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

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

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香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(incorporated in Hong Kong with limited liability)
(Stock Code: 308)

(1) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE 2021 FINANCIAL SERVICES FRAMEWORK AGREEMENT

AND

(2) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF TRAVEL PERMIT ADMINISTRATION SERVICES

AND

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



建泉融資有限公司
VBG Capital Limited

Unless the context requires otherwise, terms used in this cover shall have the same meaning as those in the circular.

“Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect Shareholders from the risk of infection:

- (i) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
- (ii) maintain a safe distance between seats;
- (iii) every attending Shareholder or proxy is required to wear a surgical mask throughout the EGM; and
- (iv) no refreshments or souvenirs will be served or distributed at the EGM.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company wishes to advise all Shareholders, in particular those who are subject to quarantine in relation to COVID-19, that they may appoint any person or the Chairman of the EGM as a proxy to attend and vote on any of the resolutions in lieu of attending the EGM in person.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the EGM.”

A notice convening the EGM to be held at Forum Wing, C/Floor, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Kowloon, Hong Kong on Thursday, 23 December 2021 at 2:30 p.m. is set out on pages 54 to 56 of this circular. Whether or not you are able to attend the EGM, please complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the Company’s share registrar, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and, in any event, by no later than 48 hours before the time appointed for the holding of the EGM (or adjourned meeting or of the poll, as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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DEFINITIONS

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

“2018 Financial Services Framework Agreement”	the financial services framework agreement in relation to the deposit services, the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services entered into between the Company and CTS Finance on 8 November 2018
“2019 Financial Services Supplemental Agreement”	the financial services supplemental agreement entered into between the Company and CTS Finance on 17 October 2019 in relation to the revision of the deposit caps under the 2018 Financial Services Framework Agreement.
“2021 Financial Services Framework Agreement”	the financial services framework agreement in relation to the Deposit Services, the Comprehensive Credit Line Services, the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services entered into between the Company and CTS Finance on 16 November 2021
“Acquisition”	the Company’s acquisition of CTSPI from CTS (Holdings) in 2001
“Agency Agreement”	the agency agreement dated 15 May 2001 between CTSPI and CTS (Holdings) in relation to Travel Permit Administration Services
“Annual Cap(s)”	the annual cap amounts in respect of the Travel Permit Administration Services under the Agency Agreement for each of the three financial years ending 31 December 2024
“associate(s)”, “connected person(s)”, “controlling shareholder(s)”, “subsidiary(ies)”	each of which has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	A day (other than Saturday, Sunday and public holidays) on which banks in Hong Kong and the PRC are generally open for business
“CBIRC”	the China Banking and Insurance Regulatory Commission

DEFINITIONS

“China CTS”	China National Travel Service Group Corporation Limited, a central state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, which owns the entire issued share capital of CTS (Holdings)
“China CTS Group”	China CTS and its subsidiaries and associates, but excluding the Group for the purpose of this circular
“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 (Stock Code: 308)
“Comprehensive Credit Line Services”	the comprehensive credit line services to be provided by CTS Finance to PRC Subsidiaries under the 2021 Financial Services Framework Agreement, where PRC Subsidiaries can continue to obtain loan, bill discount, issue acceptance bill and obtain other comprehensive credit line services within the comprehensive credit limit offered by CTS Finance
“Cross-Border RMB Cash Pooling Services”	the cross-border RMB cash pooling services to be provided by CTS Finance to the Group under the 2021 Financial Services Framework Agreement
“CTS Finance”	CTG Finance Company Limited (formerly known as China National Travel Service (HK) Finance Company Limited), a company established in the PRC with limited liability and a non-wholly-owned subsidiary of China CTS
“CTSEP”	China Travel Service Entry Permit Service Hong Kong Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, which is principally engaged in the provision of Travel Permit Administration Services as at the Latest Practicable Date
“CTSPI”	China Travel Service Property Investment Hong Kong Limited (formerly known as China Travel Service (Hong Kong) Limited), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, which is principally engaged in investment holding, property development and property leasing businesses as at the Latest Practicable Date

DEFINITIONS

“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 61.15% of the issued share capital of the Company and a controlling shareholder of the Company
“CTS (Holdings) Group”	CTS (Holdings) and its subsidiaries and associates (including the China CTS Group), but excluding the Group for the purpose of this circular
“Deed of Novation”	the deed of novation dated 1 June 2020 entered into between CTSEP, CTSPI and CTS (Holdings) in relation to the Agency Agreement, pursuant to which the parties agreed that CTSEP shall undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term commenced from 1 June 2020 and ending on 30 June 2047
“Deposit Cap(s)”	the maximum daily outstanding balance of deposits (including accrued interest) from the Deposit Services and Cross-Border RMB Cash Pooling Services placed by the Company and/or PRC Subsidiaries with CTS Finance pursuant to the 2021 Financial Services Framework Agreement
“Deposit Services”	the deposit services to be provided by CTS Finance to the Group under the 2021 Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement (including the Deposit Caps)
“Entrustment Loan Services”	the provision of entrustment loans through CTS Finance, which will only act as agent of PRC Subsidiaries, under the 2021 Financial Services Framework Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke, Mr. Huang Hui, Mr. Chen Johnny and Mr. Song Dawei, formed for advising the Independent Shareholders in respect of the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps)
“Independent Shareholders”	Shareholders other than CTS (Holdings) and its associates and any other persons who are required to abstain from voting on resolutions to approve the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps) at the EGM pursuant to the Listing Rules
“Independent Third Parties”	parties who are independent of and not connected with the Company and its connected persons
“Latest Practicable Date”	2 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Services”	the loan services to be obtained from the Comprehensive Credit Line Services under the 2021 Financial Services Framework Agreement
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China, for the purpose of this circular, exclusively refer to Mainland China
“PRC Subsidiaries”	the Company’s PRC subsidiaries which have opened and maintained settlement account(s) with CTS Finance or joined CTS Finance’s cross-border RMB cash pool
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	holders of Shares
“Shares”	ordinary shares in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Travel Permit Administration Services”	the general administration services provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC by CTSPI or CTSEP (as applicable) to CTS (Holdings)
“VBG Capital” or “Independent Financial Adviser”	VBG Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps)
“%”	per cent

LETTER FROM THE BOARD



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

(incorporated in Hong Kong with limited liability)

(Stock Code: 308)

DIRECTORS:

Executive Directors:

Mr. Jiang Hong (*Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Wu Qiang (*General Manager*)
Mr. Fan Dongsheng
Mr. Tang Yong

Non-Executive Director:

Mr. Tsang Wai Hung

Independent Non-Executive Directors:

Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny
Mr. Song Dawei

REGISTERED OFFICE:

12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

7 December 2021

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTIONS IN RESPECT OF THE 2021 FINANCIAL SERVICES
FRAMEWORK AGREEMENT**

AND

**(2) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF
TRAVEL PERMIT ADMINISTRATION SERVICES**

AND

(3) NOTICE OF EGM

INTRODUCTION

Reference is made to the announcement of the Company dated 16 November 2021 in relation to the renewal of the Travel Permit Administration Services and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder.

The primary purpose of this circular is to provide you with, among other matters, (i) details of the renewal of the Travel Permit Administration Services and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the renewal of the Travel Permit Administration Services and the 2021 Financial Services

LETTER FROM THE BOARD

Framework Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Travel Permit Administration Services and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder; (iv) a notice convening the EGM; and (v) other information concerning the Company as required under the Listing Rules.

(1) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF THE 2021 FINANCIAL SERVICES FRAMEWORK AGREEMENT

References are made to the announcement of the Company dated 8 November 2018 and 17 October 2019 and the circular of the Company dated 7 November 2019 in relation to the continuing connected transactions contemplated under the 2018 Financial Services Framework Agreement and the 2019 Financial Services Supplemental Agreement entered into between the Company and CTS Finance.

As the 2018 Financial Services Framework Agreement and the 2019 Financial Services Supplemental Agreement relating to the provision of deposit services, the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services by CTS Finance will expire on 31 December 2021, the Company entered into the 2021 Financial Services Framework Agreement with CTS Finance on 16 November 2021 to renew the terms of such continuing connected transactions for a term of three years commencing from 1 January 2022 and ending on 31 December 2024, where CTS Finance will continue to provide services thereunder to the Group.

(2) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF TRAVEL PERMIT ADMINISTRATION SERVICES

References are made to the announcement of the Company dated 8 November 2018 and the circular of the Company dated 28 November 2018 in relation to the continuing connected transactions contemplated under the Agency Agreement.

CTSPI has been providing Travel Permit Administration Services to CTS (Holdings) as continuing connected transactions under the Agency Agreement since 2001. At the extraordinary general meeting of the Company held on 14 December 2018, the independent Shareholders approved the Travel Permit Administration Services under the Agency Agreement as a continuing connected transaction and the maximum aggregate annual value for the Travel Permit Administration Services for each of the three years ending 31 December 2021. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the Annual Caps for the Travel Permit Administration Services for the three years ending 31 December 2024 are required to be renewed in order to comply with the Listing Rules.

LETTER FROM THE BOARD

CTSPI entered into the Deed of Novation in relation to the Agency Agreement with CTSEP and CTS (Holdings) on 1 June 2020, pursuant to which the parties agreed that CTSEP shall undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term commenced from 1 June 2020 and ending on 30 June 2047.

THE 2021 FINANCIAL SERVICES FRAMEWORK AGREEMENT

The Group utilizes the services of CTS Finance on a voluntary and non-exclusive basis and is not obliged to engage CTS Finance for any particular services, or at all under the 2021 Financial Services Framework Agreement. CTS Finance is merely one of a number of financial institutions which provide financial services to the Group. The Group may engage financial services from other financial institutions in addition to and other than those provided by CTS Finance pursuant to the 2021 Financial Services Framework Agreement. The major terms of the 2021 Financial Services Framework Agreement are set out as follows:

Date

16 November 2021

Term

1 January 2022 to 31 December 2024

Parties

- (i) the Company; and
- (ii) CTS Finance

Scope of Services and Pricing Basis

(a) Deposit Services

CTS Finance will provide Deposit Services to PRC Subsidiaries pursuant to the 2021 Financial Services Framework Agreement.

