



香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code : 308)





CONTENTS

	Page
Corporate Information	2
Financial Calendar and Information for Shareholders	3
Interim Results	
– Report on Review of Interim Financial Report	4
– Consolidated Income Statement	5
– Consolidated Statement of Comprehensive Income	6
– Consolidated Statement of Financial Position	7
– Condensed Consolidated Statement of Changes in Equity	9
– Condensed Consolidated Statement of Cash Flows	11
– Notes to the Unaudited Interim Financial Report	13
Management Discussion and Analysis	34
Other Information	41



CORPORATE INFORMATION

DIRECTORS

Mr. Jiang Hong (*Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Wu Qiang (*General Manager*)
Mr. You Cheng
Mr. Yang Hao
Mr. Fan Dongsheng
Mr. Tsang Wai Hung[#]
Mr. Tse Cho Che Edward*
Mr. Zhang Xiaoke*
Mr. Huang Hui*
Mr. Chen Johnny*
Mr. Song Dawei*

[#] *Non-Executive Director*

^{*} *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Chen Johnny (*Chairman*)
Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Song Dawei

REMUNERATION COMMITTEE

Mr. Chen Johnny (*Chairman*)
Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Song Dawei
Mr. Jiang Hong

NOMINATION COMMITTEE

Mr. Jiang Hong (*Chairman*)
Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny
Mr. Song Dawei

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

KPMG

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

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 2020 Interim Results	28 August 2020
Announcement of 2019 Final Results	31 March 2020
Announcement of 2019 Interim Results	30 August 2019
Announcement of 2018 Final Results	27 March 2019

DIVIDENDS

2020 Interim	Nil
2019 Final	Nil
2019 Interim	HK3 cents per share paid on 12 November 2019
2018 Final	Nil

REGISTERED OFFICE

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

SHARE REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.irasia.com/listco/hk/ctii

STOCK CODE

308

LISTING DATE

11 November 1992

ISSUED SHARES

5,536,633,709 (as at 30 June 2020)



REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

REVIEW REPORT 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 report set out on pages 5 to 33 which comprises the consolidated statement of financial position of China Travel International Investment Hong Kong Limited (the “Company”) as of 30 June 2020 and the related consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flow for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report 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 are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 Accountants. A review of the interim financial report consists of making enquiries, 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 report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

28 August 2020



CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 \$'000	2019 \$'000
Revenue	6	571,299	2,219,659
Cost of sales		(595,007)	(1,206,685)
Gross profit		(23,708)	1,012,974
Other income and gains, net	7(a)	67,139	216,197
Change in fair value of investment properties		(89,947)	51,193
Selling and distribution costs		(201,495)	(289,434)
Administrative expenses		(403,278)	(445,000)
Operating (loss)/profit	7	(651,289)	545,930
Finance income		40,115	33,742
Finance costs		–	(9,204)
Finance income, net	8	40,115	24,538
Share of profits less losses of associates		(51,443)	67,407
(Loss)/profit before taxation		(662,617)	637,875
Taxation	9	136,349	(143,343)
(Loss)/profit for the period		(526,268)	494,532
Attributable to:			
Equity owners of the Company		(443,486)	419,426
Non-controlling interests		(82,782)	75,106
(Loss)/profit for the period		(526,268)	494,532
(Loss)/earnings per share (HK cents)	11		
Basic (loss)/earnings per share		(8.01)	7.69
Diluted (loss)/earnings per share		(8.01)	7.68

The notes on pages 13 to 33 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 10.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 \$'000	2019 \$'000
(Loss)/profit for the period		(526,268)	494,532
Other comprehensive income for the period			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		(9,562)	(105)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Share of hedging reserve of an associate, net of tax		–	4,897
Exchange differences on translation of foreign operations, net		(205,598)	(26,913)
Other comprehensive income for the period, net of tax		(215,160)	(22,121)
Total comprehensive income for the period		(741,428)	472,411
Attributable to:			
Equity owners of the Company		(636,841)	400,757
Non-controlling interests		(104,587)	71,654
Total comprehensive income for the period		(741,428)	472,411

