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3 December 2024

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 2024 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 3 December 2024 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalized 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 2024 Financial Services Framework Agreement

As the 2021 Financial Services Framework Agreement relating to the provision of deposit services, comprehensive credit line services, entrustment loan services and cross-border RMB cash pooling services by CTG Finance will expire on 31 December 2024, the Company entered into the 2024 Financial Services Framework Agreement with CTG Finance on 12 November 2024 to renew the terms of such continuing connected transactions for a term of three years commencing from 1 January 2025 and ending on 31 December 2027, pursuant to which CTG Finance will continue to provide services thereunder to the Group.

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 23 December 2021, 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 2027 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 2024 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 are conducted in the ordinary and usual course of business of the Group; 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 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, CTG Finance, CTS (Holdings), CTG 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 2027, 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 recorded 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.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from (i) having acted as the independent financial adviser of the Company relating to the revision of annual caps for the Travel Permit Administration Services of which a circular dated 20 September 2023 was issued; and (ii) the existing engagement for the Non-exempt Continuing Connected Transactions, we did not have any business relationship with the Company, CTS (Holdings), or any director, subsidiary, holding company or substantial shareholder (as defined in the Listing Rules) of CTS (Holdings) currently and 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 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 having considered all the above circumstances.

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 2023 (the "**2023 Annual Report**"), the Group recorded total revenue of approximately HK$4.5 billion in 2023, representing a considerable jump of approximately 48.2% as compared to the prior year of approximately HK$3.0 billion. Among which, revenue generated from travel documents and related operations amounted to approximately HK$476.4 million, surging radically by approximately 299.1% as compared to the prior year of approximately HK$119.4 million.

Information on the other parties

Information on CTG Finance

As extracted from the Letter from the Board, CTG Finance is a subsidiary of and is ultimately controlled by CTG, a controlling shareholder of the Company. CTG Finance is a licensed non-bank financial institution authorized to conduct operations approved by NAFR.

Based on the financial information of CTG Finance which we requested from the Company, CTG Finance recorded total revenue and net profit of approximately RMB124.8 million and RMB33.7 million, respectively, for the year ended 31 December 2023. As at 31 December 2023, the net asset value of CTG Finance amounted to approximately RMB2.6 billion.

Information on CTS (Holdings)

As extracted from the Letter from the Board, CTS (Holdings) is a company incorporated in Hong Kong with limited liability. The CTS (Holdings) Group is principally engaged in travel business and real estate development.

Information on CTG

As extracted from the Letter from the Board, CTG, 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 CTG Group is principally engaged in travel business, real estate development and finance.

As referred to in the official website of CTG (www.ctg.cn), as at the end of 2023, CTG controlled over 600 companies and its total assets exceeded RMB200 billion. Other than the Company, listed subsidiaries of CTG 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 2023, China Tourism Group Duty Free Corporation Limited recorded total revenue and net profit of approximately RMB67.5 billion and RMB8.6 billion, respectively, rising year-on-year by approximately 24.1% and 13.5%, respectively.

2. THE 2024 FINANCIAL SERVICES FRAMEWORK AGREEMENT

Reasons for and possible benefits of the 2024 Financial Services Framework Agreement

We understand from the Directors that the main reasons for the Company to enter into the 2024 Financial Services Framework Agreement with CTG Finance are as follows:

(i) the use of CTG 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 Cash Pooling Services charged, by CTG Finance to the Group will be equal to or more favourable, on a case by case basis, than those offered to the Group 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. CTG Finance was establishment under the approval of the originally China banking and Insurance Regulatory Commission (now part of NAFR) and is a non-bank financial institution approved and regulated by PBOC and NAFR, and is authorized to provide various kinds of financial services to CTG and its member companies, including the Group, in the PRC, including but not limited to, deposit-taking and loan services;

