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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 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 enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**香港中旅國際投資有限公司**

**CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED**

**(Stock Code: 00308)**

*(incorporated in Hong Kong with limited liability)*

### **CONTINUING CONNECTED TRANSACTIONS WITH SHAANXI POWER GROUP**

**Independent financial adviser to the Independent Board Committee  
and Independent Shareholders**



**SOMERLEY LIMITED**

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A letter from the Board is set out on pages 4 to 8 of this circular and a letter from Independent Board Committee is set out on page 9 of this circular. A letter of advice from Somerley Limited to the Independent Board Committee and Independent Shareholders is set out on pages 10 to 15 of this circular.

18 September 2007

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**TABLE OF CONTENTS**

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	<i>Page</i>
<b>Definitions . . . . .</b>	<b>1</b>
<b>Letter from the Board . . . . .</b>	<b>4</b>
<b>Letter from the Independent Board Committee . . . . .</b>	<b>9</b>
<b>Letter from Somerley Limited . . . . .</b>	<b>10</b>
<b>Appendix – General Information . . . . .</b>	<b>16</b>

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## DEFINITIONS

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

“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”	the maximum aggregate annual consideration for the Shaanxi Power CCT
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board appointed by the Board to advise the Independent Shareholders in respect of the Shaanxi Power CCT, comprising 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
“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

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## DEFINITIONS

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“Latest Practicable Date”	13 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“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 circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 transactions as described in the paragraphs headed “Particulars of the Shaanxi Power Supply Agreement” in the section of “Letter from the Board” of this circular
“Shaanxi Power Group”	Shaanxi Power and its subsidiaries
“Shaanxi Power Supply Agreement”	the power supply agreement dated 16 March 2007 and entered into between Weihe Power and Shaanxi Power in relation to the Shaanxi Power CCT
“Shareholders”	shareholders of the Company
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Somerley Limited”	Somerley Limited, a corporation licensed to carry out business in 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 SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“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 circular, the conversion rate of RMB1.00 = HK\$1.02 was adopted.

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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

(Stock Code: 00308)

(incorporated in Hong Kong with limited liability)

*Executive Directors:*

Mr. Zhang Xuewu (Chairman)

Mr. Xiong Weiping (Vice Chairman, General Manager)

Mr. Zheng Heshui (Vice Chairman)

Mr. Lo Sui On (Vice Chairman)

Ms. Jiang Yan

Mr. Mao Jianjun

Mr. Zhang Fengchun

Mr. Wei Qing

*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

18 September 2007

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS WITH SHAANXI POWER GROUP

#### 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.

#### 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.

## LETTER FROM THE BOARD

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:

<b>Month in 2007</b>	<b>Kilowatt-hour (in million)</b>	<b>Month in 2007</b>	<b>Kilowatt-hour (in million)</b>
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. HISTORICAL FIGURES

Shaanxi Power Group had separate agreement with Weihe Power governing the transactions between them for 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 for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 are as follows:

	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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)

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## LETTER FROM THE BOARD

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### 4. BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS AND CAP

The Shaanxi Power 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 which brought about operational convenience and benefits to the Group, the Directors consider it to be in the interests of the Group to continue to engage in the Shaanxi Power CCT.

The Company proposes to set the maximum Cap for the Shaanxi Power CCT as follows:

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

The above Cap is determined based on the following:

- (a) historical transaction amounts for transactions; and
- (b) the Company's internal projections.

The Directors consider that the terms of the Shaanxi Power Supply Agreement, the Shaanxi Power CCT and the Cap for the Shaanxi Power CCT are fair and reasonable and in the interests of the Shareholders as a whole.

If the Cap is exceeded during the term of the Shaanxi Power CCT, the Company will re-comply with the requirements under Rule 14A.36 of the Listing Rules.

### 5. 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, and the Shaanxi Power CCT constitutes continuing connected transaction for the Company. As a result, the Company instructed Weihe Power to commence negotiations with Shaanxi Power as soon as possible on the terms of the Shaanxi Power CCT for 2007 and 2008.



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## LETTER FROM THE BOARD

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In August 2007, 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 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. The Company has obtained a waiver from the Stock Exchange on 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.

### **6. 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.

### **7. RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 9 of this circular. The Independent Board Committee, having taken into account the advice of Somerley Limited, considers that the terms of the Shaanxi Power CCT (including the Cap and the terms of the Shaanxi Power Supply Agreement) are fair and reasonable and the Shaanxi Power CCT (including the Cap and the terms of the Shaanxi Power Supply Agreement) are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 8. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,

By Order of the Board

**CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED**

**Zhang Xuewu**

*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

(Stock Code: 00308)

(incorporated in Hong Kong with limited liability)

18 September 2007

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS WITH SHAANXI POWER GROUP**

We refer to the circular dated 18 September 2007 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Shaanxi Power CCT and to advise the Independent Shareholders whether, in our opinion, the terms of the Shaanxi Power CCT are fair and reasonable so far as the Independent Shareholders are concerned. Somerley Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Shaanxi Power CCT (including the Cap and the terms of the Shaanxi Power Supply Agreement).

