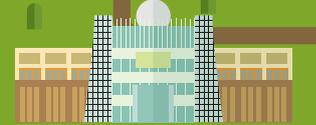
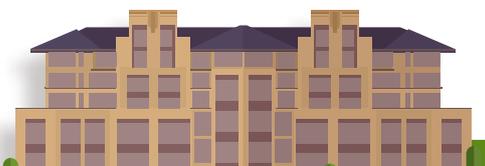




香港 **中旅** 國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(Stock Code : 308)

INTERIM REPORT 2017





CONTENTS

Corporate Information	2
Financial Calendar and Information for Shareholders	3
Interim Results	
– Report on Review of Interim Financial Information	4
– Condensed Consolidated Income Statement	5
– Condensed Consolidated Statement of Comprehensive Income	6
– Condensed Consolidated Statement of Financial Position	7
– Condensed Consolidated Statement of Changes in Equity	9
– Condensed Consolidated Statement of Cash Flows	11
– Notes to Condensed Consolidated Interim Financial Information	12
Management’s Discussion and Analysis	35
Other Information	42

CORPORATE INFORMATION



DIRECTORS

Mr. Zhang Fengchun (*Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Zhang Xing
(*Executive Deputy General Manager*)
(*in charge of overall operation*)
Mr. Liu Fengbo (*Deputy General Manager*)
Mr. Chen Xianjun
Dr. Fong Yun Wah*
Mr. Wong Man Kong, Peter*
Mr. Sze, Robert Tsai To*
Mr. Chan Wing Kee*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Wong Man Kong, Peter (*Chairman*)
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

REMUNERATION COMMITTEE

Mr. Wong Man Kong, Peter (*Chairman*)
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee
Mr. Zhang Fengchun

NOMINATION COMMITTEE

Mr. Zhang Fengchun (*Chairman*)
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Zhang Fengchun (*Chairman*)
Mr. Chen Xianjun
Mr. Wong Man Kong, Peter
Mr. Sze, Robert Tsai To
Mr. Chan Wing Kee

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation
China Everbright Bank Co., Ltd, Hong Kong Branch
Bank of Communications Co. Ltd, Hong Kong Branch



FINANCIAL CALENDAR AND INFORMATION FOR SHAREHOLDERS

FINANCIAL CALENDAR

Announcement of 2017 interim results	29 August 2017
Closure of register of members	20 to 22 September 2017 (both dates inclusive)
Record date for 2017 interim dividend	22 September 2017
Payment of 2017 interim dividend	10 October 2017

REGISTERED OFFICE

12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

SHARE REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.irasia.com/listco/hk/ctii

STOCK CODE

308

INVESTOR RELATIONS CONTACT

Tel: (852) 2853 3111
Fax: (852) 2851 7538
Email: ir@hkcts.com

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



TO THE BOARD OF DIRECTORS OF CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 34, which comprises the condensed consolidated statement of financial position of China Travel International Investment Hong Kong Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related condensed consolidated income statement, condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accounts. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

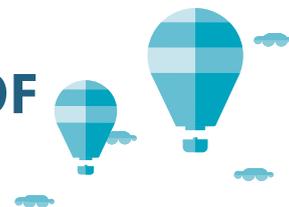
For the six months ended 30 June 2017

	Note	Unaudited	
		2017 HK\$'000	2016 HK\$'000
Revenue	7	2,352,109	1,820,093
Cost of sales		(1,402,693)	(955,870)
Gross profit		949,416	864,223
Other income and gains, net	8	115,978	74,788
Changes in fair value of investment properties		46,988	24,970
Selling and distribution costs		(262,817)	(252,999)
Administrative expenses		(435,559)	(403,705)
Operating profit	9	414,006	307,277
Finance income	10	26,482	46,929
Finance costs	10	(2,311)	(6,157)
Finance income, net	10	24,171	40,772
Share of profits less losses of			
Associates		59,062	80,077
Joint ventures		(607)	1,698
Profit before taxation		496,632	429,824
Taxation	11	(66,411)	(90,619)
Profit for the period from continuing operations		430,221	339,205
Discontinued operations			
Profit from discontinued operations	28	20,538	—
Profit for the period		450,759	339,205
Attributable to:			
Equity owners of the Company		374,546	270,043
Non-controlling interests		76,213	69,162
Profit for the period		450,759	339,205
Earnings per share for profit attributable to equity owners of the Company (HK cents)	13		
Basic earnings per share from:			
– Continuing operations		6.50	4.90
– Discontinued operations		0.38	—
		6.88	4.90
Diluted earnings per share from:			
– Continuing operations		6.49	4.90
– Discontinued operations		0.38	—
		6.87	4.90

The notes on pages 12 to 34 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017



	Unaudited	
	2017 HK\$'000	2016 HK\$'000
Profit for the period	450,759	339,205
Other comprehensive income/(loss)		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Gain on property revaluation, net of tax	1,332	31,257
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Share of hedging reserve of an associate	(3,791)	13,481
Exchange differences on translation of foreign operations, net	311,581	(185,680)
Release of exchange difference upon disposal of a subsidiary	(11,566)	—
Other comprehensive income/(loss) for the period, net of tax	297,556	(140,942)
Total comprehensive income for the period	748,315	198,263
Total comprehensive income for the period attributable to:		
Equity owners of the Company	643,975	147,068
Non-controlling interests	104,340	51,195
	748,315	198,263

The notes on pages 12 to 34 form an integral part of this interim consolidated financial information.

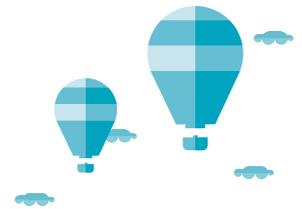
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	7,625,219	7,451,863
Investment properties	15	1,641,366	1,567,692
Prepaid land lease payments		661,124	426,540
Goodwill		1,320,591	1,320,591
Other intangible assets		212,321	163,076
Interests in associates		1,073,599	1,020,209
Interests in joint ventures		14,926	51,761
Available-for-sale investments		19,210	26,104
Prepayments and receivables		81,834	307,554
Deferred tax assets		51,435	50,726
Total non-current assets		12,701,625	12,386,116
Current assets			
Inventories		30,054	34,070
Properties under development		1,575,794	2,071,597
Properties for sale		195,582	—
Trade receivables	16	175,491	182,417
Deposits, prepayments and other receivables	17	691,213	609,434
Loan to a fellow subsidiary		155,850	—
Amounts due from holding companies		21,997	21,047
Amounts due from fellow subsidiaries		33,111	26,262
Tax recoverable		3,814	4,896
Financial assets at fair value through profit or loss	18	1,802,010	537,724
Pledged time deposits	19	61,637	59,761
Cash and bank balances	19	2,862,727	3,937,193
		7,609,280	7,484,401
Assets of a disposal group classified as held for sale		—	105,254
Total current assets		7,609,280	7,589,655
Total assets		20,310,905	19,975,771

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017



	Note	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		9,098,982	9,096,434
Reserves		6,125,768	5,576,911
		15,224,750	14,673,345
Non-controlling interests		1,055,778	1,099,248
Total equity		16,280,528	15,772,593
LIABILITIES			
Non-current liabilities			
Deferred income		1,092,258	1,088,118
Bank and other borrowings	21	87,121	85,467
Deferred tax liabilities		445,898	424,492
Total non-current liabilities		1,625,277	1,598,077
Current liabilities			
Trade payables	20	366,407	379,939
Other payables and accruals		1,757,872	1,961,790
Loans from a holding company		79,500	—
Amounts due to holding companies		3,468	3,969
Amounts due to fellow subsidiaries		6,455	7,979
Tax payable		143,335	178,889
Bank and other borrowings	21	48,063	13,061
		2,405,100	2,545,627
Liabilities of a disposal group classified as held for sale		—	59,474
Total current liabilities		2,405,100	2,605,101
Total liabilities		4,030,377	4,203,178
Total equity and liabilities		20,310,905	19,975,771
Net current assets		5,204,180	4,984,554
Total assets less current liabilities		17,905,805	17,370,670

The notes on pages 12 to 34 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Unaudited						
	Attributable to equity owners of the Company					Non-controlling interests	Total equity
	Share capital	Treasury shares	Other reserves	Retained profits	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017	9,096,434	—	(143,996)	5,720,907	14,673,345	1,099,248	15,772,593
Comprehensive income							
Profit for the period	—	—	—	374,546	374,546	76,213	450,759
Other comprehensive income/(loss) for the period:							
<i>Item that will not be reclassified subsequently to profit or loss:</i>							
Gain on property revaluation, net of tax	—	—	1,332	—	1,332	—	1,332
<i>Items that may be reclassified subsequently to profit or loss:</i>							
Share of hedging reserve of an associate	—	—	(3,791)	—	(3,791)	—	(3,791)
Release of exchange difference upon disposal of subsidiary	—	—	(11,566)	—	(11,566)	—	(11,566)
Exchange differences on translation of foreign operations, net	—	—	283,454	—	283,454	28,127	311,581
Total other comprehensive income for the period, net of tax	—	—	269,429	—	269,429	28,127	297,556
Total comprehensive income for the period	—	—	269,429	374,546	643,975	104,340	748,315
Transactions with owners							
Exercise of share options	2,548	—	(695)	—	1,853	—	1,853
A joint venture company reclassified as a subsidiary	—	—	—	—	—	36,890	36,890
Disposal of subsidiary	—	—	—	—	—	(14,895)	(14,895)
Equity-settled share option arrangement	—	—	14,517	—	14,517	—	14,517
Dividend paid to non-controlling shareholders	—	—	—	—	—	(169,805)	(169,805)
2016 final dividend paid	—	—	—	(108,940)	(108,940)	—	(108,940)
Total transactions with owners for the period	2,548	—	13,822	(108,940)	(92,570)	(147,810)	(240,380)
At 30 June 2017	9,098,982	—	139,255	5,986,513	15,224,750	1,055,778	16,280,528

