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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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)*

(Stock Code: 308)

## RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



**SOMERLEY LIMITED**

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A notice convening an extraordinary general meeting of the 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 Wednesday, 12 December 2012 at 2:30 p.m. is set out on page 26 of this circular. Whether or not you are able to attend the meeting, please complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the Company's share registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and, in any event, by no later than 48 hours before the time appointed for the holding of the meeting (or adjourned meeting or of the poll, as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

26 November 2012

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	4
<b>Letter from the Independent Board Committee</b> .....	10
<b>Letter from Somerley Limited</b> .....	12
<b>Appendix — General Information</b> .....	21
<b>Notice of the Extraordinary General Meeting</b> .....	26

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## DEFINITIONS

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

“Acquisition”	the Company’s acquisition of CTSHK from CTS (Holdings) in 2001
“Agency Agreement”	the agency agreement dated 15 May 2001 entered into between CTSHK and CTS (Holdings) in relation to Travel Permit Administration
“associate(s)”, “connected person(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each of which has the meaning ascribed to it under the Listing Rules
“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(s)”	the maximum aggregate annual consideration for the Travel Permit Administration
“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 Stock Exchange
“CTSHK”	China Travel Service (Hong Kong) Limited, a wholly-owned subsidiary of the Company
“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 57% of the issued share capital of the Company and a connected person of the Company
“CTS (Holdings) Group”	CTS (Holdings) and its subsidiaries, which shall exclude the Group for the purpose of this circular

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## DEFINITIONS

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“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 State-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China which owns the entire issued share capital of CTS (Holdings)
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among other things, the Travel Permit Administration (including the Cap)
“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
“Independent Board Committee”	an independent board committee of the Company comprising of 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, formed for advising the Independent Shareholders in respect of the Travel Permit Administration (including the annual Cap)
“Independent Financial Adviser”	Somerley Limited, a licensed corporation to carry on 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Travel Permit Administration (including the Cap)

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than CTS (Holdings) and its associates and any other persons who are required to abstain from voting on resolution to approve the Travel Permit Administration (including the Cap) at the EGM pursuant to the Listing Rules
“Independent Third Parties”	parties who are independent from the Company and the connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	21 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholders of the Company
“Share(s)”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Travel Permit Administration”	the general administration services provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC by CTSHK to CTS (Holdings) pursuant to the Agency Agreement

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## LETTER FROM THE BOARD

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

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 308)

***DIRECTORS:***

***Executive Directors:***

Mr. Wang Shuai Ting (*Chairman*)

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

Ms. Jiang Yan

Mr. Fang Xiaorong

Mr. Zhang Fengchun

Mr. Xu Muhan (*General Manager*)

Mr. Fu Zhuoyang

***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

26 November 2012

*To the Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EGM**

#### **INTRODUCTION**

As set out in the announcement dated 6 November 2012, CTSHK has been providing Travel Permit Administration to CTS (Holdings) as continuing connected transactions under the Agency Agreement since 2001. At the extraordinary general meeting of the Company held on 18 December 2009, the then independent shareholders of the Company approved the Travel Permit Administration under the Agency Agreement as a continuing

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## LETTER FROM THE BOARD

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connected transaction and the maximum aggregate annual value of HK\$420 million for the Travel Permit Administration for each of the three years ending 31 December 2012. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the Caps for the Travel Permit Administration for each of the three years ending 31 December 2015 is required to be renewed in order to comply with the Listing Rules.

### **THE AGENCY AGREEMENT**

#### **Date**

15 May 2001

#### **Parties**

- (i) CTSHK
- (ii) CTS (Holdings)

#### **Transaction Nature**

CTS (Holdings) has been appointed by the PRC Government to provide general administration services in Hong Kong for application of tourist visas and travel permits into the PRC. CTS (Holdings) has appointed CTSHK as its exclusive agent to provide general administration services in Hong Kong for the application for tourist visas and travel permits for entry into the PRC, for a fixed term until 30 June 2047.

#### **Principal Terms**

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

#### **Pricing Basis**

In accordance with the terms of the Agency Agreement determined on an arm's length basis between the parties, CTS (Holdings) agreed to pay CTSHK 45% of the gross fee revenue from permit applications for the services provided by CTSHK in relation

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## LETTER FROM THE BOARD

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to Travel Permit Administration. Payments are made by CTS (Holdings) in arrears on a monthly basis which has to be settled within three business days after the end of each month. If CTS (Holdings) cannot settle the payments in accordance with the terms of the Agency Agreement, the outstanding amount will be charged an interest at prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited as at the end of the relevant month plus 1% accruing from the last day of the relevant month up to the actual payment date.

