
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about 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 together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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



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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 308)

**DISCLOSEABLE, CONNECTED TRANSACTION
AND CONTINUING CONNECTED TRANSACTIONS
AND NOTICE OF EGM**

Financial adviser to China Travel International Investment Hong Kong Limited

Morgan Stanley

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

 **SOMERLEY LIMITED**

A notice convening an extraordinary general meeting of China Travel International Investment Hong Kong Limited to be held at Cafe du Parc, 2nd Floor, Metropark Hotel Causeway Bay Hong Kong, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Monday, 20 July 2009 at 2:30 p.m. is set out on pages 40 to 41 of this circular. If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Share Registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less 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 in person at the meeting should you so wish.

3 July 2009

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 5 |
| Letter from the Independent Board Committee | 16 |
| Letter from Somerley | 18 |
| Appendix – General information | 36 |
| Notice of the EGM | 40 |

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|-------------------------------|---|
| “Agreement” | the conditional sale and purchase agreement entered into on 22 June 2009 (entered into after the close of trading hours of the Stock Exchange) between CTS (Holdings), Fame Harvest and the Vendors in relation to the Disposal |
| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Beijing Shang Lv” | China Travel International Business Travel Management (Beijing) Company Limited |
| “Beijing Shang Tai” | Beijing Shang Tai Ji Ye Economic Information Consultation Co., Ltd. |
| “Beijing Zhong Yuan Kuai Jie” | Beijing Zhong Yuan Kuai Jie Airline Agency Co., Ltd. |
| “Board” | the board of Directors |
| “Business Day(s)” | a day (other than Saturday, Sunday and public holidays) on which banks in Hong Kong and PRC are generally open for business |
| “Cap” | the maximum aggregate annual consideration for the Continuing Connected Transactions |
| “China CTS (HK)” | China National Travel Service (HK) Group Corporation (中國港中旅集團公司), a state-owned enterprise under the direct supervision of the SASAC which beneficially owns the entire issued share capital of CTS (Holdings) |
| “China CTS (HK) Group” | China CTS (HK) and its subsidiaries |
| “Company” | China Travel International Investment Hong Kong Limited, a company incorporated in Hong Kong with limited liability and the securities of which are listed on the Stock Exchange |
| “Completion” | completion of the Disposal pursuant to the Agreement |
| “Completion Date” | the date at which Completion takes place, which shall be the date on which the new business licence of CTIL is issued |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |

DEFINITIONS

| | |
|-------------------------------------|---|
| “Consideration” | HK\$205,343,587, including HK\$203,613,848 for the consideration of the disposal of the entire shareholding in the registered capital of CTIL and HK\$1,729,739 for the consideration of the disposal of the 25% shareholding of the registered capital of CTI (Hangzhou) |
| “Continuing Connected Transactions” | the provision of tour group services by the China CTS (HK) Group and the Group to each other |
| “controlling shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “CTI (Chengdu)” | China Travel International (Chengdu) Ltd. |
| “CTI Cosco” | CTI Cosco Travel Ltd. |
| “CTI (Datong)” | China Travel International (Datong) Travel Service Co., Ltd. |
| “CTI (Hangzhou)” | China Travel International (Hangzhou) Ltd., a company incorporated in the PRC and is 59% beneficially owned by CTI (Shanghai) (a jointly controlled entity of the Company) and 25% beneficially owned by the Company |
| “CTI Motor” | Shanghai China Travel Motor Co., Ltd. |
| “CTI (Shangdong)” | China Travel International (Shangdong) Ltd. |
| “CTI (Shanghai)” | Shanghai China Travel International Ltd. |
| “CTI (Shanxi)” | China Travel International (Shanxi) Travel Service Co., Ltd. |
| “CTI (Suzhou)” | Suzhou China Travel International Ltd. |
| “CTI (Xiamen)” | China Travel International (Xiamen) ITG Travel Service Co., Ltd. |
| “CTI (Xian)” | China Travel International (Xian) Ltd. |
| “CTI (Xinjiang)” | China Travel International (Xinjiang) Limited |
| “CTIL” | China Travel International Ltd., a company incorporated in the PRC and wholly-owned by the Company |
| “CTIL Group” | CTIL and its subsidiaries and affiliates |

DEFINITIONS

| | |
|-------------------------------|--|
| “CTS (Holdings)” | China Travel Service (Holdings) Hong Kong Limited, a company incorporated in Hong Kong with limited liability and a controlling Shareholder holding approximately 52.56% of the total issued share capital of the Company |
| “CTS (Holdings) Group” | CTS (Holdings) and its subsidiaries, which shall exclude the Group for the purpose of this circular |
| “Directors” | the directors of the Company |
| “Disposal” | the disposal of the Target Companies from the Vendors to Fame Harvest pursuant to the Agreement |
| “EGM” | the extraordinary general meeting of the Company to be held to consider the ordinary resolutions to be proposed to approve, among others, the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder |
| “Fame Harvest” | Fame Harvest (Hong Kong) Limited, a company incorporated in Hong Kong and wholly owned by CTS (Holdings) |
| “Group” | the Company and its subsidiaries, which shall exclude the CTIL Group upon Completion |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKCTS” | China Travel Service (Hong Kong) Limited, a company incorporated in Hong Kong and wholly owned by the Company |
| “HKFRS” | the Hong Kong Financial Reporting Standards |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the committee of independent non-executive Directors, consisting of Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee, formed to advise the Independent Shareholders in respect of the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder |
| “Independent Shareholders” | Shareholders other than CTS (Holdings) and its associates and any other person and its associates which has a material interest in the Disposal and the Continuing Connected Transactions |

DEFINITIONS

| | |
|--|---|
| “Latest Practicable Date” | 30 June 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contains in this circular |
| “Listing Rules” | The Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | not later than 6 months after the date of the Agreement |
| “PRC” or “Mainland China” | the People’s Republic of China, for the purpose of this circular, exclusively refer to Mainland China |
| “SASAC” | State-owned Assets Supervision and Administration Commission of the State Council of the PRC |
| “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)” | shareholders of the Company |
| “Sommerley” or the “Independent Financial Adviser” | Sommerley Limited, a corporation licensed to carry out Type 1 (dealing 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 respect of the Agreement, the Tour Group Services Supplemental Agreement and the transactions contemplated thereunder |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “substantial shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Target Companies” | the entire shareholding in the registered capital of CTIL and the 25% shareholding in the registered capital of CTI (Hangzhou) |
| “Tour Group Services Agreement” | the agreement dated 19 August 2008 entered into between the Company and China CTS (HK) in relation to the provision of tour group services by the Group and the China CTS (HK) Group to each other |
| “Tour Group Services Supplemental Agreement” | the conditional agreement entered into between the Company and China CTS (HK) on 22 June 2009 (entered into after the close of trading hours of the Stock Exchange) (effective upon Completion), which is supplemental to the Tour Group Services Agreement to cover the additional Continuing Connected Transactions arising from the Disposal |
| “Vendors” | collectively, the Company and HKCTS |

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 with limited liability)

(Stock Code: 308)

Executive Directors:

Mr. Zhang Xuewu (*Chairman*)

Mr. Zheng Heshui (*Vice-Chairman*)

Mr. Lo Sui On (*Vice-Chairman*)

Ms. Jiang Yan

Mr. Mao Jianjun

Mr. Fang Xiaorong

Mr. Zhang Fengchun

Mr. Xu Muhan

Registered Office:

12th Floor, CTS House

78-83 Connaught Road Central

Hong Kong

Independent Non-executive Directors:

Dr. Fong Yun Wah

Mr. Wong Man Kong, Peter

Mr. Sze, Robert Tsai To

Mr. Chan Wing Kee

3 July 2009

To the Shareholders

Dear Sir/Madam,

**DISCLOSEABLE, CONNECTED TRANSACTION
AND CONTINUING CONNECTED TRANSACTIONS
AND NOTICE OF EGM**

INTRODUCTION

On 22 June 2009 (after the close of trading hours of the Stock Exchange), the Vendors have entered into a conditional sale and purchase agreement with CTS (Holdings) and the Purchaser to dispose of the entire shareholding in the registered capital of CTIL and the 25% shareholding in the registered capital of CTI (Hangzhou), at an aggregate Consideration of HK\$205,343,587.

The Group and the CTIL Group currently provide tour group services to each other. On Completion, CTIL shall cease to be a wholly-owned subsidiary of the Company and the continuing provision of tour group services by the Group and the CTIL Group to each other shall constitute continuing connected transactions for the Company under the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information on details of the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder, the respective advice of the Independent Financial Adviser and the Independent Board Committee in relation to the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder. A notice of the EGM is set out on pages 40 to 41 of this circular.

