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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) RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS
AND
(2) REVISION OF ANNUAL CAPS**

(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

References are made to the announcements of the Company dated 6 November 2015 and 14 January 2016 in relation to the continuing connected transactions contemplated under the 2015 CTSH Master Agreement, the 2016 Financial Services Framework Agreement and the Agency Agreement.

As the 2015 CTSH Master Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2018, the Company entered into the 2018 Master Lease Agreement with China CTS on 8 November 2018 to renew the terms of the relevant continuing connected transactions for a term commencing from 1 January 2019 and ending on 31 December 2021, where the Group will continue to obtain lease of office premises from the China CTS Group.

As the 2016 Financial Services Framework 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 2018, the Company entered into the 2018 Financial Services Framework Agreement with CTS Finance on 8 November 2018 to renew the terms of such continuing connected transactions for a term commencing from 1 January 2019 and ending on 31 December 2021, where CTS Finance will continue to provide services thereunder to the Group.

CTSHK 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 15 December 2015, the Independent Shareholders approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and the maximum aggregate annual value for the Travel Permit Administration for each of the three years ending 31 December 2018. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the annual cap for the Travel Permit Administration for the three years ending 31 December 2021 is required to be renewed in order to comply with the Listing Rules.

(2) REVISION OF ANNUAL CAPS FOR THE PROVISION OF DEPOSIT SERVICES BY CTS FINANCE

Reference is made to the announcement of the Company dated 14 January 2016 in relation to the 2016 Financial Services Framework Agreement entered into between the Company and CTS Finance.

Due to the increasing idle funds in the PRC Subsidiaries and more competitive deposit rates offered by CTS Finance, the aggregate amount under the deposit services actually required by the Group for the year ending 31 December 2018 may exceed the original projection. The Company entered into the 2018 Financial Services Supplemental Agreement with CTS Finance on 8 November 2018 to revise the deposit cap for the year ending 31 December 2018 to re-comply with the reporting and announcement requirements in accordance with Rules 14A.54 of the Listing Rules.

LISTING RULES IMPLICATIONS

CTS (Holdings) is a connected person of the Company by virtue of being a substantial shareholder. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS and the China CTS Group are connected persons of the Company under the Listing Rules.

CTS Finance is a non wholly-owned subsidiary of China CTS and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental Agreement will 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) where no security over the assets of the Group will be granted in respect of the financial assistance given by CTS Finance, the Loan Services are fully exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

It is expected that the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the 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 will be on an annual basis less than 0.1%, the Comprehensive Credit Line Services (excluding the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services are fully exempt from the reporting, announcement, annual review and the independent shareholders' approval requirements under the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Deposit Caps and/or the maximum annual interest receivable under the 2018 Financial Services Framework Agreement will be more than 0.1% but less than 5% and have an annual consideration of more than HK\$3,000,000, the Deposit Services are subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for (i) the annual cap of the amount payable for the continuing connected transactions contemplated under the 2018 Master Lease Agreement will exceed 0.1% but less than 5%, and have an annual consideration of more than HK\$3,000,000, the continuing connected transactions contemplated under the 2018 Master Lease Agreement is subject to the reporting, announcement and annual review requirements under the Listing Rules and is exempt from the circular (independent financial advice) and independent shareholders' approval requirements; and (ii) the annual cap for the Travel Permit Administration shall exceed 5% and have an annual consideration of more than HK\$10,000,000, the renewal of the annual cap and continuing provision of the Travel Permit Administration is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under the Listing Rules.

A circular containing, among others, further details of the renewal of the Travel Permit Administration (including the annual cap), the respective advice of the Independent Financial Adviser and the Independent Board Committee and the notice of the EGM is expected to be dispatched to the Shareholders on or before 29 November 2018.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Revised Deposit Cap and/or the maximum annual interest receivable under the 2018 Financial Services Supplemental Agreement will be more than 0.1% but less than 5% and have an annual consideration of more than HK\$3,000,000, the Revised Deposit Cap is subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirements under the Listing Rules.

BACKGROUND INFORMATION

(1) Renewal of Continuing Connected Transactions

References are made to the announcements of the Company dated 6 November 2015 and 14 January 2016 in relation to the continuing connected transactions contemplated under the 2015 CTSH Master Agreement, the 2016 Financial Services Framework Agreement and the Agency Agreement.