(iv) CTG Finance is regulated by PBOC and NAFR, 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 CTG 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) pursuant to the articles of association of CTG Finance, CTG shall take up the major responsibility in respect of the risk prevention and mitigation of CTG Finance. CTG should establish an effective risk isolation mechanism for CTG Finance so as to prevent spillover of risk from CTG Finance, and will provide funding to CTG Finance to satisfy its capital needs when necessary;

(vii) the Group can better utilise the increasing idle funds in the PRC Subsidiaries by earning a more favourable interest income from CTG Finance, compared with any independent third party for providing services of similar nature and of similar term; and

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

We have discussed with the Directors in further depth regarding the reasons for and possible benefits of the 2024 Financial Services Framework Agreement, in particular:

CTG Finance as a centralized financial platform

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

Besides, as CTG Finance focuses on serving member companies of the CTG Group and the Group, CTG Finance is familiar with the Group's operation and the travel and tourism industry, 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 CTG Finance

Based on our independent research, we noted that as a licensed non-bank financial institution and group finance company in the PRC, CTG Finance is subject to stringent regulations and is regulated by PBOC and NFRA. NFRA's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. Furthermore, in accordance with the relevant requirements under the Measures for the Administration of Finance Companies of Enterprise Groups promulgated in 2022 (a copy of which can be found at http://big5.www.gov.cn/gate/big5/www.gov.cn/zhengce/2022-10/14/content_5725782.htm), group finance companies:

(i) are not allowed to engage in non-financial services business, including property investment or trading; and

(ii) must comply with the following ratio requirements: (1) the capital adequacy ratio shall not be lower than the minimum regulatory requirements of the China Banking and Insurance Regulatory Commission; (2) the liquidity ratio shall not be lower than 25%; (3) the loan balance shall not be higher than 80% of the sum of the deposit balance and paid-in capital; (4) the total amount of liabilities outside the group shall not exceed the net capital; (5) the balance of bill acceptance shall not exceed 15% of the total assets; (6) the balance of bill acceptance shall not exceed three times the balance deposited with banks; (7) the balance of bill acceptance and the total amount of rediscount shall not exceed the net capital; (8) the balance of the acceptance bill deposit shall not exceed 10% of the total deposit; (9) the total investment shall not exceed 70% of the net capital; and (10) the net fixed assets shall not exceed 20% of the net capital.

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 CTG Finance.

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

(i) as presented under the sub-section headed "Information on CTG Finance" of this letter of advice, CTG Finance has a strong financial standing;

(ii) CTG Finance is closely supervised by PBOC and NAFR 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 CTG Finance; and

(iv) as disclosed under the sub-section headed "Reasons for and possible benefits of the 2024 Financial Services Framework Agreement" of this letter of advice, pursuant to the articles of association of CTG Finance, CTG, 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, shall take up the major responsibility in respect of the risk prevention and mitigation of CTG Finance. CTG should establish an effective risk isolation mechanism for CTG Finance so as to prevent spillover of risk from CTG Finance, and will provide funding to CTG Finance to satisfy its capital needs when necessary.

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

In view of the aforesaid reasons for and possible benefits of the 2024 Financial Services Framework Agreement and that as concluded above the financial and credit risks of CTG Finance are likely to be low and manageable, we concur with the Directors that the 2024 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 utilizes the services of CTG Finance on a voluntary and non-exclusive basis and is not obliged to engage CTG Finance for any particular services, or at all under the 2024 Financial Services Framework Agreement dated 12 November 2024. Major terms of the Deposit Services are set out as follows:

Parties:	The Company and CTG Finance
Term:	1 January 2025 to 31 December 2027
Scope and pricing basis of the Deposit Services:	CTG Finance will provide Deposit Services to the PRC Subsidiaries pursuant to the 2024 Financial Services Framework Agreement.

The deposit interest rates to be offered by CTG 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 2024 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 CTG Finance. The Group will only enter into transactions in respect of the Deposit Services if the deposit interest rates offered by CTG 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 independent mainstream PRC financial institutions among the quotations obtained.