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017



	Unaudited						
	Attributable to equity owners of the Company					Non-controlling interests	Total equity
	Share capital	Treasury shares	Other reserves	Retained profits	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016	9,088,838	—	319,542	5,996,779	15,405,159	1,093,669	16,498,828
Comprehensive income							
Profit for the period	—	—	—	270,043	270,043	69,162	339,205
Other comprehensive income/(loss) for the period:							
<i>Item that will not be reclassified subsequently to profit or loss:</i>							
Gain on property revaluation, net of tax	—	—	31,257	—	31,257	—	31,257
<i>Items that may be reclassified subsequently to profit or loss:</i>							
Share of hedging reserve of an associate	—	—	13,481	—	13,481	—	13,481
Exchange differences on translation of foreign operations, net	—	—	(167,713)	—	(167,713)	(17,967)	(185,680)
Total other comprehensive loss for the period, net of tax	—	—	(122,975)	—	(122,975)	(17,967)	(140,942)
Total comprehensive (loss)/income for the period	—	—	(122,975)	270,043	147,068	51,195	198,263
Transactions with owners							
Exercise of share options	1,351	—	(368)	—	983	—	983
Repurchase of shares	—	(250,754)	—	—	(250,754)	—	(250,754)
Cancellation of shares repurchased	—	187,594	—	(188,388)	(794)	—	(794)
Dividend paid to non-controlling shareholders	—	—	—	—	—	(52,978)	(52,978)
2015 final dividend paid	—	—	—	(246,408)	(246,408)	—	(246,408)
Total transactions with owners for the period	1,351	(63,160)	(368)	(434,796)	(496,973)	(52,978)	(549,951)
At 30 June 2016	9,090,189	(63,160)	196,199	5,832,026	15,055,254	1,091,886	16,147,140

The notes on pages 12 to 34 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited	
	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities		
Cash generated from operations	550,423	451,231
Income tax paid	(87,179)	(94,667)
Net cash flows from operating activities	463,244	356,564
Cash flows from investing activities		
Proceeds from disposal of a subsidiary	55,850	170,740
Proceeds from disposal of an available-for-sale investment	7,126	—
Finance income received	26,482	46,929
Income received from financial assets at fair value through profit or loss	28,423	26,712
Dividends received from associates and joint ventures	18,203	7,982
Purchases of property, plant and equipment	(289,989)	(437,452)
Cash inflow from a joint venture company reclassified as a subsidiary	56,086	—
Net cash paid for acquisition of a subsidiary	(49,571)	—
Net cash paid for acquisition of an associate	(1,697)	—
Additions to financial assets at fair value through profit or loss	(2,716,808)	(3,482,487)
Proceeds upon maturity of financial assets at fair value through profit or loss	1,491,359	3,292,252
Decrease in time deposits with original maturity of more than three months when acquired	429,961	960,852
Loan to a fellow subsidiary	(155,570)	—
Others	(3,134)	5,358
Net cash flows (used in)/from investing activities	(1,103,279)	590,886
Cash flows from financing activities		
Loans from a holding company	78,076	—
Share option exercised	1,853	983
Finance cost paid	(2,311)	(6,157)
Dividends paid	(121,090)	(299,386)
New bank and other borrowings, net	33,710	109,440
Repurchase of shares	—	(251,548)
Net cash flows used in financing activities	(9,762)	(446,668)
Net (decrease)/increase in cash and cash equivalents	(649,797)	500,782
Cash and cash equivalents at 1 January	2,948,066	1,717,421
Cash and cash equivalents at 30 June	2,298,269	2,218,203
Analysis of balances of cash and cash equivalents		
Cash and bank balances	2,862,727	3,215,144
Deposits of non-cash and cash equivalents	(564,458)	(996,941)
Cash and cash equivalents	2,298,269	2,218,203

The notes on pages 12 to 34 form an integral part of this interim consolidated financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



1 CORPORATE INFORMATION

China Travel International Investment Hong Kong Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in following activities:

- Tourist attraction and related operations
- Travel agency, travel document and related operations
- Hotel operations
- Passenger transportation operations

The Company is a limited liability company incorporated in Hong Kong and is listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 12th Floor, CTS House, 78-83 Connaught Road Central, Hong Kong.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 29 August 2017.

This condensed consolidated interim financial information has not been audited.

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2017 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 ACCOUNTING POLICES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

- (a) The following new standards, amendments and interpretations to existing standards are mandatory and relevant to the Group for the financial year beginning 1 January 2017.

Amendments to HKAS 12	Income taxes
Amendments to HKAS 7	Statement of cash flows
Amendments to HKFRS 12	Disclosure of interest in other entities

3 ACCOUNTING POLICIES (CONTINUED)

- (b) The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted.

Annual improvements 2014-2016 Cycle ⁽¹⁾	Amendments to a number of HKFRSs
Amendments to HKAS 28 ⁽¹⁾	Investments in associates and joint ventures
Amendments to HKAS 40 ⁽¹⁾	Transfer of investment property
HKFRS 9 ⁽¹⁾	Financial Instruments
HKFRS 15 ⁽¹⁾	Revenue from Contracts with Customers
Amendments to HKFRS 2 ⁽¹⁾	Classification and Measurement of Share-based Payment transactions
HK (IFRIC) 22 ⁽¹⁾	Foreign Currency Transactions and Advance Consideration
HKFRS 16 ⁽²⁾	Leases
Amendments to HKFRS 10 and HKAS 28 ⁽³⁾	Sale or contribution of assets between an investor and its associate or joint venture

(1) Effective for financial periods beginning on or after 1 January 2018

(2) Effective for financial periods beginning on or after 1 January 2019

(3) Effective date to be determined

The Group is assessing the impact of these standards, amendments and interpretations to existing standards especially for the following set out below.

HKFRS 9, "Financial Instruments"

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15, "Revenue from Contracts with Customers"

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. At this stage, the Group is in the process of assessing the impact of HKFRS 15 on the Group's financial statements.

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.



5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Group's financial performance. Risk management is carried out by senior management of the Group under policies approved by the Directors of the Company.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management since year end or in any risk management policies.

5.2 Fair value estimation

5.2.1 Management analyses financial instruments and investment properties carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair values.

Assets

	As at 30 June 2017		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Financial assets at fair value through profit or loss	—	1,802,010	—

Assets

	As at 31 December 2016		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Financial assets at fair value through profit or loss	—	537,724	—

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Fair value estimation (Continued)

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Changes in fair value of financial assets at fair value through profit or loss are recorded in other income and gains, net (note 8) in the condensed consolidated income statement.

The fair values of financial assets at fair value through profit or loss are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the financial assets at fair value through profit or loss (30 June 2017: 2.95%-4.65%; 31 December 2016: 2.95%-3.35%). The fair values are within level 2 of the fair value hierarchy.

There were no changes in valuation techniques during the period.

- 5.2.2 The disposal of the Group's interest in Chadwick Developments Limited ("Chadwick"), which holds an equity interest in Shaanxi Weihe Power Co., Ltd ("Shaanxi Weihe Power"), included a contingent consideration. If the audited net profits after tax of Shaanxi Weihe Power ("Weihe Power profits"), for each of the two years ending 31 December 2015 and 31 December 2016 and the four months ending 30 April 2017 are larger than the base value of RMB452 million, RMB392 million and RMB112 million respectively for each of the two years ending 31 December 2015 and 31 December 2016 and the four months ending 30 April 2017 by 10%, the base value will be adjusted upwards by 10% and the purchaser will pay the Group the difference between the upward adjusted base value and the Weihe Power profits. If the Weihe Power profits are less than their respective base value of year or period by 10%, the base value will be adjusted downwards by 10% and the Group will pay the purchaser the difference between downward adjusted base value and Weihe Power profits.

The Group used discounted cash flow analysis to estimate the contingent consideration by comparing current period Weihe Power profits and estimated future period Weihe Power profits (if applicable) to respective base value. During the period ended 30 June 2017, the Group recorded approximately HK\$21 million net profit on contingent consideration (30 June 2016: approximately HK\$21 million).



5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Fair value estimation (Continued)

5.2.3 The following table analyses the investment properties of the Group carried at fair value, using a valuation technique with significant unobservable inputs.

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Recurring fair value measurements		
<u>Hong Kong:</u>		
– Commercial properties	843,700	835,400
<u>Outside Hong Kong:</u>		
– Commercial properties	797,666	732,292
	1,641,366	1,567,692

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The Group measures its investment properties at fair value. The investment properties were revalued on 30 June 2017 by RHL Appraisal Ltd. and Jones Lang LaSalle Corporate Appraisal and Advisory Ltd, independent professionally qualified valuers, at HK\$1,641,366,000 (2016: HK\$1,567,692,000). For all investment properties, their current use equates to the highest and best use.

The Group assigns a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management and the audit committee. Discussions of valuation processes and results are held between the management, audit committee and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial period/year end the team:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements by comparing with the prior year valuation report;
- Holds discussions with the independent valuers.

The fair value of investment properties are determined by direct comparison approach, on the market basis assuming sale with immediate vacant possession and taking reference to their respective existing states and comparable sales evidence. The valuations take into account the characteristics of the properties including the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with higher characteristics will result in a higher fair value measurement.

5.2.4 The carrying amounts of the Group's financial assets and liabilities approximate their fair values.

6 OPERATING SEGMENT INFORMATION

Executive management is the Group's chief operating decision-maker and regularly reviews the segment results. For management purposes, the Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. A summary of details of the operating segments is as follows:

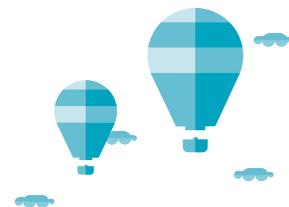
- (a) the tourist attraction and related operations segment engages in the operation of theme parks, scenic spots, cable car systems, skiing facilities, hotspring resorts, other resorts, golf club, arts performance and tourism property development mainly located in the Mainland China;
- (b) the travel agency, travel document and related operations segment engages in the provision of travel agency, travel document and related services in Hong Kong, the Mainland China, South East Asia, Oceania, the United States of America and countries in the European Union;
- (c) the hotel operations segment engages in the provision of hotel accommodation, food and beverage services in Hong Kong, Macau and the Mainland China;
- (d) the passenger transportation operations segment engages in the provision of cross-border transportation services to individuals travelling between Hong Kong, Macau and the Mainland China, vehicle rental and charter operations in Hong Kong, Macau and the Mainland China;

The power generation operations engage in the generation of electricity in the Mainland China. In March 2015, the Group entered into an agreement to dispose of its interest in the power generation operations to the immediate holding company and the transaction was completed in June 2015. Therefore, the power generation operations are disclosed as discontinued operations in operating segment information.