THE AGREEMENT

Date

22 June 2009 (entered into after the close of trading hours of the Stock Exchange)

Parties to the Agreement

- (1) Purchaser: Fame Harvest, an indirectly wholly-owned subsidiary of CTS (Holdings), the controlling Shareholder;
- (2) Vendors: (i) the Company;
(ii) HKCTS, a wholly-owned subsidiary of the Company; and
- (3) CTS (Holdings), the controlling Shareholder.

The assets to be disposed of

- (1) the entire shareholding in the registered capital of CTIL; and
- (2) the 25% shareholding in the registered capital of CTI (Hangzhou).

Consideration

The Consideration of HK\$205,343,587, including HK\$203,613,848 for the consideration of the disposal of entire shareholding in the registered capital of CTIL and HK\$1,729,739 for the consideration of the disposal of the 25% shareholding in the registered capital of CTI (Hangzhou), will be satisfied entirely by cash payable by Fame Harvest to the Vendors within 10 Business Days from the Completion Date.

The Consideration was determined after arm's length negotiation between the Vendors and Fame Harvest and after taking into account of: (i) the unaudited consolidated net asset value of CTIL Group (excluding minority interests) as at 31 December 2008 of approximately HK\$233,481,003; (ii) the unaudited net asset value as at 31 December 2008 attributable to the 25% shareholding in the registered capital of CTI (Hangzhou) held by the Company of approximately HK\$1,729,739 (*Figures in items (i) and (ii) above were adopted in the preparation of the 2008 audited accounts of the Group in accordance with the HKFRS*); (iii) the dividend of HK\$29,867,155 declared by CTIL on 31 May 2009; and (iv) the financial position, business outlook and future prospect of the CTIL Group.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and the Agreement was made on normal commercial terms.

LETTER FROM THE BOARD

Conditions precedent

Completion of the Agreement is conditional upon fulfilment of the following conditions:

- (i) the passing by the Independent Shareholders at the EGM (with CTS (Holdings) and its associates abstaining from voting) of resolution(s) approving, among other things, the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules;
- (ii) if applicable, the obtaining of all consents from government or regulatory authorities or third parties which are necessary in connection with the execution and performance of the Agreement and any of the transactions contemplated thereunder; and
- (iii) the representations, warranties and undertakings given by Fame Harvest and the Vendors respectively remaining true and correct in all material respects on the Completion Date.

Fame Harvest may waive condition (iii) above. If the conditions above are not fulfilled or, if applicable, waived on or before the Long Stop Date or such other date as mutually agreed by the parties to the Agreement, the Agreement will be terminated and all obligations of the parties under the Agreement shall cease, provided that the rights and liabilities of the parties thereto which have accrued prior to termination shall subsist and none of the parties to the Agreement shall have any claims against the other (save for any antecedent breach).

Other terms of the Agreement

Pursuant to the Agreement, CTS (Holdings) and Fame Harvest have unconditionally and irrevocably:

- (i) undertaken to the Company that they will actively complete the consolidation and integration of all of its travel agency business in the PRC (including the CTIL Group) (the “**Consolidated and Integrated Travel Agency Business**”) within three years after the Completion Date and will consult and report to the Company from time to time as to the procedures and progress of the said consolidation and integration;
- (ii) granted, subject to regulatory approval (if any), at nil consideration an option to the Company for the Company or its nominee to acquire the Consolidated and Integrated Travel Agency Business as recognised by the Company within a period of three years after the Completion Date or such extended period of up to 6 years after the Completion Date upon request by the Company (the “**Option Exercise Period**”), at a consideration to be negotiated at arm’s length between the Company and CTS (Holdings) with reference to the value of the Consolidated and Integrated Travel Agency Business to be evaluated by an independent valuer. The Company (or its nominee) also has a first right of refusal to acquire the Consolidated and Integrated Travel Agency Business during the Option Exercise Period.

LETTER FROM THE BOARD

Pursuant to the Agreement, the Company has undertaken to Fame Harvest, within a period of 6 months after the Completion:

- (i) to transfer the 25% shareholding in the registered capital of CTI (Hangzhou) held by the Company to Fame Harvest at a consideration of HK\$1,729,739 as disclosed in the section headed “Consideration”; and
- (ii) to procure its wholly-owned subsidiary, China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd., to transfer the 30% shareholding in the registered capital of CTI Cosco held by it as nominee on behalf of CTIL back to CTIL.

Completion

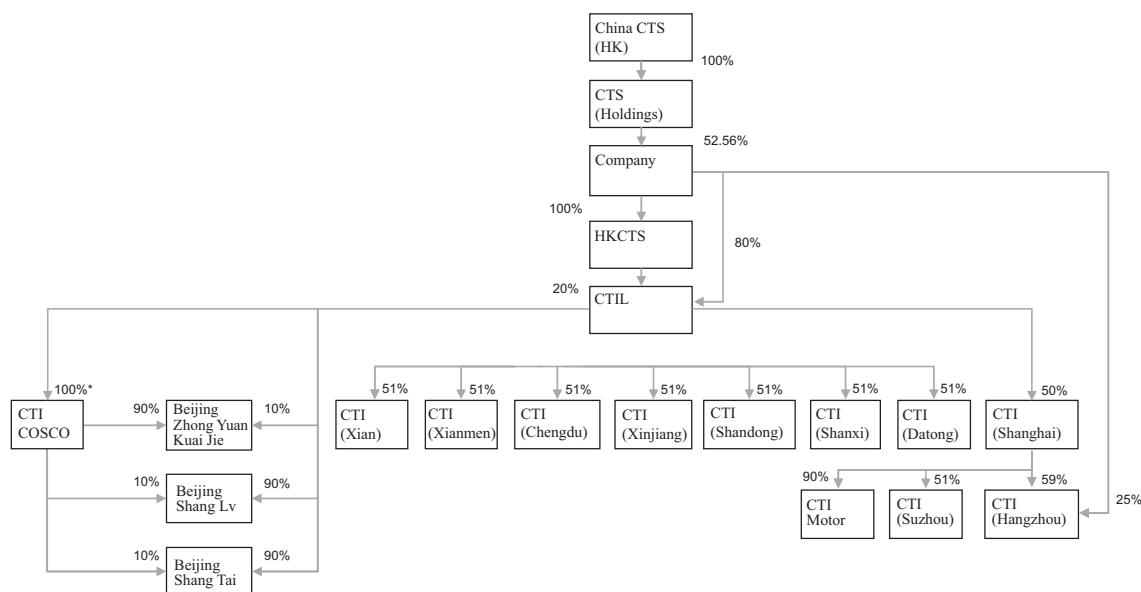
Completion shall take place on the date upon which the new business licence of CTIL is issued. Upon Completion, CTIL will cease to be a subsidiary of the Company.

INFORMATION ON THE TARGET COMPANIES

CTIL

CTIL was incorporated in Beijing, PRC, in 2001 and commenced operations in 2002. The CTIL Group operates 13 travel agencies in provinces and municipality cities including Beijing, Shanghai, Sichuan, Fujian, Zhejiang, Jiangsu, Shandong, Shanxi, Shaanxi and Xinjiang. It provides outbound travel, inbound travel, domestic travel, business travel and tourist guide services, as well as reservation service in collaboration with hotels and airlines. CTIL Group is the flagship operator of Mainland travel agency services of the Group.

The chart below sets out the corporate structure of the CTIL Group:



* 30% held by China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd. as nominee on behalf of CTIL

LETTER FROM THE BOARD

The unaudited financial information of the CTIL Group prepared in accordance with the HKFRS is as follows (*the 2007 and 2008 figures presented below were adopted in the preparation of the 2007 and 2008 audited accounts of the Group in accordance with the HKFRS*):

| | For the year ended | |
|---|---------------------------|--------------------|
| | 31 December | |
| | 2007 | 2008 |
| | <i>(HKD\$'000)</i> | <i>(HKD\$'000)</i> |
| Profit before tax | 15,651 | 8,009 |
| Profit after tax | 10,482 | 4,766 |
| Profit attributable to equity holders of the parent | 9,603 | 6,230 |

| | As at 31 December | | As at 31 May |
|---|--------------------------|--------------------|---------------------|
| | 2007 | 2008 | 2009 |
| | <i>(HKD\$'000)</i> | <i>(HKD\$'000)</i> | <i>(HKD\$'000)</i> |
| Net asset value (excluding minority interests) | 213,252 | 233,481 | 202,490* |

* On 31 May 2009, CTIL declared a dividend of HK\$29,867,155.

CTI (Hangzhou)

Established in July 2005 in Hangzhou, CTI (Hangzhou) is 59% beneficially owned by CTI (Shanghai) (a jointly controlled entity of the Company) and 25% beneficially owned by the Company. CTI (Hangzhou) is principally engaged in group tour operation and ticketing service.