The deposit interest rates to be offered by CTS Finance to the PRC Subsidiaries are determined with reference to the prevailing market interest rates, which are fair and reasonable. The Group will obtain at least two quotations of deposit interest rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions and make reference to the benchmark deposit interest rates promulgated by PBOC before entering into any transaction under the 2021 Financial Services Framework Agreement. The Company's finance department will review and approve the deposit interest rates offered to the PRC Subsidiaries before placing any deposit with CTS Finance. The Group will only enter into transactions in respect of the Deposit Services if the deposit

LETTER FROM THE BOARD

interest rates offered by CTS Finance are not lower than the benchmark deposit interest rates promulgated by PBOC, and no less favourable to the Group than the highest of those offered by mainstream PRC financial institutions among the quotations obtained.

The Group may also temporarily maintain certain deposit balance with the accounts of CTS Finance under the Cross-Border RMB Cash Pooling Services in case the fund transfer is not completed instantly.

(b) Comprehensive Credit Line Services

CTS Finance will provide Comprehensive Credit Line Services to PRC Subsidiaries pursuant to the 2021 Financial Services Framework Agreement including Loan Services, bill discounting services, issuance of acceptance bill and other comprehensive credit line services within the comprehensive credit limit offered by CTS Finance.

The loan interest rates on the Loan Services to be offered by CTS Finance to the PRC Subsidiaries are determined with reference to the prevailing market loan interest rates, which are fair and reasonable. The Group will obtain at least two quotations of loan interest rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions and make reference to the loan prime rate promulgated by the National Interbank Funding Centre under the authority of PBOC before entering into any transaction under the 2021 Financial Services Framework Agreement. Moreover, no credit enhancement measures are required to be provided by the Group in respect of such financial assistance provided by CTS Finance. The Company's finance department will review and approve the loan interest rates offered to the PRC Subsidiaries before obtaining any loans from CTS Finance. The Group will only enter into transactions in respect of the Loan Services if the loan interest rate offered by CTS Finance is not higher than the loan prime rate promulgated by the National Interbank Funding Centre under the authority of PBOC for the same period, and is no less favourable to the Group than the lowest of those offered by independent PRC financial institutions among the quotations obtained.

The interest rates or service charge rates on the Comprehensive Credit Line Services (other than the Loan Services) to be offered by CTS Finance to the PRC Subsidiaries are determined with reference to the prevailing interest rates or service charge rates, which are fair and reasonable. The Group will obtain at least two quotations of interest rates or service charge rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions and make reference to the relevant standard charges (if applicable) and benchmark discount rate promulgated by PBOC before entering into any transaction under the 2021 Financial Services Framework Agreement. The Company's finance department will review and approve the interest rates or service charge rates offered to the PRC Subsidiaries before engaging any services from CTS Finance. The Group will only enter into transactions in respect of the Comprehensive Credit Line Services (other than the Loan Services) if the interest rates or service charge rates offered by CTS Finance are not higher than the relevant standard charges (if applicable) and benchmark discount rate promulgated by PBOC, and are no less favourable to the Group than the lowest of those offered by independent mainstream PRC financial institutions among the quotations obtained.

LETTER FROM THE BOARD

(c) Entrustment Loan Services

CTS Finance will provide Entrustment Loan Services to PRC Subsidiaries pursuant to the 2021 Financial Services Framework Agreement. CTS Finance will only act as an agent of the PRC Subsidiaries and charge handling fees in connection with the Entrustment Loan Services.

The handling fees to be charged by CTS Finance to the PRC Subsidiaries in connection with the Entrustment Loan Services are determined with reference to the prevailing market fees, which are fair and reasonable. The Group will obtain at least two quotations of fees of similar nature offered by at least two independent mainstream PRC financial institutions before entering into any transaction under the 2021 Financial Services Framework Agreement. The Company's finance department will review and approve the fees offered to the PRC Subsidiaries before engaging any services from CTS Finance. The Group will only enter into transactions in respect of the Entrustment Loan Services if the fees offered by CTS Finance are no less favourable to the Group than the lowest of those offered by independent PRC financial institutions among the quotations obtained.

(d) Cross-Border RMB Cash Pooling Services

CTS Finance will provide Cross-Border RMB Cash Pooling Services to the Company and PRC Subsidiaries under the 2021 Financial Services Framework Agreement to facilitate the cross-border RMB fund transfer between the Company and PRC Subsidiaries.

The fees to be charged by CTS Finance to PRC Subsidiaries in connection with Cross-Border RMB Cash Pooling Services are determined with reference to the prevailing market rates of fees, which are fair and reasonable. The Group will obtain at least two quotations of fees of similar nature offered by at least two independent mainstream PRC financial institutions before entering into any transaction under the 2021 Financial Services Framework Agreement. The Company's finance department will review and approve the fees offered to the PRC Subsidiaries before engaging any services from CTS Finance. The Group will only enter into transactions in respect of the Cross-Border RMB Cash Pooling Services if the fees offered by CTS Finance are no less favourable to the Group than the lowest of those offered by independent PRC financial institutions among the quotations obtained.

Undertakings

CTS Finance undertakes to the Company, among other things, that it shall:

- (i) ensure the effectiveness of the risk management and fund operation system in respect of the fund safety of PRC subsidiaries and safeguard the fund safety of the Company and PRC Subsidiaries;
- (ii) cooperate with the Company in compliance with the disclosure requirements under the Listing Rules regarding the continuing connected transactions contemplated under the 2021 Financial Services Framework Agreement;

LETTER FROM THE BOARD

- (iii) regularly provide the Company with the annual audit report and quarterly financial statement or such other financial information as requested by the Company;
- (iv) notify the Company and take measures to prevent loss from happening or further loss should it be in breach of relevant laws and regulations or subject to regulatory proceedings or have material adverse changes in its financial condition by CTS Finance; and
- (v) procure China CTS to comply with the undertakings, given by the board of directors of China CTS and stated in the articles of association of CTS Finance, that in the event that CTS Finance has difficulties in payment, China CTS will inject the capital into CTS Finance to ensure its normal operations.

Termination

In addition to the default events provided by the Contracts Laws of PRC, the 2021 Financial Services Framework Agreement will be terminated with immediate effect if CTS Finance fails to satisfy any operation condition as follows:

- (a) the capital adequacy ratio is not less than 12%;
- (b) the non-performing assets ratio is not more than 2%;
- (c) the non-performing loan ratio is not more than 3%;
- (d) the self-owned fixed assets to total capital ratio is not more than 10%; or
- (e) the total investment amount is not higher than 70% of the net capital.

HISTORICAL DEPOSIT AMOUNTS AND THE DEPOSIT CAPS

Historical Deposit Amounts

The historical maximum daily deposit amounts in respect of deposit services provided by CTS Finance to the PRC Subsidiaries are set out as follows:

	Maximum historical daily deposit amount (including interest income) (RMB'000)
For the year ended 31 December 2019	1,147,000
For the year ended 31 December 2020	1,183,000
For the nine months ended 30 September 2021	1,359,735

LETTER FROM THE BOARD

Set forth below are the historical deposit caps, maximum historical daily deposit amounts and the utilization of the deposit caps for the period indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical deposit caps	1,500,000	1,500,000	1,500,000
Maximum historical daily deposit amount (including interest income)	1,147,000	1,183,000	1,359,735 ^(note)
Historical utilization rates (%)	76.5%	78.9%	90.6%

Note: Represents the maximum daily deposit amounts (including interest income) for the nine months ended 30 September 2021. The Company expects that the deposit cap for 2021 will not be exceeded.

Deposit Caps

The proposed Deposit Caps are set out as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maximum daily deposit amount (including accrued interests) to be placed by the PRC Subsidiaries with CTS Finance	1,500,000	1,500,000	1,500,000

HISTORICAL INTEREST INCOME AND THE MAXIMUM ANNUAL INTEREST INCOME RECEIVABLE

Historical Interest Income

The historical interest income under the Deposit Services provided by CTS Finance to the PRC Subsidiaries are set out as follows:

	Historical interest income received <i>(RMB'000)</i>
For the year ended 31 December 2019	17,710
For the year ended 31 December 2020	29,910
For the nine months ended 30 September 2021	20,720

LETTER FROM THE BOARD

Set forth below are the historical maximum annual interest income receivable, historical interest income received and the utilization of the maximum interest income receivable for the period indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical maximum annual interest income receivable	21,293	60,000	60,000
Historical interest income received	17,710	29,910	27,627 ^(note)
Historical utilization rates (%)	83.2%	49.9%	46.0%

Note: Represents the annualized figure. For the nine months ended 30 September 2021, the historical interest income received was RMB20,720,000. The Company expects that the maximum annual interest income receivable for 2021 will not be exceeded.

The Maximum Annual Interest Receivable

The maximum annual interest receivable under the 2021 Financial Services Framework Agreement are set out as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maximum annual interest receivable by the PRC Subsidiaries	35,000	49,500	49,500

In setting the Deposit Caps and the maximum annual interest receivable, the Company has taken into account (i) the funding requirements and treasury policy of the Group; (ii) the amounts of deposits historically placed by the Group with other independent commercial banks in the PRC; and (iii) the amounts of deposits historically placed by the PRC Subsidiaries with CTS Finance. As at 30 September 2021 and 31 December 2020, the Group's cash and bank balances amounted to approximately HK\$3,067 million and HK\$2,947 million respectively. The highest maximum annual interest receivable for the three years ending 31 December 2024 is calculated based on the Deposit Cap of RMB1.5 billion and the prevailing highest deposit rate of 3.3% offered by CTS Finance to the PRC Subsidiaries (RMB1.5 billion X 3.3% = RMB49.5 million). In consideration of that the historical annual interest income received by the PRC Subsidiaries was lower, the Company has discounted the said maximum interest income amount by 30% for 2022. The Board considers the basis for estimating the maximum annual interest income receivable to be fair and reasonable.

Taking the above-mentioned factors into account, and the historical utilization rate in respect of the historical deposit caps as disclosed above (ranging from approximately 76.5% to 90.6%) plus a reasonable buffer, the Directors are of the view that the proposed Deposit Caps are fair and reasonable.

LETTER FROM THE BOARD

THE AGENCY AGREEMENT AND THE DEED OF NOVATION

The Agency Agreement

Date

15 May 2001

Parties

- (i) CTSPI*; and
- (ii) CTS (Holdings)

* Pursuant to the Deed of Novation, CTSEP shall undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term until 30 June 2047.