As the 2015 CTSH Master Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2018, the Company entered into the 2018 Master Lease Agreement with China CTS on 8 November 2018 to renew the terms of the relevant continuing connected transactions for a term commencing from 1 January 2019 and ending on 31 December 2021, where the Group will continue to obtain leases of office premises from the China CTS Group.

As the 2016 Financial Services Framework 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 2018, the Company entered into the 2018 Financial Services Framework Agreement with CTS Finance on 8 November 2018 to renew the terms of such continuing connected transactions for a term commencing from 1 January 2019 and ending on 31 December 2021, where CTS Finance will continue to provide services thereunder to the Group.

CTSHK 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 15 December 2015, the Independent Shareholders approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and the maximum aggregate annual value for the Travel Permit Administration for each of the three years ending 31 December 2018. Although the Agency Agreement has not expired and remains in force until 30 June 2047, the annual caps for the Travel Permit Administration for the three years ending 31 December 2021 are required to be renewed in order to comply with the Listing Rules.

(2) Revision of annual caps for the provision of deposit services by CTS Finance

Reference is made to the announcement of the Company dated 14 January 2016 in relation to the 2016 Financial Services Framework Agreement entered into between the Company and CTS Finance.

Due to the increasing idle funds in the PRC Subsidiaries and more competitive deposit rates offered by CTS Finance, the aggregate amount under the deposit services actually required by the Group for the year ending 31 December 2018 may exceed the original projection. The Company entered into the 2018 Finance Services Supplemental Agreement with CTS Finance on 8 November 2018 to revise the deposit cap for the year ending 31 December 2018 to re-comply with the reporting and announcement requirements in accordance with Rules 14A.54 of the Listing Rules. All other terms under the 2016 Financial Services Framework Agreement remain unchanged.

THE 2018 MASTER LEASE AGREEMENT

Date	8 November 2018
Parties	(i) the Company; and (ii) China CTS
Term	1 January 2019 to 31 December 2021

Transaction Nature

The Group will continue to obtain leases of office premises from the China CTS Group. Pursuant to such arrangement, the Group will renew or enter into written tenancy agreements with the China CTS Group to obtain leases of certain office premises from the China CTS Group.

Pricing Basis

The rental and other charges charged by the China CTS Group to the Group shall be based on normal commercial terms, fair and reasonable, and determined by a pricing mechanism having reference to the prevailing market charges of comparable properties in the vicinity in relation to which the Group will obtain at least 2 quotations of such charges for comparison purpose. The rental and other charges shall not exceed the prevailing market charges of comparable properties in the vicinity as are monitored regularly by the Group's internal control procedures. The rental and other charges will be payable monthly in cash.

Historical Figures

The total amount of the continuing connected transactions in connection with the rents received or receivable by the China CTS Group from the Group for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 were HK\$18,648,000, HK\$18,328,000, and HK\$13,914,000, respectively.

Annual Caps

The annual caps under the 2018 Master Lease Agreement are as follows:

	Year ending 31 December		
	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000
Lease arrangements with the China CTS Group as lessor	23,000	25,000	26,000

The above caps are determined based on the following:

- (i) historical transaction amounts for transactions covered by the 2015 CTSH Master Agreement; and
- (ii) the potential increase in market rentals and office space required by the Group during the term of the 2018 Master Lease Agreement.

The above is merely assumed for the purpose of determining the annual caps and shall not be regarded as any indication directly or indirectly as to the Group's revenue, profitability or trading prospects.

THE 2018 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 2018 Financial Services Framework Agreement. CTS Finance is merely one of a number of financial institutions which provides financial services to the Group. The Group may obtain financial services from other financial institutions in addition to those provided by CTS Finance pursuant to the 2018 Financial Services Framework Agreement. The major terms of the 2018 Financial Services Framework Agreement are set out as follows:

Date	8 November 2018
Term	1 January 2019 to 31 December 2021
Parties	(i) the Company; and (ii) CTS Finance

Scope of services and pricing basis

(a) *Deposit Services*

CTS Finance will provide Deposit Services to the PRC Subsidiaries pursuant to the 2018 Financial Services Framework Agreement.

The deposit interest rates to be offered by CTS Finance to the PRC Subsidiaries will not be lower than the benchmark deposit interest rates promulgated by PBOC for the same period and the deposit interest rates offered by at least two mainstream PRC financial institutions to the PRC Subsidiaries for deposits of similar nature and of similar term.