The unaudited financial information of CTI (Hangzhou) prepared in accordance with the HKFRS is as follows (*the 2007 and 2008 figures presented below were adopted in the preparation of the 2007 and 2008 audited accounts of the Group in accordance with the HKFRS*):

| | For the year ended | |
|-------------------|---------------------------|--------------------|
| | 31 December | |
| | 2007 | 2008 |
| | <i>(HKD\$'000)</i> | <i>(HKD\$'000)</i> |
| Profit before tax | 631 | 21 |
| Profit after tax | 625 | 10 |

LETTER FROM THE BOARD

| | As at 31 December 2007 (HKD\$'000) | 2008 (HKD\$'000) | As at 31 May 2009 (HKD\$'000) |
|-----------------|--|---------------------|-------------------------------------|
| Net asset value | 6,452 | 6,919 | 6,625 |

INFORMATION OF THE PARTIES

The principal businesses of the Group include travel agency and related operations, online travel consolidator, hotels, theme parks, resorts, passenger transportation, golf club, art performance and infrastructure investment.

The CTS (Holdings) Group is principally engaged in travel business, industrial investment in steel, real estate development, logistics and trading.

Fame Harvest was incorporated in Hong Kong in 2008. Fame Harvest is an investment holding company and an indirectly wholly-owned subsidiary of CTS (Holdings). The principal assets of Fame Harvest are its equity interest in approximately 21 travel agencies in the major cities in the PRC including Beijing, Shanghai, Xi'an, Dalian, Wuhan, Fuzhou, Nanjing, Chengdu, Qingdao and Haerbin.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

China CTS (HK), the ultimate controlling shareholder of CTS (Holdings), Fame Harvest and the Company, is a company incorporated in the PRC. It is a state-owned enterprise supervised by SASAC. The China CTS (HK) Group is mainly engaged in the travel related business in the PRC, Hong Kong, Macau and over 14 countries and regions, and the steel, property and logistics business in the PRC. After the merger with China Travel Service (Holdings) Corporation of China supervised by SASAC in 2007, the China CTS (HK) Group owns about 36 travel agencies in the PRC, 13 of which are currently held by the Group through the CTIL Group. The China CTS (HK) Group, through its wholly-owned subsidiary, CTS (Holdings), is devoted to consolidate and integrate all of its travel agency business in the PRC and to further expand its travel agency business through optimizing its network coverage, reshaping the travel agency business model, re-engineering the operation logistics of the travel agency business, promoting and raising the brand recognition as well as streamlining its overlapping branches in some cities, minimizing internal competition, reducing costs and realizing synergies with a view to create the strongest travel agency network and business platform in the PRC.

The Group is the travel-related business flagship and consolidated platform of the China CTS (HK) Group. Since 2008, the Company's travel agency business in the PRC conducted through the CTIL Group has declined due to the economic downturn, natural disasters and fierce competitions from other travel agencies in the PRC. The Company has actively explored alternatives to facilitate the implementation of the consolidation and integration of its travel agency business with the travel agency business within the China CTS (HK) Group. However, it is uncertain in terms of the potential benefit or the timing of the success of the consolidation and integration of the travel agency business, as well as the possible financial impact on the Company's operational and financial results because

LETTER FROM THE BOARD

of the substantial costs potentially to be incurred. The Disposal is expected to maintain a high level of predictability for the Company's financial performance, while facilitating the consolidation and integration of travel agencies within the China CTS (HK) Group as disclosed below and providing the Group with an option to acquire the Consolidated and Integrated Travel Agency Business at a suitable timing in the future.

As disclosed above, the Company has retained an option to acquire the Consolidated and Integrated Travel Agency Business to maintain a long-term interest in the travel agency operations in the PRC. Accordingly, despite the Disposal, the Company will continue to be the travel-related business flagship of the China CTS (HK) Group.

The Directors (including the independent non-executive Directors) consider the terms of the Disposal to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PROPOSED CONSOLIDATION AND INTEGRATION

As mentioned above, the China CTS (HK) Group, through its wholly-owned subsidiary, CTS (Holdings), is devoted to consolidate and integrate all its travel agency business in the PRC and to further expand its travel agency business through optimizing its network coverage, reshaping the travel agency business model, re-engineering the operation logistics of the travel agency business and promoting and raising the brand recognition as well as integrating its management team and streamlining its overlapping branches in some cities. The consolidated and integrated travel agencies will then focus on the standardization of travel product offerings and establishment of an integrated platform. All travel agencies will operate under the same "CTS" brand to promote brand recognition and will uniformly leverage on the online sales capabilities of Mangocity.

It is expected the consolidated and integrated travel agencies would generate synergies through increased bargaining power and economies of scale. Competitiveness would be enhanced as a result of the optimization of the business operation logistics and the business model. The rationalisation of branch network and streamlined management would promote operational efficiency and reduce operating costs. In all, a more optimised business structure resulting from the consolidation and integration is expected to boost the business performance and provide greater resistance to operational and financial risks.

China CTS (HK) aims to complete the consolidation and integration of all of its travel agency business, through its wholly-owned subsidiary, CTS (Holdings), in approximately 3 years. Upon the completion of consolidation and integration, the Consolidated and Integrated Travel Agency Business is expected to consist of 8 regional operation centres, more than 150 local travel agencies and 500 outlets all over PRC. The consolidation and integration would shape a leading travel agency business in the PRC with seamless linkages between the PRC, Hong Kong, Macau and its overseas network.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL

The Group do not expect to have any significant gain or loss as a result of the Disposal. Upon Completion, CTIL will cease to be a subsidiary of the Company.

The proceeds from the Disposal in the amount of approximately HK\$200 million will be used for the Group's general working capital purposes.

CONTINUING CONNECTED TRANSACTIONS

The CTIL Group and the Group currently provide tour group services to each other. On Completion, CTIL shall cease to be a wholly-owned subsidiary of the Company and the continuing provision of tour group services between the Group and the CTIL Group shall constitute continuing connected transactions for the Company under the Listing Rules.

Tour Group Services Supplemental Agreement

As disclosed in the announcement of the Company dated 19 August 2008, the Company and China CTS (HK) entered into the Tour Group Services Agreement in respect of the provision of tour group services by the Group and the China CTS (HK) Group to each other. It is expected that the original annual cap for the provision of tour group services by the China CTS (HK) Group and the Group to each other contemplated under the Tour Group Services Agreement will be exceeded as a result of the addition of the continuing connected transactions after the Completion and thus, the same should be revised. The Company and China CTS (HK) have entered into the Tour Group Services Supplemental Agreement on 22 June 2009 (entered into after the close of trading hours of the Stock Exchange), which shall become effective on Completion, to extend the term of the Tour Group Services Agreement. All other terms and conditions of the Tour Group Services Agreement shall remain unchanged.

LETTER FROM THE BOARD

Original Cap, Cap and Historical figures

| | For the year ended | | For the 4 months ended | | | | For the 4 months ended | | For the year ending | | For the year ending | |
|---|--------------------|---------------|------------------------|---------------|---------------|----------------|------------------------|---------------|---------------------|------------|---------------------|--|
| | 31 December | | 30 April | | 30 April | | 30 April | | 31 December | | 31 December | |
| | 2007 | | 2008 | | 2009 | | 2009 | | 2010 | | 2011 | |
| | Original | | Original | | Original | | Original | | Original | | Original | |
| | Actual | Annual | Actual | Actual | Annual | Proposed | Actual | Annual | Proposed | Annual | Proposed | |
| | Amount | Cap | Amount | Amount | Cap | Cap | Amount | Cap | Cap | Cap | Cap | |
| | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | |
| Provision of tour group services by the China CTS (HK) Group to the Group | 5,370 | 29,080 | 15,297 | 5,526 | 34,900 | N/A | 5,102 | 41,870 | N/A | N/A | N/A | |
| Provision of tour group services by the CTIL Group to the Group | 117,371 | N/A | 77,849 | 10,839 | N/A | N/A | 11,321 | N/A | N/A | N/A | N/A | |
| Total | 122,741 | 29,080 | 93,146 | 16,365 | 34,900 | 100,000 | 16,423 | 41,870 | 150,000 | N/A | 200,000 | |
| Provision of tour group services by the Group to the China CTS (HK) Group | 4,335 | 19,840 | 6,845 | 818 | 43,240 | N/A | 5,586 | 59,520 | N/A | N/A | N/A | |
| Provision of tour group services by the Group to the CTIL Group | 32,928 | N/A | 21,817 | 2,343 | N/A | N/A | 5,264 | N/A | N/A | N/A | N/A | |
| Total | 37,263 | 19,840 | 28,662 | 3,161 | 43,240 | 60,000 | 10,850 | 59,520 | 140,000 | N/A | 230,000 | |