### PROPOSED CAPS

The Company proposes to set the Caps for the Travel Permit Administration as follows:

	Year ending 31 December		
	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of Travel Permit Administration by CTSHK	380,000	403,000	427,000

The above caps are determined based on the following:

- (i) historical transaction amounts for transactions covered by the Agency Agreement;
- (ii) the Company's internal projections;
- (iii) an expected increase in revenue of 6% in 2013, 2014 and 2015 based on the annualized value of the historical figures for the eight months ended 31 August 2012.

The above bases and assumptions underlying the projection of the Caps serve to establish a maximum aggregate annual value for services provided under the Travel Permit Administration. As such, the Caps should not be construed as an assurance or forecast by the Group of its future revenues. Furthermore, the Caps for the Travel Permit Administration has been determined based on historical data, that is historical transaction amounts for transactions covered by the Agency Agreement and the annualized value of the historical figures for the eight months ended 31 August 2012 in determine an expected increase in revenue for 2013 to 2015 and based on the Company's own internal projections based on historical data. As such given the historical basis for determining the Caps, each such basis has been merely assumed for the purpose of determining the Caps, rather than be regarded as any indication directly or indirectly as to the Group's revenue, profitability or trading prospects.



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## LETTER FROM THE BOARD

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### **HISTORICAL FIGURES**

The total amount of the continuing connected transactions in connection with Travel Permit Administration for each of the three financial years ended 31 December 2011 and the eight months ended 31 August 2012 were HK\$348,678,000, HK\$368,983,000, HK\$343,422,000, and HK\$238,274,000, respectively.

### **REASONS FOR ENTERING INTO AND BENEFITS OF THE TRAVEL PERMIT ADMINISTRATION**

CTSHK is the only commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out Travel Permit Administration on behalf of CTS (Holdings). In view of operational capabilities built up through the years and economic benefits brought to the Group, the Directors (including the independent non-executive Directors) consider it to be in the interests of the Company to continue to engage in Travel Permit Administration and that the terms of the Travel Permit Administration are fair and reasonable and in the interests of the Shareholders as a whole.

### **INFORMATION OF THE PARTIES**

CTSHK is principally engaged in the business of travel agency and related operations. The principal businesses of the Group include travel agency and related operations, tourist attractions, hotels, passenger transportation, golf club, arts performance and power generation.

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

### **LISTING RULES IMPLICATIONS**

As CTS (Holdings) is a connected person of the Company by virtue of being a substantial Shareholder, the transactions underlying the Agency Agreement constitute a continuing connected transaction for the Company under the Listing Rules. As one or more of the applicable percentage ratios as defined in Rule 14A.10(10) of the Listing Rules for the Caps of the Travel Permit Administration shall exceed 5% and have an annual consideration of more than HK\$10,000,000, the renewal of the Caps and continuing provision of the Travel Permit Administration is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements in accordance with Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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At the Board meeting of 6 November 2012, Mr. Wang Shuai Ting, Mr. Lo Sui On, Ms. Jiang Yan and Mr. Zhang Fengchun are also directors of CTS (Holdings) and China CTS (HK) and they are deemed to have material interest in the Agency Agreement and the continuing connected transactions (including the Caps) contemplated thereunder and have abstained from voting on the Board resolutions in respect of the aforesaid transactions. Save as aforesaid, none of the Directors attending the Board meeting has a material interest in the aforesaid transactions or was required to abstain from voting on the Board resolutions for considering and approving the same.

At the EGM, the Company will seek Independent Shareholders' approval for the Travel Permit Administration (including the Cap). In view of the interest of CTS (Holdings) and its associates in the continuing provision of Travel Permit Administration, CTS (Holdings) and its associates (as defined under the Listing Rules), which hold 57% of the issued share capital of the Company, will abstain from voting at the EGM in this regard.

An Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders whether or not to vote in favour of the Travel Permit Administration (including the Caps). Somerley Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Travel Permit Administration (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned and whether the Travel Permit Administration (including the Caps) are on normal commercial terms, in the ordinary and usual course of business, and in the interests of the Company and the Shareholders as a whole.

