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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 – 2022 MASTER LEASE AGREEMENT

2022 MASTER LEASE AGREEMENT

Reference is made to the announcement of the Company dated 31 December 2019 in relation to the continuing connected transactions contemplated under the 2019 Master Lease Agreement.

As the 2019 Master Lease Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2022, the Company entered into the 2022 Master Lease Agreement with China CTS on 30 December 2022 to renew the terms of the continuing connected transactions for a term commencing from 1 January 2023 and ending on 31 December 2025, where the Group will continue to lease its office premises and/or other properties to the China CTS Group.

LISTING RULES IMPLICATIONS

CTS (Holdings) is a connected person of the Company by virtue of being a controlling shareholder which is interested in 3,385,492,610 Shares, representing 61.15% of the issued share capital of the Company. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS is a connected person of the Company under the Listing Rules.

As one of more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the largest of the annual caps are more than 0.1% but all are less than 5%, the transaction under the 2022 Master Lease Agreement constitutes a continuing connected transaction of the Company and 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 31 December 2019 in relation to the continuing connected transactions contemplated under the 2019 Master Lease Agreement.

As the 2019 Master Lease Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2022, the Company entered into the 2022 Master Lease Agreement with China CTS on 30 December 2022 to renew the terms of the continuing connected transactions for a term commencing from 1 January 2023 and ending on 31 December 2025, where the Group will continue to lease its office premises and/or other properties to the China CTS Group.

THE 2022 MASTER LEASE AGREEMENT

Date

30 December 2022

Parties

(a) the Company; and

(b) China CTS

Term

1 January 2023 to 31 December 2025 (both dates inclusive)

Transaction Nature

The Group will continue to lease its office premises and/or other properties to the China CTS Group during the term of the 2022 Master Lease Agreement. Pursuant to such arrangement, the Group will renew or enter into individual lease agreements with the China CTS Group to lease certain office premises and/or other properties of the Group to the China CTS Group.

Payment

The rental and other charges payable by the China CTS Group to the Group under the 2022 Master Lease Agreement shall be settled monthly in cash.

Pricing Basis

The rental and other charges charged by the Group to the China CTS Group shall be determined after arm's length negotiation, based on normal commercial terms, fair and reasonable, and 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 China CTS Group to the Group shall not be no less favourable to the Group than the prevailing market prices with reference to the quotations and rental information gathered by the Group of comparable properties in the vicinity and are monitored regularly under the Group's internal control procedures.

Historical Annual Caps and Transaction Amounts

The historical annual caps for the lease transactions under the 2019 Master Lease Agreement for each of the three financial years ended/ending 31 December 2022 are HK\$25,010,000, HK\$25,210,000 and HK\$25,210,000, respectively. The total amount of the continuing connected transactions in respect of the rents received or receivable by the Group from the China CTS Group for each of the two financial years ended 31 December 2021 and the nine months ended 30 September 2022 were HK\$956,000, HK\$3,425,000 and HK\$8,407,000, respectively.

Annual Caps

The low utilization rate of the historical annual caps for the lease transactions under the 2019 Master Lease Agreement was mainly due to the unexpected outbreak of the COVID-19 pandemic, which had brought unforeseeable and unprecedented impact to businesses, in particular the travelling industry. While the China CTS Group has become more prudent to lease additional properties for business development purposes, the number of properties leased and the rental received by the Group were less than the planned capacity in 2019.

The annual caps for the lease transactions under the 2022 Master Lease Agreement are as follows:

	Year ending 31 December		
	2023	2024	2025
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Lease of office premises and/or other properties to the China CTS Group as lessee	14,600	16,000	17,600

The above annual caps are determined after taking into account, amongst others, (i) the estimated total transaction amount for the year ending 31 December 2022 of approximately HK\$13,207,000, representing the actual transaction amount of HK\$8,407,000 for the nine months ended 30 September 2022 plus and the estimated transaction amount of approximately HK\$4,800,000 for the three months ending 31 December 2022 principally based on the terms of the existing lease agreements; (ii) the expected gradual recovery from the outbreak of the COVID-19 pandemic based on the recent pandemic related policies and relaxation of relevant pandemic related restrictions in the PRC and Hong Kong and correspondingly the expected properties to be leased and the rental receivable from the China CTS Group during the term of the 2022 Master Lease Agreement; (iii) the expected market rental level of the office premises and/or other properties in the PRC and Hong Kong; and (iv) provision of a year-on-year buffer of approximately 10% to cover a possible increase in demand for the leasing of properties from the China CTS Group and possible fluctuation in market rental of office premises and/or other properties in the PRC and Hong Kong.