Cap for the Continuing Connected Transactions

The Cap for the three years ending 31 December 2011 for the provision of tour group services by the China CTS (HK) Group and the Group to each other is determined based on the following:

- historical transaction amounts as detailed in the table above;
- the potential gradual recovery in the economy and the organic growth of the travel agency businesses of the China CTS (HK) Group and the Group;
- an expected increase in the interactions between the Group and the China CTS (HK) Group as a result of the consolidation and integration of the travel agency business within the China CTS (HK) Group in the PRC;
- the amount of the tour group services provided by the China CTS (HK) Group (including the CTIL Group) to the Group in 2008 (as shown in the table above) only accounted for a small percentage of the total transaction amount of the tour group services provided to the Group in the PRC (“**2008 Total PRC Services Amount**”). As the Group intends to strengthen relationship and consolidate business with the China CTS (HK) Group (including the CTIL Group), a premier brand name travel agency partner in the PRC, so as to secure more stable and better services and bargain for a more favourable pricing, a significant

LETTER FROM THE BOARD

increase in procurement of services from the China CTS (HK) Group (including the CTIL Group) is expected. The proposed Cap represents the expected significant increase in the percentage of the total transaction amount of the tour group services provided to the Group in the PRC to be provided by the China CTS (HK) Group (including the CTIL Group) with reference to the 2008 Total PRC Services Amount; and

5. the amount of the tour group services provided by the Group to the China CTS (HK) Group (including the CTIL Group) in 2008 (as shown in the table above) again only accounted for a very small percentage of the total transaction amount of the tour group services provided to the China CTS (HK) Group (including the CTIL Group) outside the PRC (“**2008 Total Outside Services Amount**”). As the China CTS (HK) Group (including the CTIL Group) intends to strengthen relationship and consolidate business with the Group, a premier brand name travel agency partner outside the PRC, so as to secure more stable and better services and bargain for a more favourable pricing, an increase in procurement of services from the Group is expected. The proposed Cap represents the expected significant increase in the percentage of the total transaction amount of the tour group services provided to the China CTS (HK) Group (including the CTIL Group) outside the PRC to be provided by the Group with reference to the 2008 Total Outside Services Amount.

The Directors (including the independent non-executive Directors) consider that the Cap and the terms of the Tour Group Services Supplemental Agreement is fair and reasonable and the Tour Group Services Supplemental Agreement is made on normal commercial terms and in the ordinary course of business.

LISTING RULES IMPLICATIONS

The Disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. CTS (Holdings) is a substantial Shareholder, and thus a connected person of the Company. Therefore the Disposal also constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. The Disposal is subject to the approval by the Independent Shareholders at the EGM under Rule 14A.17 of the Listing Rules. Further, one or more of the applicable percentage ratios (except for the profits ratio which is not applicable) as defined in Rule 14A.10 of the Listing Rules in respect of the Continuing Connected Transactions, on an annual basis, shall exceed 2.5% and have an annual consideration of more than HK\$10,000,000, thus, the Continuing Connected Transactions and the Cap are also subject to reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

As at the Latest Practicable Date, the Purchaser did not have any interests in the Shares and CTS (Holdings) was interested in 52.56% shareholding in the Company. As such, CTS (Holdings) and its associates will be required to abstain from voting on ordinary resolutions to be put forward at the EGM for the purpose of approving, among other things, the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder.

LETTER FROM THE BOARD

EGM

A notice of the EGM is set out on pages 40 to 41 of this circular. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the shareholders at a general meeting must be taken by poll. Therefore, the resolutions proposed at the EGM shall be voted by poll.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. The completion and return of a form of proxy will not preclude you from attending and voting at the EGM or adjournment thereof in person if you so wish.

RECOMMENDATION

The Directors, including the independent non-executive Directors, consider the Disposal and the Continuing Connected Transactions (including the Cap) are in the interest of the Company and the Shareholders as a whole and, accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to “Letter from the Independent Board Committee”, “Letter from Somerley” and the additional information set out in the Appendix to this circular.

By Order of the Board

China Travel International Investment Hong Kong Limited

Zhang Xuewu

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 308)

3 July 2009

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE, CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 3 July 2009 to the Shareholders (the “Circular”), of which this letter forms a part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Agreement, the Disposal and the Continuing Connected Transactions (including the Cap) and to advise the Independent Shareholders whether, in our opinion, the terms of the Agreement, the Disposal and the Continuing Connected Transactions (including the Cap) are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board which contains, inter alia, information about the Agreement, the Disposal and the Continuing Connected Transactions (including the Cap), and the letter of advice from Somerley which contains its advice in respect of the Agreement, the Disposal and the Continuing Connected Transactions (including the Cap).

Having taking into account the principal reasons and factors considered by and the advice of Somerley, we consider the Agreement and the Tour Group Services Supplemental Agreement are on normal commercial terms and the terms of the Disposal and the Continuing Connected Transactions

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

(including the Cap) are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Tour Group Services Supplemental Agreement is entered into in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement and the Continuing Connected Transactions (including the Cap).

Yours faithfully

China Travel International Investment Hong Kong Limited

Dr. Fong Yun Wah

Mr. Wong Man Kong, Peter

Mr. Sze, Robert Tsai To

Mr. Chan Wing Kee

Independent Board Committee

LETTER FROM SOMERLEY

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



SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

3 July 2009

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

Dear Sirs,

DISCLOSEABLE, CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreement which involves the disposal by the Group of its entire shareholding in the registered capital of CTIL and its 25% shareholding in the registered capital of CTI (Hangzhou) to Fame Harvest. Details of the Disposal are set out in the circular dated 3 July 2009 issued by the Company (the “Circular”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Circular.

The Disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. As at the Latest Practicable Date, CTS (Holdings) was interested in approximately 52.56% of the entire issued share capital of the Company and is a substantial Shareholder and thus a connected person for the purposes of the Listing Rules. Fame Harvest being a wholly-owned subsidiary of CTS (Holdings) is therefore also considered a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction for the Company and is subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules.

Upon Completion, members of the CTIL Group will become subsidiaries of CTS (Holdings). Accordingly, the on-going provision of tour group services between the CTIL Group and the Group which are expected to continue to take place after Completion will constitute continuing connected transactions for the Company under the Listing Rules. Since the Board expects that the relevant

LETTER FROM SOMERLEY

applicable percentage ratios in respect of the annual consideration for the Continuing Connected Transactions shall exceed 2.5% and will be more than HK\$10,000,000, the Continuing Connected Transactions would constitute non-exempt continuing connected transactions for the Company under the Listing Rules and require Independent Shareholders' approval.

The Company will convene the EGM at which approval of the Agreement will be sought from the Independent Shareholders. CTS (Holdings) and its associates will abstain from voting in relation to the ordinary resolutions to be put forward at the EGM for the purposes of approving the Agreement, the Tour Group Services Supplemental Agreement (including the Cap) and the transactions contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee, has been established to advise the Independent Shareholders whether the terms of the Agreement and the Tour Group Services Supplemental Agreement (including the Cap) are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Agreement and the Tour Group Services Supplemental Agreement (including the Cap) are in the interests of the Company and the Shareholders as a whole. We, Somerley, 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 such information, facts and opinions are true, accurate and complete and will remain so 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 consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, or to doubt the truth, accuracy or completeness of the information provided. We have not however, conducted an independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions, we have taken into consideration the following principal factors and reasons:

I. Information on the Group

The principal businesses of the Group include travel agency and related operations, online travel consolidator, hotels, theme parks, resorts, passenger transportation, golf club, art performance and infrastructure investment. It operates eight hotels under the "Metropark" brand, five in Hong Kong and Macau, three in the PRC. The Group also runs Zhuhai Ocean Spring Resort in Zhuhai and theme parks including "Splendid China" and "Window of the World" and a golf club in Shenzhen. It also conducts travel agency business in Hong Kong, the PRC and overseas. Mangocity.com. is the Group's on-line travel consolidator. The Group also provides passenger transportation services.

LETTER FROM SOMERLEY

According to the 2008 annual report of the Company, the natural disasters in the PRC and the sharp contraction of global economy during the year directly depressed both business and leisure travel spending, which adversely affected the Group's performance in 2008. The turnover of the travel agency and related operations in 2008 was HK\$2,499 million, representing a decrease of 7.9% from last year. The segment result dropped by 37.2% to HK\$71 million when compared to 2007. Although the Group's overall turnover of core travel business declined during the year, the theme park operations and hotel operations sustained sound growth. While the Group's audited consolidated turnover from continuing operations slightly slid by 0.7% to HK\$4,388 million when compared to last year, the profit attributable to Shareholders dropped by 16.2% to HK\$531 million from last year. The decline in the profit attributable to Shareholders was also partly attributable to a sharp decrease of the Group's share of profit from the power generation business and a share of loss from the ferry operations.