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker and monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit/(loss) attributable to equity owners of the Company of each reportable operating segment excluding material non-recurring income or expenses, such as changes in fair value of investment properties, net of tax.

The reportable operating segments have changed starting from 1 January 2017 in order to align with the information reviewed by the chief operating decision-maker. Prior period corresponding information have been reclassified to conform with current period presentation.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



6 OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2017 (Unaudited)

	Continuing operation						Discontinued operations		Consolidated HK\$'000
	Tourist attraction and related operations HK\$'000	Travel agency, document and related operations HK\$'000	Hotel operations HK\$'000	Passenger transportation operations HK\$'000	Total of reportable segments HK\$'000	Corporate and others HK\$'000	Total HK\$'000	Power generation operations HK\$'000	
Segment revenue:									
Sales to external customers	1,219,608	556,295	362,740	213,466	2,352,109	—	2,352,109	—	2,352,109
Intersegment revenue	6,435	1,898	1,398	652	10,383	7,110	17,493	—	17,493
	<u>1,226,043</u>	<u>558,193</u>	<u>364,138</u>	<u>214,118</u>	<u>2,362,492</u>	<u>7,110</u>	<u>2,369,602</u>	<u>—</u>	<u>2,369,602</u>
Elimination of intersegment revenue					(10,383)	(7,110)	(17,493)	—	(17,493)
Revenue					<u>2,352,109</u>	<u>—</u>	<u>2,352,109</u>	<u>—</u>	<u>2,352,109</u>
Segment results	<u>71,221</u>	<u>65,753</u>	<u>60,788</u>	<u>72,484</u>	<u>270,246</u>	<u>40,339</u>	<u>310,585</u>	<u>—</u>	<u>310,585</u>
Non-controlling interests							<u>76,213</u>	<u>—</u>	<u>76,213</u>
Profit for the period before material non-recurring incomes or expenses							<u>386,798</u>	<u>—</u>	<u>386,798</u>
Changes in fair value of investment properties, net of tax							<u>37,266</u>	<u>—</u>	<u>37,266</u>
Gain on disposal of subsidiaries, net of tax							<u>22,615</u>	<u>20,538</u>	<u>43,153</u>
Others							<u>(1,941)</u>	<u>—</u>	<u>(1,941)</u>
Share option expense							<u>(14,517)</u>	<u>—</u>	<u>(14,517)</u>
Profit for the period							<u>430,221</u>	<u>20,538</u>	<u>450,759</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

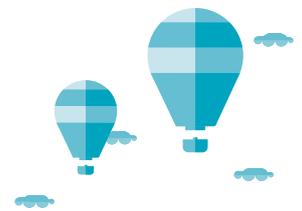
6 OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2016 (Unaudited)

	Continuing operation						Discontinued operations		Consolidated HK\$'000
	Tourist attraction and related operations HK\$'000	Travel agency, document and related operations HK\$'000	Hotel operations HK\$'000	Passenger transportation operations HK\$'000	Total of reportable segments HK\$'000	Corporate and others HK\$'000	Total HK\$'000	Power generation operations HK\$'000	
Segment revenue:									
Sales to external customers	809,542	525,886	345,197	139,468	1,820,093	—	1,820,093	—	1,820,093
Intersegment revenue	6,123	2,595	2,058	998	11,774	7,160	18,934	—	18,934
	<u>815,665</u>	<u>528,481</u>	<u>347,255</u>	<u>140,466</u>	<u>1,831,867</u>	<u>7,160</u>	<u>1,839,027</u>	<u>—</u>	<u>1,839,027</u>
Elimination of intersegment revenue					(11,774)	(7,160)	(18,934)	—	(18,934)
Revenue					<u>1,820,093</u>	<u>—</u>	<u>1,820,093</u>	<u>—</u>	<u>1,820,093</u>
Segment results	<u>64,123</u>	<u>65,057</u>	<u>38,439</u>	<u>83,485</u>	<u>251,104</u>	<u>(25,510)</u>	<u>225,594</u>	<u>—</u>	<u>225,594</u>
Non-controlling interests							<u>69,162</u>	<u>—</u>	<u>69,162</u>
Profit for the period before material non-recurring incomes or expenses							294,756	—	294,756
Changes in fair value of investment properties, net of tax							21,730	—	21,730
Gain on disposal of subsidiaries, net of tax							21,061	—	21,061
Others							1,658	—	1,658
Profit for the period							<u>339,205</u>	<u>—</u>	<u>339,205</u>

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications have no impact on the Group's total equity as at both 30 June 2017 and 31 December 2016, or on the Group's profits for the six months ended 30 June 2017 and 2016.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



7 REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the period.

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Tourist attraction and related operations	1,219,608	809,542
Travel agency, travel document and related operations	556,295	525,886
Hotel operations	362,740	345,197
Passenger transportation operations	213,466	139,468
Total	2,352,109	1,820,093

8 OTHER INCOME AND GAINS, NET

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Gross rental income	20,722	19,920
Foreign exchange differences, net	2,677	(25,334)
Government grants received	5,849	3,013
Income from financial assets at fair value through profit or loss	28,423	26,712
Gain on disposal of subsidiaries	28,570	21,061
(Loss)/gain on disposal of property, plant and equipment	(721)	196
Others	30,458	29,220
Total	115,978	74,788

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 OPERATING PROFIT

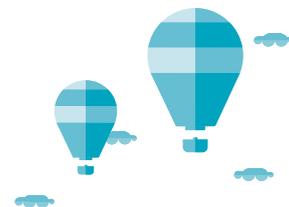
The Group's operating profit is arrived at after charging:

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Staff costs	604,518	568,185
Depreciation	210,215	215,064
Amortisation of prepaid land lease payments	15,490	13,003
Amortisation of other intangible assets	1,481	1,556
Minimum lease payments under operating leases:		
Land and buildings	40,270	41,107
Plant and machinery and motor vehicles	4,196	4,947

10 FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interest income:		
Bank deposits and entrustment loans	26,482	46,929
Finance income	26,482	46,929
Interest expense:		
Bank borrowings, overdrafts and other borrowings		
– Wholly repayable within five years	(2,311)	(6,157)
Finance costs	(2,311)	(6,157)
Finance income, net	24,171	40,772

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



11 TAXATION

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the period.

The Group's operations in Mainland China are subject to PRC corporate income tax at applicable tax rate. In addition, withholding income tax is imposed on dividends relating to any profits earned.

Taxation outside Hong Kong and Mainland China has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the territories in which the Group operates.

The amount of taxation charged to condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Current taxation		
Hong Kong	33,561	19,835
Mainland China and other territories	15,652	66,954
Deferred taxation	17,198	3,830
	66,411	90,619

12 DIVIDENDS

The Board recommends the payment of an interim dividend of HK3 cents per ordinary share (2016: HK2 cents) for the six months ended 30 June 2017 to shareholders on the register of members on 22 September 2017. This interim dividend, amounting to HK\$163,410,000 has not been recognised as a liability in this condensed consolidated interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2017.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

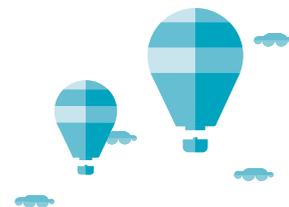
13 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the Group's profit attributable to equity owners by the weighted average number of ordinary shares in issue during the period.

Basic

	Unaudited Six months ended 30 June	
	2017	2016
Profit from continuing operations attributable to equity owners of the Company (HK\$'000)	354,008	270,043
Profit from discontinued operations attributable to equity owners of the Company (HK\$'000)	20,538	—
	374,546	270,043
Weighted average number of ordinary shares in issue	5,446,329,591	5,509,058,360
Basic earnings per share from continuing operations (HK cents)	6.50	4.90
Basic earnings per share from discontinued operations (HK cents)	0.38	—
	6.88	4.90

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



13 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY (CONTINUED)

Diluted

Diluted earnings per share for the six month ended 2017 and 2016 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share option is the only category of dilutive potential ordinary shares of the Group. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the company's average market share price for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited	
	Six months ended 30 June	
	2017	2016
Profit from continuing operations attributable to equity owners of the Company (HK\$'000)	354,008	270,043
Profit from discontinued operations attributable to equity owners of the Company (HK\$'000)	20,538	—
	374,546	270,043
Weighted average number of ordinary shares in issue		
Adjustments for:		
– Share options	2,760,958	4,162,286
Weighted average number of ordinary shares for diluted earnings per share	5,449,090,549	5,513,220,646
Diluted earnings per share from continuing operations (HK cents)	6.49	4.90
Diluted earnings per share from discontinued operations (HK cents)	0.38	—
	6.87	4.90

14 PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2017, additions of items of property, plant and equipment amounted to HK\$217,387,000 (2016: HK\$435,867,000) and the Group disposed of and wrote off items of property, plant and equipment with an aggregate net book value of HK\$2,353,000 (2016: HK\$3,844,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 INVESTMENT PROPERTIES

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
At fair value		
At the beginning of the period/year	1,567,692	1,439,590
Changes in fair value recognised in income statement	46,988	55,555
Gain on property valuation recognised in other comprehensive income	1,959	95,777
Transfer from property, plant and equipment and prepaid land lease payments	3,807	20,140
Currency translation differences	20,920	(43,370)
At the end of the period/year	1,641,366	1,567,692

16 TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 to 90 days to its trade debtors. The ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of the provision for impairment, is as follows:

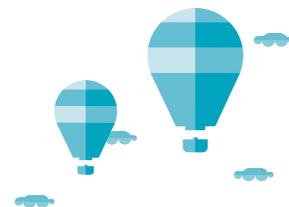
	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Within 3 months	153,485	167,789
3 to 6 months	10,787	7,602
6 to 12 months	9,616	5,293
1 to 2 years	1,603	809
Over 2 years	—	924
	175,491	182,417

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

At 30 June 2017, the balances included:

- (a) Entrustment loans as provided to the non-controlling shareholders of Shenzhen Splendid China Development Co., Ltd. ("Splendid China") and Shenzhen The World Miniature Co., Ltd. ("Window of the World") respectively, which are the Group's 51%-owned subsidiaries. These entrustment loans of RMB215 million (31 December 2016: RMB225 million) are unsecured, are repayable by the non-controlling shareholders upon one month notice from the Group, and bear interest at the 1-year People's Bank of China ("PBOC") Benchmark Lending Rate.
- (b) Amount due from a non-controlling shareholder of CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd., ("CTS (Dengfeng)") a 51%-owned subsidiary of the Group, of RMB32 million (31 December 2016: RMB35 million), which is unsecured and bears interest at 5.52% per annum. Management has monitored the balance and concluded that no risk on recoverability.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period ended 30 June 2017, the Group subscribed RMB denominated principal-protected with floating yields investments issued and managed by banks in the PRC. The principals amount to RMB2,401,000,000 (equivalent to approximately HK\$2,716,808,000) and the estimated yields are 2.95%-4.65% per annum. The Group received proceeds of RMB1,318,000,000 (equivalent to approximately HK\$1,491,359,000) upon maturity.

19 CASH AND BANK BALANCES

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Cash and bank balances	1,194,783	1,181,185
Time deposits	1,729,581	2,815,769
	2,924,364	3,996,954
Less: Pledged time deposits		
– Pledged for a bank loan, credit facilities and bank guarantees	(61,637)	(59,761)
	2,862,727	3,937,193

20 TRADE PAYABLES

At 30 June 2017, the ageing analysis of trade payables, based on the invoice date, is as follows:

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Within 3 months	307,405	327,790
3 to 6 months	13,709	14,431
6 to 12 months	10,809	6,603
1 to 2 years	6,822	4,965
Over 2 years	27,662	26,150
	366,407	379,939

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 BANK AND OTHER BORROWINGS

Movements in borrowings is analysed as follows:

	Unaudited	
	2017 HK\$'000	2016 HK\$'000
As at 1 January	98,528	828,327
Borrowings	34,565	610,018
Repayments	(897)	(501,163)
Currency translation differences	2,988	(65)
As at 30 June	135,184	937,117
Less: Non-current portion	(87,121)	(98,744)
Current portion	48,063	838,373

The interest charged on the bank and other borrowings ranged from 1.5% - 4.75% per annum as at 30 June 2017 (31 December 2016: 1.5% - 4.75% per annum).

22 PLEDGE OF ASSETS

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Bank deposits		
Pledged for credit facilities granted by suppliers to certain Group's subsidiaries	59,621	57,746
Pledged for bank guarantees given in lieu of utility and rental deposits	2,016	2,015
	61,637	59,761
Buildings		
Pledged for credit facilities granted by suppliers to certain Group's subsidiaries	1,591	1,916
	63,228	61,677

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



23 CONTINGENT LIABILITIES

At the end of the reporting period, material contingent liabilities not provided for in the condensed consolidated financial statements were as follows:

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Performance bond given to a customer for due performance of a sales contract	300	300

24 COMMITMENTS

At 30 June 2017, the Group had the following significant capital commitments:

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Property project, property, plant and equipment and land	1,085,729	991,921

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

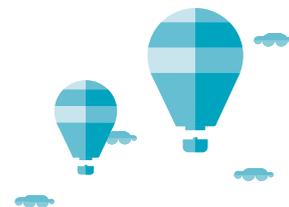
25 RELATED PARTY TRANSACTIONS

- (a) In addition to those related party balances and transactions disclosed elsewhere in this condensed consolidated financial information, the Group had the following significant transactions with related parties during the period:

	Unaudited	
	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Travel-related income from (i)		
– immediate holding company (ii)	99,983	102,539
– fellow subsidiaries	8,641	14,820
– associates	25,336	24,030
– other related parties	4,177	1,508
Hotel-related income from (i)		
– immediate holding company	1,383	1,136
– fellow subsidiaries	1,615	707
Management income from (iii)		
– fellow subsidiaries	4,222	7,986
– associates and joint venture	5,006	4,069
Rental income from (iv)		
– fellow subsidiaries	2,563	583
– associate	20,355	19,173
Travel-related expenses paid to (i)		
– fellow subsidiaries	(23,210)	(24,528)
– associate	(1,251)	(1,078)
– other related party	(7,044)	(1,685)
Management expenses paid to (iii)		
– fellow subsidiaries	(4,672)	(5,134)
Rental expenses paid to (iv)		
– immediate holding company	(8,026)	(9,180)
– fellow subsidiaries	(1,262)	(1,204)
– associate	(1,136)	(1,902)

Notes:

- (i) Travel-related and hotel-related income and expenses are entered into in the normal course of business based on terms mutually agreed by the parties.
- (ii) The travel permit administration income was determined in accordance with the terms of an agency agreement entered into between the parties and was charged at 45% of the gross fee revenue from travel permit applications.
- (iii) Management income and expense are charged at rates in accordance with relevant contracts.
- (iv) Rental income and expenses are charged in accordance with respective tenancy agreements.



25 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant balances with related parties

- (i) On 26 May 2017, China National Travel Service Group Corporation (“China CTS”), as lender, entered into the Loan Agreement with CTS (Ningxia) Shapotou Tourist Spot Co., Ltd. (“Shapotou”), as borrower, for a term of three years commencing from 26 May 2017 and ending on 25 May 2020, pursuant to which China CTS has agreed to provide a loan of RMB30,000,000 to Shapotou. The interest rate shall be the fixed rate 1.2% per annum. As at 30 June 2017, the arrangement remained effective with RMB30,000,000 withdrawn.
- (ii) On 24 May 2017, China CTS, as lender, entered into the Loan Agreement with CTS (Anji) Tourism Development Company Limited (“Anji”), as borrower, for a term of three years commencing from 24 May 2017 and ending on 23 May 2020, pursuant to which China CTS has agreed to provide a loan of RMB39,000,000 to Anji. The interest rate shall be the fixed rate 1.2% per annum. As at 30 June 2017, the arrangement remained effective with RMB39,000,000 withdrawn.
- (iii) On 19 May 2017, the Company, as lender, entered into the Loan Agreement with China Travel Financial Investment Holdings Co., Ltd. (“CTS Finance Investment”), as borrower, for a term of one year commencing from 19 May 2017 and ending on 18 May 2018, pursuant to which the Company has agreed to provide a loan of USD20,000,000 to CTS Finance Investment. The interest rate shall be the six month US\$ LIBOR plus 2.6% per annum, which will be fixed at the loan drawdown date and re-fixed on the date falling 6 months from the loan drawdown date. As at 30 June 2017, the arrangement remained effective with USD20,000,000 withdrawn.
- (iv) On 29 September 2016, a 1-year (extendable for up to two years beyond the initial term) entrustment loan arrangement of RMB300 million was entered into between Window of the World and Splendid China, 51% owned subsidiaries of the Company, Shenzhen Overseas Chinese Town Co., Ltd., a state-owned enterprise, and a bank. The interest rate is 1 year Benchmark Lending Rate set by PBOC. As at 30 June 2017, the arrangement remained effective with RMB215 million withdrawn. The balance is included in deposits, prepayments and other receivables.
- (v) On 14 January 2016, the Company and China National Travel Service (HK) Finance Company Limited (“CTS Finance”) entered into a financial services framework agreement in respect of the provision of (i) deposit services, (ii) the comprehensive credit line services, (iii) the entrustment loan services; and (iv) the cross-border RMB cash pooling services by CTS Finance for a term commenced from 14 January 2016 and ending on 31 December 2018. As at 30 June 2017, the related deposit balance was RMB86,501,000.

(c) Transaction with the PRC government related entity

On 4 January 2010, Henan Province Songshan Scenic Spot Management Committee entered into a franchise agreement pursuant to which CTS (Dengfeng) will be authorized to exclusively manage and operate the ticket sales, sales proceeds collection and the car parks of the Shaolin Scenic Spot, Zhong Yue Scenic Spot and Song Yang Scenic Spot under the Songshan Scenic Spot from 25 December 2009 for a term of 40 years and Songshan Management received franchise fee in exchange.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 BUSINESS COMBINATIONS

(a) A joint venture company reclassified as a subsidiary

On 1 January 2017, Macao CTS Passenger Road Transport Company Limited became a subsidiary of the Group after the revision of memorandum and articles which enable the Group to exercise exclusive decision making rights in all activities, including but not limited to operation and financing activities. The joint venture company had a carrying net asset value of approximately HK\$73,424,000 before the change of control.

	1 January 2017 HK\$'000
<hr/>	
Purchase consideration	
– Carrying value of equity interest in above companies held before the business combination	36,712
Total purchase consideration	36,712
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and bank balance	56,086
Property, plant and equipment	14,135
Available-for-sale investments	750
Inventories	33
Accounts receivables, deposits, prepayments and other receivables	26,334
Accounts payables, other payables and accruals	(23,914)
Total identifiable net assets	73,424
Non-controlling interest	(36,712)
	36,712
<hr/>	
	1 January 2017 HK\$'000
<hr/>	
Inflow of cash from acquisition of business	
– cash and bank balance in subsidiary acquired	56,086
	56,086

The acquired business contributed revenues of HK\$82,853,000 and net profit of HK\$4,170,000 to the Group for the period from 1 January 2017 to 30 June 2017.

As at 30 June 2017, the Group has not finalized the fair value assessments for net assets acquired from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.



26 BUSINESS COMBINATIONS (CONTINUED)

(b) Acquisition of a subsidiary

On 30 March 2017, the Group acquired 100% of the issued shares in Associated Motor Service and Repair Limited, a company focus on passenger transportation, for a consideration of approximately HK\$55,340,000 (subject to further adjustment).

