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## 香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

### ISSUE OF US\$150 MILLION ZERO COUPON GUARANTEED CONVERTIBLE BONDS DUE 2008 (TAKING INTO ACCOUNT THE FULL EXERCISE OF THE OVER-ALLOTMENT OPTION) BY CHINA CHANCE DEVELOPMENTS LIMITED CONVERTIBLE INTO ORDINARY SHARES OF CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

On 2 September 2003, the Company, the Issuer and the Lead Manager entered into the Subscription Agreement whereby the Lead Manager agreed to subscribe, or procure subscribers, for the Convertible Bonds of principal amount of US\$150 million taking into account the full exercise of the Over-allotment Option. Assuming full conversion of the Convertible Bonds at the Conversion Price, the Convertible Bonds will be convertible into 615,734,210 Shares (subject to adjustment), representing approximately 14.55% of the issued share capital of the Company as at the date of this announcement and approximately 12.70% of the enlarged issued share capital of the Company.

The Bondholders will have the right to convert their Convertible Bonds into Shares at any time from 40 days after the Closing Date to 10 business days prior to the Maturity Date. The initial Conversion Price is HK\$1.90, being a premium of approximately 15.2% over the closing price of the Shares quoted on the Stock Exchange on 2 September 2003, being the date on which the Subscription Agreement was signed. The Convertible Bonds are guaranteed (if not converted) by the Company. Unless previously purchased and cancelled, redeemed or converted, the Convertible Bonds will be redeemed at 108.428% of their principal amount on the Maturity Date.

The net proceeds from the issue of the Convertible Bonds will be applied by the Company to finance the expansion of existing businesses including the development of a resort in Zhuhai and the establishment of travel agencies in Northern Europe and the PRC. Further announcement will be made if the use of such proceeds has been changed.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

An application will be made for the listing of the Convertible Bonds on the Luxembourg Stock Exchange.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 3 September 2003 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 4 September 2003.

#### SUBSCRIPTION AGREEMENT

Date: 2 September 2003

Lead Manager: J.P. Morgan Securities Limited, which is independent of and not connected with any of the substantial shareholders, chief executive and the directors of the Company, its subsidiaries and associates of any of them.

Subscription: The Lead Manager has agreed to subscribe, or to procure subscribers who are independent of and not connected with any of the substantial shareholders, chief executive and the directors of the Company, its subsidiaries and associates of any of them, for the Convertible Bonds in an aggregate principal amount of US\$150 million (taking into account the full exercise of the Over-allotment Option).

Conditions precedent: Completion of the subscription of the Convertible Bonds is conditional upon the Stock Exchange granting listing of, and permission to deal in, the Shares to be issued on conversion in full of the Convertible Bonds (either unconditionally or subject to conditions to which the Company does not reasonably object), the issuance of certain legal opinions, the issuance of auditors' letters and there being no material adverse change in the financial condition, operations, business or properties of the Group at the Closing Date.

In the event that the conditions are not fulfilled by the Closing Date, the parties to the Subscription Agreement shall be released and discharged from their respective obligations thereunder.

Termination: The Lead Manager is entitled to terminate the arrangement under the Subscription Agreement at any time prior to the completion of the Convertible Bonds upon the occurrence of certain events which include, inter alia, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls which would in the Lead Manager's view, after consultation with the Company where reasonably practicable, be likely to prejudice materially the success of the Offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market.

Completion: Subject to the above conditions, completion of the Convertible Bonds is expected to take place on the Closing Date.

#### PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are summarized as follows:

Issuer: China Chance Developments Limited, a wholly-owned subsidiary of the Company

Guarantor: China Travel International Investment Hong Kong Limited

Principal amount: US\$150 million (taking into account the full exercise of the Over-allotment Option). Pursuant to the Over-allotment Option, on 3 September 2003, the Lead Manager gave notice to the Company to exercise the Over-allotment Option in full. Accordingly, the aggregate principal amount of the Convertible Bonds shall be US\$150 million.