We wish to draw your attention to the letter from the Board set out on pages 4 to 8 of the Circular which contains, inter alia, information about the Shaanxi Power CCT, and the letter of advice from Somerley Limited set out on pages 10 to 15 of the Circular which contains its advice in respect of the terms of the Shaanxi Power CCT (including the Cap and the terms of the Shaanxi Power Supply Agreement).

Having taking into account the advice of Somerley Limited, we consider the terms of the Shaanxi Power CCT (including the Cap and the terms of the Shaanxi Power Supply Agreement), to be fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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 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

10th Floor,  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

18 September 2007

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

Dear Sirs,

### CONTINUING CONNECTED TRANSACTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the transaction in relation to the continuing supply of electricity by Weihe Power to Shaanxi Power Group in 2007 pursuant to the terms of the Shaanxi Power Supply Agreement for which the Independent Shareholders' approval is being sought subject to an annual cap for the Shaanxi Power CCT. Details of the Shaanxi Power CCT are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 18 September 2007 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 16 March 2007, Weihe Power entered into the Shaanxi Power Supply Agreement with Shaanxi Power to regulate the supply of electricity. As at the Latest Practicable Date, Xibei Power, a wholly-owned subsidiary of China State Power, was a 30% substantial shareholder of Weihe Power which is in turn a 51%-owned subsidiary of the Company. China State Power also owns 100% interest in Shaanxi Power. By virtue of the respective substantial shareholdings in Weihe Power, China State Power, Xibei Power and Shaanxi Power are considered connected persons of the Company under the Listing Rules. Accordingly, the supply of power by Weihe Power to Shaanxi Power Group which is expected to continue for the remaining part of 2007 constitutes a continuing connected transaction for the Company under the Listing Rules.

As the Company anticipates that the applicable percentage ratios for the Shaanxi Power CCT in respect of the year ending 31 December 2007 will exceed 2.5% on an annual basis, the Shaanxi Power CCT is subject to the reporting, announcement and independent shareholders' approval requirement pursuant to Rules 14A.35 of the Listing Rules. No Shareholder is required to abstain from voting in the general meeting of the Company for approving the Shaanxi Power CCT (including the Cap), as the connected persons in the Shaanxi Power CCT,

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## LETTER FROM SOMERLEY LIMITED

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namely Shaanxi Power and its associates, are connected persons solely by virtue of their interests of Weihe Power, a subsidiary of the Company, and not in the Company itself. The Company has obtained from China Travel Service (Holdings) Hong Kong Limited and Foden International Limited, a wholly owned subsidiary of China Travel Service (Holdings) Hong Kong Limited, which currently collectively hold approximately 52.56% of the issued share capital of the Company, written approvals of the Shaanxi Power CCT (including the Cap). The Company has applied for, and been granted, a waiver from the Stock Exchange to approve the Shaanxi Power CCT (including the Cap) by way of written shareholders' approval in lieu of holding a general meeting of the Company.

The Independent Board Committee, comprising all its 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 Shaanxi Power CCT (including the Cap) are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Shaanxi Power Supply Agreement 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, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or Shaanxi Power Group, nor have we carried out any independent verification of the information supplied.

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

In considering whether the terms of the Shaanxi Power CCT (including the Cap) are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

#### **1. Background to and reasons for the Shaanxi Power CCT**

Weihe Power operates a power plant in Shaanxi province, the PRC, with total installed capacity of approximately 300 megawatts and gross power generation of approximately 6,000 million Kilowatt hours ("KWH"). Pursuant to PRC government policy, only one power grid company in Shaanxi province of the PRC will be appointed by the relevant government authorities to act as the exclusive distributor. Electricity generated by the power plants in Shaanxi province is sold to authorised electricity distributors for onward supply to ultimate

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## LETTER FROM SOMERLEY LIMITED

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users. The authorized distributor enters into annual electricity sale and purchase agreements with the power plants in Shaanxi province setting out the total amount of electricity to be purchased by the authorised distributor during the year. The amount of power allocated to each power plant is based on the projected annual demand of electricity of the province and the production capacity of each power plant. As Shaanxi Power is the exclusive authorized electricity distributor in Shaanxi province, the management considers that the entering into of the Shaanxi Power Supply Agreement between Weihe Power and Shaanxi Power is necessary for Weihe Power's business operations. The Shaanxi Power Supply Agreement was entered into with a view to regulating the relationship between Weihe Power and Shaanxi Power as regard the aforesaid transaction. Shannxi Power Group is principally engaged in the generation, transmission and sale of electricity. In view of the long term established relationship with Shaanxi Power Group which brought about operational convenience and benefits to the Group, the Directors consider it to be in the interests of the Group to continue to engage in the Shaanxi Power CCT.