	30 March 2017 HK\$'000
Purchase consideration	
– Cash paid	49,800
– Other payable (subject to further adjustment)	5,540
Total purchase consideration	55,340
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and bank balance	229
Property, plant and equipment	5,827
Other intangible asset	50,063
Deposits, prepayments and other receivables	351
Tax payable	(52)
Deferred tax liabilities	(961)
Other payables and accruals	(117)
Total identifiable net assets	55,340
	30 March 2017 HK\$'000
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	49,800
– cash and banks in subsidiary acquired	(229)
Cash outflow on acquisition	49,571

The acquired business contributed revenues of HK\$2,790,000 and net profit of HK\$985,000 to the Group for the period from 1 April 2017 to 30 June 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated profit for the half year ended 30 June 2017 would have been HK\$5,580,000 and HK\$1,970,000 respectively.

As at 30 June 2017, the Group has not finalized the fair value assessments for net assets acquired from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

27 DISPOSAL OF A SUBSIDIARY

In 2016, a wholly-owned subsidiary of the Company, Wisepak Enterprises Limited, entered into an agreement with a third party to dispose of the entire 60% interest of its indirect non-wholly owned subsidiary, Yangzhou Grand Metropole Hotel ("Yangzhou Hotel"), at a consideration of approximately RMB52,650,000. The Yangzhou Hotel operates hotel in Mainland China. The transaction was completed in February 2017 and resulted in a gain of approximately HK\$29,000,000.

Analysis of the assets and liabilities of the subsidiary upon disposal was as follows:

	HK\$'000
Assets	
Property, plant and equipment	83,240
Prepaid land lease payments	2,436
Inventories	1,224
Trade receivables	2,545
Deposits, prepayments and other receivables	2,059
Deferred tax assets	544
Cash and bank balances	2,257
	94,305
Liabilities	
Trade payables	(7,319)
Other borrowings	(41,577)
	(48,896)
Net assets	45,409
Non-controlling interest, release of reserve and cost of disposal	(14,430)
Gain on disposal of a subsidiary	28,570
	59,549
Satisfied by cash	59,549
Net cash flows arising from the disposal	
Cash consideration received	59,549
Cash and cash equivalents disposed of	(2,257)
Direct cost of disposal	(1,442)
	55,850



28 DISCONTINUED OPERATIONS

In March 2015, the Company entered into an agreement with its immediate holding company, China Travel Service (Holdings) Hong Kong Limited, to dispose of the entire interest of its wholly-owned subsidiary, Chadwick for a consideration of RMB510 million (equivalent to approximately HK\$643 million and subject to further adjustments). The disposal was approved by the shareholders in May 2015. Chadwick owns 51% equity interest in Shaanxi Weihe Power, which is principally engaged in the operation of power generation in Mainland China and was then an associate of the Group.

As power generation operation was identified as one of separate operating business of the Group by management, the operations of Shaanxi Weihe Power was classified as discontinued operations in the condensed consolidated interim financial statements. The disposal was completed in June 2015. The net loss on contingent consideration for the year ended 2016 was approximately HK\$65 million. During the period ended 30 June 2017, the net profit on contingent consideration was approximately HK\$21 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the first half of 2017, a year-on-year increase of 6.9% in the gross domestic product was recorded. The macro-economy remained stable yet showed improvement. The tourism industry still maintained a double-digit growth higher than the economic growth rate. The Company continued to improve the operational management effectiveness of its subsidiaries by proactively capitalizing on the positive macro-economic trends, keeping abreast of changes in tourism market trends, constantly enriching product offerings and adopting innovative marketing skills. Meanwhile, the Company focused on the enhancement of quality and efficiency, improved its construction capability and strengthened its efforts to turnaround its business, while continuing to enhance its operational management ability.

Results Overview

In the first half of the year, the Company's consolidated revenue was HK\$2,352 million, representing a 29% increase compared with the same period last year. Profit attributable to shareholders was HK\$375 million, representing a 39% increase compared with the same period last year. Profit attributable to the operating tourism business was HK\$311 million, representing a 38% increase compared with the same period last year, evidencing a strong growth momentum for the core tourist attraction operations.

The Company's financial position remained stable and healthy, with strong investing and financing capabilities. As of 30 June 2017, total assets were HK\$20,311 million, a 2% increase compared with the end of last year; the equity attributable to shareholders was HK\$15,225 million, a 4% increase compared with the end of last year; cash and bank balances and other wealth management products amounted to HK\$4,974 million, of which cash and bank balances amounted to HK\$2,863 million and deducting bank loans and other borrowings of HK\$135 million, net cash was HK\$2,728 million, a 29% decrease compared with the end of last year.

Dividend

The Board declared an interim dividend of HK3 cents (2016 interim dividend: HK2 cents per share) per share for the six months ended 30 June 2017. The interim dividend is to be paid to our shareholders on 10 October 2017. The dividend payout ratio is approximately 44%.

CORE PRINCIPAL OPERATIONS AND OPERATION FIGURES

(I) Travel Destination Operations

1. Business overview

Business categories	Company name
City hotels	Five hotels in Hong Kong and Macau Two hotels in Mainland China (one of which has been disposed of during the period) CTS H.K. Metropark Hotels Management Company Limited
Theme parks	Shenzhen The World Miniature Co., Ltd. ("Window of the World") Shenzhen Splendid China Development Co, Ltd. ("Splendid China")
Natural and cultural scenic spot destinations	CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd ("Songshan Scenic Spot") CTS (Ningxia) Shapotou Tourist Spot Co., Ltd and CTS (Ningxia) Shapotou Cable Car Co.,Ltd ("Shapotou Scenic Spot") Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co., Ltd
Leisure resort destinations	China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd ("Zhuhai OSR") Xianyang Ocean Spring Resort Co., Ltd ("Xianyang OSR") CTS (Anji) Tourism Development Company Limited ("Anji Company")



Business categories	Company name
Non-controlling scenic spot investments	Huangshan Yuping Cable Car Company Limited Huangshan Taiping Cable Car Co., Ltd. Changsha Colorful World Company Limited ("Changsha Colorful World") Nanyue Cable Car Co., Ltd., which has been disposed of during the period Changchun Jingyuetan Youle Co. Ltd.
Supplementary tourist attraction operations	CTS Tycoon (Shenzhen) Golf Club Company Limited ("Golf Club") China Heaven Creation International Performing Arts Co., Ltd. ("Heaven Creation")

In the first half of 2017, total revenue of the Company's travel destination operations was HK\$1,583 million, a 37% increase compared with the same period last year; and attributable profit was HK\$132 million, a 29% increase compared with the same period last year. During the period under review, attributable profit of the tourist attraction and related operations, which account for the largest portion of the travel destination operations, and the hotel operations increased by 11% and 58% year on year, respectively. The two categories achieved better performance and thus maintained a strong growth momentum of the travel destination operations.

2. Key operation figures

In the first half of the year, revenue of the Company's hotel operations was HK\$363 million, a 5% increase compared with the same period last year; and attributable profit was HK\$61 million, a 58% increase compared with the same period last year. In February of the year, the Company completed the disposal of Yangzhou Metropark Hotel in Mainland China and recorded a gain of HK\$29 million from the disposal.

	1H2017	1H2016
Five hotels in Hong Kong and Macau		
Average occupancy rate (%)	92	81
Average room rate (HK\$)	747	713
Two hotels in Mainland China		
Average occupancy rate (%)	57	62
Average room rate (RMB)	596	446

In the first half of 2017, the Company's theme parks, natural and cultural scenic spots and leisure resorts served an aggregate of approximately 5.2 million tourists, an increase of 8% compared with the same period last year.

Revenue of theme parks was HK\$364 million, a 1% increase compared with the same period last year; and attributable profit was HK\$68 million, a 4% increase compared with the same period last year. Window of the World enhanced the e-commerce cooperative model. In the first half of the year, the number of visitors to the theme park and revenue brought by the e-commerce channels increased by 133% and 70% respectively. The theme park increased its marketing efforts, resulting in a year-on-year increase of 24% in terms of group visit. Splendid China launched brand new products such as "Legend of Desert", Rotating House, etc. to deeply explore the folk cultures and innovatively organized relevant special themed events which received satisfactory market response. By strengthening the cooperation with online travel agents, e-commerce operations saw a year-on-year growth of 108% while the student travel market grew by 33% year on year. New contracts for five management projects were signed, which expedited the development of the asset-light business in Mainland China.



Revenue of natural and cultural scenic spots was HK\$213 million, a 5% decrease compared with the same period last year; and attributable profit was HK\$12 million, a 61% increase compared with the same period last year. Shapotou Scenic Spot carried out various marketing activities, bringing about satisfactory results and a year-on-year growth in revenue of 5%. With a strong focus on the enhancement of service quality, the scenic spot was awarded the title of the National Benchmark Entity for Tourist Service Quality. Songshan Scenic Spot optimized its structure and systems, intensified infrastructure transformation and the comprehensive management of the scenic spot, expanded into the specific tour markets, as well as proactively planning for new profit-making projects. Meanwhile, the Company has disposed of a loss-making entity, CTS (Xinyang) Jigongshan Culture Tourism Co., Ltd., last year, thus further optimizing the Group's asset structure. Revenue of leisure resort destinations was HK\$569 million, a 226% increase compared with the same period last year; and attributable loss was HK\$17 million, a decrease compared with the same period last year. The increase in revenue was mainly due to sales revenue of HK\$274 million and HK\$140 million from the real estate projects of Ocean Spring Resort Garden and Anji respectively, and loss reduction was mainly due to the profit of HK\$10 million from the two real estate projects. Xianyang OSR proactively coped with difficulties and enhanced its marketing activities. At the same time, more efforts were put into cost control in order to achieve loss reduction. Attributable profit of non-controlling scenic spot investments was HK\$18 million, a 15% decrease compared with the same period last year. Such decrease in attributable profit was due to the decrease in the number of visitors to Changsha Colorful World under the influence of bad weather during the peak seasons. Revenue of supplementary tourist attraction operations was HK\$74 million, a 38% increase compared with the same period last year. Attributable loss was HK\$10 million and loss reduction was achieved. Heaven Creation made new progress in its business transformation. In the first half of the year, it completed six innovative planning and design projects.