Interest: The Convertible Bonds are zero coupon bonds.

Conversion period: Bondholder(s) may exercise conversion rights at any time from 40 days after the Closing Date to 10 business days prior to the Maturity Date.

Conversion Price: HK\$1.90 per Share, representing a premium of approximately 15.2% over the closing price of HK\$1.65 per Share as quoted on the Stock

Exchange on 2 September 2003, being the date of the Subscription Agreement, and a premium of approximately 26.2% over the average of the closing price of the Shares as quoted on the Stock Exchange for the ten trading days ended 2 September 2003 of HK\$1.506.

The Conversion Price will be subject to adjustment for, amongst other things, consolidations/subdivisions of Shares, capital distributions including where the Company's dividend payout ratio exceeds 65% of its net income, bonus issues, rights issues and other events which may have a diluting effect on Bondholders. The Conversion Shares will be issued and allotted pursuant to the general mandate granted by the Shareholders to the Directors in the annual general meeting held on 30 May 2003.

Ranking of Conversion Shares: Conversion Shares will rank pari passu in all respects with the Shares then in issue on the relevant conversion date.

Redemption at option of the Issuer: The Issuer may redeem all, or from time to time, some only (being US\$1,000,000 in principal amount or an integral multiple thereof) of the Convertible Bonds at a redemption price equal to the Early Redemption Amount:

(a) on or at any time after 18 months from the Closing Date up to the Maturity Date if the closing price of the Shares for at least 20 consecutive Trading Days (as defined in the Terms and Conditions of the Convertible Bonds) is not less than 130% of the Conversion Price;

(b) at any time prior to maturity if at least 90% in principal amount of the Convertible Bonds have already been converted, redeemed or purchased and cancelled; or

(c) as a result of regulatory change impacting on the payment obligations under the Convertible Bonds.

Redemption at option of the Bondholders: The Convertible Bonds may be redeemed, at the option of the Bondholders, by the Issuer (a) on the third anniversary of the Closing Date at 104.975% of their principal amount, and (b) in the event of a Change of Control of the Company at the Early Redemption Amount.

Maturity: Unless previously purchased and cancelled, converted or redeemed, each Convertible Bond shall be redeemed at 108.428% of their principal amount on the Maturity Date.

Voting rights: Bondholders will not have any right to attend or vote in any meeting of the Company by virtue of their being Bondholders.

Listing: An application will be made for a listing of the Convertible Bonds on the Luxembourg Stock Exchange.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Form of the Convertible Bonds: Registered

Denomination: US\$10,000

#### EFFECT ON THE SHARE CAPITAL

Assuming full conversion of the Convertible Bonds at the initial Conversion Price, the Convertible Bonds will be convertible into 615,734,210 Shares (subject to adjustment), representing approximately 14.55% of the issued share capital of the Company as at the date of this announcement and approximately 12.70% of the enlarged issued share capital of the Company.

The following table summarises the shareholding structure of the Company as at the date of this announcement:

Name of Shareholder	No. of Shares	Existing (as at the date of this announcement)	Assuming that the Convertible Bonds are fully converted into Shares at Conversion Price of HK\$1.90 each	
		% to issued share capital of the Company	No. of Shares	% to enlarged issued share capital of the Company
China Travel Service (Holdings) Hong Kong Limited	2,494,693,940	58.95%	2,494,693,940	51.46%
Directors	11,382,000	0.27%	11,382,000	0.23%
Public Shareholders	1,726,122,535	40.78%	1,726,122,535	35.61%
Bondholders	–	–%	615,734,210	12.70%
<b>Total</b>	<b>4,232,198,475</b>	<b>100.00%</b>	<b>4,847,932,685</b>	<b>100.00%</b>

