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香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(incorporated in Hong Kong under the Companies Ordinance)
(Stock Code: 00308)

CONTINUING CONNECTED TRANSACTIONS WITH CTS HOLDINGS GROUP AND CHINA CTS (HK) GROUP

Reference is made to the announcement dated 13 July 2004 in respect of the continuing connected transactions between certain members of the Group and CTS Holdings Group. As the 2004 CTSH Master Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2006, the Company entered into the 2006 CTSH Master Agreement with CTS Holdings on 29 December 2006 to renew the terms of some of such continuing connected transactions for a term commencing from 1 January 2007 and ending on 31 December 2009, and to enlarge the scope of services of, and to increase the number of participants involved in, certain continuing connected transactions in the 2004 CTSH Master Agreement.

On the same date, the Company also entered into the China CTS (HK) Master Agreement with China CTS (HK) to govern the continuing connected transactions between the Group and China CTS (HK) Group for a term commencing from 1 January 2007 and ending on 31 December 2009.

As CTS Holdings is a substantial shareholder of the Company, the members in CTS Holdings Group are connected persons of the Company. In addition, as disclosed in the announcement of the Company dated 9 October 2006, after the transfer of the 100% interest in CTS Holdings to China CTS (HK) is implemented, China CTS (HK) will become the sole shareholder of CTS Holdings, and accordingly the members in China CTS (HK) Group are also connected persons of the Company. The Continuing Connected Transactions constitute continuing connected transactions for the Company.

It is expected that the applicable percentage ratios as defined in Rule 14A.10(10) of the Listing Rules for each of the Cap payable or receivable (as the case may be) by the Group will exceed 0.1% but will be less than 2.5%, and the Continuing Connected Transactions are subject to the reporting and announcement requirements under the Listing Rules.

1. BACKGROUND INFORMATION

Reference is made to the announcement dated 13 July 2004 in respect of the continuing connected transactions between certain members of the Group and CTS Holdings Group. As the 2004 CTSH Master Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2006, the Company entered into the 2006 CTSH Master Agreement with CTS Holdings on 29 December 2006 to renew the terms of some of such continuing connected transactions for a term commencing from 1 January 2007 and ending on 31 December 2009, and to enlarge the scope of services of, and to increase the number of participants involved in, certain continuing connected transactions in the 2004 CTSH Master Agreement.

On the same date, the Company also entered into the China CTS (HK) Master Agreement with China CTS (HK) to govern the continuing connected transactions between the Group and China CTS (HK) Group for a term commencing from 1 January 2007 and ending on 31 December 2009.

The Continuing Connected Transactions are classified into the following categories:

I. Continuing connected transactions with CTS Holdings Group

- (a) Provision of insurance brokerage services by CTS Holdings Group;
- (b) Lease arrangements with CTS Holdings Group as lessor; and
- (c) Provision of ASP related services to CTS Holdings Group.

II. Continuing connected transactions with China CTS (HK) Group

Provision of travel related services to China CTS (HK) Group.

2. PARTICULARS OF THE 2006 CTSH MASTER AGREEMENT

(a) Provision of insurance brokerage services by CTS Holdings Group

Transaction Nature

CTS Holdings Group will continue to provide insurance brokerage services to the Group in relation to the selection of appropriate insurance policies and negotiation with insurance underwriters.

Pricing Basis

The prices of these services shall not exceed the prevailing market price at which these services are available to the Group from Independent Third Parties.

(b) Lease arrangements with CTS Holdings Group as lessor

Transaction Nature

(i) Office rental

The Group will continue to rent office premises from the CTS Holdings Group. Pursuant to such arrangement, the Group has renewed several tenancy agreements with the CTS Holdings Group to rent certain office premises from the CTS Holdings Group, which shall take effect from 1 January 2007, and shall expire on 31 December 2009.

After the renewal of such tenancy agreements, the aggregate rent payable by the Group would be approximately HK\$1,160,000 per month (inclusive of rates, Government rent, management fees and air-conditioning charges, water charges, cleaning charges and electricity charges) for 2007 with a rental rate of HK\$24.0 per square foot, and the rental rate for 2008 and 2009 shall not exceed HK\$26.4 per square foot and HK\$29.0 per square foot respectively.

(ii) Car parking space rental

The Group will continue to rent car parking spaces from the CTS Holdings Group.

Pricing Basis

The rental and other charges charged by CTS Holdings Group to the Group shall not exceed the prevailing market rent.

(c) Provision of ASP related services to CTS Holdings Group

Transaction Nature

The Group will continue to provide ASP related services to CTS Holdings Group.

Pricing Basis

The ASP related services to be provided by the Group will be charged by reference to the fees charged by the Group to other Independent Third Parties or the costs for the provision of such services plus a margin of not less than 10%, whichever is higher.

3. PARTICULARS OF THE CHINA CTS (HK) MASTER AGREEMENT

Provision of travel related services to China CTS (HK) Group

Transaction Nature

The Group will provide travel related services (including ticketing and accommodation services) to China CTS (HK) Group in return for fee and commission.

