conditions of the Travel Permit Administration". Such annual review shall safeguard the interests of the Independent Shareholders.



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## LETTER FROM SOMERLEY LIMITED

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### 4. Tourism industry in the PRC

PRC is now fast on its way to becoming a country with developed tourism, and constantly improving tourism facilities and services. It is estimated by the China National Tourism Association that by 2020, PRC will be the world's No. 1 tourism destination and the fourth-largest nation of tourists. The PRC has experienced significant economic growth in the past few years. According to the National Bureau of Statistic of China, the Gross Domestic Product of the PRC reached approximately RMB18,232.1 billion in 2005, representing an approximately 9.9% increment as compared to that of the corresponding period. Such favourable macro-economic environment is beneficial to the growth of the Hong Kong-PRC leisure and business travel.

#### Visitor arrivals to PRC for the period from 2003 to 2006

	Number of visitors			
	2003	2004	2005	2006 (Jan – Sept)
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Hong Kong Residents	58.8	66.5	70.2	54.9
Taiwan Province Residents	2.7	3.7	4.1	3.3
Others	30.2	38.8	46.0	34.0
Total	91.7	109.0	120.3	92.2

Source: China National Tourism Administration

As shown in the website of China National Tourism Administration, the annual number of visitor arrivals in the PRC has increased from about 91.7 million in 2003 to about 120.3 million in 2005. We could also see that the number of Hong Kong residents and Taiwan province residents visiting PRC is on a growing trend. Therefore, we consider that the Travel Permit Administration is in the interests of the Company and its Shareholders as a whole and the Cap based on a growth rate of 8% of the historical revenue generated from the Travel Permit Administration is fair and reasonable.

### 5. Reporting requirements and conditions of the Travel Permit Administration

Pursuant to Rules 14A.37 to 14A.40, the Travel Permit Administration is subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Travel Permit Administration and confirm in the annual report and accounts that the Travel Permit Administration have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either 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; and
  - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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## LETTER FROM SOMERLEY LIMITED

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- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Travel Permit Administration:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the relevant agreement governing the transaction; and
  - (iv) have not exceeded the Cap;
- (c) the Company shall allow, and shall procure the relevant counterparty to the Travel Permit Administration shall allow, the Company's auditors with sufficient access to their records for the purpose of reporting on the Travel Permit Administration as set out in paragraphs (b);
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in the newspaper if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements attached to the Travel Permit Administration, in particular, (i) the restriction of the value of the Travel Permit Administration by way of the Cap; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Travel Permit Administration and the Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Travel Permit Administration and safeguard the interests of the Independent Shareholders.

### OPINION

Having taking into account the above principal factors, we consider the Travel Permit Administration is on normal commercial terms and in the ordinary and usual course of business of the Group, and that the Travel Permit Administration (including the Cap and the term of the Agency Agreement), is fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Travel Permit Administration (including the Cap and the term of the Agency Agreement).

Yours faithfully,  
For and on behalf of  
**SOMERLEY LIMITED**  
**Mei H. Leung**  
*Deputy Chairman*

**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 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.

**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	Note	Number of Shares held			Total	the issued share capital
		Personal Interests	Corporate Interests	Other Interests		
Dr. Yeh Meou Tsen, Geoffrey		5,686,000	-	-	5,686,000	0.100%
Dr. Fong Yun Wah	1	-	50,000	-	50,000	0.001%

*Note:* 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.

- (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 2005 (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**

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
China Travel Service Head Office of the PRC ("CTS-PRC")	1	2,993,632,728	52.56%
CTS Holdings	1, 2	2,993,632,728	52.56%
Foden International Limited ("Foden")	2	20,700,000	0.36%

Notes: 1. The entire issued share capital of CTS Holdings is beneficially owned by CTS-PRC. CTS Holdings is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS Holdings.

2. 20,700,000 shares are held by Foden which is a wholly-owned subsidiary of CTS Holdings.