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 the PRC Subsidiaries pursuant to the 2018 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 will not be higher than the benchmark loan interest rates promulgated by PBOC for the same period and the loan interest rates offered by at least two other PRC financial institutions to PRC Subsidiaries for loans of similar nature and of similar term. Moreover, no security over the assets of the Group will be granted in respect of such financial assistance given by CTS Finance.

The interest rates or service charge rates on the Comprehensive Credit Line Services excluding Loan Services to be offered by CTS Finance to the PRC Subsidiaries will not be higher than the relevant standard charges (if applicable) and benchmark discount rate promulgated by PBOC and the services charges and discount rates offered by at least two mainstream PRC financial institutions to PRC Subsidiaries for providing services of similar nature and of similar term.

(c) *Entrustment Loan Services*

CTS Finance will provide Entrustment Loan Services to the PRC Subsidiaries pursuant to the 2018 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 shall not be higher than 0.05% of the entrustment loan amount and the fees offered by at least two other PRC financial institutions to the PRC Subsidiaries for providing services of similar nature.

(d) *Cross-Border RMB Cash Pooling Services*

CTS Finance will provide Cross-Border RMB Cash Pooling Services to the Company and the PRC Subsidiaries under the 2018 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 shall not be higher than those offered by at least two other PRC financial institutions to the PRC Subsidiaries for providing services of similar nature.

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 the 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 2018 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.

Termination

In addition to the default events provided by the Contracts Laws of the PRC, the 2018 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%;
- (e) short-term securities investment to total capital ratio is not more than 40%;
- (f) long term investment to total capital ratio is not more than 30%.

HISTORICAL DEPOSIT AMOUNTS AND THE DEPOSIT CAPS

Historical Deposit Amounts

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

	Maximum historical daily deposit amount (RMB'000)
For the year ended 31 December 2016	85,551
For the year ended 31 December 2017	136,669
For the nine months ended 30 September 2018	141,170

Deposit Caps

Deposit Caps are set out as follows:

	For the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maximum daily deposit amount (including accrued interests) placed by PRC Subsidiaries with CTS Finance	500,000	500,000	500,000

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 made by the Group with other independent commercial banks in the PRC; and (iii) the amounts of deposits historically made by the PRC Subsidiaries with CTS Finance. As at 30 September 2018 and 31 December 2017, the Group's cash and bank balances amounted to approximately HK\$2,409 million and HK\$3,271 million respectively.

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 (RMB'000)
For the year ended 31 December 2016	1,269
For the year ended 31 December 2017	2,590
For the nine months ended 30 September 2018	2,916

The Maximum Annual Interest Receivable

The maximum annual interest receivable under the 2018 Financial Services Framework Agreement are set out as follows:

	For the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maximum annual interest receivable by the PRC Subsidiaries	20,000	20,000	20,000

THE 2018 FINANCIAL SERVICES SUPPLEMENTAL AGREEMENT

Date

8 November 2018

Term

8 November 2018 to 31 December 2018

Parties

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

Historical Deposit Amounts

The historical deposit amounts of deposit services provided by CTS Finance to PRC Subsidiaries are set out as follows:

	Maximum historical daily deposit amount (RMB'000)
For the year ended 31 December 2016	85,551
For the year ended 31 December 2017	136,669
For the nine months ended 30 September 2018	141,170

Transaction Nature

The deposit cap for the year ending 31 December 2018 is revised as follows:-

	For the year ended/ending 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Existing deposit caps	124,400	136,800	150,500
Revised Deposit Cap (if applicable)	N/A	N/A	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/ receivable (RMB'000)
For the year ended 31 December 2016	1,269
For the year ended 31 December 2017	2,590
For the nine months ended 30 September 2018	2,916

The Maximum Annual Interest Receivable

The maximum annual interest receivable under the 2016 Financial Services Framework Agreement as amended and restated by the 2018 Financial Services Supplemental Agreement are set out as follows:

**For the year ending
31 December 2018**
RMB'000

Maximum annual interest receivable by the PRC Subsidiaries 7,000

In setting the Revised Deposit Cap 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 made by the Group with other independent commercial banks in the PRC; and (iii) the amounts of deposits historically made by the PRC Subsidiaries with CTS Finance. As at 30 September 2018 and 31 December 2017, the Group's cash and bank balances amounted to approximately HK\$2,409 million and HK\$3,271 million respectively.