The Directors envisage that the overall economy will remain turbulent in 2009 and consider the tourism industry will be further hampered amid the global financial crisis and the travel agencies will be encountering more obstacles and challenges in their operation and development.

II. Information on China CTS (HK), CTS (Holdings) Group and Fame Harvest

China CTS (HK) is a state-owned enterprise supervised by SASAC. The China CTS (HK) Group is mainly engaged in the travel related business in the PRC, Hong Kong, Macau and over fourteen countries and regions and the steel, property and logistics business in the PRC. After the merger with China Travel Service (Holdings) Corporation of China supervised by SASAC in 2007, the China CTS (HK) Group owns about thirty-six travel agencies in the PRC, thirteen of which are currently held by the Group through the CTIL Group. China CTS (HK) beneficially owns the entire issued share capital of CTS (Holdings) which in turn wholly owns Fame Harvest.

The CTS (Holdings) Group is principally engaged in travel business, industrial investment in steel production, real estate development, logistics and trading.

Fame Harvest was incorporated in Hong Kong in 2008. It is an investment holding company and an indirect wholly-owned subsidiary of CTS (Holdings). The principal assets of Fame Harvest are its equity interests in approximately twenty-one travel agencies in the major cities in the PRC, including Beijing, Shanghai, Xi'an, Dalian, Wuhan, Fuzhou, Nanjing, Chengdu, Qingdao and Haerbin.

LETTER FROM SOMERLEY

III. The Disposal

1. *Background to and reasons for the Agreement*

The Group is the travel-related business flagship and consolidated platform of the China CTS (HK) Group. According to the annual reports of the Company, the travel agency and related operations has always been one of the lowest margin businesses of the Group and recorded a segment margin of 3.5%, 4.1% and 2.9% for each of the three years ended 31 December 2006, 2007 and 2008 respectively. Since 2008, the Company's travel agency business in the PRC which were mainly conducted through the Target Companies has declined due to the economic downturn, natural disasters and fierce competitions from other travel agencies in the PRC. The Company has actively explored alternatives to facilitate the implementation of the consolidation and integration of its travel agency business with the travel agency business within the China CTS (HK) Group.

China Travel Service Head Office Co., Ltd., a subsidiary of the China CTS (HK) Group, was ranked the number one international travel agent in the PRC by the National Tourism Administration of the PRC in 2007 while CTIL came fifth. The Disposal enables the consolidation and integration of the travel agency business within the China CTS (HK) Group. It is expected that the said consolidation and integration would eliminate internal competition between the two groups and will create synergies through optimising its network coverage, reshaping the travel agency business model, re-engineering the operation logistics of the travel agency business, promoting and raising the brand recognition as well as streamlining its overlapping branches in some cities, minimising internal competition, reducing costs with a view to create strongest travel agency network and business platform in the PRC.

China CTS (HK) aims to complete the consolidation and integration (the "Consolidation") of all of its travel agency business, through its wholly-owned subsidiary, CTS (Holdings), in approximately three years. Upon completion of the Consolidation, the Consolidated and Integrated Travel Agency Business is expected to consist of eight regional operation centres, more than 150 local travel agencies and 500 outlets all over the PRC. The Consolidation would shape a leading travel agency business in the PRC with seamless linkages between the PRC, Hong Kong, Macau and its overseas network. The Consolidated and Integrated Travel Agency Business will also focus on the standardisation of travel product offerings and establishment of an integrated platform. All travel agencies will operate under the same "CTS" brand to promote brand recognition and will uniformly leverage on the online sales capabilities of the Group's on-line travel consolidator of Mangocity.

LETTER FROM SOMERLEY

The potential benefit or the timing of the success of the Consolidation, as well as the possible financial impact on the Company's operational and financial results because of the substantial costs potentially to be incurred, are uncertain. We concur with the Directors that the Disposal is expected to maintain a high level of predictability for the Company's financial performance, while facilitating the Consolidation and providing the Group with an option to acquire the Consolidated and Integrated Travel Agency Business at a suitable timing in the future.

2. *Principal terms of the Agreement*

(a) Consideration and assets to be disposed

Pursuant to the Agreement, Fame Harvest has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire shareholding in the registered capital of CTIL and the 25% shareholding in the registered capital of CTI (Hangzhou) for an aggregate consideration of approximately HK\$205.3 million. The Consideration will be settled in cash payable to the Company within 10 Business Days from the Completion Date.

The Consideration was determined after arm's length negotiation between the Vendors, and Fame Harvest and after taking into consideration (i) the unaudited consolidated net asset value of the CTIL Group (excluding minority interests) as at 31 December 2008 of approximately HK\$233,481,003; (ii) the unaudited net asset value as at 31 December 2008 attributable to the 25% shareholding in the registered capital of CTI (Hangzhou) held by the Company of approximately HK\$1,729,739; (iii) the dividend of HK\$29,867,155 declared by CTIL on 31 May 2009; and (iv) the financial position, business outlook and future prospect of the CTIL Group.

(b) Conditions precedent

Completion of the Disposal is conditional upon the fulfilment of the following conditions:

- (i) the passing by the Independent Shareholders at the EGM (with CTS (Holdings) and its associates abstaining from voting) of resolution(s) approving, among other things, the Agreement, the Tour Group Services Supplemental Agreement, the Cap and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules;
- (ii) if applicable, the obtaining of all consents from government or regulatory authorities or third parties which are necessary in connection with the execution and performance of the Agreement and any of the transaction contemplated thereunder; and

LETTER FROM SOMERLEY

- (iii) the representations, warranties and undertakings given by Fame Harvest and the Vendors respectively remaining true and correct in all material respects on the Completion Date.

Fame Harvest may waive condition (iii) above. If the conditions above are not fulfilled or, if applicable, waived on or before the Long Stop Date or such other date as mutually agreed by the parties to the Agreement, the Agreement will be terminated and all obligations of the parties under the Agreement shall cease, provided that the rights and liabilities of the parties thereto which have accrued prior to termination shall subsist and none of the parties to the Agreement shall have any claims against the other (save for any antecedent breach).

- (c) Consolidation and buy back option

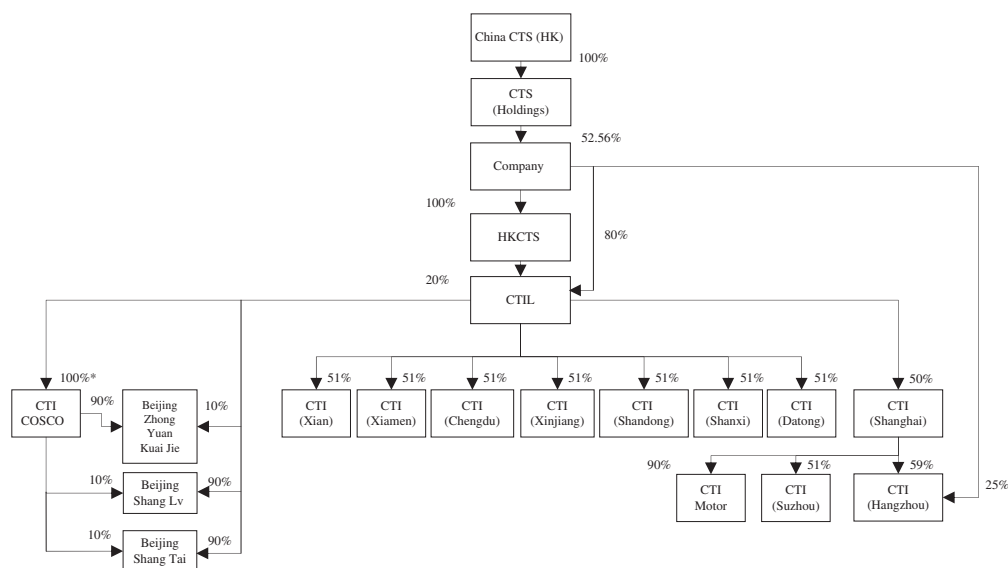
Pursuant to the Agreement, CTS (Holdings) and Fame Harvest have unconditionally and irrevocably undertaken to the Company that they will actively complete the consolidation and integration of all its travel agency business in the PRC (including the CTIL Group) within three years after the Completion Date and will consult and report to the Company from time to time as to the procedures and progress of the Consolidation. CTS (Holdings) and Fame Harvest have also unconditionally and irrevocably granted, subject to regulatory approval (if any), at nil consideration an option to the Company for the Company or its nominee to acquire the Consolidated and Integrated Travel Agency Business as recognised by the Company within a period of three years after the Completion Date or such an extended period of up to six years after the Completion Date upon request of the Company. The consideration for the repurchase of the Consolidated and Integrated Travel Agency Business shall be based on arm's length negotiation between the Company and CTS (Holdings) with reference to the valuation of the Consolidated and Integrated Travel Agency Business to be evaluated by an independent valuer.