The Deed of Novation

Date

1 June 2020

Parties

- (i) CTSPI;
- (ii) CTSEP; and
- (iii) CTS (Holdings)

CTSPI entered into the Deed of Novation in relation to the Agency Agreement with CTSEP and CTS (Holdings) on 1 June 2020, pursuant to which the parties agreed that CTSEP to undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term commenced from 1 June 2020 and ending on 30 June 2047.

Transaction Nature

CTS (Holdings) has been appointed by the PRC government to provide general administration services in Hong Kong for the application of tourist visas and travel permits for the entry into the PRC. Pursuant to the Agency Agreement and the Deed of Novation, it was agreed that CTSEP would provide general administration services in Hong Kong to CTS (Holdings) for the application of tourist visas and travel permits for entry into the PRC, for a fixed term until 30 June 2047.

LETTER FROM THE BOARD

Principal Terms

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

Pricing Basis

In accordance with the terms of the Agency Agreement and the Deed of Novation, which were negotiated on an arm's length basis between the parties, CTS (Holdings) agreed to pay CTSPI or CTSEP (as applicable) 45% of the gross fee revenue from travel permit applications for the services provided by CTSPI or CTSEP (as applicable) in relation to Travel Permit Administration Services. Pursuant to the Agency Agreement and the Deed of Novation, CTSEP shall receive the application fees from applicants on behalf of CTS (Holdings) and transfer the application fees received on a given day to CTS (Holdings) on the next Business Day. Payments are made by CTS (Holdings) in arrears on a monthly basis which have to be settled within three Business Days after the end of each month. If CTS (Holdings) cannot settle the payments on time in accordance with the terms of the Agency Agreement, the outstanding amount will be charged at interest at prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited as at the end of the relevant month plus 1% accruing from the last day of the relevant month up to the actual payment date.

The fees of Travel Permit Administration Services rendered by CTSPI or CTSEP (as applicable) are determined on the basis of cost of providing the service plus reasonable profit. The overall costs of providing the Travel Permit Administration Services included but are not limited to staff costs, rental expense and depreciation expense. The profit margin of Travel Permit Administration Services for the two financial years ended 31 December 2020 and the nine months ended 30 September 2021 were 91%, 92% and 92%, respectively, which is higher than the profit margin of PRC visa services provided by CTSEP or CTSPI (as applicable), which was 56% in 2019 and 74% in 2020 (no revenue of China visa service was recorded for the nine months ended 30 September 2021), to foreigners and is deemed fair and reasonable by the Company and CTS (Holdings).

Travel Permit Administration Services and China visa service both involve the provision of administration services in relation to travel documents. Their overall costs include but are not limited to staff costs, depreciation expense and rental expenses. However, regarding gross profit margins, Travel Permit Administration Services and China visa service are separate businesses with different operational patterns and thus different cost components. Travel Permit Administration Services incurs application system service fees and courier service expenses, whereas China visa service incurs visa costs paid to relevant Chinese government body(ies). The direct costs of Travel Permit Administration Services and China visa service are distinct and separable, and, therefore, the gross profit margins of China visa service can be a benchmark.

LETTER FROM THE BOARD

Judging from the fact that (i) the PRC government has appointed CTS (Holdings) to provide general administration services in Hong Kong for application of tourist visas and travel permits for the entry into the PRC, and CTSPI or CTSEP is the exclusive agent to provide the Travel Permit Administration Services pursuant to the Agency Agreement and the Deed of Novation; and (ii) the Group does not provide identical type of services to other party save for CTS (Holdings), the provision of the Travel Permit Administration Services is unique to the Group and there is no independent entity providing similar services in Hong Kong. As such, the Group did not make reference to the fees of similar services provided by Independent Third Parties when determining the pricing basis of the Travel Permit Administration Services.

The Group has compared and taken the following factors into consideration in assessing whether the pricing basis of the Agency Agreement is fair and reasonable:

- (a) China visa service is the business most (but not entirely) comparable with Travel Permit Administration Services amongst the businesses of the Group given both involve the provision of administration for travel documents;
- (b) the quantities of permit applications under Travel Permit Administration Services and China visa applications, and related economy of scale;
- (c) the operations of Travel Permit Administration Services and China visa service are separate; and
- (d) China visa service does not involve the appointment by CTS (Holdings) nor other connected persons of the Company.

Although the Travel Permit Administration Services and China visa service are of different cost components, both of them involve the provision of administration for travel documents. Given that the provision of the Travel Permit Administration Services is unique to the Group and, as disclosed above, the profit margin of the Travel Permit Administration Services is higher than that of China visa service, the Board considers that the Travel Permit Administration Services and the China visa services are comparable to each other.

Historical Figures

The total amount of the continuing connected transactions in connection with the Travel Permit Administration Services for each of the three financial years ended 31 December 2020 and the nine months ended 30 September 2021 were HK\$247,101,000, HK\$271,720,000, HK\$74,032,000 and HK\$50,470,000, respectively.

LETTER FROM THE BOARD

Set forth below are the historical annual caps, historical actual transaction amounts and the utilization of the annual caps for the period indicated:

	For the year ended 31 December			
	2018	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical annual caps	290,000	310,000	310,000	310,000
Historical actual transaction amounts	247,101	271,720	74,032	67,293 ^(note)
Historical utilization rates (%)	85.2%	87.7%	23.9%	21.7%

Note: Represents the annualized figure. For the nine months ended 30 September 2021, the historical transaction amounts was HK\$50,470,000. The Company expects that the annual caps for 2021 will not be exceeded.

Proposed Annual Caps

The Company proposes to set the Annual Caps for the continuing connected transactions in connection with the Travel Permit Administration Services as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount of fees for the provision of Travel Permit Administration Services by CTSEP	310,000	310,000	310,000

In determining the above Annual Caps, the following factors are taken into account: (i) the historical transaction amounts for 2018, 2019 and 2020 and estimated annualized transaction amounts for 2021 based on the transaction amount for the nine-month ended 30 September 2021 under the Agency Agreement; and (ii) buffer for any growth in the travel document business which may result from an increase in demand after the lifting of travel restrictions following the containment of the COVID-19 pandemic.

From the historical actual transaction amounts as aforementioned, the actual transaction amounts of the Travel Administration Services during 2018 and 2019, when the tourism and travel industry was not anomalously affected by COVID-19, was growing at a rate of approximately 10%. Following such trend, the transaction amount of the Travel Permit Administration Services would approach HK\$300 million. Thus, the Company sets certain buffer of around HK\$10 million (HK\$310 million minus HK\$300 million) to cater for the possible rise in demand. Taking into account the above, the Board considers that the fees for the provision of the Travel Permit Administration Services are fair and reasonable.

The above is merely assumed for the purpose of calculating the Annual Caps, and should not be construed as indication of the Group's revenue, profitability or trading prospects.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

The main reasons for the Company to enter into the 2021 Financial Services Framework Agreement with CTS Finance are as follows:

- (i) the use of CTS Finance as a platform to manage the funds of the Group would allow for better monitoring and control of the funds and more efficient deployment of funds among member companies of the Group;
- (ii) since the interest rates on the Deposit Services and the Loan Services offered, and the handling fees and other services fees in connection with the Comprehensive Credit Line Services (excluding the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services charged, by CTS Finance to PRC Subsidiaries will be equal to or more favourable, on a case by case basis, than those offered to the Company and PRC Subsidiaries by independent third party(ies) in their quotations for providing services of similar nature and of similar term, this represents potential increase in interest income and cost savings to the Group;
- (iii) PRC laws generally do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. CTS Finance is a non-banking financial institution approved and regulated by PBOC and CBIRC, and is authorized to provide various kinds of financial services to China CTS and its member companies, including the Group, in the PRC, including, but not limited to, deposit-taking and loan services;
- (iv) CTS Finance is regulated by PBOC and CBIRC, and it provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities;
- (v) the Group is expected to benefit from CTS Finance's better understanding of the Group's operations which should render more expedient and efficient services than other commercial banks in the PRC;
- (vi) China CTS undertakes to CTS Finance and thus reducing the risks which the Group may be exposed to in the event of default of CTS Finance under the 2021 Financial Services Framework Agreement;
- (vii) the Group can better utilize the increasing idle funds in the PRC Subsidiaries by earning a more favourable interest income from CTS Finance, compared with any independent third party for providing services of similar nature and of similar term; and

LETTER FROM THE BOARD

(viii) Pursuant to the relevant regulations of PBOC and CBIRC, the customers of CTS Finance are limited to China CTS and its member companies, which effectively avoid the risks that CTS Finance may otherwise be exposed to if its customers include other entities unrelated to China CTS.

The Directors (including the independent non-executive Directors whose views are set out in the letter from Independent Board Committee in this circular but excluding the executive Directors and non-executive Director who have abstained from voting) consider that the terms of the 2021 Financial Services Framework Agreement have been negotiated on an arm's length basis and entered into in the ordinary and usual course of the business of the Group and on normal commercial terms, and the transactions contemplated thereunder (including the Deposit Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CTSEP is the commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out the Travel Permit Administration Services on behalf of CTS (Holdings). In view of past operational convenience and benefits brought to the Group, the Board (including the independent non-executive Directors whose views are set out in the letter from Independent Board Committee in this circular but excluding the executive Directors and non-executive Director who have abstained from voting) considers it to be in the interests of the Company to continue to engage in the Travel Permit Administration Services and that the terms of the Travel Permit Administration Services are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors (including the independent non-executive Directors whose views are set out in the letter from Independent Board Committee in this circular but excluding the executive Directors and non-executive Director who have abstained from voting) consider that the Agency Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the Agency Agreement and the Annual Caps are fair and reasonable and the continuing connected transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Taking into account the benefits of entering into the transactions under the 2021 Financial Services Framework Agreement and the Travel Permit Administration Services as disclosed above, and the internal control measures and pricing mechanism put in place by the Group to ensure that such transactions are to be conducted fairly and reasonably on terms commensurate with the prevailing market terms, the Board is not aware of any material disadvantages of entering into the continuing connected transactions underlying the 2021 Financial Services Framework Agreement and the Travel Permit Administration Services.

INFORMATION OF THE PARTIES

The Company is a company incorporated in Hong Kong with limited liability. The principal business activities of the Group include operations of travel destinations (including hotels, theme parks, natural and cultural scenic spots, and leisure resorts), travel documents and related operations, passenger transportation operations.

LETTER FROM THE BOARD

China CTS, the ultimate controlling shareholder of CTS (Holdings) and the Company, is a central state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The China CTS Group is principally engaged in travel business, real estate development and finance.