The deposit interest rates to be offered by CTS Finance to the PRC Subsidiaries will not lower than the benchmark deposit rates promulgated by PBOC for the same period and the deposit interest rates offered by at least two mainstream PRC financial institutions to PRC Subsidiaries for deposits of similar nature and of similar term. 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.

Save as the revision of the deposit cap for the year ending 31 December 2018, all other terms under the 2016 Financial Services Framework Agreement, the Company's pricing policy and internal control measures relating to it, remain unchanged.

The terms of the 2018 Financial Services Supplemental Agreement and the transactions contemplated under it have been negotiated and conducted on an arm's length basis, on normal commercial terms among the parties involved and/or on terms no less favourable than those offered by independent third parties to the Group, on which the independent non-executive Directors have previously confirmed as disclosed in the announcement of the Company dated 14 January 2016.

THE AGENCY AGREEMENT

Date 15 May 2001

Parties (i) CTSHK; and
(ii) CTS (Holdings)

Transaction Nature

CTSHK and CTS (Holdings) agreed that CTSHK would 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.

Principal Terms

CTSHK and CTS (Holdings) entered into the Agency Agreement on 15 May 2001 to document the transaction relating to Travel Permit Administration 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 CTSHK to provide Travel Permit Administration 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, which were negotiated on an arm's length basis between the parties, CTS (Holdings) agreed to pay CTSHK 45% of the gross fee revenue from travel permit applications for the services provided by CTSHK in relation to Travel Permit Administration. The agency fees will be payable monthly in cash.

The fees of Travel Permit Administration rendered by CTSHK is determined on the basis of cost of providing the service plus reasonable profit. The profit margin of Travel Permit Administration is higher than the profit margin of PRC visa service provided by CTSHK to foreigners and is deemed reasonable by the Company and CTS (Holdings).

Historical Figures

The total amount of the continuing connected transactions in connection with the Travel Permit Administration for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 were HK\$197,532,000, HK\$199,104,000 and HK\$185,092,000, respectively.

Proposed Annual Caps

The Company proposes to set the annual cap for the continuing connected transactions as follows:

	Year ending 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of Travel Permit Administration by CTSHK	310,000	310,000	310,000

The above annual caps are determined based on the historical transaction amounts in 2016 and 2017 and the annualized transaction amount in 2018 based on the transaction amount for the nine months ended 30 September 2018 under the Agency Agreement.

The above is merely assumed for the purpose of determining the annual caps and shall not be regarded as any indication directly or indirectly as to the Group's revenue, profitability or trading prospects.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

In view of past operational convenience and benefits brought to the Group and extended business relationships established between the Group and the China CTS Group, such continuing relationships are expected to bring synergies to the parties. Thus, the Board (including the independent non-executive Directors) considers it to be in the interests of the Group to continue to engage in the continuing connected transactions contemplated under the 2018 Master Lease Agreement.

The Directors (including the independent non-executive Directors but excluding the executive Directors who have voluntarily abstained from voting) consider that the terms of the 2018 Master Lease Agreement and the continuing connected transactions contemplated thereunder (including the annual caps) are negotiated on an arm's length basis and entered into in the ordinary and usual course of business and are fair and reasonable and in the interests of the Shareholders and the Company as a whole. The continuing connected transactions under the 2018 Master Lease Agreement were negotiated on an arm's length basis and were arrived at on normal commercial terms no less favourable to the Group than terms available from Independent Third Parties (as the case may be).

The main reasons for the Company to enter into the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental 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 between 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 any independent third party 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 CBRC, 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 the PBOC and CBRC, 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 provide undertakings 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 2018 Financial Services Framework Agreement and the 2016 Financial Services Framework Agreement;
- (vii) Pursuant to the relevant regulations of the PBOC and CBRC, 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 but excluding the executive Directors who have voluntarily abstained from voting) consider that the terms of the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental 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 and the Deposit Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CTSHK is the only commercial entity in Hong Kong having the relevant expertise and brand recognition to carry out Travel Permit Administration on behalf of CTS (Holdings). In view of past operational convenience and benefits brought to the Group, the Board (other than the independent non-executive Directors whose opinion (after taking into consideration the opinion of the independent financial adviser) will be included in the circular to be dispatched to Shareholders) considers it to be in the interests of the Company to continue to engage in Travel Permit Administration and that the terms of the Travel Permit Administration are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors (other than the executive Directors who have voluntarily abstained from voting, and the independent non-executive Directors whose opinions (after taking into consideration the opinion of the independent financial adviser) will be included in the circular to be dispatched to Shareholders) consider that the Agency Agreement were 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.