Pricing Basis

The fee and commission charged of these travel related services (including ticketing and accommodation services) shall not be less than the prevailing market price at which these services are charged to Independent Third Parties.

4. HISTORICAL FIGURES

According to the audited consolidated accounts of the Group for the two years ended 31 December 2005 and the unaudited management accounts of the Group for the ten months ended 31 October 2006, the amounts of the continuing connected transactions amongst the Specified Participants under the 2004 CTS Master Agreement divided into the above-mentioned categories for each of the two years ended 31 December 2005 and the ten months ended 31 October 2006 are as follows:

	Year ended 31 December		Ten months ended
	2004	2005	31 October
	(Audited)	(Audited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000
<i>I. Continuing connected transactions with CTS Holdings Group</i>			
(a) Provision of insurance brokerage services by CTS Holdings Group	10,467	10,581	5,156
<i>Annual Cap (Note 1)</i>	10,500	11,550	12,700
(b) Lease arrangements with CTS Holdings Group as lessor (<i>Note 2</i>)	10,588	9,857	8,630
<i>Annual Cap (Note 1)</i>	11,407	11,407	11,407

(c) Provision of ASP related services to CTS Holdings Group (<i>Note 3</i>)	12,938	12,491	10,716
<i>Annual Cap (Note 1)</i>	20,000	22,000	24,200

*II. Continuing connected transactions with
China CTS (HK) Group*

Provision of travel related services to China CTS (HK) Group (<i>Note 4</i>)	0	0	528 (<i>Note 5</i>)
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Notes

1. These are the annual caps for the continuing connected transactions under the 2004 CTSH Master Agreement for the three years ending 31 December 2006.
2. The historical figures in respect of the lease arrangements with CTS Holdings Group as lessor do not include a lease arrangement dated 1 August 2006 for an office premise with a member of CTS Holdings Group. The lease term of such lease arrangement started from 1 October 2005 and shall expire on 31 December 2006 and is not covered by the 2004 CTSH Master Agreement. The amounts of such lease arrangement were HK\$222,600 and HK\$742,000 for the year ended 31 December 2005 and the ten months ended 31 October 2006 respectively. Furthermore, the historical figures do not include car parking space rental payable to the CTS Holdings Group. The amounts of such car parking space rental payable to the CTS Holdings Group were approximately HK\$1,512,000, HK\$1,358,000 and HK\$1,124,000 for the years ended 31 December 2004 and 2005 and the ten months ended 31 October 2006 respectively, and would exceed the annual cap in respect of the lease arrangements by 6.1% and 0.3% for 2004 and 2005 respectively after aggregating with the amount of the lease arrangements covered by the 2004 CTSH Master Agreement and the amount of the aforesaid lease arrangement dated 1 August 2006 for an office premise. Based on the transaction amount for the ten months ended 31 October 2006, the Directors also expect that after the aforesaid aggregation the transaction amount in respect of the lease arrangements for the year ending 31 December 2006 would exceed the annual cap for 2006 by approximately 10.4%.
3. The historical figures in respect of the provision of ASP related services to a member of CTS Holdings Group do not include the provision of ASP related services to other members of the CTS Holdings Group, which are not Specified Participants, and are not covered by the 2004 CTSH Master Agreement. The amounts of such transactions were HK\$560,000, HK\$794,000 and HK\$715,000 for the years ended 31 December 2004 and 2005 and the ten months ended 31 October 2006 respectively, and would not exceed the annual caps in respect of the provision of ASP related services as set out above after aggregating with the transaction amount for ASP related services covered by the 2004 CTSH Master Agreement.
4. The provision of travel related services to China CTS (HK) Group only began in June 2006 and no similar services were provided by the Group to China CTS (HK) Group prior to June 2006, and therefore no caps were set previously.
5. Based on the transaction amount for the ten months ended 31 October 2006, the Directors expect that each of the applicable percentage ratios as defined in Rule 14A.10(10) of the Listing Rules for the transaction amount for the year ending 31 December 2006 will not exceed 0.1%, and hence the provision of travel related services to China CTS (HK) Group is exempted from all reporting, announcement and independent shareholders' approval requirements of the Listing Rules. The Directors will ensure compliance with the relevant Listing Rules.

5. BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS AND CAPS

The Continuing Connected Transactions will continue to be conducted in the ordinary and usual course of business of the Group and its counter-parties, and on normal commercial terms determined on an arm's length basis. In view of past operational convenience and benefits brought to the Group, the Board (including the independent non-executive Directors) considers it to be in the interests of the Group to continue to engage in the Continuing Connected Transactions.