LETTER FROM SOMERLEY

3. Information on the Target Companies

(a) Shareholding structure of the Target Companies

The Target Companies comprise the entire shareholding in the registered capital of CTIL and the 25% shareholding in the registered capital of CTI (Hangzhou). The chart below sets out the corporate structure of the CTIL Group:



* 30% held by China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd as nominee on behalf of CTIL

30% of the registered capital of CTI Cosco was held by China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd (a wholly-owned subsidiary of the Company) as nominee on behalf of CTIL. Pursuant to the Agreement, the Company has undertaken to Fame Harvest, to procure the transfer of such 30% interest back to CTIL within a period of six months after the Completion.

(b) Business and financial information of CTIL

CTIL was incorporated in Beijing, PRC, in 2001 and commenced operations in 2002. It operates thirteen travel agencies in provinces and municipality cities including Beijing, Shanghai, Sichuan, Fujian, Zhejiang, Jiangsu, Shandong, Shanxi, Shaanxi and Xinjiang. It provides outbound travel, inbound travel, domestic travel, business travel and tourist guide services, as well as reservation service in collaboration with hotels and airlines. The CTIL Group is the flagship operator of Mainland travel agency services of the Group.

LETTER FROM SOMERLEY

The unaudited financial information of the CTIL Group prepared in accordance with the HKFRS is as follows (*the 2007 and 2008 figures presented below were adopted in the preparation of the 2007 and 2008 audited accounts of the Group in accordance with the HKFRS*):

| | For the year ended | | |
|---|---------------------------|-------------------|-------------------|
| | 31 December | | |
| | 2007 | 2008 | |
| | <i>(HK\$'000)</i> | <i>(HK\$'000)</i> | |
| Profit before tax | 15,651 | 8,009 | |
| Profit after tax | 10,482 | 4,766 | |
| Profit attributable to equity holders of the parent | 9,603 | 6,230 | |
| | | | As at |
| | As at 31 December | | 31 May |
| | 2007 | 2008 | 2009 |
| | <i>(HK\$'000)</i> | <i>(HK\$'000)</i> | <i>(HK\$'000)</i> |
| | | | <i>(Note)</i> |
| Net asset value | | | |
| (excluding minority interests) | 213,252 | 233,481 | 202,490 |

Note: CTIL has declared a dividend of HK\$29,867,155 on 31 May 2009.

Despite the Beijing Olympics which boosted the PRC tourism industry in 2008, the global economic downturn had significantly weakened travel spending. The profit before and after tax of the CTIL Group decreased significantly by 48.8% and 54.5% respectively in 2008 when compared to prior year.

After taking into account the dividend of approximately HK\$29.9 million declared by CTIL on 31 May 2009, the CTIL Group had a net asset value (excluding minority interests) of approximately HK\$202.5 million as at that date.

(c) Business and financial information of CTI (Hangzhou)

Established in July 2005 in Hangzhou, CTI (Hangzhou) is 59% beneficially owned by CTI (Shanghai) (a jointly controlled entity of the Company) and 25% beneficially owned by the Company. CTI (Hangzhou) is principally engaged in group tour operation and ticketing service.

LETTER FROM SOMERLEY

The unaudited financial information of CTI (Hangzhou) prepared in accordance with the HKFRS is as follows (*the 2007 and 2008 figures presented below were adopted in the preparation of the 2007 and 2008 audited accounts of the Group in accordance with the HKFRS*):

| | For the year ended | |
|-------------------|--------------------|------------|
| | 31 December | |
| | 2007 | 2008 |
| | (HK\$'000) | (HK\$'000) |
| Profit before tax | 631 | 21 |
| Profit after tax | 625 | 10 |

| | As at 31 December | | As at |
|-----------------|-------------------|------------|------------|
| | 2007 | 2008 | 31 May |
| | (HK\$'000) | (HK\$'000) | 2009 |
| | | | (HK\$'000) |
| Net asset value | 6,452 | 6,919 | 6,625 |
| | | | (Note) |

The profit before and after tax of CTI (Hangzhou) dropped substantially by 96.6% and 98.4% respectively when compared to 2007 amid the outbreak of the global financial crisis. As at 31 May 2009, CTI (Hangzhou) had a net asset value of approximately HK\$6.6 million.

4. *Market comparables*

For the purpose of assessing the Consideration, we have reviewed and compared the market statistics of other Asian listed companies which are principally engaged in travel agency business in the PRC (the "Comparable Companies").

LETTER FROM SOMERLEY

The following table sets out the comparison of the Consideration in terms of price to earnings ratio (“PER”) to those of the Comparable Companies:

| Company | Stock Exchange | Market Capitalisation <i>HK\$ million</i> <i>(Note 1)</i> | PER <i>Times</i> <i>(Note 2)</i> |
|---|--|--|--|
| China CYTS Tours Holdings Co., Ltd. | Shanghai Stock Exchange (600138 CH) | 5,036 | 34.07 |
| Beijing Capital Tourism Co., Ltd. | Shanghai Stock Exchange (600258 CH) | 4,152 | 21.16 |
| Shanghai Jinjiang International Travel Co., Ltd. | Shanghai Stock Exchange (900929 CH) | 1,081 | 42.99 |
| The Company | Hong Kong Stock Exchange (308 HK) | 9,739 | 18.33 |
| Average | | | 29.14 |
| The Disposal (Note 3) | | 205 | 32.95 |

Source: Bloomberg

Notes:

1. Market capitalisation of the respective companies as at the Latest Practicable Date quoted by Bloomberg.
2. Calculated based on the closing share prices of the companies as at the Latest Practicable Date quoted by Bloomberg and the latest published financial information of the companies.
3. The PER of the Target Companies is calculated by using the Consideration of HK\$205.34 million and the combined profit of the CTIL Group attributable to the Company of HK\$6.23 million and the 25% of the profit attributable to equity holders of CTI (Hangzhou) of HK\$2,500 for the year ended 31 December 2008.

LETTER FROM SOMERLEY

As shown in the above table, the Comparable Companies are trading at PER in the range of 18.33 to 42.99 times. The PER represented by the Consideration of about 32.95 times is higher than the average PER of the Comparable Companies of 29.14 times.

We consider travel agency such as the Target Companies are more appropriately valued by reference to earnings and valuation on net asset value basis may not be very meaningful as travel agency is not an asset based industry.

5. *Financial effects of the Disposal on the Group*

(a) Earnings and cash flow

Although the Target Companies are profit making, its contribution to the Group's total profit has been relatively small, accounting for approximately 0.8% of the Group's total profit after tax for 2008.

Upon Completion, the Group will no longer hold any interest in CTIL or CTI (Hangzhou) and hence will not share their results anymore. There will be an immediate cash inflow of the proceeds from the Disposal of approximately HK\$205 million which will be used for the Group's general working capital purposes.

(b) Net assets

As the Consideration is equivalent to the combined value of (i) the unaudited consolidated net asset value of the CTIL Group (excluding minority interests) as at 31 December 2008 after adjusting the dividend declared by CTIL on 31 May 2009 and (ii) the unaudited net asset value attributable to the 25% shareholding in the registered capital of CTI (Hangzhou) as at 31 December 2008, the Group does not expect to have any significant gain or loss as a result of the Disposal. The Disposal will not have material effect on the net asset value of the Group.

CONTINUING CONNECTED TRANSACTIONS

I. **Background to and reasons for the Continuing Connected Transactions**

The Company and China CTS (HK) have entered into the Tour Group Services Agreement dated 19 August 2008 in respect of the provision of tour group services by the Group and the China CTS (HK) Group to each other. Since CTIL will become a wholly-owned subsidiary of CTS (Holdings) upon Completion, the existing provision of tour group services between the CTIL Group and the Group which will continue from time to time after the Completion would then constitute continuing connected transactions for the Company under the Listing Rules.

LETTER FROM SOMERLEY

The Company expects that the original Cap for the provision of tour group services by the China CTS (HK) Group and the Group to each other contemplated under the Tour Group Services Agreement will be exceeded as a result of the addition of the continuing connected transactions arising from the fact that CTIL would become a wholly-owned subsidiary of CTS (Holdings) after Completion. As such, the Tour Group Services Supplemental Agreement was entered into between the Company and China CTS (HK) on 22 June 2009 and shall become effective on Completion, to extend the term of the Tour Group Services Agreement and all other terms and conditions of the Tour Group Services Agreement shall remain unchanged.