INFORMATION OF THE PARTIES

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 agency, travel documents and related operations, passenger transportation operations.

China CTS, the ultimate controlling shareholder of CTS (Holdings) and the Company, is a central state-owned enterprise under the supervision of the 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.

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 the PBOC and CNRC. 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 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 2018 Master Lease Agreement, the Agency Agreement, the 2018 Finance Services Framework Agreement and the 2018 Financial Services Supplemental 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 2018 Master Lease Agreement, the Agency Agreement, the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental 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; and
- (ii) the Company 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 2018 Master Lease Agreement, the Agency Agreement, the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental Agreement. The Group's business department 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.
- (iii) for the purpose of determining the rental and other charges payable by the Group to the China CTS Group under the 2018 Master Lease Agreement, the Group's business department will refer to the prevailing market prices of comparable properties in the vicinity, which will be obtained, prior to entering into each tenancy agreement, from at least 2 quotations of such prices for comparison purpose. Such quotations will include without limitation (1) the calculation basis of payment; (2) the standard terms and conditions of the rental services; and (3) relevant mediation mechanism and indemnity clauses of the contract.
- (iv) 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 term set out in the agreement. The business department of the Group will also monitor the profit margin of the Travel Permit Administration on a monthly basis to ensure that it is in the interests of the Group to continue to engage in Travel Permit Administration;

- (v) in respect of the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental Agreement, the business department of the Group will further (a) check the current deposit and lending benchmark rates published by PBOC; (b) check the deposit and lending rates quoted by other major commercial banks; and (c) obtain quotes for rate comparison from at least two major commercial banks or financial institutions in cooperation with the Group to decide which institution the Group will select for a particular service. If the Company discovers that the fees charged by CTS Finance exceed the quotations, the Company will further negotiate with CTS Finance for better terms; and
- (vi) in respect of the 2018 Financial Services Supplemental Agreement and the Revised Reposit Cap, 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.

LISTING RULES IMPLICATIONS

CTS (Holdings) is a connected person of the Company by virtue of being a substantial Shareholder (as defined in the Listing Rules). As China CTS holds the entire issued share capital of CTS (Holdings), China CTS and the China CTS Group are connected persons of the Company under the Listing Rules.

CTS Finance is a non wholly-owned subsidiary of China CTS and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental Agreement will 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) where no security over the assets of the Group will be granted in respect of the financial assistance given by CTS Finance, the Loan Services are fully exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

It is expected that the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the 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 will be on an annual basis less than 0.1%, the Comprehensive Credit Line Services (excluding the Loan Services), the Entrustment Loan Services and the Cross-Border RMB Cash Pooling Services are fully exempt from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Rule 17A.76(1) 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 transaction amount of such service exceeds the de minimis threshold under Rule 17A.76 of the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Deposit Caps and/or the maximum annual interest receivable under the 2018 Financial Services Framework Agreement will be more than 0.1% but less than 5% and have an annual consideration of more than HK\$3,000,000, the Deposit Services are subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirements under the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Revised Deposit Cap and/or the maximum annual interest receivable under the 2018 Financial Services Supplemental Agreement will be more than 0.1% but less than 5% and have an annual consideration of more than HK\$3,000,000, the Revised Deposit Cap is subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for (i) the annual cap of the amount payable for the continuing connected transactions contemplated under the 2018 Master Lease Agreement will exceed 0.1% but less than 5%, and have an annual consideration of more than HK\$3,000,000, the continuing connected transactions contemplated under the 2018 Master Lease Agreement is subject to the reporting, announcement and annual review requirements under the Listing Rules and is exempt from the circular (independent financial advice) and Independent Shareholders' approval requirements; and (ii) the annual cap for the Travel Permit Administration shall exceed 5% and have an annual consideration of more than HK\$10,000,000, the renewal of the annual cap and continuing provision of the Travel Permit Administration is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under the Listing Rules.

As Mr. Fu Zhuoyang, Mr. Chen Xianjun and Mr. You Cheng hold executive or senior management positions at CTS (Holdings), they have therefore voluntarily abstained from voting on the Board resolution in relation to the approval of the continuing connected transactions contemplated under the 2018 Master Lease Agreement, the Agency Agreement, the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental Agreement. Save as disclosed above, none of the Directors have a material interest in the aforesaid transactions or were required to abstain from voting on the Board resolutions for considering and approving the same.