### **EGM**

A notice convening the EGM is set out on page 26 of this circular. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 48 hours before the time appointed for the holding of the EGM (or adjourned meeting or of the poll, as the case may be). Completion and return of a form of proxy will not preclude you from attending and voting at the EGM (or adjourned meeting or of the poll, as the case may be) if you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 10 to 11 of this circular. The Directors, including the independent non-executive Directors, consider the Travel Permit Administration (including the Caps) are on normal commercial terms, in the ordinary and usual course of business of the Group, 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, and accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By Order of the Board of  
**China Travel International Investment Hong Kong Limited**  
**Wang Shuai Ting**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Travel Permit Administration, the Caps 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)

26 November 2012

*To the Independent Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION**

We refer to the circular dated 26 November 2012 to the Shareholders (the “Circular”), of which this letter forms 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 Travel Permit Administration (including the Caps) and to advise the Independent Shareholders whether, in our opinion, the terms of the Travel Permit Administration (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned. Somerley Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Travel Permit Administration (including the Caps).

We wish to draw your attention to the letter from the Board which contains, inter alia, information about the Travel Permit Administration (including the Caps), and the letter of advice from Somerley Limited which contains its advice in respect of the Travel Permit Administration (including the Caps).

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal reasons and factors considered by and the advice of Somerley Limited, we consider the Travel Permit Administration (including the Caps) are on normal commercial terms, in the ordinary and usual course of business of the Group, 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Travel Permit Administration and the Caps.

Yours faithfully,

The Independent Board Committee

**Dr. Fong Yun Wah**

**Mr. Wong Man Kong, Peter**

**Mr. Sze, Robert Tsai To**

**Mr. Chan Wing Kee**

*Independent Non-Executive Directors*

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## LETTER FROM SOMERLEY LIMITED

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



**SOMERLEY LIMITED**

20th Floor

Aon China Building

29 Queen's Road Central

Hong Kong

26 November 2012

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

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the continuing provision of general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC by CTSHK to CTS (Holdings). Details of the Travel Permit Administration (including the Caps) are contained in the circular to Shareholders dated 26 November 2012 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

The Travel Permit Administration constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. CTSHK is a wholly-owned subsidiary of the Company. As CTS (Holdings) was interested in approximately 57.00% of the issued share capital of the Company as at the Latest Practicable Date, it is a substantial Shareholder and thus a connected person of the Company as defined under the Listing Rules.

Since the Company anticipates that annual aggregate value of the Travel Permit Administration is expected to be more than HK\$10,000,000 and exceed 5% of the Group's total turnover, the Travel Permit Administration (including the Caps) is subject to the reporting, announcement and Independent Shareholders' approval requirements under the

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## LETTER FROM SOMERLEY LIMITED

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Listing Rules. CTS (Holdings) and its associates will abstain from voting in relation to the ordinary resolution to be put forward at the EGM for the purpose of approving the Travel Permit Administration (including the Caps) 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 Travel Permit Administration (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned and whether the Travel Permit Administration is in the interests of the Company and the Shareholders as a whole. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete as at the date of the Circular and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter and to justify our reliance on such information. We have not, however, conducted any independent investigation into the business and affairs of any of the Group (including CTSHK) or CTS (Holdings), nor have we carried out any independent verification of the information supplied.

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

In considering whether the terms of the Travel Permit Administration are fair and reasonable insofar as the Independent Shareholders are concerned, we have taken into consideration the following principal factors and reasons:

#### **1. Information on the Group**

The principal activities of the Group include travel agency and related operations and management of tourist attractions, hotels, passenger transportation, golf club, arts performance, and power generation. The Group operates a number of hotels under the “Metropark” brand in Hong Kong, Macau and the PRC. The Group

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## LETTER FROM SOMERLEY LIMITED

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also runs the Zhuhai Ocean Spring Resort in Zhuhai and Xianyang Ocean Spring Resort in Xianyang, theme parks including “Splendid China” and “Window of the World”, and a golf club in Shenzhen. The Group also operates an on-line travel consolidator, Mangocity.com, and provides passenger transportation services.

According to the 2011 annual report of the Company, the Group has achieved a recovery of growth since 2010 and the growth momentum continues to date. The hotel and tourist attraction operations achieved double-digit profit growth, recording an increase in revenue of 18.6% and 23.5% respectively. Resort operations reduced losses significantly due to operational improvement recording an increase in revenue of 14.2%, and a decrease in depreciation because certain fixed assets were fully depreciated last year. Travel agency and related operations recorded a 24.0% decrease in revenue, reflecting the disposal of the travel agency operations in the PRC in 2011. The consolidated revenue of the Group was HK\$4,353 million, an 8% increase compared to last year, excluding the PRC travel agency operations disposed of last year, and the profit attributable to shareholders was HK\$695 million, a 348% increase compared to last year. The increase in the profit attributable to Shareholders was mainly due to the significant reduction of losses incurred by the Group’s resort operations, and the higher segment profit achieved by the Group’s hotel operations.

