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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)

**CONTINUING CONNECTED TRANSACTIONS WITH
SHAANXI POWER GROUP AND SHAANXI ZHENGYUAN GROUP**

On 16 March 2007, Weihe Power, a 51% owned subsidiary of the Company for the purposes of the Listing Rules, entered into the Shaanxi Power Supply Agreement with Shaanxi Power to govern the continuing connected transactions between the Group and Shaanxi Power Group for a term commencing from 1 January 2007 and ending on 31 December 2007.

On 17 August 2007, the Company entered into the Shaanxi Zhengyuan Master Agreement with Shaanxi Zhengyuan to govern the continuing connected transactions between the Group and Shaanxi Zhengyuan Group for a term commencing from 1 January 2007 and ending on 31 December 2008.

China State Power, which owns 100% interest in Shaanxi Power, also owns 100% in Xibei Power. Xibei Power owns 30% in Weihe Power and is therefore a substantial shareholder of Weihe Power. Accordingly, China State Power, Xibei Power and the members in Shaanxi Power Group are connected persons of the Company.

Shaanxi Zhengyuan is a wholly owned subsidiary of Xibei Power. In view of Xibei Power's interest in Weihe Power as set out above, the members in Shaanxi Zhengyuan Group are also connected persons of the Company. Accordingly, the Shaanxi Power CCT and the Shaanxi Zhengyuan CCT constitute continuing connected transactions for the Company.

The Directors (other than the independent non-executive Directors whose views will be set out in the circular to be despatched to the Shareholders together with the advice of the Independent Financial Adviser) consider that the terms of the Shaanxi Power Supply Agreement, the Shaanxi Power CCT and the Caps for the Shaanxi Power CCT are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the terms of the Shaanxi Zhengyuan Master Agreement, the Shaanxi Zhengyuan CCT and the Caps for the Shaanxi Zhengyuan CCT are fair and reasonable so far as the Shareholders are concerned and are in the interest of the Shareholders as a whole.

It is expected that the applicable percentage ratios under the Listing Rules for the Cap receivable by the Group under the Shaanxi Power Supply Agreement will exceed 2.5%, and the Shaanxi Power CCT is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

China Travel Service (Holdings) Hong Kong Limited and Foden International Limited, a wholly owned subsidiary of China Travel Service (Holdings) Hong Kong Limited, hold 2,972,932,728 shares and 20,700,000 shares in the Company respectively. They are a closely allied group of Shareholders, and collectively hold approximately 52.56% in the issued share capital of the Company. Since none of the Shareholders is required to abstain from voting on the Shaanxi Power CCT, written approvals of China Travel Service (Holdings) Hong Kong Limited and Foden International Limited have been obtained for the purpose of approving the Shaanxi Power CCT, and the entering into of the Shaanxi Power Supply Agreement, in lieu of an approval from the independent Shareholders at a shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules. An application has been made by the Company to the Stock Exchange for a waiver of the requirement for the Company to hold a shareholders' meeting in accordance with Rule 14A.43 of the Listing Rules, on the basis that the aforesaid transaction and agreement have been approved by a written approval of a closely allied group of Shareholders.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Shaanxi Power Supply Agreement and Somerley Limited has been retained as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders. A circular containing information with respect to the Shaanxi Power Supply Agreement will be despatched to the Shareholders as soon as practicable.

It is expected that the applicable percentage ratios under the Listing Rules for the aggregate Caps payable by the Group under the Shaanxi Zhengyuan Master Agreement will exceed 0.1% but will be less than 2.5%, and the Shaanxi Zhengyuan CCT are subject to the reporting and announcement requirements under the Listing Rules.

1. BACKGROUND INFORMATION

On 16 March 2007, Weihe Power, a 51% owned subsidiary of the Company for the purposes of the Listing Rules, entered into the Shaanxi Power Supply Agreement with Shaanxi Power to govern the continuing connected transactions between the Group and Shaanxi Power Group for a term commencing from 1 January 2007 and ending on 31 December 2007.

On 17 August 2007, the Company entered into the Shaanxi Zhengyuan Master Agreement with Shaanxi Zhengyuan to govern the continuing connected transactions between the Group and Shaanxi Zhengyuan Group for a term commencing from 1 January 2007 and ending on 31 December 2008.

2. PARTICULARS OF THE SHAANXI POWER SUPPLY AGREEMENT

Transaction Nature

The Group will provide electricity to the Shaanxi Power Group for a term commencing from 1 January 2007 and ending on 31 December 2007.