At the EGM, the Company will seek Independent Shareholders' approval for the renewal of the Travel Permit Administration (including the annual cap). In view of the interest of CTS (Holdings) and its associates in the continuing provision of Travel Permit Administration, 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, the results of which will be announced after the EGM.

An Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders whether or not to vote in favour of the renewal of the Travel Permit Administration (including the cap). First Shanghai has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders on whether the renewal of the Travel Permit Administration (including the annual cap) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A circular containing, among others, further details of the renewal of the Travel Permit Administration (including the annual cap), the respective advice of the Independent Financial Adviser and the Independent Board Committee and the notice of the EGM is expected to be dispatched to the Shareholders on or before 29 November 2018.

DEFINITIONS

Unless the context otherwise requires, the terms used in this announcement shall have the following meanings:

“2015 CTSH Master Agreement”	the master agreement dated 6 November 2015 and entered into between the Company and China CTS in relation to the lease arrangements with the China CTS Group as lessor and provision of ASP related services to the China CTS Group
“2018 Master Lease Agreement”	the master lease agreement dated 8 November 2018 and entered into between the Company and China CTS in relation to the lease arrangements with the China CTS Group as lessor
“2016 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 14 January 2016
“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
“2018 Financial Services Supplemental Agreement”	the financial services supplemental agreement entered into between the Company and CTS Finance on 8 November 2018 in relation to the revision of the deposit cap under the 2016 Financial Services Framework Agreement
“Acquisition”	The Company’s acquisition of CTSHK from CTS (Holdings) in 2001
“Agency Agreement”	the agency agreement dated 15 May 2001 between CTSHK and CTS (Holdings) in relation to Travel Permit Administration
“associate(s)”, “connected person(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each of which has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China CTS”	China National Travel Service Group Corporation Limited (中國旅遊集團有限公司), a state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the 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 announcement
“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
“Comprehensive Credit Line Services”	the comprehensive credit line services to be provided by CTS Finance to PRC Subsidiaries under the 2018 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 2018 Financial Services Framework Agreement
“CTS Finance”	港中旅財務有限公司 (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
“CTSHK”	China Travel Service (Hong Kong) Limited, a wholly-owned subsidiary of the Company
“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 60.07% of the issued share capital of the Company and a substantial 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 announcement
“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 2018 Financial Services Framework Agreement
“Deposit Services”	the deposit services to be provided by CTS Finance to the Group under the 2018 Financial Services Framework Agreement and the 2018 Financial Services Supplemental 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 (including the cap)

“Entrustment Loan Services”	the provision of entrustment loans through CTS Finance, which will only act as agent of PRC Subsidiaries, under the 2018 Financial Framework Agreement
“First Shanghai” or “Independent Financial Adviser”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Travel Permit Administration (including the cap)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of the independent non-executive Directors, namely, Mr. Wong Man Kong Peter, Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke and Mr. Huang Hui, formed for advising the Independent Shareholders in respect of the renewal of the Travel Permit Administration (including the cap)
“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 (including the cap) at the EGM pursuant to the Listing Rules
“Independent Third Parties”	parties who are independent from the Company and the connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Services”	the loan services to be obtained from the Comprehensive Credit Line Services under the 2018 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 announcement, 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
“Revised Deposit Cap”	the revised maximum daily outstanding balance of deposits (including accrued interest) for the year ending 31 December 2018 from the deposit services and cross-border RMB cash pooling services placed by the Group and/or PRC Subsidiaries with CTS Finance pursuant to the 2018 Financial Services Supplemental Agreement

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Shares”	ordinary shares in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Travel Permit Administration”	the general administration services provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC by CTSHK to CTS (Holdings)
“%”	percentage

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

Hong Kong, 8 November 2018

As at the date of this announcement, the Board comprises five Executive Directors, namely Mr. Fu Zhuoyang, Mr. Lo Sui On, Mr. Jiang Hong, Mr. Chen Xianjun and Mr. You Cheng; and four Independent Non-Executive Directors, namely Mr. Wong Man Kong Peter, Mr. Tse Cho Che Edward, Mr. Zhang Xiaoke and Mr. Huang Hui.