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.

Pursuant to the 2022 Master Lease Agreement, the Company and China CTS would allow the auditors with sufficient access and inspection right to the books and records for the purpose of disclosure on the transactions contemplated under the 2022 Master Lease Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2022 MASTER LEASE AGREEMENT

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. The Group will also generate reasonable return with its properties, which will benefit the Group's cash flow position. Thus, the Directors (including the independent non-executive Directors) consider that the terms of the 2022 Master Lease Agreement have been negotiated on an arm's length basis and entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the transactions contemplated thereunder (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The terms and conditions provided by the Group in relation to the leases under the 2022 Master Lease Agreement will be determined with reference to the prevailing market prices and the terms will be no less favourable to the Group than those provided by Independent Third Parties.

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 2022 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 2022 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 will 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 a 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 2022 Master Lease Agreement;

- (iii) The Group's business department will conduct random internal checks on at least 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;
- (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) for the purpose of determining the rental and other charges receivable by the Group from the China CTS Group under the 2022 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 out, in relation to which the Group will obtain at least two quotations of such rental information for comparison purposes prior to entering into each lease 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 in the contract. This would ensure that the prices and terms for the leases will be based on the prevailing market terms and be no less favourable to the Company than those offered to Independent Third Parties;
- (vi) the transactions contemplated under the 2022 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 2022 Master Lease Agreement were conducted in accordance with the terms of the 2022 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 2022 Master Lease Agreement; and
- (vii) the auditors of the Company will conduct annual review on the pricing and the annual caps of the transactions contemplated under the 2022 Master Lease Agreement.

LISTING RULES' IMPLICATIONS

CTS (Holdings) is a connected person of the Company by virtue of being a controlling shareholder which is interested in 3,385,492,610 Shares, representing 61.15% of the issued share capital of the Company. As China CTS holds the entire issued share capital of CTS (Holdings), China CTS is a connected person of the Company under the Listing Rules.

As one of more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the largest of the annual caps are more than 0.1% but all are less than 5%, the transaction under the 2022 Master Lease Agreement constitutes a continuing connected transaction of the Company and 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. Wu Qiang and Mr. Tao Xiaobin hold senior management positions at CTS (Holdings), Mr. Feng Gang and Mr. Fan Zhishi are directors of certain subsidiaries of China CTS, and Mr. Tsang Wai Hung is a director of CTS (Holdings). Such Directors are considered to be having material interest in the 2022 Master Lease Agreement and have therefore abstained from voting on the Board resolution(s) approving the 2022 Master Lease Agreement and the transactions contemplated thereunder (including the annual caps). Save as disclosed above, none of the other Directors has material interest in the 2022 Master Lease Agreement and the transactions contemplated thereunder (including the annual caps), and accordingly, none of them was required to abstain from voting on the Board resolution(s) considering and approving the same.

INFORMATION OF THE PARTIES

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

DEFINITIONS

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

“2019 Master Lease Agreement”	the master agreement dated 31 December 2019 and entered into between the Company and China CTS in relation to the lease of office premises and/or other properties by the Group as lessor to the China CTS Group as lessee
“2022 Master Lease Agreement”	the master agreement dated 30 December 2022 and entered into between the Company and China CTS in relation to the lease of office premises and/or other properties by the Group as lessor to the China CTS Group as lessee

“associate(s)”, “connected person(s)”, “subsidiary(ies)”, “controlling shareholder(s)”	each of which has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 308)
“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 3,385,492,610 Shares, representing 61.15% of the issued share capital of the Company and a connected person of the Company under the Listing Rules
“Directors”	the directors of the Company
“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 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 (excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan for the purpose of this announcement)
“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
“%”	per cent.

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

Hong Kong, 30 December 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Wu Qiang, Mr. Feng Gang and Mr. Li Pengyu; three non-executive Directors, namely Mr. Tsang Wai Hung, Mr. Tao Xiaobin and Mr. Fan Zhishi; 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.