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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

Reference is made to the announcement of the Company dated 21 July 2017 in relation to the continuing connected transactions contemplated under the 2017 Master Lease Agreement. The 2017 Master Lease Agreement relating to the continuing connected transactions provided thereunder will expire on 31 December 2019.

On 31 December 2019, the Company entered into the 2019 Master Lease Agreement with China CTS to (i) renew the terms of the continuing connected transactions contemplated under the 2017 Master Lease Agreement for a term commencing from 1 January 2020 and ending on 31 December 2022, where the Group will continue to lease its office premises or other properties to the China CTS Group; and (ii) to govern the lease of the Group's computer system and provision of maintenance services to the China CTS Group for a term commencing from 1 January 2020 and ending on 31 December 2022.

As China CTS holds the entire issued share capital of CTS (Holdings) and CTS (Holdings) is a substantial shareholder of the Company, China CTS is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2019 Master Lease Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the 2019 Master Lease Agreement is more than 0.1% but less than 5% and have an annual consideration of more than HK\$3,000,000, the entering into of the 2019 Master Lease Agreement is only subject to the reporting, announcement and annual review requirements but is exempt from the circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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THE 2019 MASTER LEASE AGREEMENT

Date

31 December 2019

Parties

- (a) the Company; and
- (b) China CTS

Term

1 January 2020 to 31 December 2022 (both dates inclusive)

Transaction Nature

1. Lease of office premises or other properties to the China CTS Group as lessee

The Group will continue to lease its office premises or other properties to the China CTS Group. Pursuant to such arrangement, the Group will renew or enter into individual lease agreements with the China CTS Group to lease certain office premises or other properties of the Group to the China CTS Group.

2. Lease of computer system to the China CTS Group as lessee

The Group will lease its computer system and provide maintenance services to the China CTS Group as lessee. Pursuant to such arrangement, the Group will renew or enter into individual agreements with the China CTS Group to lease certain computer system and provide maintenance services to the China CTS Group.

Pricing Basis

1. Lease of office premises or other properties to the China CTS Group as lessee

The rental and other charges charged by the Group to the China CTS Group shall be based on normal commercial terms, fair and reasonable, and determined by a pricing mechanism having reference to the prevailing market prices of comparable properties in the vicinity and shall not be lower than the prevailing market prices of comparable properties in the vicinity charged by the Group to Independent Third Parties as are monitored regularly by the Group's internal control procedures. The rental and other charges will be payable monthly in cash.

2. Lease of computer system to the China CTS Group as lessee

The rental or other services charges for maintenance services to be provided by the Group will be based on normal commercial terms, fair and reasonable, and determined by a pricing mechanism having reference to the prevailing market prices and shall not be lower than the prevailing market prices charged by the Group to any Independent Third Parties for the provision of similar rental and related services as are monitored regularly by the Group's internal control procedures. The rental and related service charges is charged on a monthly basis.

Historical Figures

1. Lease of office premises or other properties to the China CTS Group as lessee

The total amount of the continuing connected transactions in connection with the rents received or receivable by the Group from the China CTS Group for each of the two financial years ended 31 December 2018 and the nine months ended 30 September 2019 were RMB5,222,000, RMB5,460,000, and RMB1,962,000, respectively.

2. Lease of computer system to the China CTS Group as lessee

The total amount of the continuing connected transactions in connection with the lease of the Group's computer system and the provision of maintenance services to the China CTS Group for each of the two financial years ended 31 December 2018 and the nine months ended 30 September 2019 were HK\$2,290,000, HK\$3,318,000 and HK\$2,183,000, respectively.

Annual Caps

The annual caps under the 2019 Master Lease Agreement are as follows:

	Year ending 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Lease of office premises or other properties to the China CTS Group as lessee	25,010	25,210	25,210
(b) Lease of computer system to the China CTS Group as lessee	8,443	7,921	7,921

In relation to the lease of office premises or other properties to the China CTS Group as lessee, the annual caps are determined based on the followings:

- (i) historical transaction amounts for transactions for the two years ended 31 December 2018 and the nine months ended 30 September 2019;
- (ii) the Company's internal projections in respect of rental receivable under individual lease agreements that may be entered into between the Group and the China CTS Group;
- (iii) the expected annual rent receivable by the Group under the individual lease agreements which may be entered into between the Group and the China CTS Group under the 2019 Master Lease Agreement;
- (iv) the increase in current market rent in general as compared with that in 2018; and
- (v) the expected increase in rental receivable under tenancy for office premises or other properties in the forthcoming years after completion of the disposal of travel agency business to China Travel Service Co., Ltd., a subsidiary of China CTS, as disclosed in the announcement of the Company dated 9 August 2019.

