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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 308)

CONTINUING CONNECTED TRANSACTIONS – MANAGEMENT SERVICES MASTER AGREEMENT

THE MANAGEMENT SERVICES MASTER AGREEMENT

The Board is pleased to announce that, on 28 December 2018, the Company and China CTS entered into the Management Services Master Agreement, pursuant to which the Company agreed to provide management services to the CTS Real Estate Group for a term of three years commencing from 1 January 2019 and ending on 31 December 2021.

The annual cap for each of the three years ending 31 December 2021 is RMB55,000,000.

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, including the CTS Real Estate Group, are connected persons of the Company under the Listing Rules. The entering into of the Management Services Master Agreement between the Company and China CTS will constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps for the continuing connected transactions contemplated under the Management Services Master Agreement will exceed 0.1% but less than 5%, and the annual consideration will be more than HK\$3,000,000, the transactions contemplated under the Management Services Master Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND INFORMATION

The Board is pleased to announce that, on 28 December 2018, the Company and China CTS entered into the Management Services Master Agreement, pursuant to which the Company agreed to provide management services to the CTS Real Estate Group for a term of three years commencing on from 1 January 2019 and ending on 31 December 2021.

THE MANAGEMENT SERVICES MASTER AGREEMENT

It is contemplated that individual specific agreements will be entered into between the Group and the CTS Real Estate Group in respect of the transactions within the scope of the Management Services Master Agreement. The terms of the specific agreements will be entered into in accordance with the principles set out in the Management Services Master Agreement. In the event that there is any conflict between the terms of any such specific agreement and the terms of the Management Services Master Agreement, the terms of the Management Services Master Agreement shall prevail.

The principal terms of the Management Services Master Agreement are as follows:

Date

28 December 2018

Parties

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

Term

1 January 2019 to 31 December 2021 (both dates inclusive)

The Management Services

Pursuant to the Management Services Agreement, the scope of the management services to be provided by the Company includes, among other things:

- (1) management services in respect of the project development and management, business operations, finance, human resources, marketing and administration of the CTS Real Estate Group;
- (2) preparation of annual budgets, operational plan, and investment and financing proposal, and their implementation after obtaining approval from the board of directors of the CTS Real Estate Group;
- (3) preparation of the management structure and basic management policies for the CTS Real Estate Group;

- (4) appointment or dismissal of the management staff of the CTS Real Estate Group;
- (5) preparation of resolutions for the purposes of board meetings or shareholders' meetings of the CTS Real Estate Group; and
- (6) other operational-related duties and responsibilities not under the direct authority of the board of directors or the shareholders of the CTS Real Estate Group.

Pricing Basis

The management fee for each individual agreement shall be negotiated at arm's length between the Company and the CTS Real Estate Group at the time when the individual agreement is entered into and at a price determined upon the basis of the principle of "full cost-plus" which is based on the total cost arising from the provision of management service to the CTS Real Estate Group by the Company plus a margin of not less than 4.71% as agreed after arm's length negotiation between the Company and China CTS.

In determining the costs, the Company will take into account the actual costs incurred (including, among others, the cost of human resources, business development and other resources). In determining the minimum margin, the Company has taken into account the scope and types of the services to be provided by the Company to the CTS Real Estate Group, and has engaged a professional firm to perform analysis in respect of the margin by making comparisons with comparable organizations providing similar services under similar term.

During the term of the Management Services Master Agreement, the Company will implement a control mechanism making reference to the fees and terms in relation to the provision of services of similar nature and of similar terms involving Independent Third Parties (if any) and compare them with the fees and terms for the provision of services by the Company to the CTS Real Estate Group to ensure that the fees receivable by the Company from the CTS Real Estate Group will be no less favourable than the fees receivable from Independent Third Parties for the provision of services of similar nature and of similar term, and are based on normal commercial terms and fair and reasonable.

The management fee will be payable by the CTS Real Estate Group in cash on a quarterly basis.

Annual Caps

The annual cap for each of the three years ending 31 December 2021 is RMB55,000,000, which is determined with reference to the estimated full cost of the Company (including time to be spent by staff members of the Company, utilization of office support and the actual costs, expenses and disbursements incurred by the Company in the course of its provision of the management services to the CTS Real Estate Group) and a margin as aforesaid in order to achieve a reasonable income for the Company. When determining the margin, the Company has compared the margins that are charged by Independent Third Parties for the provision of services of similar nature and of similar term.