The notes on pages 13 to 33 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2020 \$'000	At 31 December 2019 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	7,910,714	8,120,307
Investment properties	13	1,645,209	1,745,232
Prepaid land lease payments		2,096,959	2,163,793
Goodwill		1,323,828	1,323,828
Other intangible assets		196,127	198,160
Interests in associates		1,151,250	1,216,602
Other financial assets		38,217	48,782
Prepayments and other receivables		253,062	5,918
Deferred tax assets		177,911	61,901
Total non-current assets		14,793,277	14,884,523
Current assets			
Inventories		22,181	17,780
Properties under development		2,385,615	2,263,561
Completed properties held for sale		21,767	26,607
Trade receivables	14	60,456	59,748
Deposits, prepayments and other receivables	15	467,005	330,469
Loan to fellow subsidiaries		385,166	395,865
Amounts due from holding companies		7,981	22,224
Amounts due from fellow subsidiaries		116,916	113,989
Tax recoverable		79,533	75,812
Financial assets at fair value through profit or loss	16	323,739	56,904
Pledged time deposits		12,041	18,333
Cash and bank balances	17	2,545,638	3,198,048
Assets of disposal group classified as held for sale	24	257,442	343,065
Total current assets		6,685,480	6,922,405
Total assets		21,478,757	21,806,928
Equity attributable to equity owners of the Company			
Share capital		9,222,295	9,222,295
Reserves		6,227,139	6,863,980
		15,449,434	16,086,275
Non-controlling interests		1,173,305	1,277,892
Total equity		16,622,739	17,364,167

The notes on pages 13 to 33 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2020 \$'000	At 31 December 2019 \$'000
LIABILITIES			
Non-current liabilities			
Deferred income		720,358	679,069
Lease liabilities		246,297	244,810
Deferred tax liabilities		582,275	604,956
Total non-current liabilities		1,548,930	1,528,835
Current liabilities			
Trade payables	18	195,269	243,635
Other payables and accruals		2,284,085	2,055,319
Loans from a holding company		307,626	77,028
Amounts due to holding companies		3,792	1,715
Amounts due to fellow subsidiaries		3,774	1,553
Lease liabilities		23,864	30,468
Tax payables		101,326	157,406
Bank and other borrowings	19	47,592	3,801
Liabilities of disposal group classified as held for sale		339,760	343,001
Total current liabilities		3,307,088	2,913,926
Total liabilities		4,856,018	4,442,761
Total equity and liabilities		21,478,757	21,826,928

The notes on pages 13 to 33 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Attributable to equity owners of the Company				Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2020	9,222,295	(118,236)	6,982,216	16,086,275	1,277,892	17,364,167
Comprehensive income						
Loss for the period	-	-	(443,486)	(443,486)	(82,782)	(526,268)
Other comprehensive income for the period:						
<i>Item that will not be reclassified subsequently to or loss:</i>						
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	-	(7,439)	-	(7,439)	(2,123)	(9,562)
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange differences on translation of foreign operations, net	-	(185,916)	-	(185,916)	(19,682)	(205,598)
Total other comprehensive income for the period, net of tax	-	(193,355)	-	(193,355)	(21,805)	(215,160)
Total comprehensive income for the period	-	(193,355)	(443,486)	(636,841)	(104,587)	(741,428)
Transactions with owners						
Forfeiture of share options	-	(4,491)	4,491	-	-	-
Transfer from retained profits	-	12,274	(12,274)	-	-	-
Total transactions with owners for the period	-	7,783	(7,783)	-	-	-
At 30 June 2020	9,222,295	(303,808)	6,530,947	15,449,434	1,173,305	16,622,739