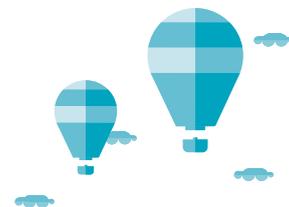
(II) Travel Agency, Travel Document and Related Operations

The Company's travel agency, travel document and related operations comprise travel agency business (China Travel Service (Hong Kong) Limited and overseas travel agencies) and travel document business.

In the first half of 2017, revenue of the Company's travel agency, travel document and related operations was HK\$556 million, a 6% increase compared with the same period last year; and attributable profit was HK\$66 million, a 1% increase compared with the same period last year.

(III) Passenger Transportation Operations

In the first half of 2017, revenue of passenger transportation operations was HK\$213 million, a 53% increase compared with the same period last year; and attributable profit was HK\$72 million, a 13% decrease compared with the same period last year. The year-on-year increase in revenue was mainly due to the revenue contribution from Macao CTS Passenger Road Transport Company Limited, which was reclassified from previously a jointly-controlled entity to a subsidiary of the Company in accordance with its amended articles of association. The year-on-year decrease in profit was attributable to the price competition between China Travel Tours Transportation Services Hong Kong Limited and its competitors, the impact of the online car booking service and the rise in fuel price. The higher depreciation after the renewal of coaches resulted in lower gross margin. In respect of the associate Shun Tak-China Travel Shipping Investments Limited, although the number of passengers and operating revenue increased, the higher fuel price and vessel maintenance cost led to a decrease in profit.



Progress on Key Initiatives

In the first half of 2017, the overall operating conditions remained stable yet showed improvement. The management and staff united together and achieved improvements in effectively pushing forward the key initiatives.

1. *Adopting multiple measures to generate revenue and increase efficiency*

The Company organized the “Increasing Revenue in 100 Days” campaign and the subsidiaries put considerable effort into product renewal, marketing, service enhancement, cost control, price reduction, etc. with highlights and achievements. At the same time, the Company spared no effort to push forward the management of loss-making businesses and obtained improvements. Zhuhai OSR introduced the “All-inclusive Price” plan, strengthened the collaboration with online travel agents and formulated the new “Marketing + Direct Sales for All” model, which considerably increased revenue from package tickets year on year and drove the number of people buying the three main tickets to increase by approximately 54% year on year. Xianyang OSR commenced the overall upgradation and renovation project for the hot springs, and some projects with lower utilization rates were improved. Meanwhile, great effort was put into cost control and cost reduction was achieved in the first half of the year.

2. *Soundly pushing forward the new business*

The Company separated the duties of the management, set up regional chief representative offices, researched and developed main products, established professional companies and adopted other measures to increase its capabilities for overcoming challenges. With significant progress in the negotiations, “China Travel National Holiday Park” was expected to be initially built in China. The project with Sichuan Tourism Investment Group and the projects in Dali, Yunnan and Tongnan District, Chongqing achieved initial results. Two contracts for management business were signed. The Company established a sino-foreign joint venture, China Travel Zhiye Culture Development (Shenzhen) Co., Ltd., jointly with Guangdong Wisdom Scenery Marketing Co. Ltd to promote and develop tourism planning business.

3. *Achieving substantial results for the key initiatives*

The Company finished formulating its “13th Five-Year” strategic plan and further defined its future development paths. Anji Company completed the pre-sale of 163 residential units in the first phase of its real estate project at about HK\$270 million, of which approximately HK\$140 million was recorded as sales revenue during the period. An aggregate of 684 residential and commercial units of Ocean Spring Resort Garden were sold at about HK\$330 million, of which approximately HK\$274 million was recorded as sales revenue during the period.

During the period under review, an aggregate of 1,535 residential units of the Zhuhai Ocean Spring real estate project jointly developed with Evergrande Real Estate Group were sold, representing 60% of the total sales volume of the residential units. As these properties have not been handed over to buyers, no share of profit was recorded by the Company. It is expected that possession will be handed over to buyers in stages before the end of December 2018.

The Company is in negotiation with the relevant government authorities in respect of the request for the golf course of the Golf Club to exit the occupied water protection zone.

4. *Fully strengthening the management of the Company*

The Company’s management frequently visited the subsidiaries to conduct investigation and research and solve their problems. Daily supervision was continuously intensified, and the supervision and inspection of the key areas such as tendering, procurement and construction were also strengthened. The corporate governance structure of the Company was continuously enhanced and the work mechanisms including internal communication were further improved. The Company emphasized both devolution and management while optimizing the control of the headquarters and the subsidiaries. Incentive program for new business, management services and the talent referral were introduced, and the incentives for exceeding the performance indicators were increased. The Company developed and launched the appraisal incentive program with the subsidiaries.

THE COMPANY'S DEVELOPMENT STRATEGY

Through the major strategic focuses of developing main products, establishing presence in key areas and promoting digital construction, the Company will maintain the strategic position of being an investor, developer and operator of top-tier travel destinations, so as to achieve the strategic goal of "creating a new travel destination and leading a new lifestyle for mass tourism".

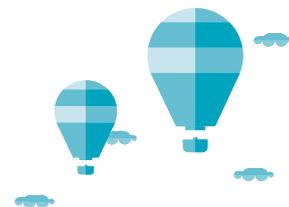
In respect of product research and development, the Company mainly aims to enhance the quality and capacity, and transform and upgrade the existing projects. Based on the existing product structure which focuses on sightseeing in scenic spots, the Company will conduct in-depth market research and analysis to develop supplementary services including accommodation, catering, interactive entertainment and cultural experience based on consumers' demand, thereby developing comprehensive travel destinations and diversifying the revenue structure. The Company will fully capitalize on its own brand advantages and market influence to launch the strategic specific product "National Holiday Parks", which is expected to be developed in the scenic spots of different travel destinations. The Company will actively conduct research on the "Travel+" business model and together with strategic partners, explore new travel destination products which combine tourism and other industries such as health tourism, cultural tourism, snow tourism, academic tourism, etc. to expand the industry coverage of travel destinations.

To further enrich the product offerings of the travel destination platform, the Company plans to establish professional joint ventures focusing on the research and development of a wide range of creative tourism. The continuous provision of creative tourism and new service products allows all the travel destinations to be revitalized and upgraded continuously, bringing about sustainable momentum.

In terms of strategic layout, the Company will focus on the areas with rich resources, concentrated distribution of customers and major national strategic development, and allocate the quality projects there. First, in the Beijing-Tianjin-Hebei synergistic development area, the Company will place emphasis on the economic zone around the capital and the hinterland and make use of the rich historical cultures as well as the landscape resources of the region to develop the China Travel National Holiday Park. Second, with the "One Belt One Road" as the theme of development, the Company will explore the historical, splendid and diverse cultural elements of the ancient Silk Road and proactively capture the opportunities for cultural tourism projects in the relevant cities of China and in the countries along the route, while focusing on the development of quality resources in the large tourist provinces of Sichuan and Yunnan. Third, in Southern China, the Company will focus on Guangxi, Hainan and Guangdong-Hong Kong-Macau Bay Area. Capitalizing on the favorable climatic conditions, the regional advantages of Pearl River Delta as an economic and transportation hub, and the distinguished Lingnan culture, the Company will push forward the development of the natural and cultural tourism resources to create world-class city travel destinations such as Hainan Aviation City, Guangxi National Holiday Park, etc., as well as unique leisure resort destinations.

In respect of digital construction, the Company will first formulate its informatization plans properly, establish the relevant informatization standards to scenic spot operations and lay the foundation for information standardization. Second, the Company will construct digital scenic spots and the integrated information system, build a big data platform for the customer resources of scenic spot sectors and take technical measures such as mobile Internet, cloud computing, big data, etc. to enhance customer experience. Third, the Company will enhance the systems in support of its management and decision-making so as to improve the management efficiency.

In addition, the Company will optimize the asset structure and proactively explore the asset restructuring plan for the hotels to improve the business structure based on the Company's strategic positioning. The Company will study the spin-off plans for certain developed projects in a bid to enhance the overall valuation in the capital market. Moreover, the Company will continue to negotiate for the introduction of strategic investors at both the company and subsidiary levels, so as to optimize the shareholders' structure and support the Company's development.



KEY INITIATIVES IN THE SECOND HALF OF THE YEAR

In the second half of 2017, the Company seeks to identify the problems and risks existing in its management and operation. Concentrating on its annual performance target, the Company will strive to carry out the following key initiatives to ensure its healthy and rapid development:

1. Further increasing the efforts to raise revenue and turn around loss

The Company will continue to carry out the “Increasing Revenue in 100 Days” campaign with increased efforts to strive for better results in revenue during the action period. Meanwhile, the Company will strengthen the communications with subsidiaries as well as coordinating and supervising their efforts in revenue and efficiency enhancement. The completion of the lighting retrofit of Window of the World, the implementation of the Nadamu project by Splendid China and the increased efforts in management services will help to achieve a steady growth. Anji Company will make every effort to sell the last batch of property units in the first phase while minimizing the loss from the opening of the hotel. Shapotou Scenic Spot and Songshan Scenic Spot will enrich the product offerings and strengthen the branding and marketing efforts, thereby achieving a double-digit growth in both revenue and profit. The Company will strive to turn around the loss of Zhuhai OSR to an overall profit for the year and for Xianyang OSR, increase the annual revenue and reduce the loss. The Company will complete the disposal plan for the idle land in order to record gains for the year. Inefficient property assets in Hong Kong will also be revitalized.