In light of the respective principal activities of Weihe Power and Shaanxi Power, we consider that the Shaanxi Power Supply Agreement has been entered into in the ordinary and usual course of business of Weihe Power. We also consider that given the significance of Shaanxi Power as the sole customer for Weihe Power, the supply of power throughout 2007 pursuant to the terms of Shaanxi Power Supply Agreement is in the interests of the Group and the Shareholders as a whole.

### **2. Principal terms of the Shaanxi Power CCT**

Pursuant to the Shaanxi Power Supply Agreement, Shaanxi Power has agreed to purchase a minimum of 5.6 billion KWH of electricity from Weihe Power. Weihe Power shall supply electricity to Shaanxi Power according to the monthly supply schedule. The price of electricity supplied to Shaanxi Power is determined and adjusted according to the regulations of the PRC Government and subject to annual reviews by the relevant government authorities.

Given that the price of electricity is regulated by and fixed in accordance with the pricing policies promulgated by the relevant PRC government authorities from time to time, we consider that the supply of electricity in 2007 pursuant to the terms of Shaanxi Power Supply Agreement is on normal commercial terms and is no less favourable to Weihe Power than those offered to independent third parties.

### **3. Comparison of terms with independent third parties**

As Shaanxi Power is the exclusive authorized electricity distributor in Shaanxi province, no other similar transaction between Weihe Power and independent third parties is available for comparison to the terms of the transaction contemplated under the Shaanxi Power Supply Agreement. We have however reviewed the pricing terms of Shaanxi Power Supply Agreement against the PRC government policy and noted that the contract price is in line with the price set out by relevant government authorities according to the regulations of the PRC Government and the terms are no less favourable to Weihe Power than those offered to independent third parties.

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## LETTER FROM SOMERLEY LIMITED

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### 4. The Cap

The Shaanxi Power CCT is subject to Listing Rules requirements and conditions as more particularly discussed under the section headed “Reporting requirements and conditions of the Shaanxi Power CCT” below. In particular, the Shaanxi Power CCT is subject to the proposed related annual cap as discussed below.

#### *Assessment of the Cap*

Set out below are the actual aggregate values for electricity supply to Shaanxi Power Group in respect of 2004 to 2006 and the Cap for 2007 proposed by the Company:

	Year ended 31 December			Year ending 31 December
	2004	2005	2006	2007
	Actual value	Actual value	Actual value	ProposedCap
	(RMB	(RMB	(RMB	(RMB
	million)	million)	million)	million)
Supply of electricity by Weihe Power to Shaanxi Power Group (excluding VAT of 17%)	1,874.7	1,755.4	1,750.3	1,764.0

In assessing the reasonableness of the Cap, we have discussed with the management of the Company the basis and assumptions underlying the projections of the Cap. In estimating the Cap, the Directors have taken into account, among other things, the agreed quantity of electricity to be supplied to Shaanxi Power stated in the Shaanxi Power Supply Agreement, the unit price of electricity determined by the relevant PRC government authorities, the historical transaction amounts and the Company’s internal projections.

As set out in the table above, there was a decreasing trend in the transaction value for the Shaanxi Power CCT in the past three years. We are advised by the management of the Company that the slight decrease was probably attributable to lower prevailing summer temperatures in Shaanxi province which led to a decrease in demand for electricity for the air-conditioning systems. The unit price of electricity set by the PRC government authorities was at about the same levels throughout the review period from 2004 to 2007. The drop in electricity demand resulted in the decrease in value for the Shaanxi Power CCT.

The proposed Cap of RMB1,764.0 million for the year ending 31 December 2007 is close to the actual transaction value of the Shaanxi Power CCT of RMB1,750.3 million for the year ended 31 December 2006. The Cap of RMB1,764.0 million represents the contracted quantity of electricity to be supplied at the agreed price set by the PRC government authorities plus a general buffer of approximately 4.5%. The buffer is to cater for possible adjustments in the quantity and prices of the electricity to be sold to Shaanxi Power Group.

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## LETTER FROM SOMERLEY LIMITED

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Having considered the basis from which the Cap is determined as described above, we are of the view that the Cap is fair and reasonable.

### **5. Reporting requirements and conditions of the Shaanxi Power CCT**

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Shaanxi Power CCT is subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Shaanxi Power CCT and confirm in the annual report and accounts that the Shaanxi Power CCT has 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 continuing connected transaction 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 the Shaanxi Power CCT:
  - (i) has received the approval of the Board;
  - (ii) is in accordance with the pricing policies of the Group;
  - (iii) has been entered into in accordance with the relevant agreements governing the Shaanxi Power CCT; and
  - (iv) has not exceeded the Cap;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Shaanxi Power CCT to allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Shaanxi Power CCT as set out in paragraph (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.