Since the Board anticipates that the percentage ratios (other than the profits ratio) for the Continuing Connected Transactions on an annual basis will exceed 2.5% and have an annual consideration of more than HK\$10 million, such transactions therefore constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules. The Directors consider that it is in the interest of the Company to seek from Independent Shareholders the approval of the Continuing Connected Transactions which will be conducted in the three financial years ending 31 December 2009, 2010 and 2011, subject to the Cap for each Continuing Connected Transactions.

II. Principal terms of the Continuing Connected Transactions

Pursuant to the Tour Group Services Supplemental Agreement, the Group and the China CTS (HK) Group shall provide tour group services to each other. The charges for the provision of tour group services by the Group to the China CTS (HK) Group shall not be lower than that which the Group may charge independent third parties, while the fees charged by the China CTS (HK) Group for its provision of tour group services to the Group shall not be higher than the prevailing market price at which these services are provided to independent third parties by the China CTS (HK) Group. We consider the pricing mechanism for the Tour Group Services Supplemental Agreement fair and reasonable.

We have reviewed sample contracts between the Group and independent third parties for the provision of similar tour group services. We noted that the terms and the basis of price determination for the Continuing Connected Transactions under the Tour Group Services Supplemental Agreement are no less favourable to the Group than the terms for similar transactions between the Group and independent third parties.

III. Cap

The Continuing Connected Transactions are subject to the Listing Rules requirements and conditions as more particularly discussed under the section headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. In particular, the Continuing Connected Transactions are subject to the Cap.

LETTER FROM SOMERLEY

(a) *Review of historical figures*

The table below sets out the value of each category of the Continuing Connected Transactions for each of the two years ended 31 December 2007 and 2008 and the four months ended 30 April 2009 (“Track Record Period”):

| | Year ended | | Four months ended | |
|---|-----------------------|----------------------|--------------------------|----------------------|
| | 31 December | | 30 April | |
| | 2007 | 2008 | 2008 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$ '000</i> |
| Provision of tour group services by the China CTS (HK) Group to the Group | 5,370 | 15,297 | 5,526 | 5,102 |
| Provision of tour group services by the CTIL Group to the Group (<i>Note</i>) | <u>117,371</u> | <u>77,849</u> | <u>10,839</u> | <u>11,321</u> |
| Total | <u>122,741</u> | <u>93,146</u> | <u>16,365</u> | <u>16,423</u> |
| Provision of tour group services by the Group to the China CTS (HK) Group | 4,335 | 6,845 | 818 | 5,586 |
| Provision of tour group services by the Group to the CTIL Group (<i>Note</i>) | <u>32,928</u> | <u>21,817</u> | <u>2,343</u> | <u>5,264</u> |
| Total | <u>37,263</u> | <u>28,662</u> | <u>3,161</u> | <u>10,850</u> |

Note: The above figures are based on the assumption that CTIL was already a connected person of the Company since 2007.

The aggregate value for the provision of tour group services by the China CTS (HK) Group and the CTIL Group to the Group for the year ended 31 December 2008 (“2008 Procurement from Parent”) dropped by approximately 24% to HK\$93.1 million when compared to HK\$122.7 million in 2007. The aggregate value for the provision of tour group services for the four months ended 30 April 2009 of HK\$16.4 million accounted for approximately 18% of the 2008 Procurement from Parent and remained stable as compared to the corresponding period in 2008.

Provision of tour group services by the Group to the China CTS (HK) Group and the CTIL Group for the year ended 31 December 2008 (“2008 Procurement from the Group”) dropped by 23% from approximately HK\$37.3 million in 2007 to HK\$28.7 million in 2008. The transaction value for the first four months of 2009 of approximately HK\$10.9 million represented approximately 38% of the 2008 Procurement from the Group.

LETTER FROM SOMERLEY

The Directors reason that the tour business is subject to a seasonal factor and a higher business volume is usually in the second half of each year. The average pricing for the provision of tour group services by the China CTS (HK) Group, the CTIL Group and the Group did not exhibit material fluctuations during the Track Record Period. Both values for the provision of tour group services provided by the Group and the CTIL Group to each other dropped by approximately 34% in 2008. Such a decrease was mainly attributable to the global economic downturn, the volatile financial markets, the snow storm and the Sichuan earthquake in the PRC during the year. Although the overall environment for tourism industry in the PRC deteriorated in 2008, the transaction value for the provision of tour group services between the Group and the China CTS (HK) Group in 2008 increased, since they utilised more of the tour services provided by each other rather than sourcing from independent third parties. The aggregate value for the provision of tour group services by the Group to the China CTS (HK) Group and the CTIL Group in the first four months of 2009 grew by approximately 243% as compared to the corresponding period in 2008. Such an increase was contributed by the ongoing increase in utilisation of the Group's tour group services by the China CTS (HK) Group and the CTIL Group.

(b) Assessment of the Cap

It is expected that demand for inbound and outbound tour group services amongst the China CTS (HK) Group (including the CTIL Group) and the Group would increase after the Consolidation following Completion. The Cap for the Continuing Connected Transactions for each of the three years ending 31 December 2009, 2010 and 2011 are proposed to be as follows:

| | Original Cap | | Proposed Cap | | |
|--|----------------------------|-----------------|----------------------------|-----------------|-----------------|
| | for the year ending | | for the year ending | | |
| | 31 December | | 31 December | | |
| | 2009 | 2010 | 2009 | 2010 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| (i) Provision of tour group services by the China CTS (HK) Group to the Group | 34,900 | 41,870 | 100,000 | 150,000 | 200,000 |
| (ii) Provision of tour group services by the Group to the China CTS (HK) Group | 43,240 | 59,520 | 60,000 | 140,000 | 230,000 |

In assessing the reasonableness of the Cap, we have discussed with the management of the Group the basis and assumptions underlying the projection of the Cap.

LETTER FROM SOMERLEY

(i) Provision of tour group services by the China CTS (HK) Group to the Group

In calculating the annual caps for the provision of tour group services by the China CTS (HK) Group (including the CTIL Group) to the Group, the Directors have assumed the pricing of the provision of tour group services by the China CTS (HK) Group (including the CTIL Group) and the total volume of the Group's utilisation of inbound tour group services in the PRC remains stable when compared to 2008.

The Directors expect that the provision of tour group services by the China CTS (HK) Group (including the CTIL Group) to the Group in 2009 will remain stable and the Cap of HK\$100 million for 2009 is comparable to the actual transaction value of HK\$93.1 million in 2008. Currently, there are many travel agencies providing tour group services in the PRC to the Group. Since the Group intends to secure more stable and better services and bargain for a more favourable pricing, an increase in procurement of services from the China CTS (HK) Group (including the CTIL Group) is expected. The proportion (the "Inbound Ratio") of the Group's utilisation of the tour group services provided by the China CTS (HK) Group (including the CTIL Group) in 2008 accounted for approximately 25% of the 2008 Total PRC Services Amount. The Directors expect the provision of tour group services by the China CTS (HK) Group (including the CTIL Group) to the Group will remain stable in 2009, and start picking up in 2010 after the Consolidation. The annual caps for 2010 and 2011 represent a year-on-year growth of 50% and 33.3% respectively after taking into account the expected Inbound Ratio of approximately 40% in 2010 and approximately 50% in 2011 with reference to the historical 2008 Total PRC Services Amount.

(ii) Provision of tour group services by the Group to the China CTS (HK) Group

In determining the annual caps for the provision of tour group services by the Group to the China CTS (HK) Group (including the CTIL Group), the Directors have assumed the pricing of the provision of tour group services by the Group remains stable and the volume of utilisation of outbound tour group services by the China CTS (HK) Group (including the CTIL Group) outside the PRC remains comparable to 2008.

There are many travel agencies providing tour group services outside the PRC to the China CTS (HK) Group. In order for the China CTS (HK) Group to secure more stable and better services with premier brand name travel agency partner outside the PRC, an increase in procurement of the Group's tour group services by the China CTS (HK) Group (including the CTIL Group) is expected. The 2008 Procurement from the Group only accounted for an insignificant percentage of the 2008 Total Outside Services Amount, i.e. the total transaction amount of the tour group services utilised by the China CTS (HK) Group (including the CTIL Group) outside the PRC (the "Outbound Ratio"). The Directors expect that the procurement of the Group's tour group services by the China CTS (HK) Group (including the CTIL Group) will increase to approximately 5% of the China CTS (HK) Group's (including the CTIL Group) total utilisation of the tour group

LETTER FROM SOMERLEY

services outside the PRC in 2009 and further increase to approximately 10% in 2010 and approximately 20% in 2011 with reference to the historical 2008 Total Outside Services Amount after completion of the Consolidation. By adopting the aforesaid estimated Outbound Ratio, the Cap are HK\$60 million for 2009, HK\$140 million for 2010 and HK\$230 million for 2011.