2. Fully developing and implementing new projects

The Company will, according to the strategic plan, proactively execute the framework agreements entered into with various provinces and their platform companies at the beginning of the year to push forward the implementation of the cooperative investment projects. The Company will carry out research and development for the product “China Travel National Holiday Park”, and may select either Chengde, Hebei or Guangxi for development, so as to enhance the product structure as well as achieving a replicable model. Capitalizing on the development trends of Hainan becoming an international tourism island, the Company will study on the development of Hainan Aviation City as an international landmark travel destination. Through a number of means such as making exclusive investment and setting up joint ventures with various tourism investment groups, the Company will proactively seize the quality projects in the provinces with rich resources including Sichuan and Yunnan. The tourism planning business will be continuously enhanced and developed, and a company specializing in scenic spot management will be established to expand the management business.

3. Firmly focusing on the development of the key initiatives

The Company will strive to complete the planning and preparation work for the Zhuhai OSR Phase 2 Project to determine the development and construction model for Phase 2 and commence the Project ahead of schedule. The construction plan of Songshan Shaolin Town will be further optimized and improved; the formulation of the five-year development plan for Songshan Scenic Spot will be completed; and the tourist distribution center, San Huang Zhai cable car and other construction projects at Songshan Scenic Spot will be developed and implemented. For Shapotou Scenic Spot, the expansion project will be implemented efficiently with high quality delivered. Anji Company strives to commence the real estate project in Zone B and Zone C and obtain the contracted land parcels at discounted rates, as well as making efforts to increase its revenue.

4. Firmly and effectively pushing forward reforms and innovations

With the aim of enhancing the ability in resources consolidation, professionalism and management, the Company will study and propose systematization plans and measures to increase its overall competitiveness. By strengthening the research on the macro-economic situations and the relevant policies, the Company will closely track the latest development of tourism products, business styles and technologies, as well as proactively seeking development opportunities. The Company will pursue informatization and digitalization to push forward the reforms and development of the Company while commencing the construction of the standardization system for operation and management. The internal professional training is to be strengthened and improved so as to build up reserves of talents in strategic planning, marketing as well as operation and management. The Company will proactively support Heaven Creation and China Travel Hi-Tech Computer Hong Kong Ltd. in their transformation and development in pursuit of a development path to marketization, professionalization, uniqueness and sustainability.

BUSINESS PROSPECTS

The tourism industry is experiencing profound changes with constant emergence of new business styles and new models. The leading private and foreign-owned travel companies accelerate business expansion and the market competition becomes more intense, which brings increasing challenges to the Company. Yet, as both China's GDP per capita and the residents' consumption increase continuously, the demand for tourism consumption is expected to grow continuously at a relatively fast rate. Together with the support from the PRC government for the tourism industry, the investment in the tourism industry will continue to see relatively fast growth. The industry remains in an expansionary phase.

At present, the business structure of the Company is further optimized and the core tourism operations are further strengthened. The fundamentals of the Company's overall business remain strong and healthy. With ample cash, the Company possesses the strengths and capabilities for investment and development. The Company is fully confident in the prospects of future development guided under its proven development strategy.

In the second half of the year, under the guidance of the Board and with the efforts of all the employees, the Company will adhere to its overall development strategy to strengthen the execution of strategy, enhance the operation and management of existing businesses, actively explore new projects, innovate on business models, systemize the product offerings, and strive to create value so as to bring a more favourable return to shareholders.

OTHER INFORMATION



NUMBER AND REMUNERATION OF EMPLOYEE

As at 30 June 2017, the Group had 9,114 employees. The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from the retirement benefit and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group was strong. The Group generally finances its operations with internally generated cash flows and loan facilities from banks. As at 30 June 2017, the cash and bank balances of the Group amounted to HK\$2,863 million whereas the bank and other borrowings amounted to HK\$135 million. The debt-to-capital ratio was 15% and the debt includes bank and other borrowings, trade and other payables, loan from a holding company, amounts due to holding companies and fellow subsidiaries.

FOREIGN EXCHANGE RISK

The Group has certain assets, borrowings, and major transactions which are denominated in foreign currencies, thus is exposed to a certain level of foreign currency risk. The Group has not engaged in any particular hedge against foreign exchange risk. The Group will closely monitor and manage foreign currency exposure and to make use of appropriate measures when required.

CHARGE ON ASSETS

As at 30 June 2017, the Group's bank deposits of approximately HK\$62 million (31 December 2016: HK\$60 million) were pledged to banks to secure certain credit facilities granted by suppliers to the Group's subsidiaries, and certain bank guarantees given in lieu of utility and rental deposits.

As at 30 June 2017, certain of the Group's buildings with net carrying amounts of HK\$1,591,000 (31 December 2016: HK\$1,916,000) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures for the reporting period. Please refer to Note 26 and 27 under Notes to condensed consolidated interim financial information regarding acquisition and disposal of the subsidiaries of the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group is actively identifying and exploring suitable investments with potential and synergy effect to its existing businesses. The Group will only consider any potential investments which are in the interests of the Company and the Shareholders as a whole. No agreement for material investment has been concluded as at the date of this report.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group's performance bond given to a customer for due performance of a sale contract was HK\$0.3 million (31 December 2016: HK\$0.3 million).

SIGNIFICANT INVESTMENT HELD

To utilize the Group's idle funds more efficiently without affecting operating cash while ensuring fund safety, the Group used some of the idle funds to subscribe for RMB denominated wealth management products.

At the end of the period, the wealth management products held by the Group amounted to a total of RMB1,564 million (equivalent to HKD1,802 million). During the reporting period, the income from financial assets at fair value through profit or loss was approximately HKD28 million. The movements of the subscribed wealth management products during the period are as follows:

	31 December 2016	Subscribed during the period	Recovered during the period (HK\$'000)	Exchange difference	30 June 2017	Tenor (Month)	Expected annualised yields (%)
Issuers							
With agreed maturity date							
China Resources Bank Of Zhuhai Co., Ltd	525,427	—	(531,820)	6,393	—	6	3.35
Ping An Bank Co., Ltd.	—	599,712	(135,784)	8,466	472,394	3-6	3.2-3.5
Industrial Bank Co., Ltd.	—	401,694	—	7,330	409,024	7	4.5
China Minsheng Banking Corp., Ltd.*	—	565,766	—	10,324	576,090	5	4.65
China Construction Bank Corporation	—	540,872	(531,820)	165	9,217	3-4	3.4-3.7
China Merchants Bank Co., Ltd.*	—	429,982	(214,991)	3,923	218,914	3-4	4.1-4.55
Bank of Communications Co., Ltd.	—	7,921	(7,921)	—	—	3	3.1
Without agreed maturity date							
Bank of Communications Co., Ltd.	12,297	170,861	(69,023)	2,236	116,371	N.A.	2.95-4
	537,724	2,716,808	(1,491,359)	38,837	1,802,010		

* Issuers have no early termination rights

The key terms for the wealth management products above are:

- (i) Type of return: Principal-protected with floating yields
- (ii) Payment of principal and income: The principal and the earned income of the wealth management products will be paid one-off within 1-3 business days subsequent to the agreed maturity date or confirmed redemption date.
- (iii) Terms of redemption: During the agreed holding period, subscribers have no rights to redeem the products. For products without agreed maturity date, subscribers can perform the redemption on the business days.
- (iv) Early termination rights: Subscribers are not entitled to terminate such products early. Unless otherwise specified, issuers are entitled to early termination. In case of early termination, issuers shall settle the one-off payment of the principal and the earned income of the wealth management products within 2-3 business days subsequent to the termination day.

The subscriptions above belong to the principal-protected with floating yields investments. The Group continuously monitors in a proactive manner the income risks derived from such financial assets as well as diversifies the relevant investment risks via appropriate asset allocation.

During the period, in respect of each subscription above, the relevant applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) calculated by the Group were all less than 5%, which did not constitute a notifiable transaction under Chapter 14 of the Listing Rules. The above outstanding wealth management products at the end of the period with agreed maturity date will be recovered before the end of the year; whereas the outstanding wealth management products without agreed maturity date will be redeemed where appropriate according to the funds position of the Group.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2017, the interests and short positions of the Directors and the Company's chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Interests in shares			Interests in underlying shares pursuant to share options	Aggregate interests	% of the issued share capital as at 30 June 2017
	Corporate interest	Personal interest	Family interest			
Mr. Zhang Fengchun	—	1,770,000	—	—	1,770,000	0.03%
Mr. Lo Sui On	—	600,000	—	770,000	1,370,000	0.03%
Mr. Zhang Xing (Note 1)	—	—	—	2,000,000	2,000,000	0.04%
Mr. Chen Xianjun (Note 2)	—	—	—	1,300,000	1,300,000	0.02%
Dr. Fong Yun Wah	50,000 (Note 3)	—	—	—	50,000	0.00%

Note 1: Mr. Zhang Xing was appointed as an Executive Director and Executive Deputy General Manager (in charge of overall operation) of the Company on 24 February 2017.

Note 2: Mr. Chen Xianjun was appointed as an Executive Director of the Company on 24 February 2017.

Note 3: These shares are beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah is taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

Save as disclosed in the section "Share Option Scheme" below, at no time during the six months ended 30 June 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

On 4 May 2012, the Company has passed the resolutions in a shareholders' meeting for the termination of the share option scheme adopted on 3 June 2002 (the "2002 Share Option Scheme") and the adoption of a new share option scheme (the "2012 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Outstanding share options granted under the 2002 Share Option Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the 2002 Share Option Scheme.