China’s tourism industry also grew at a relatively slower pace in the first half of 2012 due to the downside risks and pressure resulting from global economic uncertainties. For the first six months ended 30 June 2012, the unaudited consolidated revenue of the Group increased 6.6% to approximately HK\$2,126 million while the profit attributable to Shareholders decreased 7.7% to approximately HK\$330 million compared to the corresponding period last year. Excluding the effect of revaluation of investment properties and non-recurring items, the profit attributable to shareholders was HK\$294 million, a 1% decrease compared to the same period last year.

## **2. Background to the Travel Permit Administration**

CTS (Holdings) has been appointed by the PRC Government to provide general administration services in Hong Kong for the application of tourist visas and travel permits for entry into the PRC. In turn, CTS (Holdings) has appointed CTSHK as its exclusive agent to provide general administration services in Hong Kong for the application of tourist visas and travel permits for the entry into the PRC. On 15 May 2001, CTSHK and CTS (Holdings) entered into the Agency Agreement to govern transactions relating to the Travel Permit Administration for a fixed term of 46 years to 30 June 2047.



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## LETTER FROM SOMERLEY LIMITED

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At the extraordinary general meeting of the Company held on 18 December 2009, the then independent shareholders approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction, with a maximum aggregate annual value of HK\$420 million for the three years ending 31 December 2012. As the Agency Agreement remains in force until 30 June 2047, the annual caps under the Agency Agreement are required to be renewed every three years in order to comply with the Listing Rules. The Caps presently being proposed are for the three years ending 31 December 2015.

For the three years ended 31 December 2009, 2010 and 2011, revenue derived from Travel Permit Administration accounted for approximately 8.5%, 8.3% and 7.9% of the Group's total revenue respectively. In terms of gross profit margin, we noted that for each of the three years ended 31 December 2011 and the six months ended 30 June 2012, the gross profit margins derived solely from Travel Permit Administration were significantly higher than the consolidated gross profit margins of the Group as a whole. In view of operational capabilities built up through the years and economic benefits brought to the Group, the Directors consider that it would be in the interests of the Group to continue to engage in Travel Permit Administration given that CTSHK is the only commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out Travel Permit Administration on behalf of CTS (Holdings).

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

Pursuant to the Agency Agreement, CTSHK has agreed to provide general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC to CTS (Holdings) until 30 June 2047. CTS (Holdings) is responsible for liaising with the relevant PRC Government departments for the processing of such applications in the PRC, and for the costs relating to the handling of such applications between CTS (Holdings) and the issuing authority within the PRC Government. CTSHK is responsible for costs associated with receiving and despatching travel permits and tourist visas in Hong Kong.

Under the Agency Agreement, CTS (Holdings) has to pay CTSHK 45% of the gross fee revenue from permit applications for the Travel Permit Administration. Cash payments are made by CTS (Holdings) in arrears on a monthly basis, for settlement within three business days after the end of each month. If CTS (Holdings) cannot settle the payments in accordance with the terms of the Agency Agreement, interest will be charged on the outstanding amount at the prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited as at the end of the relevant

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## LETTER FROM SOMERLEY LIMITED

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month plus 1% accruing from the last day of the relevant month up to the actual payment date. Pursuant to the Agency Agreement, CTS (Holdings) cannot appoint any other party to handle the Travel Permit Administration or provide such service itself in Hong Kong without the consent of CTSHK.

#### 4. The Caps

The Travel Permit Administration is subject to the Listing Rules' requirements and conditions as discussed in detail under the section headed "Reporting requirements and conditions of the Travel Permit Administration" below. In particular, the Travel Permit Administration is subject to the Caps.