The notes on pages 13 to 33 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Attributable to equity owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2019	9,119,836	121,683	6,771,948	16,013,467	1,098,557	17,112,024
Comprehensive income						
Profit for the period	–	–	419,426	419,426	75,106	494,532
Other comprehensive income for the period:						
<i>Item that will not be reclassified subsequently to or loss:</i>						
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	–	(2,163)	–	(2,163)	2,058	(105)
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Share of hedging reserve of an associate, net of tax	–	4,897	–	4,897	–	4,897
Exchange differences on translation of foreign operations, net	–	(21,403)	–	(21,403)	(5,510)	(26,913)
Total other comprehensive income for the period, net of tax	–	(18,669)	–	(18,669)	(3,452)	(22,121)
Total comprehensive income for the period	–	(18,669)	419,426	400,757	71,654	472,411
Transactions with owners						
Equity-settled share option arrangement	–	3,702	–	3,702	–	3,702
Exercise of share options	584	(159)	–	425	–	425
Forfeiture of share options	–	(3,702)	–	(3,702)	–	(3,702)
Dividends paid to non-controlling shareholders	–	–	–	–	(500)	(500)
Total transactions with owners for the period	584	(159)	–	425	(500)	(75)
At 30 June 2019	9,120,420	102,855	7,191,374	16,414,649	1,169,711	17,584,360

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using modified retrospective approach.

The notes on pages 13 to 33 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 \$'000	2019 \$'000
Cash flows from operating activities			
Cash (used in)/generated from operations		(468,769)	144,125
Income tax paid		(66,369)	(117,960)
Net cash (used in)/generated from operating activities		(535,138)	26,165
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		3,116	8,817
Finance income received		40,137	23,386
Dividends received from associates and joint ventures		–	116,302
Purchases of property, plant and equipment and prepaid land lease payments		(137,914)	(174,172)
Additions to financial assets at fair value through profit or loss		(388,729)	(1,340,720)
Proceeds upon maturity of financial assets at fair value through profit or loss		119,761	1,506,536
Decrease in time deposits with original maturity of more than three months when acquired		353,803	896,099
(Increase)/decrease in pledged time deposits		(14,337)	24,136
Other cash flows arising from investing activities		–	(97)
Net cash (used in)/generated from investing activities		(24,163)	1,060,287
Cash flows from financing activities			
Share option exercised		–	425
Finance cost paid		(544)	(2,240)
Capital element of lease rentals paid		(27,565)	(17,826)
Interest element of lease rentals paid		(6,845)	(6,964)
Dividends paid to non-controlling shareholders		–	(500)
Proceeds of new bank and other borrowings		43,791	–
Repayment of bank and other borrowings		–	(242,379)
Proceeds of new loans from a holding company		282,087	–
Other cash flows arising from financing activities		90	–
Net cash generated from/(used in) financing activities		291,014	(269,484)

The notes on pages 13 to 33 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 \$'000	2019 \$'000
Net (decrease)/increase in cash and cash equivalents		(268,287)	816,968
Cash and cash equivalents at 1 January		2,460,369	1,101,901
Effect of foreign exchange rate changes, net		(35,691)	(10,468)
Cash and cash equivalents at 30 June	17	2,156,391	1,908,401
Analysis of balances of cash and cash equivalents			
Cash and bank balances		2,545,638	2,291,775
Reclassified to assets of disposal group classified as held for sale		81,805	175,612
Deposits with maturity of more than three months		(471,052)	(558,986)
Cash and cash equivalents	17	2,156,391	1,908,401



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 28 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG 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 HKICPA. KPMG’s independent review report to the Board of Directors is included on page 29.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements 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 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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 section 406(2), 407(2) or (3) of the Companies Ordinance.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendment to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, 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 2019.

4 FINANCIAL RISK MANAGEMENT

4.1 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 financial report does 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 for the year ended 31 December 2019.

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



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation

4.2.1 Management analyses financial instruments and investment properties carried at fair value, by valuation method. The following hierarchy is used for determining and disclosing their fair values.