CTS (Holdings) is a company interested in 61.15% of the issued share capital of the Company and a controlling shareholder of the Company. The CTS (Holdings) Group is principally engaged in travel business and real estate development.

CTS Finance is a non-wholly-owned subsidiary of China CTS and a non-banking financial institution approved and regulated by PBOC and CBIRC. It is authorized to provide financial services to enhance the centralized management of funds and to improve the fund utilization of China CTS and its member companies including the Group. CTS Finance only provides financial services to China CTS and its member companies including the Group, in the PRC.

INTERNAL CONTROL MEASURES ON THE CONTINUING CONNECTED TRANSACTIONS

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34, 14A.51 to 14A.59 of the Listing Rules in respect of the continuing connected transactions contemplated under the Agency Agreement and the 2021 Finance Services Framework Agreement. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted certain guidelines and principles in monitoring the transactions between the Group and the China CTS Group, namely:

- (i) the Company will report the transactions under the Agency Agreement and the 2021 Financial Services Framework Agreement to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda. The Company shall ensure that such kind of reporting shall be conducted not less than two times in a year;
- (ii) the Company's finance department will review the transactions with the China CTS Group to identify any continuing connected transaction that may be at risk of exceeding the proposed caps, and any measures to be taken in respect of such continuing connected transaction. The Group has established a series of measures and policies to ensure that the continuing connected transactions will be conducted in accordance with the terms of the Agency Agreement and the 2021 Financial Services Framework Agreement. The Group will conduct random internal checks on a quarterly basis to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective and the requirements under the Listing Rules are being complied with;

LETTER FROM THE BOARD

- (iii) in respect of the Agency Agreement, the Group will monitor the payment from CTS (Holdings) on a monthly basis to ensure that the payment and the timing of payment are in line with the pricing basis and payment terms set out in the Agency Agreement. The business department of the Group will also monitor the profit margin of the Travel Permit Administration Services on a monthly basis to ensure that it is in the interests of the Group to continue to be engaged in Travel Permit Administration Services;
- (iv) in the event that the Group notices from its monthly review that the gross profit margin of the Travel Permit Administration Services is expected to decline so as to result in the Travel Permit Administration Services being not profitable, the Group would negotiate with CTS (Holdings) to increase the gross fee revenue from permit applications and/or have part of the costs shared by CTS (Holdings), so as to render the business profitable. If it is observed from the monthly review that the Travel Permit Administration Services remains profitable, the relevant business department of the Group will record the relevant monthly review results and report the status to the responsible personnel in the management of the Group;
- (v) in respect of the 2021 Financial Services Framework Agreement, the Group's finance department will further (a) check the deposit and lending rates or fees quoted by other independent major commercial banks in the PRC as well as the benchmark deposit interest rates promulgated by PBOC and the loan prime rates promulgated by the National Interbank Funding Centre under the authority of PBOC; and (b) obtain quotes for rate comparison from at least two major independent commercial banks or financial institutions in the PRC in cooperation with the Group as measures to be taken by the Group for the selection of the most favourable terms in respect of a particular service. If the fees or rates offered by CTS Finance are less favourable to the Group compared to the quotations/benchmarks, the Company will further negotiate with CTS Finance with a view of obtaining better terms in accordance with the pricing principles of the Group; and
- (vi) the auditors of the Company will conduct annual review on the pricing and the Deposit Caps of the transactions contemplated under the 2021 Financial Services Framework Agreement.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CTS (Holdings) is a connected person of the Company by virtue of being a controlling shareholder which is interested in 61.15% of the issued share capital of the Company. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS and members of the China CTS Group are connected persons of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the Annual Caps for the Travel Permit Administration Services exceed 5% and the Annual Caps are more than HK\$10,000,000, the continuing provision of

LETTER FROM THE BOARD

the Travel Permit Administration Services (including the Annual Caps) constitutes continuing connected transactions of the Company and is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

CTS Finance is a non-wholly-owned subsidiary of China CTS and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Financial Services Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. Since the Loan Services are on normal commercial terms or better to the Group and no security over the assets of the Group is be granted in respect of the financial assistance given by CTS Finance, the Loan Services are fully exempt from the requirements under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the estimated transaction amounts in connection with the Comprehensive Credit Line Services (other than the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services are on an annual basis less than 0.1%, the Comprehensive Credit Line Services (other than the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services are fully exempt from the requirements under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules, where applicable, if the annual transaction amount of such services exceeds the de minimis threshold under Rules 14A.76 of the Listing Rules.

As one or more of the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the highest of the Deposit Caps under the 2021 Financial Services Framework Agreement exceeds 25% but all are less than 75% and the highest of the Deposit Caps is more than HK\$10,000,000, the Deposit Service (including the Deposit Caps) constitutes major transaction and continuing connected transactions for the Company and is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14 and Chapter 14A of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Mr. Jiang Hong, Mr. Wu Qiang, Mr. Fan Dongsheng and Mr. Tang Yong are directors of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS. Mr. Jiang Hong and Mr. Wu Qiang are directors of CTG Investment Management Corporation Limited, a subsidiary of CTS (Holdings), and Mr. Tsang Wai Hung is a director of CTS (Holdings). Such Directors are regarded as having material interest in the Agency Agreement and the 2021 Financial Services Framework Agreement and have therefore abstained from voting on the Board resolutions approving the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps). Save as disclosed above, none of other Directors has a material interest in the aforesaid transactions and accordingly, none of them was required to abstain from voting on the Board resolutions for considering and approving the same.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all five independent non-executive Directors has been formed to consider the in respect of the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps), so far as the interests of the Company and the Independent Shareholders are concerned as a whole.

Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke, Mr. Huang Hui, Mr. Chen Johnny and Mr. Song Dawei, being all the independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. To the best of knowledge, information and belief of the Directors, no member of the Independent Board Committee has any material interest in the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps).

INDEPENDENT FINANCIAL ADVISER

VBG Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps). A letter from the Independent Financial Adviser is set out on pages 27 to 43 of this circular.

EGM

At the EGM to be convened and held at Forum Wing, C/Floor, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Kowloon, Hong Kong on Thursday, 23 December 2021 at 2:30 p.m., the Company will seek Independent Shareholders' approval for the renewal of the Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Deposit Caps).

In view of the interest of CTS (Holdings) and its associates in the continuing provision of Travel Permit Administration Services (including the Annual Caps) and the 2021 Financial Services Framework Agreement (including the Deposit Caps), CTS (Holdings) and its associates (as defined in the Listing Rules) will abstain from voting at the EGM in this regard. The votes to be taken at the EGM will be taken by poll pursuant to Rule 13.39(4) of the Listing Rules, and the results of which will be announced after the EGM in accordance with Rule 13.39(5) of the Listing Rules.

A notice convening the EGM is set out on page 54 to 56 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Tengis Limited,

LETTER FROM THE BOARD

Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time appointed for the holding of the EGM (or adjourned meeting or of the poll, as the case may be). Completion and return of a form of proxy will not preclude you from attending and voting at the EGM (or adjourned meeting or of the poll, as the case may be) if you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 25 to 26 of this circular and the letter from the Independent Financial Adviser set out on page 27 to 43 of this circular. The Independent Board Committee, having taken into account and based on the recommendation of the Independent Financial Adviser, considers that the Travel Permit Administration Services (including the Caps) and the terms of the 2021 Financial Services Framework Agreement (including the Deposit Caps) are on normal commercial terms, in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions proposed to approve the 2021 Financial Services Framework Agreement (including the Deposit Caps) and Travel Permit Administration Services (including the Annual Caps) and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 20 December 2021 to Thursday, 23 December 2021 (both dates inclusive), for the purposes of ascertaining Shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 17 December 2021.

Yours faithfully,

By Order of the Board

China Travel International Investment Hong Kong Limited

Jiang Hong

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the 2021 Financial Services Framework Agreement (including the Deposit Caps), and the Travel Permit Administration Services (including the Annual Caps), and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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

(incorporated in Hong Kong with limited liability)

(Stock Code: 308)

7 December 2021

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTIONS IN RESPECT OF THE 2021 FINANCIAL SERVICES
FRAMEWORK AGREEMENT
AND
CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF TRAVEL PERMIT ADMINISTRATION SERVICES**

We refer to the circular dated 7 December 2021 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the 2021 Financial Services Framework Agreement (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board which contains, inter alia, information about the 2021 Financial Services Framework Agreement (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps), and the letter of advice from VBG Capital Limited which contains its advice and the principal factors and reasons it has taken into consideration in giving such advice, in respect of the 2021 Financial Services Framework Agreement (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal reasons and factors considered by and the advice of VBG Capital Limited, we consider that the 2021 Financial Services Framework Agreement (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) are being carried out under normal commercial terms in the ordinary and usual course of business of the Company, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2021 Financial Services Framework Agreement (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps).

Yours faithfully

For and on behalf of

The Independent Board Committee of

China Travel International Investment Hong Kong limited

Mr. Tse Cho Che Edward

Mr. Zhang Xiaoke

Mr. Huang Hui

Mr. Chen Johnny

Mr. Song Dawei

Independent Non-Executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

7 December 2021

*To: The independent board committee and the independent shareholders
of China Travel International Investment Hong Kong Limited*

Dear Sirs,

**(1) MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTIONS IN RESPECT OF THE 2021 FINANCIAL SERVICES
FRAMEWORK AGREEMENT
AND
(2) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF
THE TRAVEL PERMIT ADMINISTRATION SERVICES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions (as being defined herein), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 7 December 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

The 2021 Financial Services Framework Agreement

As the 2018 Financial Services Framework Agreement and the 2019 Financial Services Supplemental Agreement relating to the provision of deposit services, the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services by CTS Finance will expire on 31 December 2021, the Company entered into the 2021 Financial Services Framework Agreement with CTS Finance on 16 November 2021 to renew the terms of such continuing connected transactions for a term of three years commencing from 1 January 2022 and ending on 31 December 2024, pursuant to which CTS Finance will continue to provide services thereunder to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Travel Permit Administration Services

CTSPI has been providing Travel Permit Administration Services to CTS (Holdings) as continuing connected transactions under the Agency Agreement since 2001. At the extraordinary general meeting of the Company held on 14 December 2018, the independent Shareholders approved the Travel Permit Administration Services under the Agency Agreement as a continuing connected transaction. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the Annual Caps for the Travel Permit Administration Services for the three years ending 31 December 2024 are required to be renewed in order to comply with the Listing Rules.