## USE OF PROCEEDS

The net proceeds from the issue of the Convertible Bonds, after deducting expenses, including but not limited to the underwriting commission to be charged by the Lead Manager, are estimated to be approximately US\$146 million (equivalent to approximately HK\$1.14 billion) taking into account the full exercise of the Over-allotment Option. The Company presently intends to use such proceeds to finance the expansion of existing businesses including the development of a resort in Zhuhai and establishment of travel agencies in Northern Europe and the PRC. Further announcement will be made if the use of such proceeds has been changed. The conversion of the Convertible Bonds into the Shares will enlarge the shareholder capital base of the Company and the Directors consider that will facilitate the development and expansion of the Company. Taking into account that the Convertible Bonds are zero coupon bonds and that the conversion price represents a substantial premium to the prevailing Share price, the Directors are of the view that the terms of the Convertible Bonds are fair and reasonable and are in the interest of the Group as a whole.

## GENERAL

The Group is principally engaged in travel and travel-related operations, hotel operations, tourist attraction operations, passenger transportation, golf club operations, freight forwarding and transportation services and power generation.

Asia Investment Capital Limited has been appointed as the financial adviser to the Company in respect of the issue of the Convertible Bonds.

## SUSPENSION AND RESUMPTION OF TRADING OF SHARES

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 3 September 2003 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 4 September 2003.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meaning:

“associate(s)”	has the same meaning as defined in the Listing Rules
“Bondholder(s)”	holder(s) of the Convertible Bonds from time to time
“Change of Control”	the acquisition of the rights to appoint the majority of the Directors or substantially all of the Shares or where a merger results in the same
“Closing Date”	26 September 2003 or such other date at the discretion of the Lead Manager after consultation with the Issuer and the Company, but in any event not later than 31 October 2003
“Company”	China Travel International Investment Hong Kong Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Convertible Bond(s)”	convertible bond(s) in an aggregate principal amount of US\$130 million to be issued by the Issuer on the terms of the Trust Deed and the Optional Bonds in an aggregate principal amount of US\$20 million in respect of which the Over-allotment Option was exercised in full on 3 September 2003 by the Lead Manager
“Conversion Price”	HK\$1.90 per Share (subject to adjustment)
“Conversion Shares”	Shares to be allotted and issued by the Company upon conversion of the Convertible Bonds
“Directors”	the directors of the Company
“Early Redemption Amount”	100% of the principal amount of the Convertible Bonds plus an amount which will provide the Bondholders with a yield at 1.625% per annum to the redemption date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Trust Deed”	the deed constituting the Convertible Bonds
“Issuer”	China Chance Developments Limited, a wholly-owned subsidiary of the Company
“Lead Manager”	J.P. Morgan Securities Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling five years from (and inclusive of) the Closing Date
“Offering”	the offering of the Convertible Bonds to subscribers for the Convertible Bonds who are independent of and not connected with any of the substantial shareholders, chief executive and the directors of the Company, its subsidiaries, and associates of any of them
“Optional Bonds”	the additional convertible bonds to be issued upon exercise, in whole or in part, of the Over-allotment Option by the Lead Manager
“Over-allotment Option”	an option granted by the Issuer to the Lead Manager to subscribe for all or any of the Optional Bonds for a period of 60 days commencing from 2 September 2003. Such option was exercised in full on 3 September 2003
“PRC”	the People’s Republic of China
“Subscription Agreement”	the subscription agreement dated 2 September 2003 entered into between the Company, the Issuer and the Lead Manager in relation to the Offering
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of United States and for the purpose of this announcement, United States dollars are translated into Hong Kong dollars at the fixed rate of US\$1 = HK\$7.7993
“US person(s)”	any person or entity deemed to be a US person for purposes of Regulation S under the Securities Act of 1933, as amended
“%”	per cent.

By Order of the Board  
**China Travel International Investment Hong Kong Limited**  
**Ng Chi Man, Michael**  
*Executive Director*