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

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

Assets

	As at 30 June 2020			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss	–	323,739	–	323,739
Other financial assets	–	–	38,217	38,217
	–	323,739	38,217	361,956

	As at 31 December 2019			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss	–	56,904	–	56,904
Other financial assets	–	–	48,782	48,782
	–	56,904	48,782	105,686

During the period, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2019: Nil).

Changes in fair value of financial assets at fair value through profit or loss are recorded in other income and gains, net in the 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 2020: 1.35%-3.00%; 31 December 2019: 2.85%-4.05%). The fair values are within level 2 of the fair value hierarchy.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation (Continued)

There were no changes in valuation techniques during the period.

The unlisted equity securities are measured at fair value using a valuation technique with significant unobservable inputs (Level 3).

The fair value of unlisted equity securities is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2020, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 1% (31 December 2019: 1%) would have increased/decreased the Group's other comprehensive income by HK\$210,000 (31 December 2019: HK\$638,000).

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Unlisted equity securities:		
At 1 January	48,782	40,129
Net unrealised gains or losses recognised in other comprehensive income during the period	(9,532)	(105)
Related tax	(1,059)	(469)
Currency translation differences	26	(1,241)
At 30 June	38,217	38,314

Any gains or losses arising from the remeasurement of the Group's unlisted equity securities are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the unlisted equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation (Continued)

4.2.2 The following table analyses the investment properties of the Group carried at fair value, using a valuation technique with significant unobservable inputs (Level 3).

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Recurring fair value measurements		
Hong Kong:		
– Commercial properties	799,600	864,000
Outside Hong Kong:		
– Commercial properties	870,109	908,032
	1,669,709	1,772,032
Reclassified to assets of disposal group classified as held for sale	(24,500)	(28,600)
	1,645,209	1,743,432

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 at 30 June 2020 by RHL Appraisal Ltd. and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers, at HK\$1,669,709,000 (2019: HK\$1,772,032,000), including investment properties reclassified to assets of disposal group classified as for sale amounted to HK\$24,500,000 (2019: HK\$28,600,000) (see note 24). 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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation (Continued)

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.

4.2.3 The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost approximate their fair values as at 30 June 2020.

5 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. No operating segments have been aggregated to form the reporting 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, arts performance and tourism property development mainly located in 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, 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 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 Mainland China, vehicle rental and charter operations in Hong Kong, Macau and Mainland China.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

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 changes in fair value of investment properties and result from disposal of property, plant and equipment.

Six months ended 30 June 2020 (unaudited)

	Tourist attraction and related operations HK\$'000	Travel agency, travel 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
Segment revenue:							
Sales to external customers	230,481	159,659	135,565	45,501	571,206	93	571,299
Inter-segment revenue	552	118	455	162	1,287	464	1,751
	<u>231,033</u>	<u>159,777</u>	<u>136,020</u>	<u>45,663</u>	<u>572,493</u>	<u>557</u>	<u>573,050</u>
Elimination of inter-segment revenue					(1,287)	(464)	(1,751)
Revenue					<u>571,206</u>	<u>93</u>	<u>571,299</u>
Segment results	<u>(108,660)</u>	<u>(34,896)</u>	<u>(71,008)</u>	<u>(120,260)</u>	<u>(334,824)</u>	<u>(20,566)</u>	<u>(355,390)</u>
Non-controlling interests							<u>(82,782)</u>
Segment operating results before non-controlling interests							<u>(438,172)</u>
Changes in fair value of investment properties, net of tax							<u>(86,071)</u>
Net loss on disposal of property, plant and equipment, net of tax							<u>(2,025)</u>
Loss for the period							<u>(526,268)</u>



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019 (unaudited)