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

Undertakings:

CTG 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;

(ii) cooperate with the Company in compliance with the disclosure requirements under the Listing Rules regarding the continuing connected transactions contemplated under the 2024 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; and

(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 CTG Finance.

As aforesaid, the 2024 Financial Services Framework Agreement stipulates that the deposit interest rates to be offered by CTG Finance to the PRC Subsidiaries will not be lower than the benchmark deposit interest rates promulgated by PBOC and the deposit interest rates of similar nature and of similar term offered by at least two independent mainstream PRC financial institutions. In particular, the Company will check the benchmark deposit interest rates promulgated by PBOC together with the deposit interest rates offered by at least two independent mainstream PRC financial institutions before placing any deposit with CTG Finance. In this relation, we have reviewed the internal checking and comparison record of the Company carried out in accordance with its internal control policies, comprising (i) the deposit interest rates of the recent six months from April 2024 to September 2024 which were offered by CTG Finance to the PRC Subsidiaries for deposits with principal amount totaling not less than RMB50 million; and (ii) the corresponding deposit interest rates (where applicable) offered by four independent mainstream financial institutions (being PBOC, Agricultural Bank of China, Industrial and Commercial Bank of China and China Construction Bank Corporation), from which we noted that the deposit interest rates offered by CTG Finance to the PRC Subsidiaries were generally at least 0.5% higher than those offered by the independent mainstream PRC financial institutions. We have chosen such review period as we consider it adequate and representative given its recency and length of continuity.

In addition, we noted that pursuant to the 2024 Financial Services Framework Agreement, services provided by CTG Finance are not exclusive. That is to say, the Group may, but is not obliged to, use the services provided by CTG Finance. CTG 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 2024 Financial Services Framework Agreement as RMB1.5 billion for each of the three years ending 31 December 2025, 2026 and 2027. On the other hand, the maximum annual interest available under the 2024 Financial Services Framework Agreement are RMB38.4 million for the year ending 31 December 2025 and RMB48 million for each of the two years ending 31 December 2026 and 2027.

The table below depicts the actual historical maximum daily deposit amounts in respect of the deposit services provided by CTG Finance to the PRC Subsidiaries:

	2022	**2023**	**For the nine months ended 30 September 2024**
	RMB'000	*RMB'000*	*RMB'000*
Actual deposit amounts	727,000	1,262,000	1,320,000

As depicted, the actual maximum daily deposit amounts of the PRC Subsidiaries with CTG Finance were approximately RMB0.7 billion, RMB1.3 billion and RMB1.3 billion during the two years ended 31 December 2023 and the nine months ended 30 September 2024, respectively, indicating that the PRC Subsidiaries have a constant substantial demand for the deposit services offered by CTG Finance.

Given that:

(i) the PRC Subsidiaries have a constant substantial demand for the deposit services offered by CTG Finance and that the actual maximum daily deposit amount of the PRC Subsidiaries with CTG Finance of approximately RMB1.3 billion for the nine months ended 30 September 2024 represented over 86% of the Deposit Cap of RMB1.5 billion;

(ii) based on our review of the interim report of the Company for the six months ended 30 June 2024, the Group had bank balance and cash totaling approximately HK$2.8 billion, which was far above 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 significantly increasing revenue and net profit in 2023, 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 CTG Finance on terms no less favourable than those offered by the independent mainstream financial institutions; and

