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# CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 308)

# CONNECTED TRANSACTIONS

On 10 August 2004, the Nominee entered into the CHCIP Sale and Purchase Agreement with Orlando and CTICL under which Orlando and CTICL agreed to sell 48% and 2% issued share capital in CHCIP which are held on trust for CTS (Holdings), to the Nominee respectively at an aggregate consideration of RMB9,166,892 (equivalent to approximately HK\$8,648,011) in cash. The consideration was arrived at after arm's length negotiations with reference to the audited net asset of CHCIP of approximately RMB10,185,436 (equivalent to approximately HK\$9,608,902) as at 31 December 2003. As direct foreign investment in art and cultural show performance business in the PRC is currently restricted under the PRC law and regulations, the Company has entered into Contractual Arrangements on 10 August 2004 with the Nominee to enjoy the economic benefits of CHCIP.

On 10 August 2004, CTI, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with BCTB, a wholly owned subsidiary of CTS (Holdings), for the purchase of the Property. In addition, CTI also entered into the Management Service Agreement with the Manager, a branch of BCTB, whereby CTI agreed to pay various miscellaneous fees including a management fee for the property management services rendered by the Manager and an air-conditioning fee in relation to the Property.

CTS (Holdings), being a substantial Shareholder, interested in approximately 58.95% of the issued share capital of the Company as at the date of this announcement, is a connected person to the Company. Therefore, each of the CHCIP Acquisition and the Property Purchase (including the Management Service Agreement) constitutes a connected transaction for the Company under the Listing Rules. As each of the Percentage Ratios (other than the profits ratio) under the CHCIP Acquisition and the Property Purchase is less than 2.5%, the CHCIP Acquisition and the Property Purchase fall within the de minimus provision of Rule 14A.32, and is therefore only subject to the disclosure requirements set out in Rules 14A.45 to 14A.47, of the Listing Rules. Details of the CHCIP Acquisition and the Property Purchase will be included in the next published annual report of the Company in accordance with Rule 14A.45 of the Listing Rules.

#### DETAILS OF THE CHCIP SALE AND PURCHASE AGREEMENT

#### Date

10 August 2004

# Parties

the Nominee, as the purchaser; and

Orlando and CTICL, as the vendors.

The scope of business of Orlando is art performance production and planning. The scope of business of CTICL is property development and operation, hotel management and economic information consultancy services. The ultimate beneficial owner of CTICL is CTS (Holdings), and Orlando and its shareholders who, to the best knowledge and belief of the Directors, are independent third parties and third parties independent of the Company and not connected person of the Company (as defined in the Listing Rules).

CTICL currently holds 2% of the issued share capital in CHCIP directly and Orlando currently holds 48% of the issued share capital in CHCIP on trust in favour for CTICL. In aggregate, CTICL holds an effective 50% interest in CHCIP on trust in favour for CTS (Holdings).

Save as the entering into of the Contractual Arrangements with the Company, the Nominee is independent of and not connected with the directors, chief executive and substantial shareholders of the Company and/or its subsidiaries and their respective associates. The Nominee is also not an employee of the Group either. Before the entering into of the Contractual Arrangement with the Company, the Nominee is not a connected person of the Company (as defined in the Listing Rules).

#### Assets to be acquired

50% of the issued share capital in CHCIP, being the entire interests of CTS (Holdings) (through Orlando and CTICL) in CHCIP.

Upon completion of the CHCIP Sale and Purchase Agreement, CHCIP will be owned as to 50% by the Nominee as a nominee for the Company, as to 30% by Splendid China and as to 20% by Orlando. There are no shareholders' loans owed to Orlando and CTICL by CHCIP.

#### Consideration

The consideration is RMB9,166,892 (equivalent to approximately HK\$8,648,011) and is payable in cash on completion of the CHCIP Sale and Purchase Agreement (see below paragraph headed "Completion"), out of which RMB8,800,216 (equivalent to approximately HK\$8,302,091) is payable to Orlando and RMB366,676 (equivalent to approximately HK\$345,921) is payable to CTICL. The consideration was arrived at after arm's length negotiations and represents a premium of approximately 80% over 50% of the audited net asset value of CHCIP of approximately RMB5,092,718 (equivalent to approximately HK\$4,804,451) as at 31 December 2003, and a price earnings multiple of approximately 36.3 times of the 50% of the audited net profit of CHCIP for the year ended 31 December 2003.