On 1 June 2020, CTSPI entered into the Deed of Novation in relation to the Agency Agreement with CTSEP and CTS (Holdings), pursuant to which the parties agreed that CTSEP shall undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term commenced from 1 June 2020 and ending on 30 June 2047.

According to the Letter from the Board, the provision of Deposit Services under the 2021 Financial Services Framework Agreement constitutes major transaction and non-exempt continuing connected transaction for the Company; whereas the provision of Travel Permit Administration Services constitutes non-exempt continuing connected transaction for the Company, and these non-exempt continuing connected transactions (the “**Non-exempt Continuing Connected Transactions**”) are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Messrs. Tse Cho Che Edward, Zhang Xiaoke, Huang Hui, Chen Johnny and Song Dawei (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Deposit Services (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Non-exempt Continuing Connected Transactions, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group. We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, CTS Finance, CTS (Holdings), China CTS or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Shareholders should note that as the Deposit Caps as well as the Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of revenues or costs to be recorded from the Non-exempt Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue and cost to be incurred under the Non-exempt Continuing Connected Transactions will correspond with the Deposit Caps and the Annual Caps.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

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OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Non-exempt Continuing Connected Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. BACKGROUND OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Business and financial overview of the Group

The principal business activities of the Group include operations of travel destinations (including hotels, theme parks, natural and cultural scenic spots, and leisure resorts), travel documents and related operations, passenger transportation operations.

As referred to in the annual report of the Company for the year ended 31 December 2020, the Group had been recording considerable annual revenue of over HK\$4.0 billion from 2016 to 2019. For the year ended 31 December 2020, the tourism and travel industry was adversely affected by the outbreak of the COVID-19 pandemic (the “**Outbreak**”). As a result, revenue of the Group shrank drastically to approximately HK\$2.0 billion in 2020, and the Group was loss making for the first time since 2016. Fortunately, with the successful control of the Outbreak in the PRC and the increase of vaccination rates in various foreign countries leading to the gradual loosening of travel restrictions, the Group’s financial performance demonstrates signs of improvement in 2021 with revenue surging by approximately 80.6% to approximately HK\$1.0 billion during the first half of 2021 as compared to the corresponding period in 2020. The Group’s loss for the period also reduced significantly to approximately HK\$111.5 million from approximately HK\$526.3 million during the first half of 2020.

Based on our independent research, according to the Ministry of Culture and Tourism of the PRC, notwithstanding that the number of domestic tourists reduced by approximately 52.1% year-on-year to approximately 2.9 billion in 2020, the decline showed a narrowing trend on a quarterly basis. In the first quarter of 2020, the number of domestic tourists was approximately 295 million, representing a year-on-year decrease of approximately 83.4%; the number of domestic tourists in the second quarter was approximately 637 million, representing a year-on-year decrease of approximately 51.0%; the number of domestic tourists in the third quarter was approximately 1.0 billion, representing a year-on-year decrease of approximately 34.3%; and the number of domestic tourists in the fourth quarter was approximately 946 million, representing a year-on-year decrease of approximately

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32.9%. The tourism and travel industry has continued to recover in 2021. In the first half of 2021, the total number of domestic tourists was approximately 1.9 billion, increasing by approximately 100.8% as compared to the corresponding period in 2020. During the same period under review, the total domestic tourism revenue (i.e. the total tourism consumption) reached approximately RMB1.6 trillion, increasing substantially by approximately 157.9% over the same period last year.

Judging from the aforesaid recovery trend of the tourism and travel industry, it is expected that the Group's business would be able to resume the positive momentum after the effect of the Outbreak fades out.

Information on the other parties

Information on CTS Finance

As extracted from the Letter from the Board, CTS Finance is a non-wholly owned subsidiary of China CTS and a non-banking institution approved and regulated by PBOC and CBIRC. It is authorised to provide financial services to enhance centralised management of funds and to improve the fund utilisation of China CTS and its member companies including the Group. CTS Finance only provides financial services to China CTS and its member companies, including the Group, in the PRC.

Based on the financial information of CTS Finance which we requested from the Company, CTS Finance recorded total revenue and net profit of approximately RMB94.1 million and RMB65.3 million, respectively, for the year ended 31 December 2020. As at 31 December 2020, the net asset value of CTS Finance amounted to approximately RMB2.5 billion.

Information on CTS (Holdings)

As extracted from the Letter from the Board, CTS (Holdings) is a company interested in approximately 61.2% of the issued share capital of the Company and a controlling shareholder of the Company. The CTS (Holdings) Group is principally engaged in travel business and real estate development.

Information on China CTS

As extracted from the Letter from the Board, China CTS, the ultimate controlling shareholder of CTS (Holdings) and the Company, is a central state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The China CTS Group is principally engaged in travel business, real estate development and finance. According to the official website of China CTS (www.hkcts.com), as at the end of 2020, China CTS controlled over 600 companies and its total assets exceeded RMB150 billion. Other than the Company, listed subsidiaries of China CTS include China Tourism Group Duty Free Corporation Limited (中國旅遊集團中免股份有限公司) (Stock code: 601888). For the year ended 31 December 2020, the revenue and net profit of China Tourism Group Duty Free Corporation Limited increased to approximately RMB52.6 billion and RMB7.3 billion, respectively.

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2. THE 2021 FINANCIAL SERVICES FRAMEWORK AGREEMENT

Reasons for and possible benefits of the 2021 Financial Services Framework Agreement

We understand from the Directors that the main reasons for the Company to enter into the 2021 Financial Services Framework Agreement with CTS Finance are as follows:

- (i) the use of CTS Finance as a platform to manage the funds of the Group would allow for better monitoring and control of the funds and more efficient deployment of funds among member companies of the Group;
- (ii) since the interest rates on the Deposit Services and the Loan Services offered, and the handling fees and other services fees in connection with the Comprehensive Credit Line Services (excluding the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services charged, by CTS Finance to the PRC Subsidiaries will be equal to or more favourable, on a case by case basis, than those offered to the Company and the PRC Subsidiaries by independent third parties in their quotations for providing services of similar nature and of similar term, this represents potential increase in interest income and cost savings to the Group;
- (iii) PRC laws generally do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. CTS Finance is a non-banking financial institution approved and regulated by PBOC and CBIRC, and is authorised to provide various kinds of financial services to China CTS and its member companies, including the Group, in the PRC, including but not limited to, deposit-taking and loan services;
- (iv) CTS Finance is regulated by PBOC and CBIRC, and it provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities;
- (v) the Group is expected to benefit from CTS Finance's better understanding of the Group's operations which should render more expedient and efficient services than other commercial banks in the PRC;
- (vi) China CTS undertakes to CTS Finance and thus reducing the risks which the Group may be exposed to in the event of default of CTS Finance under the 2021 Financial Services Framework Agreement;
- (vii) the Group can better utilise the increasing idle funds in the PRC Subsidiaries by earning a more favourable interest income from CTS Finance, compared with any independent third party for providing services of similar nature and of similar term; and

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(viii) pursuant to the relevant regulations of PBOC and CBIRC, customers of CTS Finance are limited to China CTS and its member companies, which effectively avoid the risks that CTS Finance may otherwise be exposed to if its customers include other entities unrelated to China CTS.

We have discussed with the Directors in further depth regarding the reasons for and possible benefits of the 2021 Financial Services Framework Agreement, in particular:

CTS Finance as a centralised financial platform

As represented by the Directors, CTS Finance has been established with a view to act as a centralised financial platform to facilitate treasury operations, control and operations for member companies of China CTS, including the Group. The Group can use CTS Finance's financial services to facilitate the deployment of surplus funds within its member companies. Hence, CTS Finance serves as a financial intermediary through which the funds of the Group can be channeled efficiently internally.

Besides, as CTS Finance focuses on serving member companies of China CTS, including the Group, CTS Finance is familiar with the Group's operation, and thus is expected to provide more efficient and tailor-made services to the Group, which is to the Group's benefits from a customer's perspective.

Risk profile of CTS Finance

Based on our independent research, we understand that being a licensed non-banking financial institution in the PRC, CTS Finance is closely supervised by PBOC and CBIRC, and is abided by a series of stringent regulations, including but not limited to:

- (i) it is neither allowed to engage in non-financial service business, including property investment or trading, nor to provide services to customers other than China CTS and its member companies;
- (ii) it must comply with the following ratio requirements: (a) the capital adequacy ratio shall not be lower than 10%; (b) the net inter-bank borrowing balance shall not exceed its total registered capital; (c) the total amount of outstanding guarantees shall not be more than its total registered capital; (d) the total amount of investment to total registered capital ratio shall not be more than 70%; and (e) the ratio of self-owned fixed assets to total registered capital shall not exceed 20%; and
- (iii) it is required to deposit with PBOC a mandatory proportion of the RMB deposits it has received.

As confirmed by the Directors, to their best knowledge, up to the Latest Practicable Date, there had been no record of non-compliance with relevant laws, rules and regulations of the PRC on CTS Finance.

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In assessing the financial and credit risks of CTS Finance, we have taken into consideration that:

- (i) as presented under the sub-section headed “Information on CTS Finance” of this letter of advice, CTS Finance has a strong financial standing;
- (ii) CTS Finance is closely supervised by PBOC and CBIRC and is abided by a series of stringent regulations;
- (iii) to the best knowledge of the Directors, up to the Latest Practicable Date, there had been no record of non-compliance with relevant laws, rules and regulations of the PRC on CTS Finance; and
- (iv) as being disclosed under the sub-section headed “Principal terms of the Deposit Services” of this letter of advice, China CTS, being a sizeable central state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, has undertaken that in the event CTS Finance has difficulties in payment, it will increase the capital of CTS Finance to ensure its normal operations.

Having considered the foregoing, we concur with the Directors that the financial and credit risks of CTS Finance are likely to be low and manageable.

In view of the aforesaid reasons for and possible benefits of the 2021 Financial Services Framework Agreement and that as concluded above the financial and credit risks of CTS Finance are likely to be low and manageable, we concur with the Directors that the 2021 Financial Services Framework Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Deposit Services

The Group utilises the services of CTS Finance on a voluntary and non-exclusive basis and is not obliged to engage CTS Finance for any particular services, or at all under the 2021 Financial Services Framework Agreement dated 16 November 2021. Major terms of the Deposit Services are set out as follows:

Parties:	The Company and CTS Finance
Term:	1 January 2022 to 31 December 2024

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Scope and pricing basis of the Deposit Services:

CTS Finance will provide Deposit Services to the PRC Subsidiaries pursuant to the 2021 Financial Services Framework Agreement.