The total basic amount of on-grid electricity to be supplied to the Shaanxi Power Group during the term would be 5.6 billion kilowatt-hour with breakdown as follows:

Month in 2007	Kilowatt-hour (in million)	Month in 2007	Kilowatt-hour (in million)
January	66.000	July	54.200
February	50.700	August	38.401
March	49.316	September	36.053
April	42.468	October	35.118
May	42.407	November	49.091
June	47.123	December	49.123

Pricing Basis

- RMB0.351 (approximately HK\$0.358) per kilowatt-hour (including VAT of 17%) in respect of the on-grid electricity supplied within the monthly basic amount as set out above; and
- RMB0.21125 (approximately HK\$0.215) per kilowatt-hour (including VAT of 17%) in respect of the on-grid electricity supplied exceeding the monthly basic amount as set out above.

The above prices for on-grid electricity are based on the prices approved by the relevant PRC government authority.

3. PARTICULARS OF THE SHAANXI ZHENGYUAN MASTER AGREEMENT

(a) Purchase of raw coal for power generation from the Shaanxi Zhengyuan Group

Transaction Nature

The Group will continue to purchase raw coal for power generation from the Shaanxi Zhengyuan Group.

Pricing Basis

The price charged of these raw coals shall not be more than the prevailing market price at which these raw coals can be purchased from Independent Third Parties, and such market price would be determined with reference to the maximum raw coal price set by the Shaanxi government authority.

(b) Purchase of raw materials for power generation from the Shaanxi Zhengyuan Group

Transaction Nature

The Group will continue to purchase other raw materials for power generation (including materials for the maintenance of the power plant such as light bulbs, transformers and electric wires) from the Shaanxi Zhengyuan Group.

Pricing Basis

The price charged of these raw materials shall not be more than the prevailing market price at which these raw materials can be purchased from Independent Third Parties.

(c) Provision of waste water and ash handling services to the Group

Transaction Nature

The Shaanxi Zhengyuan Group will continue to provide to the Group the services of handling waste water and ash produced during the power generation process.

Pricing Basis

The fees charged of these services shall not be more than the prevailing market price at which these services are charged by Independent Third Parties.

(d) Purchase of steel balls from the Shaanxi Zhengyuan Group

Transaction Nature

The Group will continue to purchase steel balls for the use of the coal mill from the Shaanxi Zhengyuan Group.

Pricing Basis

The prices charged of these steel balls shall not be more than the prevailing market prices at which these steel balls can be purchased from Independent Third Parties.

4. HISTORICAL FIGURES

Shaanxi Power Group and Shaanxi Zhengyuan Group had separate agreements with Weihe Power governing the transactions between them for the two years ended 31 December 2006. According to the audited consolidated accounts of the Group for the two years ended 31 December 2006 and the unaudited management accounts of the Group for the six months ended 30 June 2007, the amounts of the transactions with Shaanxi Power Group and Shaanxi Zhengyuan Group divided into the above-mentioned categories for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 are as follows:

	Year ended 31 December		Six months ended
	2005	2006	30 June 2007
	(Audited)	(Audited)	(Unaudited)
	RMB'000	RMB'000	RMB'000
I. Continuing connected transactions with Shaanxi Power Group			
Provision of electricity to the Shaanxi Power Group (excluding VAT of 17%)	1,755,367 (approximately HK\$1,790,474)	1,750,258 (approximately HK\$1,785,263)	813,903 (approximately HK\$830,181)
II. Continuing connected transactions with Shaanxi Zhengyuan Group			
(a) Purchase of raw coal for power generation from the Shaanxi Zhengyuan Group	10,860 (approximately HK\$11,077)	100,381 (approximately HK\$102,389)	61,336 (approximately HK\$62,563)
(b) Purchase of raw materials for power generation from the Shaanxi Zhengyuan Group	10,817 (approximately HK\$11,033)	13,786 (approximately HK\$14,062)	4,429 (approximately HK\$4,518)
(c) Provision of waste water and ash handling services to the Group (excluding VAT of 17%)	13,523 (approximately HK\$13,793)	15,090 (approximately HK\$15,392)	4,809 (approximately HK\$4,905)
(d) Purchase of steel balls from the Shaanxi Zhengyuan Group (excluding VAT of 17%)	2,560 (approximately HK\$2,611)	2,461 (approximately HK\$2,510)	1,070 (approximately HK\$1,091)
Sub-total	37,760 (approximately HK\$38,514)	131,718 (approximately HK\$134,353)	71,644 (approximately HK\$73,077)

5. BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS AND CAPS

The Shaanxi Power CCT and the Shaanxi Zhengyuan CCT 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 the long term established relationship with Shaanxi Power Group and Shaanxi Zhengyuan Group which brought about operational convenience and benefits to the Group, the Directors (other than the independent non-executive Directors whose views will be set out in the circular to be despatched to the Shareholders together with the advice of the Independent Financial Adviser) consider it to be in the interests of the Group to continue to engage in the Shaanxi Power CCT, and the Board (including the independent non-executive Directors) considers it to be in the interests of the Group to continue to engage in the Shaanxi Zhengyuan CCT.