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

By entering into the Management Services Master Agreement and leveraging its experience and expertise in tourism real estate management, the Company can strengthen the linkage between its travel destinations and tourism real estate businesses, further improve the comprehensive development plan for its travel destination business, and reinforce integrated operational capability for comprehensive travel destination projects to provide more comprehensive products and services for the market, thereby enhancing its competitiveness, market influence and further implementing its strategic positioning and development plan with an aim to develop a comprehensive destination operation and investment business by integrating scenic spots, resorts and real estate in its comprehensive travel destinations. The management of real estate assets and future real estate investment projects of China CTS under the Management Services Master Agreement will not only enable the Company to benefit from the quality tourism resources of China CTS with synergies and maximized asset yields, but also expand its revenue stream and increase its cash flow.

The Directors (including the independent non-executive Directors and excluding the executive Directors who have abstained from voting as mentioned below) consider that (i) the terms of the Management Services Master Agreement are determined after arm's length negotiation between the Company and China CTS and are fair and reasonable, and (ii) the Management Services Master Agreement and the continuing connected transactions contemplated thereunder (including the annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Shareholders and the Company 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 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 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.

INTERNAL CONTROL MEASURES ON CONTINUING CONNECTED TRANSACTIONS

In accordance with the Listing Rules, the Company will at all times comply 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 Management Services Master 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 Management Services Master 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 will review the transactions with the China CTS Group to identify any continuing connected transaction that may be at risk of exceeding the annual 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 Management Services Master Agreement. The Group's business department will conduct random internal checks on the fees and terms of the transactions and individual agreements 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) the business department of the Group would on a half-yearly basis obtain at least 2 recent comparable fee margins charged by service providers of the provision of similar type, nature and quality of services to Independent Third Parties;
- (iv) the Group would compare the comparable fee margins obtained with the fee margins charged by the Group for the services rendered under the Management Services Master Agreement in order to confirm that the fees charged by the Group is no less favourable than those charged by similar service providers to Independent Third Parties; and
- (v) in the event that the fee margins charged by the Group are lower than the fee margins charged by service providers to Independent Third Parties as obtained by the Group, the Group will further negotiate with China CTS to adjust the fee margins for future services under the Management Services Master Agreement to be no less favourable than those fee margins obtained by the Group as regards Independent Third Parties.

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As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps for the continuing connected transactions contemplated under the Management Services Master Agreement will exceed 0.1% but less than 5%, and the annual consideration will be more than HK\$3,000,000, the transactions contemplated under the Management Services Master Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Fu Zhuoyang is a director of the CTS Real Estate Group and holds senior management position at CTS (Holdings) and is regarded as having material interest in the transaction and has abstained from voting on the Board resolutions in respect of the approval of the transactions contemplated under the Management Services Master Agreement. Mr. Chen Xianjun, Mr. You Cheng and Mr. Yang Hao hold senior management position at CTS (Holdings) or its subsidiaries and have therefore voluntarily abstained from voting on the Board resolution in respect of the approval of the transactions contemplated under Management Services Master 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.

DEFINITIONS

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

“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
“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 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
“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 60.05% of the issued share capital of the Company and a substantial shareholder of the Company
“CTS Real Estate Group”	Earn Success and CTS Shenzhen Investment and their respective subsidiaries. Its principal business include investment, development and management of tourism real estate projects
“CTS Shenzhen Investment”	CTS (Shenzhen) Investment Development Limited, a company established in the PRC with limited liability and a direct wholly-owned subsidiary of China CTS
“Directors”	the directors of the Company
“Earn Success”	Earn Success Investment Limited, a company established in Hong Kong with limited liability, a direct wholly-owned subsidiary of CTS (Holdings) and an indirect wholly-owned subsidiary of China CTS
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent 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
“Management Services Master Agreement”	the management services master agreement dated 28 December 2018 entered into between the Company and China CTS in relation to the provision of certain management services by the Company to the CTS Real Estate Group

“PRC”	the People’s Republic of China, for the purpose of this announcement, exclusively refer to Mainland China
“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
“%”	percentage

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

Hong Kong, 28 December 2018

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