#### *Review of historical figures*

The table below sets out the transaction amounts of the Travel Permit Administration for each of the three years ended 31 December 2011 and the eight months ended 31 August 2012 ("Track Record Period"):

	Year ended 31 December			Eight months ended
	2009	2010	2011	31 August
	HK\$'000	HK\$'000	HK\$'000	2012
				HK\$'000
Revenue from Travel				
Permit Administration	348,678	368,983	343,422	238,274

Revenue generated from Travel Permit Administration in 2009 of approximately HK\$348.7 million was an approximately 16.2% increase over the comparable figure recorded in 2008. The credit card sized travel permit for Chinese nationals who are Hong Kong permanent residents, which was first introduced in 1999 to replace the old booklet-style travel permit, has to be renewed every ten years by adult permit holders. According to the Directors, the 16.2% increase in revenue in 2009 was due to that year having been the peak period for such permit renewals. The peak period continued in 2010, as reflected by a further increase in revenue by approximately 5.8% to HK\$369.0 million.

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## LETTER FROM SOMERLEY LIMITED

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In 2011, revenue from Travel Permit Administration decreased by approximately 6.9% to approximately HK\$343.4 million. We are advised by the Directors that such decrease is principally due to (i) 2011 being the end of the peak period of permit renewals for Hong Kong residents and (ii) the reduction of certain visa fees having taken effect July 2011. The annualised revenue in 2012, based on the transaction value for the eight months ended 31 August 2012, shows a moderate growth of approximately 4.1% compared to the figure recorded in 2011.

### *Assessment of the Caps*

Set out below are the Caps for each of the three financial years ending 31 December 2015:

	<b>Year ending 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of general administration services in Hong Kong for applications of tourist visas and travel permits for entry into the PRC by CTSHK	380,000	403,000	427,000

The Caps are arrived at by applying a 6% compound growth rate for each of the next three years on the 2012 annualised revenue amount based on the actual transaction value of the Travel Permit Administration in the first eight months in 2012.

In assessing the reasonableness of the Caps, we have discussed with the Directors the bases and assumptions underlying the projection of the Caps. In calculating the Caps, the Directors have taken into account (i) the average annual growth of the revenue generated from the Travel Permit Administration for the years 2009 to 2012, using the 2012 annualised revenue amount based on the actual transaction value of the Travel Permit Administration in the first eight months in 2012, and for the years 2011 and 2012 taking out the effects of the reduction of certain visa fees having taken effect July 2011; and (ii) an additional buffer of approximately 1 percentage point in addition to the estimated average annual growth of the revenue generated from the Travel Permit Administration.

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## LETTER FROM SOMERLEY LIMITED

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Visitor arrivals to the PRC may be analysed as follows:

### Visitor arrivals to the PRC for the period from 2009 to 2012

	2009	2010	2011	2012 (Jan – Sep)
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Hong Kong residents	77.3	79.3	79.4	58.9
Taiwan residents	4.5	5.1	5.3	4.0
Others	44.7	49.3	50.8	36.3
Total	126.5	133.7	135.5	99.2

*Source: Website of the China National Tourism Administration*

As set out in the table above, the number of Hong Kong and Taiwan residents visiting the PRC shows a generally growing trend. The launch of regular direct flights between the PRC and Taiwan in August 2009 has had a positive effect on Mainland travel by Taiwan residents, with the number of Taiwan residents visiting PRC increasing by approximately 13% from 4.5 million in 2009 to 5.1 million in 2010, and the number of visitors increasing further to 5.3 million in 2011. Having taken into account the historical growing trend in the number of Hong Kong and Taiwan residents visiting the PRC, and the actual growth in the Group's revenue during the same period as mentioned in the earlier section, we concur with the Directors that setting an annual compound increase of 6% for the Caps for the three years ending 31 December 2015 is fair and reasonable.

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Caps in a way that can accommodate the potential growth of the Group's business. As noted above, the operations under the Travel Permit Administration generate higher than average margins for the Group. Provided that the pricing bases for the Travel Permit Administration continue to be fair and reasonable and the conduct of those transactions is subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the Caps are tailored to future business growth. In assessing the reasonableness of the Caps, we have discussed with the management of the Group the factors taken into account as stated earlier in this section. We consider it reasonable for the Company to use the above factors in determining the Caps. Based on the above analysis, we consider that the Caps for the Travel Permit Administration are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM SOMERLEY LIMITED

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Shareholders should note that the bases and assumptions underlying the projection of the Caps as detailed above serve to establish a maximum aggregate annual value for services provided under the Travel Permit Administration. As such, the Caps should not be construed as an assurance or forecast by the Group of its future revenues.