The Company proposes to set the maximum Cap for each of the Shaanxi Power CCT and the Shaanxi Zhengyuan CCT as follows:

I. Continuing connected transactions with Shaanxi Power Group

	Cap for the year ending 31 December 2007
	<i>RMB'000</i>
Provision of electricity to the Shaanxi Power Group (excluding VAT of 17%)	1,764,000 (approximately HK\$1,799,280)

II. Continuing connected transactions with Shaanxi Zhengyuan Group

	Caps for the year ending 31 December	
	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Purchase of raw coal for power generation from the Shaanxi Zhengyuan Group	113,430 (approximately HK\$115,699)	128,180 (approximately HK\$130,744)
(b) Purchase of raw materials for power generation from the Shaanxi Zhengyuan Group	15,170 (approximately HK\$15,473)	16,700 (approximately HK\$17,034)
(c) Provision of waste water and ash handling services to the Group (excluding VAT of 17%)	16,600 (approximately HK\$16,932)	18,500 (approximately HK\$18,870)
(d) Purchase of steel balls from the Shaanxi Zhengyuan Group (excluding VAT of 17%)	2,710 (approximately HK\$2,764)	3,000 (approximately HK\$3,060)
Sub-total	147,910 (approximately HK\$150,868)	166,380 (approximately HK\$169,708)

The above Caps are determined based on the following:

- (a) historical transaction amounts for transactions;
- (b) the Company's internal projections;
- (c) in relation to the purchase of raw coal for power generation from the Shaanxi Zhengyuan Group, an expected increase of 13% in the raw coal price for each of 2007 and 2008; and
- (d) in relation to the purchase of raw materials for power generation, provision of waste water and ash handling services, and purchase of steel balls from the Shaanxi Zhengyuan Group, an expected inflation rate of 10% in the PRC for each of 2007 and 2008.

The Directors (other than the independent non-executive Directors whose views will be set out in the circular to be despatched to the Shareholders together with the advice of the Independent Financial Adviser) consider that the terms of the Shaanxi Power Supply Agreement, the Shaanxi Power CCT and the Caps for the Shaanxi Power CCT are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the terms of the Shaanxi Zhengyuan Master Agreement, the Shaanxi Zhengyuan CCT and the Caps for the Shaanxi Zhengyuan CCT are fair and reasonable so far as the Shareholders are concerned and are in the interest of the Shareholders as a whole. The Shaanxi Power CCT and the Shaanxi Zhengyuan CCT 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 respective term of the Shaanxi Power CCT and the Shaanxi Zhengyuan CCT, the Company will re-comply with the requirements under Rule 14A.36 of the Listing Rules.

6. LISTING RULES IMPLICATIONS

China State Power, which owns 100% interest in Shaanxi Power, also owns 100% in Xibei Power. Xibei Power owns 30% in Weihe Power and is therefore a substantial shareholder of Weihe Power. Accordingly, China State Power, Xibei Power and the members in Shaanxi Power Group are connected persons of the Company.

Shaanxi Zhengyuan is a wholly owned subsidiary of Xibei Power. In view of Xibei Power's interest in Weihe Power as set out above, the members in Shaanxi Zhengyuan Group are also connected persons of the Company.

The Shaanxi Power CCT and the Shaanxi Zhengyuan CCT are continuing connected transactions for the Company. Accordingly, the Company instructed Weihe Power to commence negotiations with Shaanxi Power and Shaanxi Zhengyuan as soon as possible on the terms of the Shaanxi Power CCT and the Shaanxi Zhengyuan CCT for 2007 and 2008.

After extensive negotiations, Shaanxi Zhengyuan finally agreed in August 2007 to sign the Shaanxi Zhengyuan Master Agreement with Weihe Power governing the Shaanxi Zhengyuan CCT for 2007 and 2008. At around the same time, Shaanxi Power formally rejected the proposal to sign a master agreement with Weihe Power governing the Shaanxi Power CCT for 2007 and 2008, and only agreed to use the Shaanxi Power Supply Agreement to govern the Shaanxi Power CCT.