## Conditions precedent

Completion is conditional upon the following conditions being met:

- (i) the approval by the shareholders of CHCIP for the CHCIP Acquisition contemplated under the CHCIP Sale and Purchase Agreement;
- (ii) the completion of the amendment of the articles of association of CHCIP for the CHCIP Acquisition and other matters by virtue of the CHCIP Sale and Purchase Agreement; and
- (iii) the change of shareholders of CHCIP having been duly registered with the relevant State Administration of Industry and Commerce.

None of the above conditions can be waived by any of the parties.

# Completion

Completion shall take place on the second day after all the above conditions have been fulfilled. The parties have agreed to procure the fulfilment of the conditions within six months after the signing of the CHCIP Sale and Purchase Agreement. There will not be any long stop date under the CHCIP Sale and Purchase Agreement.

## DETAILS OF THE CONTRACTUAL ARRANGEMENTS

On 10 August 2004, the Company entered into the following Contractual Arrangements with the Nominee in respect of the nominee arrangement in connection with the CHCIP Acquisition.

#### The Loan Agreement

The Company and the Nominee entered into the Loan Agreement, under which the Company will grant a non-interest bearing loan in an aggregate value of RMB9,166,892 (equivalent to approximately HK\$8,648,011) to the Nominee solely for financing its investing in CHCIP (as a consideration payable by the Nominee under the CHCIP Sale and Purchase Agreement). The loan will be financed by the internal resources of the Group.

Unless agreed by the Company and the Nominee, the obligations of the Nominee under the Loan Agreement can only be cancelled by the completion of the Option Agreement and cannot be revoked by other means including but not limited to repayment of cash and cash equivalents.

# The Share Pledge Agreement

The Company and the Nominee entered into the Share Pledge Agreement, under which the Nominee pledges its 50% issued share capital in CHCIP as a security for the performance of its obligations under the Loan Agreement and the Option Agreement. The Company has the right to sell the pledged 50% issued shared capital in CHCIP to other parties when the obligations of the Nominee under the Loan Agreement and the Option Agreement have been fulfilled and relieved, or when the Directors are of the opinion that the Nominee is unable to perform such obligations, or when the Loan Agreement and Option Agreement expire.

#### The Option Agreement

The Company and the Nominee entered into the Option Agreement, under which the Company has been granted an option, exerciseable by the Company at its sole discretion, by the Nominee to acquire all of its interests in CHCIP as and when direct investment in CHCIP by the Company is allowed under the PRC law and regulations. The Nominee is obliged to complete the transfer of the 50% shareholding in CHCIP within 30 days upon receiving written notice from the Company. Consideration for such transfer shall be the cancellation of all the obligations of the Nominee under the Loan Agreement, including but not limited to the obligation to repay any then outstanding loan, by the Company.

The Nominee also irrevocably undertakes to the Company that, commencing from the effective date of the Option Agreement, it will exercise its shareholder's rights in CHCIP (including but not limited to the rights to appoint directors, to vote in shareholder's meeting and to receive dividends) as directed by the Company or appoint the Company or any person nominated by the Company to exercise such rights on its behalf.

#### INFORMATION ON CHCIP

CHCIP is a domestic enterprise established under the PRC law in 1999. The principal activities of CHCIP and its subsidiary and associated company are sponsoring, organising and promoting art and cultural shows and art and cultural exhibitions in the PRC as well as overseas. CHCIP has obtained all necessary consents, approvals and authorisations, in accordance with the PRC law for (1) sponsoring, organising and promoting art and cultural shows and activities in the PRC and for inviting performers from overseas to perform art and cultural shows and activities in PRC; and (2) exporting Chinese performing arts overseas. CHCIP also has a 32% interest in the issued share capital in Dreamlike. The principal business activity of Dreamlike is art performance in Guilin, Guangxi Province, the PRC.