	Tourist attraction and related operations HK\$'000	Travel agency, travel 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
Segment revenue:							
Sales to external customers	919,510	645,589	401,151	253,409	2,219,659	–	2,219,659
Inter-segment revenue	19,513	1,438	968	1,002	22,921	8,260	31,181
	<u>939,023</u>	<u>647,027</u>	<u>402,119</u>	<u>254,411</u>	<u>2,242,580</u>	<u>8,260</u>	<u>2,250,840</u>
Elimination of inter-segment revenue					(22,921)	(8,260)	(31,181)
Revenue					<u>2,219,659</u>	<u>–</u>	<u>2,219,659</u>
Segment results	<u>215,676</u>	<u>94,595</u>	<u>79,821</u>	<u>4,188</u>	<u>394,280</u>	<u>(15,364)</u>	<u>378,916</u>
Non-controlling interests							<u>75,106</u>
Segment operating results before non-controlling interests							<u>454,022</u>
Changes in fair value of investment properties, net of tax							<u>40,716</u>
Net loss on disposal of property, plant and equipment, net of tax							<u>(206)</u>
Profit for the period							<u>494,532</u>

6 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.

Disaggregation of revenue

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
– Tourist attraction and related income	182,015	801,770
– Tour, travel agency, travel document and related income	155,027	645,589
– Hotel income	132,723	398,169
– Passenger transportation income	45,501	253,409
– Property sales income	118	53,565
– Consultancy and service income	26,411	33,023
	541,795	2,185,525
Revenue from other sources		
– Rental income	29,504	34,134
	571,299	2,219,659



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

7 OPERATING (LOSS)/PROFIT

The Group's operation (loss)/profit is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 \$'000 (unaudited)	2019 \$'000 (unaudited)
(a) Other income and gains, net		
Rental income on investment properties, net	9,292	19,370
Foreign exchange differences, net	25	384
Government grants	2,718	3,522
Management fee income	30,742	26,238
Income from financial assets at fair value through profit or loss	1,596	17,975
Loss on disposal of property, plant and equipment, net	(2,012)	(206)
Reversal of provision for the closure of golf club*	–	130,000
Other	24,778	19,014
	67,139	216,197

* The reversal of provision for the closure of golf club represents the over-provision of the membership, costs and expenses relating to closure of golf club in 2017. In the second half of 2019, a further reversal of HK\$25,358,000 was made for the provision and total reversal of provision made in 2019 was HK\$155,358,000.

	Six months ended 30 June	
	2020 \$'000 (unaudited)	2019 \$'000 (unaudited)
(b) Other items		
Staff costs	529,868	656,456
Depreciation		
– owned property, plant and equipment	208,779	252,135
– right-of-use assets	29,915	20,027
Amortisation of prepaid land lease payments	16,632	14,016
Amortisation of other intangible assets	1,445	1,513
Outgoing expenses in respect of investment properties	5,822	10,025
Cost of properties sold	4,363	26,040



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

8 FINANCE INCOME, NET

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Interest income:		
Bank deposits and entrustment loans	40,115	33,742
Interest expense:		
Bank borrowings, overdrafts and other borrowings		
– wholly repayable within five years	(544)	(2,240)
Interest on lease liabilities	(6,845)	(6,964)
	(7,389)	(9,204)
Less: Interest expense capitalised into properties under development and property, plant and equipment*	7,389	–
	–	(9,204)
Finance income, net	40,115	24,538

* The borrowing costs have been capitalised at a rate of 1.63% per annum (2019: N/A).

9 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% (2019: 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 and under the Provisional Regulations on Land Appreciation Tax ("LAT"), all gains arising from the transfer of real estate property in Mainland China are subjected to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

9 TAXATION (CONTINUED)

The amount of taxation charged to consolidated income statement represents:

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Current taxation		
Hong Kong	1,685	30,420
Mainland China and other territories	11,937	67,728
	13,622	98,148
Deferred taxation	(149,971)	45,195
	(136,349)	143,343

The changes on property revaluation as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK\$3,876,000 (2019: HK\$625,000).

The share hedging reserve of an associate as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK\$Nil (2019: HK\$968,000).

The share of fair value changes in equity investments as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK\$1,059,000 (2019: HK\$469,000).