It is expected that the applicable percentage ratios under the Listing Rules for the Cap receivable by the Group under the Shaanxi Power Supply Agreement will exceed 2.5%, and the Shaanxi Power CCT is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

China Travel Service (Holdings) Hong Kong Limited and Foden International Limited, a wholly owned subsidiary of China Travel Service (Holdings) Hong Kong Limited, hold 2,972,932,728 shares and 20,700,000 shares in the Company respectively. They are a closely allied group of Shareholders, and collectively hold approximately 52.56% in the issued share capital of the Company. Since none of the Shareholders is required to abstain from voting on the Shaanxi Power CCT, written approvals of China Travel Service (Holdings) Hong Kong Limited and Foden International Limited have been obtained for the purpose of approving the Shaanxi Power CCT and the entering into of the Shaanxi Power Supply Agreement, in lieu of an approval from the independent Shareholders at a shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules. An application has been made by the Company to the Stock Exchange for a waiver of the requirement for the Company to hold a shareholders' meeting in accordance with Rule 14A.43 of the Listing Rules, on the basis that the aforesaid transaction and agreement have been approved by a written approval of a closely allied group of Shareholders.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Shaanxi Power Supply Agreement and Somerley Limited has been retained as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders. A circular containing information with respect to the Shaanxi Power Supply Agreement will be despatched to the Shareholders as soon as practicable.

It is expected that the applicable percentage ratios as defined under the Listing Rules for the aggregate Caps payable by the Group under the Shaanxi Zhengyuan Master Agreement will exceed 0.1% but will be less than 2.5%, and the Shaanxi Zhengyuan CCT are subject to the reporting and announcement requirements under the Listing Rules.

There are no prior transactions with each of China State Power, Shaanxi Power Group and Shaanxi Zhengyuan Group that require aggregation under Rule 14A.25 of the Listing Rules.

7. GENERAL INFORMATION

The principal businesses of the Group include tour operations, theme parks, hotel and resort operations, passenger and freight transportation, golf club and power generation. Shaanxi Power Group is principally engaged in construction, dispatch and sales of power electricity and whereas Shaanxi Zhengyuan Group is principally engaged in various businesses including processing of coal ash, manufacturing and providing maintenance and installation services for machinery equipments and trading of electronic parts.

8. DEFINITIONS

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

“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 Shaanxi Power CCT and Shaanxi Zhengyuan CCT as referred to above
“China State Power”	中國國家電力有限公司 (China State Power Grid Corporation), a state-owned company established in the PRC
“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
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the committee of the Board comprising independent non-executive Directors, formed to advise the Independent Shareholders on whether the terms and conditions of the Shaanxi Power Supply Agreement are fair and reasonable;
“Independent Financial Adviser”	Somerley Limited
“Independent Shareholders”	Shareholders other than Shaanxi Power and its associates (if they hold any shares in the Company)
“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
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Shaanxi Power”	陝西省電力公司 (Shaanxi Electric Power Corporation), a state-owned enterprise of the PRC
“Shaanxi Power CCT”	the continuing connected transaction as described in the paragraphs headed “Particulars of the Shaanxi Power Supply Agreement” above
“Shaanxi Power Group”	Shaanxi Power and its subsidiaries
“Shaanxi Power Supply Agreement”	the power supply agreement dated 16 March 2007 and entered into between the Company and Shaanxi Power in relation to the Shaanxi Power CCT
“Shaanxi Zhengyuan”	陝西正元電力實業發展公司 (Shaanxi Zheng Yuan Electric Power Industrial Development Co.), a state-owned enterprise of the PRC
“Shaanxi Zhengyuan CCT”	the continuing connected transactions as described in the paragraphs headed “Particulars of the Shaanxi Zhengyuan Master Agreement” above
“Shaanxi Zhengyuan Group”	Shaanxi Zhengyuan and its subsidiaries
“Shaanxi Zhengyuan Master Agreement”	the master agreement dated 17 August 2007 and entered into between the Company and Shaanxi Zhengyuan in relation to the Shaanxi Zhengyuan CCT
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax imposed by the PRC government
“Weihe Power”	陝西渭河發電有限公司 (Shaanxi Weihe Power Co., Ltd.), a sino-foreign equity joint venture company established in the PRC
“Xibei Power”	西北電網有限公司 (Northwest China Grid Company Limited), a state-owned company established in the PRC

For illustration purpose in this announcement, the conversion rate of RMB1.00 = HK\$1.02 was adopted.

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

Hong Kong, 5 September 2007

The Directors as at the date of this announcement:

Executive Directors:

Mr. Zhang Xuewu, Mr. Xiong Weiping, Mr. Zheng Heshui, Mr. Lo Sui On, Ms. Jiang Yan, Mr. Mao Jianjun, Mr. Zhang Fengchun, and Mr. Wei Qing

Independent Non-Executive Directors:

Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter, Mr. Sze, Robert Tsai To and Mr. Chan Wing Kee