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

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

- (a) each year the independent non-executive Directors must review the Travel Permit Administration and confirm in the annual report and accounts that transactions under the Travel Permit Administration have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (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 transactions under the Travel Permit Administration:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the relevant agreements governing the transactions; and
  - (iv) have not exceeded the Caps disclosed in previous announcement(s);

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## LETTER FROM SOMERLEY LIMITED

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- (c) the Company shall allow, and shall procure the relevant counterparties to the Travel Permit Administration to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Travel Permit Administration as set out in paragraphs (b);
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in 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 Travel Permit Administration, in particular, (i) the restriction of the value of the Travel Permit Administration by way of the Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Travel Permit Administration and the Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Travel Permit Administration and assist to safeguard the interests of the Independent Shareholders.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the transactions contemplated under the Travel Permit Administration are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We further consider that the terms of the Travel Permit Administration (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Travel Permit Administration (including the Caps) and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable inquiries, confirm that to the best of their knowledge and belief the information contained in this circular, is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular 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 executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

#### *Long positions in the Shares and underlying Shares*

Name of Director	Interests in shares		Interests in underlying shares	Aggregate interests	% of the issued share capital as at the Latest Practicable Date
	Corporate interest	Family interest	pursuant to share options		
Mr. Lo Sui On	—	—	1,770,000	1,770,000	0.03%
Ms. Jiang Yan	—	—	1,770,000	1,770,000	0.03%
Mr. Fang Xiaorong	—	—	1,770,000	1,770,000	0.03%
Mr. Zhang Fengchun	—	—	1,770,000	1,770,000	0.03%
Mr. Xu Muhan	—	2,000	1,850,000	1,852,000	0.03%
		(Note 1)			
Mr. Fu Zhuoyang	—	—	1,770,000	1,770,000	0.03%
Dr. Fong Yun Wah	50,000	—	—	50,000	0.00%
	(Note 2)				

*Note 1:* Mr. Xu Muhan is deemed to be interested in these shares of the Company held by his spouse.

*Note 2:* These shares are beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah is taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executive, had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### (b) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors or chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) had interests, directly or indirectly, or short positions in the Shares and underlying Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

#### *Long position in the Shares*

Name of shareholders	Capacity	Number of shares held	% of the issued share capital as at the
			Latest Practicable Date
China CTS (HK)	Interest of controlled corporation ( <i>Note</i> )	3,231,822,728	57.00%
CTS (Holdings)	Interest of controlled corporation and beneficial owner ( <i>Note</i> )	3,231,822,728	57.00%

*Note:* The entire issued share capital of CTS (Holdings) is beneficially owned by China CTS (HK). CTS (Holdings) is the immediate holding company of the Company. Accordingly, China CTS (HK) is taken to be interested in the shares in which CTS (Holdings) is interested pursuant to Part XV of the SFO and the interests of China CTS (HK) in the Company duplicated the interests of CTS (Holdings).



Save as disclosed above, the Directors are not aware of any person (other than Directors or chief executive of the Company) who, as at the Latest Practicable Date, had any interest, directly or indirectly, or short position in the Shares and underlying Shares which were recorded in the register required to be kept by the Company 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 2011 (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 were 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 2011, 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:

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

Somerley Limited 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 Limited 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 Limited was not interested, directly or indirectly, in any assets which had since 31 December 2011 (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 inconsistencies, the English text of this circular will prevail over the Chinese text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Agency 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.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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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)*

(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 Wednesday, 12 December 2012 at 2:30 p.m. to consider as special business and, if thought fit, passing (with or without amendments) the following resolution as ordinary resolution:

“**THAT**

the performance and implementation of the general administration service (the “Travel Permit Administration”) provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC pursuant to the agency agreement dated 15 May 2001 entered into between China Travel Service (Hong Kong) Limited and China Travel Service (Holdings) Hong Kong Limited and the respective annual cap amounts as set out in the Company’s circular dated 26 November 2012 (the “Circular”) (a copy of the Circular has been produced to the meeting marked “A” and has been initialled by the chairman of the meeting for the purpose of identification) be and are hereby confirmed, approved and ratified; and the directors of the Company be and are hereby authorised to sign, execute and deliver all such documents and take all such actions as they may consider necessary or desirable for the purpose of or in connection with the Travel Permit Administration.”

By Order of the Board

**China Travel International Investment Hong Kong Limited**

**Wang Shuai Ting**

*Chairman*

Hong Kong, 26 November 2012

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*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 proxy form for use at the meeting is enclosed herewith.
- (2) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the Meeting, his form of proxy will be deemed to have been revoked.
- (3) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less 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.