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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 MASTER LEASE AGREEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 8 November 2018 in relation to the continuing connected transactions contemplated under the 2018 Master Lease Agreement.

As the 2018 Master Lease Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2021, the Company entered into the 2021 Master Lease Agreement with China CTS on 30 December 2021 to renew the terms of the continuing connected transactions for a term commencing from 1 January 2022 and ending on 31 December 2024, where the Group will continue to obtain leases of office premises from the China CTS Group.

LISTING RULES IMPLICATIONS

CTS (Holdings) is a connected person of the Company by virtue of being a controlling 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.

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the highest of the annual caps are more than 0.1% but all are less than 5%, the 2021 Master Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND INFORMATION

Reference is made to the announcement of the Company dated 8 November 2018 in relation to the continuing connected transactions contemplated under the 2018 Master Lease Agreement.

As the 2018 Master Lease Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2021, the Company entered into the 2021 Master Lease Agreement with China CTS on 30 December 2021 to renew the terms of the continuing connected transactions for a term commencing from 1 January 2022 and ending on 31 December 2024, where the Group will continue to obtain leases of office premises from the China CTS Group.

THE 2021 MASTER LEASE AGREEMENT

Date

30 December 2021

Parties

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

Term

1 January 2022 to 31 December 2024

Transaction Nature

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

Payment

The rental and other charges payable by the Group to the China CTS Group under the 2021 Master Lease Agreement shall be settled monthly in cash.

Pricing Basis

The rental and other charges charged by the China CTS Group to the Group shall be negotiated on an arm's length basis, based on normal commercial terms, fair and reasonable, and determined by a pricing mechanism with reference to the prevailing market prices of comparable properties of similar specifications, size and nature in the vicinity of the premises to be leased, in relation to which the Group will obtain at least two quotations of such rental information for comparison purposes. The rental and other charges payable by the Group to the China CTS Group shall not exceed the prevailing market prices with reference to the rental information gathered by the Group of comparable properties in the vicinity and are monitored regularly under the Group's internal control procedures.

Historical Figures

The total amount of the continuing connected transactions under the 2018 Master Lease Agreement in connection with the rents received or receivable by the China CTS Group from the Group for each of the three financial years ended 31 December 2021 are HK\$15,507,000, HK\$9,743,000, and HK\$5,851,000, respectively. The total value of right-of-use assets relating to the existing leases as at 31 December 2021 is HK\$7,658,000.

Annual Caps

The table below shows the annual caps for the total value of right-of-use assets related to leases which has been or to be entered into by the Group in the three years ending 31 December 2024 under the 2021 Master Lease Agreement:

	Year ending 31 December		
	2022	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual caps	25,279	19,289	13,230

According to HKFRS 16 “Leases”, the Group is required to recognize a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate in the year of entering into the lease where the Group acts as a lessee. The transactions contemplated under the 2021 Master Lease Agreement will be recognized as the acquisitions of right-of-use assets and the Group is required to set annual caps on the total value of right-of-use assets relating to leases to be entered into by the Group as lessee in each year under the 2021 Master Lease Agreement.

The annual caps represent the total value of right-of-use assets related to the leases which has been or to be entered into by the Group in each year under the 2021 Master Lease Agreement and are determined with reference to (i) the historical transaction amounts of the continuing connected transactions under the 2018 Master Lease Agreement; (ii) the weighted average lessees’ incremental borrowing rate applied to the lease liabilities; (iii) the expected rental of leased properties that will be payable to the China CTS Group by the Group during the term of the 2021 Master Lease Agreement; (iv) the expected market rental level of the office premises in the PRC and Hong Kong; and (v) provision of a buffer to cover a possible increase in demand for the leasing of China CTS Group’s properties and possible fluctuation in market rental of office premises in the PRC and Hong Kong.

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 2021 Master Lease Agreement.

The terms and conditions provided by the China CTS Group in relation to the leases under the 2021 Master Lease Agreement will be determined with reference to prevailing market prices and terms and no less favourable to the Group than those provided by Independent Third Parties.

The Directors (including the independent non-executive Directors) consider that the 2021 Master Lease Agreement was entered into on normal commercial terms after arm's length negotiations and in the ordinary and usual course of business of the Group, and that the terms (including the annual caps) are fair and reasonable and are in the interest 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 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.

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 2021 Master Lease 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 2021 Master Lease Agreement to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda. The Company shall ensure that such kind of reporting shall be conducted not less than two times in a year;

- (ii) the Company's finance department will review the transactions with the China CTS Group to identify any continuing connected transaction that may be at risk of exceeding the 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 2021 Master Lease 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 2021 Master Lease Agreement, the Group's business department will keep track of and refer to the prevailing market prices of comparable properties of similar specifications, size and nature in the vicinity of the premises to be leased, in relation to which the Group will obtain at least two quotations of such rental information for comparison purpose prior to entering into each tenancy agreement. 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. This would ensure that the prices and terms for the Leases will be based on prevailing market terms and be no less favourable to the Company than those offered by Independent Third Parties;
- (iv) the China CTS Group shall provide such assistance as necessary to the Group so as to allow the Group to comply with its internal control procedures and the requirements under the Listing Rules, including but not limited to providing financial and other data and/or documents within a reasonable timeframe, giving written or verbal explanations to queries raised by the Group and issue explanatory notes for certain facts or circumstances;
- (v) the transactions contemplated under the 2021 Master Lease Agreement will be reviewed by the independent non-executive Directors every year and reported in the annual report of the Company which provides a check and balance to ensure that the transactions under the 2021 Master Lease Agreement were conducted in accordance with the terms of the 2021 Master Lease Agreement, on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole, and the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policy set out in the 2021 Master Lease Agreement; and
- (vi) the auditor of the Company will conduct annual review on the pricing and the annual caps of the transactions contemplated under the 2021 Master Lease Agreement.

LISTING RULES IMPLICATIONS

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As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the highest of the annual caps are more than 0.1% but all are less than 5%, the 2021 Master Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Mr. Jiang Hong, Mr. Wu Qiang, Mr. Fan Dongsheng and Mr. Tang Yong are directors of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS. Mr. Jiang Hong and Mr. Wu Qiang are directors of CTG Investment Management corporation Limited, a subsidiary of CTS (Holdings), and Mr. Tsang Wai Hung is a director of CTS (Holdings). They are regarded as having material interest in the 2021 Master Lease Agreement and have therefore abstained from voting on the Board resolution approving the 2021 Master Lease Agreement. Save as disclosed above, none of other Directors has a material interest in the 2021 Master Lease Agreement and accordingly, none of them was 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:

“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
“2021 Master Lease Agreement”	the master lease agreement dated 30 December 2021 and entered into between the Company and China CTS in relation to the lease arrangements with the China CTS Group as lessor
“associate(s)”, “connected person(s)”, “subsidiary(ies)”, “controlling 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 61.15% of the issued share capital of the Company and a controlling shareholder of the Company
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 “Leases”, effective on 1 January 2019
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	parties who are independent of and not connected with the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Share(s)”	ordinary share(s) in the share capital of the Company

“Shareholder(s)” the holder(s) of Share(s)

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“%” percentage

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

Hong Kong, 30 December 2021

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