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## LETTER FROM SOMERLEY LIMITED

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In light of the reporting requirements attached to the Shaanxi Power CCT, in particular, (i) the restriction of the value of the Shaanxi Power CCT by way of the Cap; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Shaanxi Power CCT and the Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Shaanxi Power CCT and safeguard the interests of the Independent Shareholders.

### OPINION

Having taken into account the above principal factors, we consider that the Shaanxi Power CCT is in the ordinary and usual course of business of the Group and is conducted on normal commercial terms. We also consider that the terms of the Shaanxi Power CCT (including the Cap) are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Shaanxi Power Supply Agreement is in the interests of the Company and the Shareholders as a whole.

The Company has obtained from China Travel Service (Holdings) Hong Kong Limited and Foden International Limited written approvals of the Shaanxi Power CCT (including the Cap), and has applied for, and been granted, a waiver from the Stock Exchange to approve the Shaanxi Power CCT (including the Cap) by way of a written shareholders' approval in lieu of holding a general meeting of the Company. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving Shaanxi Power CCT (including the Cap) we would recommend the Shareholders to vote in favour of the resolution to approve the Shaanxi Power CCT (including the Cap).

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

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

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 executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

All interests disclosed below represent long position in shares of the Company:

Long position in shares of the Company:

Name of Director	Note	Number of Shares held			Total	% of the issued share capital
		Personal Interests	Corporate Interests	Other Interests		
Dr. Fong Yun Wah	1	–	50,000	–	50,000	0.000878%

Note: 1. These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested pursuant to Divisions 7 and 8 of Part XV of the SFO.

*Share options of the Company*

At the Latest Practicable Date, the following Directors had interests in the share options granted by the Company under the share option scheme adopted by the Company on 3 June 2002:

<b>Name of Director</b>	<b>Date of grant</b>	<b>Exercise price HK\$</b>	<b>Exercise period</b>	<b>Number of the options</b>
Zhang Xuewu	8 September 2007	4.65	9 July 2009 to 2 June 2012	2,130,000
Xiong Weiping	8 September 2007	4.65	9 July 2009 to 2 June 2012	2,130,000
Zheng Heshui	8 September 2007	4.65	9 July 2009 to 2 June 2012	1,770,000
Lo Sui On	8 September 2007	4.65	9 July 2009 to 2 June 2012	1,770,000
Jiang Yan	8 September 2007	4.65	9 July 2009 to 2 June 2012	1,770,000
Mao Jianjun	8 September 2007	4.65	9 July 2009 to 2 June 2012	1,770,000
Zhang Fengchun	8 September 2007	4.65	9 July 2009 to 2 June 2012	1,770,000
Wei Qing	8 September 2007	4.65	9 July 2009 to 2 June 2012	800,000

- (i) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.
- (ii) As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group; and

- (iii) as at the Latest Practicable Date, none of the Directors are materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group taken as a whole.

**(b) Interests of Substantial Shareholders**

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*Long position in the shares of the Company:*

Name of Shareholders	Notes	Number of issued Shares held	% of the issued share capital
China National Travel Service (HK) Group Corporation (“China CTS (HK)”)	1	2,993,632,728	52.56%
China Travel Service (Holdings) Hong Kong Limited (“CTS Holdings”)	1, 2	2,993,632,728	52.56%
Foden International Limited (“Foden”)	2	20,700,000	0.36%

*Notes:*

- The entire issued share capital of CTS Holdings is beneficially owned by China CTS (HK). CTS Holdings is the direct holding company of the Company. Accordingly, the interests of China CTS (HK) in the Company duplicate the interests of CTS Holdings.
- 20,700,000 shares are held by Foden which is a wholly-owned subsidiary of CTS Holdings.

All interests disclosed above represent long position in shares of the Company.

**(c) Substantial shareholding in other members of the Group**

The Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**COMPETING INTEREST**

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates have any interest in a business which competes or is likely to compete with the business of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

EXPERT

- (a) The following is the qualification of Somerley Limited which has given its opinion or advice which is contained in this Circular:

Name	Qualifications
Somerley Limited	a corporation licensed to carry out 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 SFO

- (b) As at the Latest Practicable Date, Somerley Limited does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Somerley Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and references to its name in the form and context which they are included.
- (d) As at the Latest Practicable Date, Somerley Limited does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter and recommendation given by Somerley Limited are given as of the date of this Circular for incorporation herein.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of the Company on 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong during normal business hours until 2 October 2007:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (c) the letter from Somerley Limited, the text of which is set out on pages 10 to 15 of this circular;
- (d) the written consent of Somerley Limited; and
- (e) the Shaanxi Power Supply Agreement.