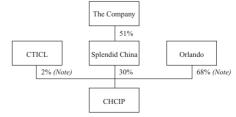
Prior to the CHCIP Sale and Purchase Agreement, CHCIP is owned as to 2% by CTICL, as to 30% by Splendid China and as to 68% by Orlando. CTICL holds 2% issued share capital in CHCIP directly and Orlando holds 48% issued share capital in CHCIP on trust in favour for CTICL. In turn, CTICL holds an effective 50% interest in CHCIP on trust in favour for CTS (Holdings). Orlando holds the remaining 20% issued share capital in CHCIP for its own interest.

According to CTICL, the original costs of investment of its 50% interest in CHCIP (which was held on trust in favour of CTS (Holdings)) was RMB5,000,000.

According to the audited consolidated accounts of CHCIP in accordance with the accounting principles generally accepted in Hong Kong for the two years ended 31 December 2003, its financial information is summarised as below:

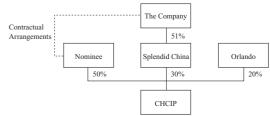
	For the year ended 31 December	
	2003	2002
	RMB	RMB
Profit before tax	797,142	904,343
Profit after tax	504,481	591,234
	As at 31 December	
	2003	2002
	RMB	RMB
Total assets	11,331,543	11,074,970
Total liabilities	1,146,107	737,237
Net assets	10,185,436	10,337,733

Structure chart of CHCIP immediately before completion of the CHCIP Acquisition:



Note: CTICL holds 2% issued share capital in CHCIP directly and Orlando holds 48% issued share capital in CHCIP on trust in favour for CTICL. In turn, CTICL holds an effective 50% interest in CHCIP on trust in favour for CTS (Holdings).

Structure chart of CHCIP immediately after completion of the CHCIP Acquisition:



# REASONS FOR AND BENEFITS OF THE CHCIP ACQUISITION

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

At present, the Company has an indirect shareholding in CHCIP through the 30% shareholding in CHCIP owned by Splendid China. Splendid China is a 51%-owned subsidiary of the Company. Upon completion of the CHCIP Acquisition, the Company will be deemed to be interested in 80% shareholding in CHCIP including its interests through the Contractual Arrangements with the Nominee. The Directors believe the art and culture show performance business in the PRC has good potential because of the increased demand for leisure and entertainment services due to the improved economy and living standard. CHCIP has participated in various large-scale performances in the PRC. It is also experienced in inviting performers from overseas to perform art and culture shows and activities in the PRC and exporting Chinese performing arts troupes. Since its establishment CHCIP has sent performance troupes to the United States and South Korea. In the opinion of the Directors, the businesses of the Group and CHCIP are complementary with each other and the CHCIP Acquisition, combined with the Group's strength in tourism in the PRC such as organising art and cultural shows at tourist attractions of the Group, will introduce a synergy effect which can enhance the profitability of CHCIP and therefore the Group as a whole. The Directors have also noticed that the price-to-book ratio of the CHCIP Acquisition is comparable to that of companies engaging in similar business that are listed on the Stock Exchange

As direct foreign investment in art and cultural show performance business in the PRC is currently restricted under the PRC laws and regulations, the Company therefore entered into the Contractual Arrangements so as to enjoy the economic benefits of CHCIP.

CHCIP currently is an indirect associated company of the Company through its shareholding in Splendid China. Upon completion of the CHCIP Acquisition, CHCIP will become an indirect subsidiary of the Company.

In view of the above, the Directors (including the Independent Non-Executive Directors) consider the terms of the CHCIP Acquisition, including the consideration and the Option Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### THE PROPERTY PURCHASE

#### Purchase of the Property and related management arrangement

10 August 2004

CTI, a wholly owned subsidiary of the Company Purchaser:

"BCTB", a wholly owned subsidiary of CTS (Holdings), its principal Vendor:

business are sale and lease of office, hotel operation and property

The entire 15th Floor of 港中旅大廈(Gangzhonglu Building\*) in Xuan Wu District, Beijing, the PRC (gross floor area of 2,600.89 square meters) , the land use right certificate of which is owned by Property:

BCTB and all of the land premiums has been paid up

RMB23,408,010 (equivalent to approximately HK\$22,083,028) payable in cash within 10 days after the signing of the sale and purchase agreement. The transaction is financed by internal resources of CTI

Possession of the Property has been delivered on 4 March 2004

Delivery of possession and completion:

Consideration:

A new land use and title certificate in respect of the Property is expected to be issued by 北京市國土資源和房屋管理局(Department of Land and Resources, Beijing) to CTI within six months (or such other later date as the parties may agree) after signing of the sale and purchase agreement, failing which CTI could terminate the sale and purchase agreement and BCTB shall refund the consideration to CTI

The purchase price of the Property has been arrived at with reference to a valuation based on open market value made by RHL Appraisal Ltd., an independent property valuer, which valued the Property at RMB38,000,000 (equivalent to approximately HK\$35,849,057) as at 24 November 2003, and was negotiated on an arm's length basis. The consideration for the purchase of the Property represents a discount of approximately 38.4% to the valuation of the Property.

The Property has been currently occupied rent-free by CTI as its office in Beijing since March 2004. No rental agreement with respect to the occupation of the Property by CTI has been entered into between BCTB and CTI prior to the entering into of the sale and purchase agreement and the Property has been occupied by CTI rent-free up to the date of this announcement. However, CTI is responsible for the management fee and air-conditioning fee (as mentioned below) during the period of its occupancy of the Property up until the date of the entering of the Management Service Agreement. The Directors confirm that, fees incurred during such period did not exceed HK\$1,000,000 or 0.1% under any of the Percentage Ratios (other than the profits ratio), therefore it was exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CTI also entered into the Management Service Agreement on 10 August 2004 with the Manager, a 5 2 3 6 (branch) of BCTB, whereby CTI agreed to pay the Manager, amongst other miscellaneous fees in relation to the Property, a management fee at the rate of US\$3.00 (equivalent to approximately HK\$23.4) per square meter per month, or an aggregate of US\$93,632 (equivalent to approximately HK\$730,330) per annum, for the property management services rendered by the Manager, and an air-conditioning fee of approximately RMB98,282 (equivalent to approximately HK\$92,719) per year. The management fee is payable monthly, five days upon the receipt of the invoice issued by the Manager and the air conditioning fee is payable five days upon the receipt of the invoice issued by the Manager. According to an opinion prepared by RHL Appraisal Ltd., in view of the prevailing market conditions and the price level of management charges of similar properties in the vicinity, the abovementioned fees payable by CTI are not less favourable than the prevailing market rate and charges. The term of the Management Service Agreement commenced on 10 August 2004, and will end on 31 December 2004, and is renewable annually. The Company will comply with the requirements of the Listing Rules in the case of renewal of the Management Services Agreement. The Principle businesses of the Manager are hotel operation and property management.

## Reasons for the Property Purchase

The Property Purchase is part of the expansion plan of the Group in the PRC as CTI is planning to utilise the Property as its office in Beijing for its development of businesses in Northern China.

The Directors (including the Independent Non-Executive Directors) consider that the Property Purchase together with the Management Service Agreement have been entered into on normal commercial terms and the transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

# **GENERAL**

CTS (Holdings), being a substantial Shareholder interested in approximately 58.95% of the issued share capital of the Company as at the date of this announcement, is a connected person to the Company. Therefore, each of the CHCIP Acquisition and the Property Purchase (including the Management Service Agreement) constitutes a connected transaction for the Company under the Listing Rules. As each of the Percentage Ratios (other than the profits ratio) under the CHCIP Acquisition and the Property Purchase (including the Management Service Agreement) is less than 2.5%, the CHCIP Acquisition and the Property Purchase fall within the de minimus provision of Rule 14A.32, and is therefore only subject to the disclosure requirements set out in Rules 14A.45 to 14A.47, of the Listing Rules only. Details of the CHCIP Acquisition and the Property Purchase will be included in the next published annual report of the Company in accordance with Rules 14A.45 of the Listing Rules.

As at the date of this announcement, the Executive Directors are Mr. Che Shujian, Mr. Zhang Xuewu, Mr. Shen Zhuying, Mr. Zheng Heshui, Mr. Lo Sui On, Mr. Chen Shoujie, Mr. Zheng Hongqing, 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 and Mr. Wong Man Kong, Peter.