The deposit interest rates to be offered by CTS Finance to the PRC Subsidiaries are determined with reference to the prevailing market interest rates, which are fair and reasonable. The Group will obtain at least two quotations of deposit interest rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions and make reference to the benchmark deposit interest rates promulgated by PBOC before entering into any transaction under the 2021 Financial Services Framework Agreement. The Company's finance department will review and approve the deposit interest rates offered to the PRC Subsidiaries before placing any deposit with CTS Finance. The Group will only enter into transactions in respect of the Deposit Services if the deposit interest rates offered by CTS Finance are not lower than the benchmark deposit interest rates promulgated by PBOC, and no less favourable to the Group than the highest of those offered by the mainstream PRC financial institutions among the quotations obtained.

The Group may also temporarily maintain certain deposit balance with the accounts of CTS Finance under the Cross-Border RMB Cash Pooling Services in case the fund transfer is not completed instantly.

Undertakings:

CTS Finance undertakes to the Company, among other things, that it shall:

- (i) ensure the effectiveness of the risk management and fund operation system in respect of fund safety of the PRC subsidiaries and safeguard the fund safety of the Company and the PRC Subsidiaries;

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- (ii) cooperate with the Company in compliance with the disclosure requirements under the Listing Rules regarding the continuing connected transactions contemplated under the 2021 Financial Services Framework Agreement;
- (iii) regularly provide the Company with the annual audit report and quarterly financial statement or such other financial information as requested by the Company;
- (iv) notify the Company and take measures to prevent loss from happening or further loss should it be in breach of relevant laws and regulations or subject to regulatory proceedings or have material adverse changes in its financial condition by CTS Finance; and
- (v) procure China CTS to comply with the undertakings, given by the board of directors of China CTS and stated in the articles of association of CTS Finance, that in the event that CTS Finance has difficulties in payment, China CTS will increase the capital of CTS Finance to ensure its normal operations.

As aforesaid, the 2021 Financial Services Framework Agreement stipulates that the deposit interest rates to be offered by CTS Finance to the PRC Subsidiaries will not be lower than the deposit interest rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions and the benchmark deposit interest rates promulgated by PBOC. In this relation, we have reviewed samples of the recent three months from September 2021 to November 2021 comprising (i) deposit interest rates which CTS Finance offered to the PRC Subsidiaries; and (ii) the corresponding deposit interest rates (where applicable) offered by PBOC and over five independent mainstream financial institutions, from which we noted that the deposit interest rates offered by CTS Finance to the PRC Subsidiaries (being 3.3%) were no less favourable than those offered by the independent mainstream PRC financial institutions or the benchmark deposit interest rates promulgated by PBOC (which were in the range of around 2% to 3.25%). We consider the aforesaid review period to be adequate and sufficient given its recency and length of continuity.

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In addition, we noted that pursuant to the 2021 Financial Services Framework Agreement, services provided by CTS Finance are not exclusive. That is to say, the Group may, but is not obliged to, use the services provided by CTS Finance. CTS Finance is merely one of a number of financial institutions which provide financial services to the Group. We consider that such provision could provide flexibility for the Group to decide on which bank or financial institution(s) to place its idle cash with depending on its own circumstances.

In light of the above, we are of the opinion that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The Deposit Caps

The Company proposes to set the Deposit Caps under the 2021 Financial Services Framework Agreement as HK\$1.5 billion for each of the three years ending 31 December 2022, 2023 and 2024. On the other hand, the maximum annual interest available under the 2021 Financial Services Framework Agreement is HK\$35 million, HK\$49.5 million and HK\$49.5 million, respectively, for the three years ending 31 December 2022, 2023 and 2024.

The table below depicts the actual historical maximum daily deposit amounts (including interest income) in respect of the deposit services provided by CTS Finance to the PRC Subsidiaries:

	2019	2020	For the nine months ended 30 September 2021 RMB'000
Actual deposit amounts (including interest income)	1,147,000	1,183,000	1,359,735

As depicted, the actual maximum daily deposit amounts (including interest income) of the PRC Subsidiaries with CTS Finance were approximately RMB1.1 billion, RMB1.2 billion and RMB1.4 billion during the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively, indicating that the PRC Subsidiaries have a constant substantial demand for the deposit services offered by CTS Finance.

Given that:

- (i) the PRC Subsidiaries have a constant substantial demand for the deposit services offered by CTS Finance and that the aggregate of the actual maximum daily deposit amount of the PRC Subsidiaries with CTS Finance and interest income during the nine months ended 30 September 2021 represented over 90% of the Deposit Cap of RMB1.5 billion;

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- (ii) based on our review of the interim report of the Company for the six months ended 30 June 2021, the Group had bank balance and cash totaling approximately HK\$3.2 billion, doubled the Deposit Cap of RMB1.5 billion;
- (iii) as presented under the sub-section headed “Business and financial overview of the Group” of this letter of advice, the Group recorded considerable annual revenue of over HK\$4.0 billion from 2016 to 2019. Regardless of the disruption caused by the Outbreak, the tourism and travel industry and the Group’s financial performance demonstrate signs of improvement in 2021. It is expected that the Group’s business would be able to resume the positive momentum upon containment of the Outbreak, thereby generating constant massive cash flow and persistent demand for the Deposit Services;
- (iv) the Deposit Caps provide flexibility instead of an obligation to the Group to deposit its cash with CTS Finance on terms no less favourable than those offered by the independent mainstream financial institutions; and
- (v) the maximum annual interest available is calculated primarily based on the Deposit Cap of RMB1.5 billion and the prevailing highest deposit rate of 3.3% offered by CTS Finance to the PRC Subsidiaries, i.e. RMB1.5 billion times 3.3% = RMB49.5 million. In consideration of that the historical annual interest income received by the PRC Subsidiaries was lower, the Company has discounted the said maximum interest amount by 30% for 2022. We consider such basis to be acceptable as a whole,

we are of the view the Deposit Caps (including the maximum annual interest available) under the 2021 Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3. THE TRAVEL PERMIT ADMINISTRATION SERVICES

Reasons for and possible benefits of the Agency Agreement and the Deed of Novation

As advised by the Directors, the PRC government has appointed CTS (Holdings) to provide general administration services in Hong Kong for application of tourist visas and travel permits for entry into the PRC. In 2001, CTS (Holdings) and CTSPI entered into the Agency Agreement, pursuant to which CTS (Holdings) appointed CTSPI as its exclusive agent to provide the Travel Permit Administration Services until 30 June 2047. Accordingly, CTSPI has been providing the Travel Permit Administration Services to CTS (Holdings) under the Agency Agreement since 2001. At the extraordinary general meeting of the Company held on 14 December 2018, the independent Shareholders approved the Travel Permit Administration Services under the Agency Agreement as a continuing connected transaction. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the Annual Caps for the Travel Permit Administration Services for the three years ending 31 December 2024 are required to be renewed in order to comply with the Listing Rules.

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On 1 June 2020, CTSPI entered into the Deed of Novation in relation to the Agency Agreement with CTSEP and CTS (Holdings), pursuant to which the parties agreed that CTSEP shall undertake and perform, on behalf of CTSPI, all its obligations under the Agency Agreement, and assume, on behalf of CTSPI, its rights and benefits under the Agency Agreement, for a term commenced from 1 June 2020 and ending on 30 June 2047. As represented by the Directors, CTSEP is the commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out the Travel Permit Administration Services on behalf of CTS (Holdings).

Judging from the fact that (i) the PRC government has appointed CTS (Holdings) to provide general administration services in Hong Kong for application of tourist visas and travel permits for entry into the PRC, and CTSPI or CTSEP is the exclusive agent to provide the Travel Permit Administration Services pursuant to the Agency Agreement and the Deed of Novation; and (ii) the Group does not provide identical type of services to other party save for CTS (Holdings), the provision of the Travel Permit Administration Services is unique to the Group and there is no independent entity providing similar services.

In view of (i) the past operational convenience and benefits brought to the Group; and (ii) the long-term business relationship between the Group and CTS (Holdings) built up throughout the years, we are of the view that it is in the interests of the Company and the Shareholders as a whole to continue to provide the Travel Permit Administration Services to CTS (Holdings). Moreover, since the provision of Travel Permit Administration Services is in line with the principal businesses of the Group, we concur with the Directors that the Travel Permit Administration Services are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Travel Permit Administration Services

Pursuant to the Agency Agreement and the Deed of Novation, CTSEP shall provide general administration services in Hong Kong to CTS (Holdings) for the application for tourist visas and travel permits for entry into the PRC for a fixed term until 30 June 2047. CTS (Holdings) agreed to pay CTSPI 45% of the gross fee revenue from travel permit applications (the “**Agency Fee**”) for the Travel Permit Administration Services. CTSEP shall receive the application fees from applicants on behalf of CTS (Holdings) and transfer the application fees received on a given day to CTS (Holdings) on the next Business Day. Payments are made by CTS (Holdings) in arrears on a monthly basis which have to be settled within three Business Days after the end of each month. In the event that CTS (Holdings) cannot settle the payments in accordance with the terms of the Agency Agreement, the outstanding amount will be charged at interest at prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited as at the end of the relevant month plus 1% accruing from the last day of the relevant month up to the actual payment date.

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Upon our enquiry with the Directors, we understand that the Agency Fee was determined on the basis of costs of providing the service plus reasonable profit. The overall costs of providing the service include but are not limited to staff costs, rental expense and depreciation expense. Based on our discussion with the Directors, among the existing businesses of the Group, the Travel Permit Administration Services are most comparable to the China visa services provided by the Group to foreigners (the “**Visa Services**”) given that both involve the provision of administration for travel documents. Although these two kinds of services have different operational pattern and thus different cost components, their direct costs are distinct and separable. Therefore, the gross profit margin of the Visa Services can be a benchmark especially under the situation that the provision of Travel Permit Administration Services is unique to the Group and there is no independent entity providing similar services. In this regard, we have requested the Company to provide us with the profit margins of the Travel Permit Administration Services and the Visa Services. We have reviewed the calculations and noted that the profit margins of the Travel Permit Administration Services for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were approximately 91%, 92% and 92%, respectively, which were higher than the profit margins of the Visa Services of approximately 56% in 2019 and 74% in 2020 (For the nine months ended 30 September 2021, no revenue was recorded from the Visa Services).