In relation to the lease of computer system to the China CTS Group as lessee, the annual caps are determined based on the followings:

- (i) the historical transaction amounts for transactions for the two years ended 31 December 2018 and the nine months ended 30 September 2019; and
- (ii) an expected increase of rental income from the lease of computer systems to the China CTS Group after completion of the disposal of travel agency business to China Travel Service Co., Ltd., as disclosed in the announcement of the Company dated 9 August 2019.

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 2019 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 reporting on the transactions contemplated thereunder the 2019 Master Lease Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2019 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. Thus, the Directors (including the independent non-executive Directors) consider that the terms of the 2019 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 and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Mr. Jiang Hong and Mr. Yang Hao hold executive and senior management positions at CTS (Holdings) or its subsidiaries and have therefore voluntarily abstained from voting on the Board resolution approving the 2019 Master Lease Agreement. Save as disclosed above, none of other Directors has a material interest in the 2019 Master Lease Agreement and accordingly, none of them was required to abstain from voting on the Board resolution for considering and approving the same.

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 2019 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 2019 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 and compliance team 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 2019 Master Lease Agreement. The Group's business department will conduct random internal checks quarterly 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 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;
- (iv) before entering into individual contracts in respect of the services to be provided to the China CTS Group, the business department of the Group will review whether the rental and service fees for the China CTS Group are commensurate with the rental and service fees from or for Independent Third Parties (including obtaining price quotations or market data in respect of service fees or rental from or for Independent Third Parties of comparable leases or services). If no such data in relation to leases or services provided to Independent Third Parties by the Group is available, the service fees rate for the China CTS Group shall be on normal commercial terms in accordance with the internal pricing guidelines (set and reviewed regularly with reference to terms of similar services or arrangement provided by Independent Third Parties in the market) of the Group and be no less favourable to the Group than those charged by the Group to its other customers in respect of comparable services. The internal pricing guidelines will include factors such as cost and benefit, resources required and expected short term and long-term return, which are to be taking into account by the Group independently;
- (v) the transactions contemplated under the 2019 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 2019 Master Lease Agreement were conducted in accordance with the terms of the 2019 Master Lease Agreement, on normal commercial terms and fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to endure that such continuing connected transactions are conducted in accordance with the pricing policy set out in the 2019 Master Lease Agreement; and
- (vi) the auditors of the Company will conduct annual review on the pricing and the annual caps of the transactions contemplated under the 2019 Master Lease Agreement.

LISTING RULES' IMPLICATIONS

As China CTS holds the entire issued share capital of CTS (Holdings) and CTS (Holdings) is a substantial shareholder of the Company, China CTS is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2019 Master Lease Agreement constitute continuing connected transactions for the Company under the Listing Rules.

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INFORMATION OF THE PARTIES

The principal business activities of the Group include operations of travel destinations (including hotels, theme parks, natural and cultural scenic spots, and leisure resorts), travel agency, travel document 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.

DEFINITIONS

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

“2017 Master Lease Agreement”	the master agreement dated 21 July 2017 entered into between the Company and China CTS in relation to the lease arrangements with China CTS Group as lessee
“2019 Master Lease Agreement”	the master agreement dated 31 December 2019 entered into between the Company and China CTS in relation to the lease arrangements with China CTS Group as lessee
“associates”	has the same meaning as ascribed thereto in 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 and the shares of which are listed on the main board of the Stock Exchange (stock code: 308)

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CTS (Holdings)”	China Travel Service (Holdings) Hong Kong Limited, a company interested in 60.95% 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 from the Company and the connected persons of the Company
“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
“Shareholders”	shareholders 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, 31 December 2019

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. You Cheng, Mr. Yang Hao and Mr. Wu Qiang 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.