#### **DEFINITIONS**

"BCTB" 北京港中旅大廈有限公司(Beijing China Travel Building Limited\*),

a wholly owned subsidiary of CTS (Holdings)

"Board" the board of Directors

天創國際演藝製作交流有限公司(China Heaven Creation "CHCIP"

International Performing Arts Co., Ltd.\*), a domestic enterprise

established under the PRC law in 1999

"CHCIP Acquisition" acquisition of 50% issued share capital in CHCIP pursuant to the CHCIP Sale and Purchase Agreement and the Contractual

Arrangements

"CHCIP Sale and Purchase

Agreement'

the sale and purchase agreement dated 10 August 2004 entered into between the Nominee, Orlando and CTICL in relation to the

acquisition of 50% issued share capital in CHCIP

"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

"connected person(s)"

"CTI"

"CTS (Holdings)"

has the meaning as ascribed to it under the Listing Rules

"Contractual Arrangements"

the Share Pledge Agreement; and

3. the Option Agreement;

1. the Loan Agreement;

China Travel International Ltd. (港中旅國際旅行社有限公司),

a wholly foreign-owned enterprise established under the PRC law and a wholly owned subsidiary of the Company

港中旅實業有限公司 (China Travel Industrial Co., Ltd.\*), a "CTICL"

domestic enterprise established under the PRC law

China Travel Service (Holdings) Hong Kong Limited (香港中旅( 集團)有限公司), a company incorporated in Hong Kong with limited liability and is interested in 58.95% of the issued share capital of the Company as at the date of this announcement

"Directors" the directors of the Company

夢幻灕江演藝傳播有限公司 (The Dreamlike Lijiang Showbiz "Dreamlike"

Co., Ltd.\*), a domestic enterprise established under the PRC law

"Group" the Company and its subsidiaries

the Hong Kong Special Administrative Region of the PRC "Hong Kong"

"Listing Rules" the Rules Governing the Listing of Securities on the Stock

"Loan Agreement" the loan agreement dated 10 August 2004 entered into between the

Company and the Nominee, details of which are set out above 港中旅新時代大酒店 (China Travel New Times Hotel\*), a 分支

"Manager"

公司 (branch) of BCTB and the manager of Gangzhonglu Building the management service agreement dated 10 August 2004 entered "Management Service

Agreement" into between CTI and the Manager, details of which are set out

"Nominee" Mr. Du Xinjian, a PRC citizen

"Option Agreement" the option agreement date 10 August 2004 entered into between the

Company and the Nominee, details of which are set out above

深圳市奧蘭多演藝製作有限公司 (Shenzhen Orlando Performing Arts Co., Ltd.\*), a domestic enterprise established under the PRC

"Percentage Ratios"

the percentage ratios under Rule 14.07 of the Listing Rules

"PRC"

the entire 15th floor of 港中旅大廈 (Gangzhonglu Building\*) in

The People's Republic of China Xuan Wu District, Beijing, the PRC

"Property Purchase" the purchase of the Property and the entering into of the Management

Service Agreement "Share(s)" share(s) of HK\$0.10 each in the share capital of the Company

"Shareholder(s)"

holder(s) of the Share(s)

"Share Pledge Agreement"

the share pledge agreement dated 10 August 2004 entered into between the Company and the Nominee, details of which are set

out above

"Splendid China"

"Orlando"

"Property"

Shenzhen The Splendid China Development Co., Ltd. (深圳錦繡中華發展有限公司), a sino-foreign equity joint venture established under the PRC law which is a subsidiary of the Company, owned as to 51% by the Company and as to 49% by 深圳華僑城控股股份有限公司(Shenzhen Overseas Chinese Town Holding Company)

"Stock Exchange"

The Stock Exchange of Hong Kong Limited

"RMB"

Hong Kong dollars, the lawful currency of Hong Kong Renminbi, the lawful currency of the PRC

"USS"

"HKS"

United States dollars, the lawful currency of the United States of

America

"%"

Translation of Renminbi into Hong Kong dollars is based on the exchange rate of HK\$1.00 = RMB1.06 and translation of Hong Kong dollars into United States dollars is based on the exchange rate of US\$1.00 = HK\$7.80.

> By order of the Board China Travel International Investment Hong Kong Limited Shen Zhuying Vice Chairman, General Manager

Hong Kong, 10 August 2004 \* for identification purposes only