As further advised by the Directors, the Group will monitor the payment from CTS (Holdings) on a monthly basis to ensure that the payment and the timing of payment are in line with the pricing basis and payment term set out in the Agency Agreement. We have reviewed the recent sample documents of the Group, including but not limited to invoices and bank transfer documents, which proved that in each of the recent months, CTS (Holdings) had paid the Agency Fee to the Group in accordance with the Agency Agreement.

In light of that (i) the profit margin of the Travel Permit Administration Services was higher than that of the Visa Services; and (ii) CTS (Holdings) has been paying the Agency Fee to the Group in accordance with the Agency Agreement, we are of the opinion that the terms of the Travel Permit Administration Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The Annual Caps

The Company proposes to set the Annual Caps for the continuing connected transactions in connection with the Travel Permit Administration Services as HK\$310 million for each of the three years ending 31 December 2022, 2023 and 2024.

We have reviewed the past annual reports of the Company and noted that for the two years ended 31 December 2018 and 2019, the Group derived increasing revenue of approximately HK\$247.1 million and HK\$271.7 million, respectively, from the Travel Permit Administration Services. Owing to the disruption caused by the Outbreak, revenue from the Travel Permit Administration Services reduced to approximately HK\$74.0 million and HK\$50.5 million for the year ended 31 December 2020 and the nine months ended 30 September 2021, respectively.

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From the historical actual transaction amounts as aforementioned, it is noted that the actual transaction amounts of the Travel Permit Administration Services during 2018 and 2019, when the tourism and travel industry was not anomalously affected by the Outbreak, were growing at a rate of approximately 10%. Following such trend, the transaction amount of the Travel Permit Administration Services would approach HK\$300 million.

Furthermore, based on our independent research, it is expected that there would be an expedited boost in the day-to-day tie and cooperative relationship between Hong Kong and the Mainland China in the near future leveraging on the supportive government initiatives and policies as highlighted below:

- (i) the ongoing development of the tourism and travel industry following the stipulation of favourable government policies, including the 14th Five-Year Plan for National Economic and Social Development of the PRC (《十四五規劃綱要》) and the framework of “Twin Cities, Three Circles (雙城三圈)” which covers the Shenzhen Bay Quality Development Circle, the Hong Kong-Shenzhen Close Interaction Circle and the Mirs Bay/Yan Chau Tong Eco-recreation/tourism Circle;
- (ii) the increasing business opportunities brought by the Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (《前海方案》), the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (《粵港澳大灣區發展規劃綱要》), and the Plan for the Development of the Guangdong-Macao Intensive Cooperation Zone in Hengqin (《橫琴方案》); and
- (iii) the infrastructure projects which have facilitated cross border travel, such as the Shenzhen-Zhongshan Bridge (深中通道), the Hong Kong-Shenzhen Western Railway (港深西部鐵路), the Hong Kong-Zhuhai-Macau Bridge (港珠澳大橋) and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (廣深港高鐵香港段).

Taking into account that (i) the actual transaction amounts of the Travel Permit Administration Services during 2018 and 2019 were growing at a rate of approximately 10%. Following such trend, the transaction amount of the Travel Permit Administration Services would approach HK\$300 million; (ii) despite that the actual transaction amounts of the Travel Permit Administration Services in 2020 and 2021 were significantly lowered, the disruption as caused by the Outbreak was rather anomalous and the tourism and travel industry as revealed by our independent research has been recovering; and (iii) it is expected that there would be an expedited boost in the day-to-day tie and cooperative relationship between Hong Kong and the Mainland China in the near future leveraging on the supportive government initiatives and policies, such boost would inevitably increase the demand for tourist visas and travel permits for entry into the PRC, and in turn the Travel Permit Administration Services. Thus, it is reasonable for the Company to set certain buffer of around HK\$10 million (i.e. HK\$310 million minus HK\$300 million) to cater for such possible rising demand, we consider that the Annual Cap of HK\$310 million is fair and reasonable so far as the Independent Shareholders are concerned. At the same time, since it

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is still uncertain as to when the effect of the Outbreak will totally fade out, we concur with the Directors' view to take a prudent approach of maintaining the Annual Caps constant for the next three years.

4. INTERNAL CONTROL AND COMPLIANCE WITH THE LISTING RULES

With reference to the Letter from the Board, the Group has adopted various internal control policies to supervise the Non-exempt Continuing Connected Transactions. Based on our review of those internal control measures, the relevant internal minutes and reporting record as well as the results of our sample check as highlighted in the prior sections of this letter of advice, we understand that the Non-exempt Continuing Transactions are under proper regular check by designated personnel of the finance department and business department (as the case may be) and subject to approval by the Group's senior management to ensure their fairness and reasonableness.

Moreover, the Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the amounts of the Non-exempt Continuing Connected Transactions must be restricted by the respective proposed annual caps; (ii) the terms of the Deposit Services (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Deposit Services (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) and must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and the proposed annual caps are not being exceeded. In the event that the total amounts of the Non-exempt Continuing Connected Transactions exceed the respective proposed annual caps, or that there is any material amendment to the terms of the Deposit Services (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction. For our due diligence purpose, we have also obtained from the Company the aforesaid auditors' confirmation from 2018 to 2020.

With the internal control policies of the Group as well as the stipulated requirements for continuing connected transaction of the Listing Rules in place, the Non-exempt Continuing Connected Transactions will be monitored and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services (including the Deposit Caps) and the Travel Permit Administration Services (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance.

1. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2021, the Group has outstanding unsecured bank and other borrowings of approximately HK\$952.1 million and secured bank and other borrowings of approximately HK\$314.8 million.

Lease liabilities

As the close of business on 31 October 2021, the Group has lease liabilities of approximately HK\$259.1 million.

Security

As at the close of business on 31 October 2021, the Group's bank deposits of approximately HK\$9.4 million were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries, and certain bank guarantees given in lieu of utility and rental deposit. Also, certain assets of the Group were pledged as securities for the Group's banking facilities and these pledged assets of the Group included properties under development and ticketing right of a scenic spot.

Contingent liabilities and guarantees

As at the close of business on 31 October 2021, the Group had the following contingent liabilities: performance bond given to a customer for due performance of a sales contract amounting to HK\$0.3 million.

Save as aforesaid, and apart from intra-group liabilities, at the close of business on 31 October 2021, the Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness liabilities under acceptances or acceptable credits, mortgages, charges, debentures, obligations under hire purchase contracts or finance leases or guarantees or other material contingent liabilities.

2. FINANCIAL AND TRADING PROSPECTS

The Company is positioned as a tourism and cultural business platform which focuses on tourist attractions with a mission to offer new travel destination lifestyle to its customers. The Group will consolidate its position in city travel destinations, aggressively acquire scarce natural and cultural scenic spots, develop leisure resorts in an orderly manner, and develop supplementary products and businesses in a selective manner.

In respect of existing businesses, the Company will adopt targeted measures such as management enhancement, innovation and upgrade of product and business to raise profitability. In addition, the Company will implement industry-leading plans and benchmarking management to increase competitiveness. Also, the Company will strengthen cost control and adopt centralized procurement and quality control to drive down costs and improve efficiency.

The Company will continue to focus on value creation and gradually exit from businesses which are incompatible with its strategy, lacking synergy, and have been loss making for a long time with no prospects of turning around, so as to maintain the Company's high asset quality to ensure favourable operation.

The use of CTS finance as a platform to manage the funds of the Group would allow for better monitoring and control of the funds and more efficient deployment of funds between member companies of the Group. Since the interest rates on the Deposit Services offered by CTS Finance are equal to or more favourable, on a case by case basis, than those offered to the Group by Independent Third Parties for providing services of similar nature and of similar term, this represent potential increase in interest income and cost savings to the Group.

Although the complicated economic situations at home and abroad persists and there is keen competition across the industry, the business fundamentals of the Company's overall business remain steady and healthy. In addition, the Company has a healthy financial position and possesses the capabilities to invest and develop. The Company is fully confident in the prospects of future development guided under its proven strategy. In accordance with the above-mentioned strategy and the requirements of management enhancement and key priorities, the Group will strengthen strategy execution, push forward strategic projects, innovate on business models and enhance profitability, striving its best to execute the initiatives and create shareholder value.

3. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

After due and careful enquiry, the Directors are of the opinion that after taking into account the present internal financial resources of the Group including the internally generated funds, the available banking facilities and the effect of the 2021 Financial Services Framework Agreement (including the Deposit Caps), the Group has sufficient working capital to meet its present requirements for at least the next twelve months from the date of this circular. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are set out from pages 71 to 186 in the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**") published on 25 April 2019. The 2018 Annual Report is also posted on the Company's website (<http://www.irasia.com/listco/hk/ctii/annual/index.htm>) and the website of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251945.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2019 are set out from pages 77 to 194 in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") published on 24 April 2020. The 2019 Annual Report is also posted on the Company's website (<http://www.irasia.com/listco/hk/ctii/annual/index.htm>) and the website of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042401640.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2020 are set out from pages 82 to 194 in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) published on 23 April 2021. The 2020 Annual Report is also posted on the Company’s website (<http://www.irasia.com/listco/hk/ctii/annual/index.htm>) and the website of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042301517.pdf>).

There was no qualified audit opinion expressed on the audited consolidated financial statements for the three years ended 31 December 2019, 2019 and 2020.

The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2021 are set out from pages 5 to 35 in the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”) published on 16 September 2021. The 2021 Interim Report is also posted on the Company’s website (<http://www.irasia.com/listco/hk/ctii/interim/index.htm>) and the website of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0916/2021091601135.pdf>).