The 2002 Share Option Scheme

Details of the movement in the share options granted under the 2002 Share Option Scheme during the six months ended 30 June 2017 are set out below:

Name or category of participant	Number of share options					Balance as at 30 June 2017	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)
	Balance as at 1 January 2017	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	Reclassified during the period				
Directors									
Zhang Fengchun	890,000	—	(890,000)	—	—	—	18 June 2010	18 June 2012 to 17 June 2020	1.70
Lo Sui On	770,000	—	—	—	—	770,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Fu Zhuoyang (Note 3)	1,770,000	—	—	—	(1,770,000)	—	18 June 2010	18 June 2012 to 17 June 2020	1.70
Sub-Total	3,430,000	—	(890,000)	—	(1,770,000)	770,000			
Other employees in aggregate	19,968,000	—	(200,000)	—	1,770,000	21,538,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand Total	23,398,000	—	(1,090,000)	—	—	22,308,000			

Note 1: The vesting period of the share options is from the date of grant until the commencement of the exercise period. The options are exercisable in the following manner subject to the achievement of certain performance targets:

The proportion of options exercisable	Exercise period
First 30% of the share options	18 June 2012 to 17 June 2020
Second 30% of the share options	18 June 2013 to 17 June 2020
Remaining 40% of the share options	18 June 2014 to 17 June 2020

Note 2: No further share options can be granted under the 2002 Share Option Scheme since its termination on 4 May 2012. The total number of shares of the Company which may be issued upon exercise of all share options granted and yet to be exercised under the 2002 Share Option Scheme as at 30 June 2017 was 22,308,000 shares, representing 0.41% of the total number of issued shares of the Company as at the date of this interim report.

Note 3: Mr. Fu Zhuoyang was resigned as an Executive Director of the Company on 24 February 2017.



The 2012 Share Option Scheme

Details of the movement in the share options granted under the 2012 Share Option Scheme during the six months ended 30 June 2017 are set out below.

Name or category of participant	Number of share options					Balance as at 30 June 2017	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)
	Balance as at 1 January 2017	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	Reclassified during the period				
Director									
Qu Simon Tao (Note 2)	3,000,000	—	—	(3,000,000)	—	—	15 September 2016	15 September 2018 to 14 September 2021	2.304
Zhang Xing (Note 3)	—	—	—	—	2,000,000	2,000,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
Chen Xianjun (Note 4)	—	—	—	—	1,300,000	1,300,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
Sub-Total	3,000,000	—	—	(3,000,000)	3,300,000	3,300,000			
Other employees									
	148,640,000	—	—	(8,300,000)	(3,300,000)	137,040,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
	17,500,000	—	—	(1,100,000)	—	16,400,000	30 December 2016	30 December 2018 to 29 December 2021	2.304
Sub-Total	166,140,000	—	—	(9,400,000)	(3,300,000)	153,440,000			
Grand Total	169,140,000	—	—	(12,400,000)	—	156,740,000			

Note 1: The vesting period of the share options is from the date of grant until the commencement of the exercise period. The options are exercisable in the following manner subject to the achievement of certain performance targets:

Date of Grant	The proportion of options exercisable	Exercise period
15 September 2016	First 33% of the share options	15 September 2018 to 14 September 2021
	Second 33% of the share options	15 September 2019 to 14 September 2021
	Remaining 34% of the share options	15 September 2020 to 14 September 2021
30 December 2016	First 33% of the share options	30 December 2018 to 29 December 2021
	Second 33% of the share options	30 December 2019 to 29 December 2021
	Remaining 34% of the share options	30 December 2020 to 29 December 2021

Note 2: Mr. Qu Simon Tao was resigned as an Executive Director and Executive Deputy General Manager (in charge of overall operation) of the Company on 8 February 2017

Note 3: Mr. Zhang Xing was appointed as an Executive Director and Executive Deputy General Manager (in charge of overall operation) of the Company on 24 February 2017

Note 4: Mr. Chen Xianjun was appointed as an Executive Director of the Company on 24 February 2017

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the 2012 Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue on the date of approval of the 2012 Share Option Scheme. As at 30 June 2017, the number of shares of the Company available for issue in respect thereof was 567,779,152 shares, representing 10.42% of the total number of issued shares of the Company as at the date of this interim report.

Save as disclosed above, as at 30 June 2017, none of the Directors or the Company's Chief Executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following shareholders (other than Directors or Chief Executive of the Company) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register of interest required to be kept by the Company under Section 336 of the SFO:

Long position in the ordinary shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the issued share capital as at 30 June 2017
China National Travel Service Group Corporation ("China CTS")	Interest of controlled corporation (Note 1)	3,276,164,728	60.15%
China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)")	Interest of controlled corporation and beneficial owner (Note 1 and 2)	3,276,164,728	60.15%
Hongkong New Travel Investments Ltd. (formerly known as Alliance Power Resources Ltd.)	Beneficial owner (Note 2)	1,109,952,705	20.38%
CTS Asset Management (I) Limited	Interest of controlled corporation (Note 2)	1,109,952,705	20.38%
CNIC Corporation Limited (formerly known as GUOXIN International Investment Corporation Limited)	Interest of controlled corporation (Note 3)	1,115,340,456	20.48%
Ryden Holdings Company Limited	Interest of controlled corporation (Note 3)	1,115,340,456	20.48%
中國華馨投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.48%
博遠投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.48%

Note 1: The entire issued share capital of CTS (Holdings) is beneficially owned by China CTS. CTS (Holdings) is the immediate holding company of the Company. Accordingly, China CTS is taken to be interested in the shares in which CTS (Holdings) is interested pursuant to Part XV of the SFO and the interests of China CTS in the Company duplicate the interests of CTS (Holdings).



Note 2: Of these 3,276,164,728 shares, 2,145,512,023 shares are held directly by CTS (Holdings). 20,700,000 shares are directly held by Foden International Limited, a wholly-owned subsidiary of CTS (Holdings). 1,109,952,705 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. CTS Asset Management (I) Limited is 100% directly owned by CTS (Holdings), and CTS (Holdings) and CTS Asset Management (I) Limited are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Note 3: 1,109,952,705 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. Ryden Holdings Company Limited is 100% directly owned by CNIC Corporation Limited, which is 90% directly owned by 博遠投資有限公司, a 100%-owned subsidiary of 中國華馨投資有限公司. Ryden Holdings Company Limited, CNIC Corporation Limited, 博遠投資有限公司 and 中國華馨投資有限公司 are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Save as aforesaid, as at 30 June 2017, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 4 July 2011, the Company entered into a facility agreement with a bank for an uncommitted revolving term loan facility of HK\$300,000,000.

On 20 July 2011, China Travel Service (Hong Kong) Limited, as borrower, and the Company, as guarantor, entered into a facility agreement with a bank for an uncommitted facility of HK\$300,000,000. The term of the credit facility has been extended from 30 June 2016 to such other date at the bank's absolute discretion and is subject to the bank's periodic review.

On 25 July 2017, a wholly-owned subsidiary of the Company, as borrower, and the Company, as guarantor, entered into a facility agreement with a bank for a committed revolving loan of HK\$300,000,000. The final maturity date of the credit facility is one year from the date of acceptance of the facility agreement.

Pursuant to the aforesaid facility agreements, CTS (Holdings), the controlling shareholder of the Company, is required, at all times, to be the largest shareholder of the Company with at least 40% direct or indirect equity interest throughout the life of the credit facilities. Breach of this specific performance obligation will constitute an event of default. Upon occurrence of such event of default, the relevant bank may declare the relevant facility to be terminated and all the indebtedness under the relevant facility would become due and payable.

On 25 June 2013, the Company, as borrower, entered into a facility agreement with a bank (the "Bank") for an uncommitted revolving credit facility to the extent of HK\$100,000,000. Pursuant to the aforesaid facility agreements, the Company undertakes with the Bank that CTS (Holdings) shall hold, directly or indirectly, not less than 50% of the issued share capital of the Company.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to rule 13.51B(1) of the Listing Rules, the changes in Directors' information since the date of the 2016 Annual Report are set out below:

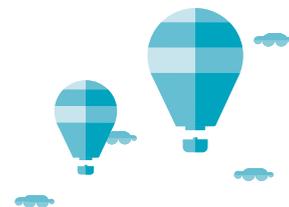
Name of Director	Changes
Liu Fengbo	– Resigned as a director of China Travel Tours Transportation Services Hong Kong Limited, a wholly-owned subsidiary of the Company, with effect from 24 April 2017.
Wong Man Kong, Peter	– Retired as an independent non-executive director of Chinney Investments, Limited (Stock code: 216) and ceased to be a member of the audit committee of Chinney Investments, Limited with effect from 25 August 2017.
Sze, Robert Tsai To	– Resigned as the chairman of audit committee of Min Xin Holdings Limited (Stock Code: 222) with effect from 1 April 2017, but continued to serve as a member of the audit committee of Min Sin Holdings limited. – Appointed as the chairman of the remuneration committee and ceased to be the chairman of audit committee of Hop Hing Group Holdings Limited (Stock code: 47) with effect from 25 August 2017, but continued to serve as a member of the audit committee of Hop Hing Group Holdings Limited.
Chan Wing Kee	– Appointed as an independent non-executive director of Kingboard Chemical Holdings Limited (Stock Code: 148) with effect from 1 July 2017.

CORPORATE GOVERNANCE

The Group is committed to maintain high standards of corporate governance to safeguard the interests of shareholders and other stakeholders and enhance shareholder value. The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance.

For the six months ended 30 June 2017, the Company has complied with the code provisions (the "Code Provision(s)") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

- Code Provision A.4.1 specifies that Non-Executive Directors should be appointed for a specific term, subject to re-election. Although the Company's Non-Executive Directors do not have a specific term of appointment, pursuant to the Company's articles of association (the "Articles"), at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Board considers that such requirements are sufficient to meet the underlying objective and spirit of the relevant Code Provisions.
- Code Provision D.1.4 specifies that the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors because all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles. In addition, the Directors are expected to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.



MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the directors of the Company confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2017.

DIVIDEND

The Board has declared an interim dividend of HK3 cents per share (2016: HK2 cents) for the six months ended 30 June 2017. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 22 September 2017. The interim dividend will be paid on Tuesday, 10 October 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 20 September 2017 to Friday, 22 September 2017 (both dates inclusive), for the purposes of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 19 September 2017.

REVIEW OF INTERIM FINANCIAL INFORMATION

The unaudited condensed interim financial information of the Group for the six months ended 30 June 2017 has been reviewed by the Audit Committee of the Company.

The condensed consolidated interim financial information for the six months ended 30 June 2017 has not been audited but has been reviewed by the Company's external auditors, PricewaterhouseCoopers.

By order of the Board
Zhang Fengchun
Chairman

Hong Kong, 29 August 2017