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

## (c) Substantial shareholding in other members of the Group

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director or chief executive of the Company, 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:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
Wealthy Fortress Investments Limited	China Travel Express Limited	30%
汪家璈 (Wang Jia Ao) , 顧平普 (Gu Ping Pu) , 周敘清 (Zhou Xu Qing) , 蔡顯忠 (Cai Xian Zhong) , 劉宏 (Liu Hong) , 董偉中 (Dong Wei Zhong) , 祝兆榮 (Zhu Zhao Rong) , 馬傳有 (Ma Chuan You) (together the "Management Team") (Note 1)	CTS International Transportation Co., Ltd.	24%
柏溪商貿發展 有限公司 (Note 1,2)	CTS International Transportation Co., Ltd.	20%
Abba Investment Limited (Note 1)	CTS International Transportation Co., Ltd.	4%
Shenzhen Overseas Chinese Town Holdings Company	Shenzhen The Splendid China Development Co., Ltd.	49%
Shenzhen Overseas Chinese Town Holdings Company	Shenzhen The World Miniature Co., Ltd.	49%
李剛 (Li Gang)	China Travel International (Xian) Ltd.	15.12%
李波 (Li Bo)	China Travel International (Xian) Ltd.	10.08%

Substantial Shareholder	Member of the Group	Percentage of equity interest held
廈門國貿集團股份有限公司 (Note 2)	China Travel International (Xiamen) ITG Travel Service Co., Ltd.	49%
田平(Tian Ping)	China Travel International (Shandong) Ltd.	27%
楊大鳴(Yang Da Ming)	China Travel International (Xinjiang) Limited	15%
趙秀紅(Zhao Xiu Hong)	China Travel International (Xinjiang) Limited	12%
張保華(Zhang Bao Hua)	China Travel International (Xinjiang) Limited	10%
山西華旅航空服務有限公司 (Note 2)	China Travel International (Shanxi) Travel Service Co., Ltd.	29%
大同北方電器有限責任公司 (Note 2)	China Travel International (Datong) Travel Service Co., Ltd.	49%

*Note 1:* The Management Team holds the entire shareholding interest in 柏溪商貿發展有限公司 and Abba Investment Limited.

*Note 2:* The legal name of the relevant company is in Chinese.

## COMPETING INTEREST

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates have any interest in a business which competes or is likely to compete with the business of the Group.

## SERVICE CONTRACTS

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).

## 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 2005 (being the date to which the latest published audited financial statements of the Company were made up).

**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.

**EXPERT**

- (a) The following is the qualification of Somerley Limited which has given its opinion or advice which is contained in this circular:

Name	Qualifications
Somerley Limited	a corporation licensed to carry out type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (assets management) regulated activities under the SFO

- (b) As at the Latest Practicable Date, Somerley Limited does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (d) As at the Latest Practicable Date, Somerley Limited 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, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter and recommendation given by Somerley Limited are given as of the date of this circular for incorporation herein.

**CORPORATE INFORMATION**

- (a) The company secretary of the Company is Ms. Woo Wai See, Alice.
- (b) The registered office and head office of the Company is 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.
- (c) The share registrar of the Company is Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

**LANGUAGE**

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

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of the Company on 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong during normal business hours until 21 December 2006:

- (a) the Articles of Association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (c) the letter from Somerley Limited, the text of which is set out on pages 10 to 16 of this circular;
- (d) the written consent of Somerley Limited; and
- (e) the Agency Agreement.



According to the Articles of Association of the Company, a poll may be demanded by:–

- (a) by the chairman of the meeting;
- (b) by at least three shareholders present in person or by proxy for the time being entitled to vote at the meeting;
- (c) by any shareholder or shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or
- (d) by any shareholder or shareholders present in person or by proxy and holding shares in the Company 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.

Unless a poll be so demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution. The demand for a poll may be withdrawn.

# 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)

(Stock Code: 00308)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**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 Causeway Bay Hong Kong, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Friday, 22 December 2006 at 2:30 p.m., for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:–

“**THAT** the Travel Permit Administration (as defined and described in the circular to the shareholders of the Company dated 5 December 2006 (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 2009 be and are hereby approved on the condition that the annual aggregate transaction value thereof shall not exceed HK\$400 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 Travel Permit Administration.”

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

Hong Kong, 5 December 2006

### 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.
- (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.