5. EFFECT OF THE TRANSACTIONS ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

CTS Finance in general offers interest rate no less than those offered by the other banks and financial institutions. The Company estimates that, if the maximum deposit amount the Group will deposit with CTS Finance will be RMB1.5 billion for each of the three years ending 31 December 2024, it is expected that the maximum amount of interests the Group will receive during the said period will be RMB35 million, RMB49.5 million and RMB49.5 million respectively, only represented a small proportion of the Group’s profit and assets. Accordingly, the Company considers that the interest income to be derived from the deposit will not have a material impact on the Group’s profit, assets and liabilities for the financial years ending 31 December 2022, 2023 and 2024, respectively.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief Executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Interests in shares			Interests in underlying shares pursuant to share options	Aggregate interests	% of the issued share capital as at the Latest Practicable Date
	Corporate interest	Personal interest	Family interest			
Mr. Lo Sui On	-	600,000	-	-	600,000	0.01%
Mr. Wu Qiang	-	600,000	-	-	600,000	0.01%
Mr. Tang Yong	-	12,000	-	-	12,000	0.00%

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

(b) Interests of Substantial Shareholders

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

Long position in the Shares

Name of shareholders	Capacity	Number of shares held	% of the issued share capital as at the Latest Practicable Date
China CTS	Interest of controlled corporation (<i>Note 1</i>)	3,385,492,610	61.15%
CTS (Holdings)	Interest of controlled corporation and beneficial owner (<i>Note 1 and 2</i>)	3,385,492,610	61.15%
Hongkong New Travel Investments Ltd.	Beneficial owner (<i>Note 2</i>)	1,136,254,901	20.52%
CTS Asset Management (I) Limited	Interest of controlled corporation (<i>Note 2</i>)	1,136,254,901	20.52%

Note 1: The entire issued share capital of CTS (Holdings) is beneficially owned by China CTS. CTS (Holdings) is the immediate holding company of the Company. Accordingly, China CTS is taken to be interested in the shares in which CTS (Holdings) is interested pursuant to Part XV of the SFO.

Note 2: Of these 3,385,492,610 shares, 2,249,237,709 shares are held directly by CTS (Holdings). 1,136,254,901 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 100% by CTS Asset Management (I) Limited. CTS Asset Management (I) Limited is 100% directly owned by CTS (Holdings), and CTS (Holdings) and CTS Asset Management (I) Limited are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Save as disclosed above, the Directors are not aware of any person (other than Directors or chief executive of the Company) who, as at the Latest Practicable Date, had any interest, directly or indirectly, or short position in the Shares and underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors nor their respective associates had any direct or indirect interest in any assets which had been, since 31 December 2020 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of or leased to any member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, proposed directors of the Company or his or her respective associates was considered to have an interest in a business which competed or was likely to compete, enter directly or indirectly, with the business of the Group or any other conflicts of interests with the Group other than those business to which the Directors and his or her associates were appointed to represent the interests of the Company and/or the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited consolidated accounts of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
VBG Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO

VBG Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated 7 December 2021 and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, VBG Capital was not beneficially interested in the share capital in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, VBG Capital was not interested, directly or indirectly, in any assets which had since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. LANGUAGE

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the issue of this circular and are material:

- (i) the commercial services master agreement entered into between CTS Scenery Resort Investment Company Limited, a subsidiary of the Company, and CTG Investment Management Corporation Limited (formerly known as Earn Success Investment Limited), a subsidiary of CTS (Holdings), on 31 December 2019 in relation to the provision of commercial services, including land acquisition consultancy services, commercial consultancy services, design consultancy services, business invitation services, operation management services and tenancy management services, by CTS Scenery Resort Investment Company Limited. For details, please refer to the relevant announcement of the Company dated 31 December 2019.
- (ii) the master lease agreement entered into between the Company and China CTS on 31 December 2019 relation to the lease arrangements with the China CTS Group as lessee. For details, please refer to the relevant announcement of the Company dated 31 December 2019.
- (iii) the sale and purchase agreement entered into between Interdragon Limited and Dalmore Investments Limited, a subsidiary of the Company, on 6 March 2020 relating to the sale and purchase of the 21% of the issued share capital of Shun Tak – China Travel Shipping Investments Limited at an aggregate consideration of HK\$437 million (subject to adjustment). For details, please refer to the announcement of the Company dated 6 March 2020 and the circular of the Company dated 27 March 2020.

- (iv) the sale and purchase agreement entered into between Shun Tak – China Travel Shipping Investments Limited and the Company on 6 March 2020 relating to the sale and purchase of the entire issued share capital of China Travel Tours Transportation Development (HK) Limited at an aggregate consideration of HK\$508 million (subject to adjustment). For details, please refer to the announcement of the Company dated 6 March 2020 and the circular of the Company dated 27 March 2020.
- (v) the sale and purchase agreement entered into between Shun Tak – China Travel Shipping Investments Limited and Shun Tak Tourism Investment Holdings Limited on 6 March 2020 relating to the sale and purchase of the entire issued share capital of Jointmight Investments Limited at an aggregate consideration of HK\$55 million (subject to adjustment). For details, please refer to the announcement of the Company dated 6 March 2020 and the circular of the Company dated 27 March 2020.
- (vi) the loan agreement dated 27 May 2020 entered into between the Company and China Travel Financial Investment Holdings Co., Limited (“**CTS Financial Investment**”), a wholly-owned subsidiary of CTS (Holdings), for a term of one year, pursuant to which the Company has agreed to provide a loan of US\$20,000,000 to CTS Financial Investment;
- (vii) the equity purchase agreement dated 24 December 2020 entered into among CTS Scenery Resort Investment Company Limited, a subsidiary of the Company, New Century Tourism Group Co., Ltd. and Hangzhou New Century Senbo Tourism Investment Co., Ltd. in relation to the acquisition of the 34% of the equity interest and its ancillary rights and benefits of Hangzhou New Century Senbo Tourism Investment Co., Ltd. by CTS Scenery Resort Company Limited from New Century Tourism Group Co., Ltd. at a consideration of RMB391,000,000. For details, please refer to the announcement of the Company dated 24 December 2020.
- (viii) the master agreement entered into between the Company and China CTS on 29 December 2020 in relation to the provision of tour group services by the Group and the China CTS Group to each other. For details, please refer to the announcement of the Company dated 29 December 2020.
- (ix) the equity transfer agreement dated 25 January 2021 entered into between the Company and Deng Feng Songshan Shaolin Culture Tourism Group Company Limited in respect of the disposal of the 51% of the equity interest in CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. by the Company at a consideration of RMB255,112,200. For details, please refer to the announcement of the Company dated 25 January 2021.

- (x) the fixed vehicles rental agreement entered into between China Travel Tours Transportation Services Hong Kong Limited (“CTTTS”) (a non-wholly-owned subsidiary of the Company) and CTS (Holdings) on 29 September 2021 in respect of the provision of staff transportation services by CTTTS to CTS (Holdings) in Hong Kong for the period from 1 July 2021 to 30 June 2022. For details, please refer to the announcement of the Company dated 29 September 2021.
- (xi) the cross-border operation small vehicles rental agreement entered into between CTTTS and CTS Financial Investment on 10 February 2019, pursuant to which CTTTS shall rent a cross-border small vehicle to CTS Financial Investment for the period from 1 April 2019 to 31 March 2022. For details, please refer to the announcement of the Company dated 29 September 2021.
- (xii) the 2021 Financial Services Framework Agreement.

10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

11. GENERAL

- (i) The registered office of the Company is situated at 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong.
- (ii) The share registrar of the Company is Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (iii) The company secretary of the Company is Mr. Lai Siu Chung, who is an associate of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute, and a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Lai holds a bachelor of law degree from University of London and Master of Arts degree from the Chinese University of Hong Kong.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/ctii) from the date of this circular up to and including 22 December 2021:

- (a) the 2021 Financial Services Framework Agreement;
- (b) the Agency Agreement;

- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 43 of this circular;
- (d) the written consent referred to in the section headed “Expert’s Qualification and Consent of Expert” in this appendix; and
- (e) the Deed of Novation.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

(incorporated in Hong Kong with limited liability)
(Stock Code: 308)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of the shareholders of China Travel International Investment Hong Kong Limited (the “**Company**”) will be held at Forum Wing, C/Floor, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Kowloon, Hong Kong on Thursday, 23 December 2021 at 2:30 p.m. to consider as special business and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolution:

1. “**THAT**

- (a) The financial services framework agreement (as defined below) dated 16 November 2021 (the “**2021 Financial Services Framework Agreement**”) entered into between the Company and CTG Finance Company Limited (“**CTS Finance**”) relating to the provision of deposit services, the comprehensive credit line services, the entrustment loan services and the cross-border RMB cash pooling services by CTS Finance (as further detailed in the circular of the Company dated 7 December 2021 (the “**Circular**”)) be and is hereby approved, confirmed and ratified;
- (b) The Deposit Caps under the 2021 Financial Services Framework Agreement as set out in the Circular for each of the three years ending 31 December 2024 be and are hereby approved and confirmed;
- (c) Any one director of the Company be and is hereby authorised to do all such acts or things and sign all documents deemed necessary by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the 2021 Financial Services Framework Agreement.”

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

By Order of the Board
China Travel International Investment Hong Kong Limited
Jiang Hong
Chairman

Hong Kong, 7 December 2021

Notes:

- (1) A member entitled to attend and vote at the Meeting convened by this notice is entitled to appoint one or more proxy (ies) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect Shareholders from the risk of infection:
 - (i) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
 - (ii) maintain a safe distance between seats;
 - (iii) every attending Shareholder or proxy is required to wear a surgical mask throughout the EGM; and
 - (iv) no refreshments or souvenirs will be served or distributed at the EGM.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company wishes to advise all Shareholders, in particular those who are subject to quarantine in relation to COVID-19, that they may appoint any person or the Chairman of the EGM as a proxy to attend and vote on any of the resolutions in lieu of attending the EGM in person.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the EGM.

- (2) A form of proxy for use at the Meeting is enclosed herewith. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the Meeting, his form of proxy will be deemed to have been revoked.
- (3) In order to be valid, the instrument appointing a proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the holding of the Meeting (or adjourned meeting or of the poll, as the case may be).
- (4) In the case of joint holders of a share, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- (5) The Register of Members of the Company will be closed from Monday, 20 December 2021 to Thursday, 23 December 2021 (both dates inclusive), for the purposes of ascertaining Shareholders' entitlement to attend and vote at the meeting. In order to be eligible to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 17 December 2021.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (6) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

As at the date of this notice, the Board comprises five executive Directors, namely Mr. Jiang Hong, Mr. Lo Sui On, Mr. Wu Qiang, Mr. Fan Dongsheng and Mr. Tang Yong; one non-executive Director, namely Mr. Tsang Wai Hung; and five independent non-executive Directors, namely Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke, Mr. Huang Hui, Mr. Chen Johnny and Mr. Song Dawei.