We consider the Cap for the Tour Group Services Supplemental Agreement which are determined with reference to, among other things, the historical transaction amounts, the consolidation and integration of the travel agency business within the China CTS (HK) Group in the PRC and the projected increase in the Inbound Ratio and the Outbound Ratio, fair and reasonable.

IV. Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that the Continuing Connected Transactions 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;
- (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 Continuing Connected Transactions:
 - (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 agreements governing the transactions; and
 - (iv) have not exceeded the relevant Cap;

LETTER FROM SOMERLEY

- (c) the Company shall allow, and shall procure the relevant counterparties to the Continuing Connected Transactions shall allow, the Company's auditors with sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b);
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules 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 Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions 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 Continuing Connected Transactions and the Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

DISCUSSION AND ANALYSIS

Travel agency has been one of the Group's principal businesses and has its presence in Hong Kong, Macau, Mainland China and overseas. The travel agency and related operations segment has contributed about 45% of the Group's total revenue in 2008. However, its profitability has been consistently low and recorded an average segment margin of about 3.5% in the past three years. The operating environment of the travel agency business becomes stiffer and its profit margin further deteriorated to 2.9% in 2008 amid the global financial crisis. The performance of the CTIL Group was further hit by the snowstorms and earthquake in the PRC during 2008 and recorded a profit margin of 0.5%. It is expected that travel agencies will be encountering more obstacles and challenges in their operation and development.

The Disposal would minimise internal competition between the China CTS (HK) Group and the CTIL Group, which own two of the top five international travel agents in the PRC accredited by the National Tourism Administration of the People's Republic of China in 2007. Synergy is expected to be generated after the consolidation and integration of the travel agency business within the China CTS (HK) Group in the PRC through economies of scale and strong branding. Bearing in mind the substantial potential costs for the consolidation exercise of the two group's extensive travel agency network in the PRC and the uncertainty on the realisation of the expected benefits, it is in the interests of the Group to dispose of its mainland travel agency business at a higher PER when compared to its peers, while simultaneously securing a six-year call option to buy back the Consolidated and Integrated Travel Agency Business, at a consideration to be negotiated at arm's length with reference to an independent valuation. Such a call option gives the Group full control and freedom to buy back the PRC travel agency business whenever it thinks appropriate.

LETTER FROM SOMERLEY

Having considered the profit contribution of the Target Companies to the Group in the past, the potential financial effects of the Disposal on the Group, the resources to be incurred and risks associated with the large-scale consolidation and integration plan, we consider the Agreement beneficial to the Group.

The Tour Group Services Supplemental Agreement is to regulate the provision of tour group services between the China CTS (HK) Group (including the CTIL Group) and the Group after Completion. The Continuing Connected Transactions are under a pricing mechanism that terms to the Group could not be less favourable than terms available to independent third parties. The Cap is determined with reference to the historical transaction amounts and the expected growth in intergroup activities.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Agreement and the Tour Group Services Supplemental Agreement are on normal commercial terms and the Disposal and the Continuing Connected Transactions (including the Cap) 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 also consider that the Tour Group Services Supplemental Agreement is entered into in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement and the Continuing Connected Transactions (including the Cap).

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Maggie Chan
Director

1. RESPONSIBILITY STATEMENT

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

2. 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:

Long position in Shares:

| Name of Director(s) | Note | Number of Shares held | | | Total | % of the issued share capital |
|---------------------|------|-----------------------|---------------------|-----------------|--------|-------------------------------|
| | | Personal Interests | Corporate Interests | Other Interests | | |
| Dr. Fong Yun Wah | 1 | – | 50,000 | – | 50,000 | 0.000878% |
| Mr. Xu Muhan | 2 | – | – | 2,000 | 2,000 | 0.000035% |

Notes:

- These Shares were beneficially owned by certain corporations in which Dr. Fong Yun Wah was taken to be interested pursuant to Divisions 7 and 8 of Part XV of the SFO.
- Mr. Xu Muhan was deemed to be interested in these Shares held by his spouse.

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 of debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were 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.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than Directors or chief executive of the Company) were interested in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO:

Long position in the Shares:

| Name of Shareholder(s) | Notes | Number of Shares held | % of the issued share capital |
|-------------------------------------|-------|--------------------------|-------------------------------------|
| China CTS (HK) | 1 | 2,993,632,728 | 52.56% |
| CTS (Holdings) | 1, 3 | 2,993,632,728 | 52.56% |
| Foden International Limited (“FIL”) | 2 | 20,700,000 | 0.36% |

Notes:

- The entire issued share capital of CTS (Holdings) was beneficially owned by China CTS (HK). CTS (Holdings) was the immediate holding company of the Company. Accordingly, China CTS (HK) was deemed to be interested in the Shares in which CTS (holdings) was interested pursuant to Part XV of the SFO and the interests of China CTS (HK) in the Company duplicated the interests of CTS (Holdings).

As at the Latest Practicable Date, Mr. Zhang Xuewu, Mr. Zheng Heshui, Mr. Lo Sui On, Ms. Jiang Yan, Mr. Mao Jianjun, Mr. Fang Xiaorong and Mr. Zhang Fengchun were also directors of China CTS (HK).

- 20,700,000 Shares were held by FIL which was a wholly-owned subsidiary of CTS (Holdings).
- Of these 2,993,632,728 Shares, 2,972,932,728 Shares held by CTS (holdings) directly and 20,700,000 were held by FIL, in which CTS (Holdings) was taken to be interested pursuant to Part XV of the SFO.

As at the Latest Practicable Date, Mr. Zhang Xuewu, Mr. Zheng Heshui, Mr. Lo Sui On, Ms. Jiang Yan, Mr. Mao Jianjun, Mr. Fang Xiaorong and Mr. Zhang Fengchun were also directors of CTS (Holdings).

Save as disclosed above, the Directors and the chief executive of the Company were not aware of any person (other than Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which were required to be recorded in the register required to be kept under section 336 of the SFO.

3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2008 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of or leased to any member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his or her respective associates was considered to have an interest in a business which competed or was likely to compete, enter directly or indirectly, with the business of the Group other than those business to which the Directors and his or her associates who appointed to represent the interests of the Company and/or the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

| Name | Qualification |
|-------------|--|
| Somerley | 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 |

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Somerley had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, Somerley was not interested, directly or indirectly, in any assets which had since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. LANGUAGE

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Agreement, Tour Group Service Agreement and the Tour Group Services Supplemental Agreement will be available for inspection during normal business hours at the registered office of the Company in Hong Kong at 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM.

NOTICE OF THE 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 with limited liability)

(Stock Code: 308)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of the shareholders of China Travel International Investment Hong Kong Limited (the “Company”) will be held at Cafe du Parc, 2nd Floor, Metropark Hotel Causeway Bay Hong Kong, 148 Tung Lo Wan Road, Causeway Bay, Hong Kong on Monday, 20 July 2009 at 2:30 p.m. to consider as special business and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions:

“THAT

1. the agreement (the “Agreement”) entered into between the Company and China Travel Service (Hong Kong) Limited (collectively, the “Vendors”), China Travel Service (Holdings) Hong Kong Limited and Fame Harvest (Hong Kong) Limited (“Fame Harvest”) on 22 June 2009, pursuant to which, among others, the Vendors have conditionally agreed to sell to Fame Harvest the entire shareholding in the registered capital of China Travel International Ltd. and the 25% shareholding in the registered capital of China Travel International (Hangzhou) Ltd., (a copy of the Agreement has been produced to the meeting marked “A” and has been initialled by the chairman of the meeting for the purpose of identification), the terms thereof, the execution and delivery thereof by the Company and the performance and implementation of the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;
2. the supplemental agreement (the “Supplemental Agreement”) entered into between the Company and China National Travel Service (HK) Group Corporation on 22 June 2009, (a copy of the Supplemental Agreement has been produced to the meeting marked “B” and has been initialled by the chairman of the meeting for the purpose of identification), the terms thereof, the execution and delivery thereof by the Company and the performance and implementation of the continuing connected transactions contemplated thereunder and the respective annual cap amounts be and are hereby confirmed, approved and ratified;
3. any one director of the Company be and is hereby authorised for and on behalf of the Company to do all acts and things and to approve, execute and deliver all notices, documents, instruments or agreements as may be necessary, desirable or expedient to carry out or to give effect to any or all transactions contemplated under the Agreement

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

and the Supplemental Agreement and to agree to such variations, amendments or waivers thereof as are, in the opinion of such Director, in the interests of the Company. If the use of common seal is required under the Agreement and the Supplemental Agreement, any two directors of the Company are authorised to sign and use the common seal.”

By Order of the Board

China Travel International Investment Hong Kong Limited

Zhang Xuewu

Chairman

Hong Kong, 3 July 2009

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 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 share registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, not later than 48 hours before the time of the meeting or any adjournment thereof.
- (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 shall be by way of poll.