(v) the maximum annual interest receivable is calculated primarily based on the Deposit Cap of RMB1.5 billion and the prevailing highest deposit rate of 3.2% offered by CTG Finance to the PRC Subsidiaries for the nine months ended 30 September 2024, i.e. RMB1.5 billion times 3.2% = RMB48 million. In consideration of that (i) the historical annual interest income received by the PRC Subsidiaries was lower; and (ii) the expected downward trend in worldwide interest rate, the Company has discounted the said maximum interest income amount by 20% (representing an interest rate of around 2.6%) for 2025. Upon review of the terms of the Group's deposits with CTG Finance in 2024, we noted that the average interest rate was around 2.5% for deposits with term of more than half year (which means their maturity date would fall in 2025). We thus consider the 20% discount to be acceptable. As for 2026 and 2027, we concur with the Directors to remain applying the highest deposit rate of 3.2% for the maximum annual interest receivable to allow for a possible increase in worldwide interest rate in 2026 and 2027.

we are of the view the Deposit Caps under the 2024 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 23 December 2021, 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 2027 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. 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).

Based on our independent research from various announcements made by the Hong Kong government at news.gov.hk, a series of supportive government policies have been introduced to boost the day-to-day tie and cooperative relationship between Hong Kong and the Mainland China. Details are as follows:

(i) the ongoing development of the tourism and travel industry leveraging on 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》);

(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-Macao 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); and

(iv) the Northbound Travel for Hong Kong Vehicles (港車北上) which allows eligible Hong Kong private cars to travel between Hong Kong and Guangdong via the Hong Kong-Zhuhai-Macao Bridge without the need to obtain regular quotas. The scheme would facilitate Hong Kong residents to drive to Guangdong for business, visiting families or sight-seeing on a short-term basis.

In view of (i) the past operational convenience and benefits brought to the Group; (ii) the long-term business relationship between the Group and CTS (Holdings) built up throughout the years; and (iii) the upcoming possible boost of the day-to-day tie and cooperative relationship between Hong Kong and the Mainland China, 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 CTSEP 45% of the gross fee revenue from travel permit applications for the services provided by CTSEP (the "**Agency Fee**") in relation to the Travel Permit Administration Services. The Agency Fees will be payable monthly by cash. In this relation, we noted that the Company's finance department will monitor the payment from CTS (Holdings) on a monthly basis to ensure that the payment and timing of payment are in line with the pricing basis and payment terms as set out in the Agency Agreement. We have reviewed the relevant bank transfer receipts in September 2024 and October 2024 which indicated that CTS (Holdings) had paid the Agency Fee to the Group monthly in accordance with the Agency Agreement.

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 PRC visa services provided by CTSEP to foreigners (the "**Visa Services**") given that both involve the provision of administration for travel documents and 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. While these two kinds of services have different operational pattern and certain distinct direct costs, their other cost components are shared and are not easily separable. Therefore, only the gross profit margin of the Visa Services can be used as a benchmark. 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 gross profit margins of the Travel Permit Administration Services for the two years ended 31 December 2023 and the nine months ended 30 September 2024 were approximately 92.4%, 91.6% and 91.7%, respectively, which were higher than the gross profit margins of the Visa Services of approximately 30.5%, 22.8% and 38.0% in 2022, 2023 and the nine months ended 30 September 2024, respectively. We also understand from the Directors that the business department of the Company will 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 the Travel Permit Administration Services.

In light of that (i) the profit margin of the Travel Permit Administration Services was higher than that of the Visa Services; and (ii) the Group has established adequate (being on a monthly basis) and effective internal control policies with clear reporting line and suitable personnel for both execution and supervision, 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$325.5 million for each of the three years ending 31 December 2025, 2026 and 2027.

We have reviewed the 2023 Annual Report and noted that the Group recorded total revenue of approximately HK$4.5 billion in 2023, representing a considerable jump of approximately 48.2% as compared to the prior year of approximately HK$3.0 billion. Among which, revenue generated from travel documents and related operations amounted to approximately HK$476.4 million, surging radically by approximately 299.1% as compared to the prior year of approximately HK$119.4 million.