The Company proposes to set the maximum Cap for each of the Continuing Connected Transaction as follows:

	Caps for the year ending		
	31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
<i>I. Continuing connected transactions with CTS Holdings Group</i>			
(a) Provision of insurance brokerage services by CTS Holdings Group	7,490	7,870	8,270
(b) Lease arrangements with CTS Holdings Group as lessor	16,660	18,260	20,010
(c) Provision of ASP related services to CTS Holdings Group	14,230	14,230	14,230
<i>II. Continuing connected transactions with China CTS (HK) Group</i>			
Provision of travel related services to China CTS (HK) Group	11,090	17,500	13,730

The above Caps are determined based on the following:

- (a) historical transaction amounts for transactions covered by the 2004 CTSH Master Agreement and the transactions referred to in the notes to the paragraph headed "Historical Figures" of this announcement which are not covered by the 2004 CTSH Master Agreement;
- (b) the Company's internal projections;
- (c) in relation to the provision of insurance brokerage services by CTS Holdings Group, an expected increase in the purchase of insurance from Independent Third Parties, an expected premium increase due to the plan to purchase new buses in 2007, and premium growth rate of 5% in 2008 and 2009;

- (d) in relation to the lease arrangements with CTS Holdings Group as lessor, a rental rate of HK\$24 per square foot for 2007, a rental rate of not more than HK\$26.4 per square foot and HK\$29.0 per square foot for 2008 and 2009 respectively, a possible increase in the area of office premises rented, and an expected increase of 5% in car parking space rental in each of 2007, 2008 and 2009;
- (e) in relation to the provision of ASP related services to CTS Holdings Group, an expected price increase of 10% in 2007 and steady business volume; and
- (f) in relation to the provision of travel related services to China CTS (HK) Group, an expected growth in tickets and hotel room nights sold through Mangocity.com, an online travel platform of the Company launched in March 2006, and the expected surge in travel activities brought by the 2008 Beijing Olympics.

The Directors (including the independent non-executive Directors) consider that the terms of the 2006 CTSH Master Agreement, the China CTS (HK) Master Agreement, the Continuing Connected Transactions and the Caps are fair and reasonable so far as the Shareholders are concerned and are in the interest of the Shareholders as a whole. The Continuing Connected Transactions were negotiated on an arm's length basis and were arrived at on normal commercial terms no less favourable to the Group than terms available from Independent Third Parties.

If any of the Caps are exceeded during the term of the Continuing Connected Transactions, the Company will re-comply with the requirements under Rule 14A.36 of the Listing Rules.

6. LISTING RULES IMPLICATIONS

As CTS Holdings is a substantial shareholder of the Company, the members in CTS Holdings Group are connected persons of the Company. In addition, as disclosed in the announcement of the Company dated 9 October 2006, after the transfer of the 100% interest in CTS Holdings to China CTS (HK) is implemented, China CTS (HK) will become the sole shareholder of CTS Holdings, and accordingly the members in China CTS (HK) Group are also connected persons of the Company. The Continuing Connected Transactions constitute continuing connected transactions for the Company.

It is expected that the applicable percentage ratios as defined in Rule 14A.10(10) of the Listing Rules for each of the Cap payable or receivable (as the case may be) by the Group will exceed 0.1% but will be less than 2.5%, and the Continuing Connected Transactions are subject to the reporting and announcement requirements under the Listing Rules.

7. PRINCIPAL BUSINESS ACTIVITIES OF THE PARTIES

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

8. DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“2004 CTSH Master Agreement”	the master agreement dated 13 July 2004 and entered into between the Company and CTS Holdings in relation to certain continuing connected transactions between the Group and CTS Holdings Group
“2006 CTSH Master Agreement”	the master agreement dated 29 December 2006 and entered into between the Company and CTS Holdings in relation to the Continuing Connected Transactions
“ASP”	computer application service provider
“associates”, “connected person(s)”, “substantial shareholder(s)”	each of which has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Cap(s)”	the maximum aggregate annual consideration for each of the Continuing Connected Transactions as referred to above
“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
“China CTS (HK) Group”	China CTS (HK) and its associates
“China CTS (HK) Master Agreement”	the master agreement dated 29 December 2006 and entered into between the Company and China CTS (HK) in relation to the Continuing Connected Transactions
“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
“Continuing Connected Transactions”	the continuing connected transactions as described in the paragraphs headed “Particulars of the 2006 CTSH Master Agreement” and “Particulars of the China CTS (HK) Master Agreement” above
“CTS Holdings”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 52.56% of the issued share capital of the Company and a connected person of the Company
“CTS Holdings Group”	CTS Holdings and its associates

“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“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
“Shareholders”	shareholders of the Company
“Specified Participants”	companies set out in the announcement of the Company dated 13 July 2004, which are participants involved in the continuing connected transactions covered by the 2004 CTSB Master Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
China Travel International Investment Hong Kong Limited
Xiong Weiping
Vice Chairman & General Manager

Hong Kong, 29 December 2006

As at the date of this announcement, the Executive Directors are Mr. Zhang Xuewu, Mr. Xiong Weiping, Mr. Zheng Heshui, Mr. Lo Sui On, Mr. Zheng Hongqing, Ms. Jiang Yan, Mr. Mao Jianjun, Mr. Zhang Fengchun, Mr. Ng Chi Man, Michael and Mr. Liu Li and the Independent Non-Executive Directors are Dr. Yeh Meou Tsen, Geoffrey (Mr. Yeh V Nee being the Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To.