Moreover, it is noted that the actual transaction amounts of the Travel Permit Administration Services had risen from approximately HK$68.4 million in 2021 to approximately HK$82.9 million in 2022, and further escalated drastically to approximately HK$375.7 million in 2023, utilizing nearly 94% of the relevant annual cap for that year. During the nine months ended 30 September 2024, the actual transaction amount of the Travel Permit Administration Services was approximately HK$221.1 million.

As advised by the Directors, in determining the Annual Caps, the following factors have been taken into account: (i) the historical transaction amounts during the years ended 31 December 2022 and 2023 and the annualized transaction amount for 2024 (the "**2024 Annualized Amount**") estimated based on the transaction amount for the nine months ended 30 September 2024 in respect of the Travel Permit Administration Services; (ii) the 2024 Annualized Amount is considered to be indicative of demands for travel documents business as the demand has resumed to a normal level as compared to 2023, during which the transaction amount peaked as the large accumulated and delayed demand for travel documents renewal was absorbed following the re-opening of borders and the relaxation of COVID-19 pandemic related travelling restrictions and social distancing measures in Hong Kong and the PRC; and (iii) provision of a buffer of approximately 5% to cover a possible unexpected increase in demand for the travel documents business.

Commencing from the beginning of 2023, the COVID-19 pandemic related travelling restrictions and social distancing measures in Hong Kong and the PRC have been gradually relaxed. Among which, normal travel between Hong Kong and the Mainland China was fully resumed from 6 February 2023 onwards. The arrangements concerned include opening up all boundary control points without imposing any prescribed daily numbers of people thereon; cancelling the pre-departure nucleic acid test requirement; and enabling cross-boundary students to resume face-to-face classes in an orderly manner. As a result of these relaxation arrangements as well as the growing trend of cross-border consumption, travels between Hong Kong and the

Mainland China have jumped robustly. Based on the data released by the Census and Statistics Department of Hong Kong, the total number of visitor arrivals to Hong Kong from the Mainland China surpassed 26,000,000 during 2023, as compared to less than 400,000 during 2022. From January 2024 to August 2024, the total number reached almost 23,000,000, being nearly 90% of the 2023 total. Concurrently, the number of Hong Kong visitors travelling to the Mainland China has also climbed tremendously. With reference to the data released by the Census and Statistics Department of Hong Kong, the total number of Hong Kong resident departures from land control points surpassed 60,000,000 in 2023, as compared to less than 410,000 during 2022. From January 2024 to August 2024, the total reached almost 59,000,000, being nearly 100% of the 2023 total.

The full resumption of normal travel between Hong Kong and the Mainland China has inevitably led to a strong demand for the Travel Permit Administration Services. As aforementioned, the actual transaction amount of the Travel Permit Administration Services amounted to approximately HK$221.1 million for the nine months ended 30 September 2024; as such, the 2024 Annualized Amount would approach HK$300 million, which is already over 90% of the Annual Cap of HK$325.5 million. Notwithstanding that a substantial portion of expired travel documents were renewed in 2023, the upcoming possible boost of the day-to-day tie and cooperative relationship between Hong Kong and the Mainland China amid the series of supportive government policies introduced (for details, please refer to the sub-section headed "Reasons for and possible benefits of the Agency Agreement and the Deed of Novation" of this letter of advice), as well as the growing trend of cross-border consumption would likely to create a constant solid demand for the travel documents business. Therefore, it is also reasonable for the Company to include certain buffer when setting the Annual Caps.

Taking into account of the above, we are of the view that the Annual Caps are fair and reasonable.

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 study of those internal control measures, the relevant internal minutes and reporting record, we understand that the Non-exempt Continuing Connected Transactions are under proper regular check by designated personnel of the finance department and business department (as the case may be) and are subject to approval by the Group's senior management. Hence, the internal control measures of the Group to supervise the Non-exempt Continuing Connected Transactions are adequate and effective to ensure that they will be conducted in accordance with the relevant terms.

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) 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 2021 to 2023.

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 and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the 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 19 years of experience in corporate finance.