10 DIVIDENDS

The Board do not recommend the payment of an interim dividend (2019: HK3 cents per ordinary share) for the six months ended 30 June 2020.

11 (LOSS)/EARNINGS PER SHARE FOR (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Basic (loss)/earnings per share

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

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
(Loss)/profit attributable to equity owners of the Company (HK\$'000)	(443,486)	419,426
Weighted average number of ordinary shares in issue	5,536,633,709	5,456,082,033
Basic (loss)/earnings per share (HK cents)	(8.01)	7.69



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 (LOSS)/EARNINGS PER SHARE FOR (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY (CONTINUED)

Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the six months ended 30 June 2020 and 2019 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 for the six months ended 30 June 2019. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to outstanding share options together with the position of the fair value of the share options measured at the grant date, which is attributable to future periods. 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.

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
(Loss)/profit attributable to equity owners of the Company (HK\$'000)	(443,486)	419,426
Weighted average number of ordinary shares in issue	5,536,633,709	5,456,082,033
Adjustments for:		
– Share options	–	1,690,818
Weighted average number of ordinary shares for diluted (loss)/earnings per share	5,536,633,709	5,457,772,851
Diluted (loss)/earnings per share (HK cents)	(8.01)	7.68

12 PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2020, additions of items of property, plant and equipment amounted to HK\$184,857,000 (2019: HK\$178,912,000) and the Group disposed of and wrote off items of property, plant and equipment with an aggregate net book value of HK\$5,128,000 (2019: HK\$9,023,000).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENT PROPERTIES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
At fair value		
At the beginning of the period/year	1,745,232	1,794,236
Changes in fair value	(84,947)	(36,238)
Gain on property valuation recognised in other comprehensive income	–	2,551
Transfer from property, plant and equipment and prepaid land lease payments	–	30,906
Reclassified to assets of disposal group classified as held for sale	–	(29,500)
Currency translation differences	(15,076)	(16,723)
At the end of the period/year	1,645,209	1,745,232

14 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 loss allowance, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Within 3 months	44,557	48,467
Over 3 months to 6 months	9,478	7,058
Over 6 months to 12 months	2,355	2,255
Over 1 year to 2 years	2,106	1,001
Over 2 years	1,960	967
	60,456	59,748



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

15 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

At 30 June 2020, the balances included an amount due from a non-controlling shareholder of CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd. (“CTS (Dengfeng)”) a 51% owned subsidiary of the Company, of RMB11 million (31 December 2019: RMB15 million), which was unsecured and interest-free.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period ended 30 June 2020, the Group subscribed RMB denominated principal-protected with floating yields investments issued and managed by banks in the PRC. The principals amount to RMB296 million (equivalent to approximately HK\$324 million) and the estimated yields are 2.48%-3.5% per annum. The Group received proceeds of RMB107,973,000 (equivalent to approximately HK\$118,165,000) upon maturity.

17 CASH AND BANK BALANCES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Cash and bank balances	1,956,410	2,012,339
Time deposits	708,249	1,350,868
	2,664,659	3,363,207
Less: reclassified to assets of disposal group classified as held for sale	(106,980)	(146,826)
	2,557,679	3,216,381
Less: pledged time deposits	(12,041)	(18,333)
Cash and bank balances in the consolidated statement of financial position	2,545,638	3,198,048
Add: cash and bank balances reclassified to assets of disposal group classified as held for sale	81,805	142,002
Less: deposits with maturity of more than three months	(471,052)	(879,681)
Cash and cash equivalents in the condensed consolidated statement of cash flows	2,156,391	2,460,369



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE PAYABLES

At 30 June 2020, the ageing analysis of trade payables, based on the invoice date, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Within 3 months	138,579	200,694
Over 3 months to 6 months	19,388	14,208
Over 6 months to 12 months	15,480	12,861
Over 1 year to 2 years	6,629	5,190
Over 2 years	15,193	10,682
	195,269	243,635

19 BANK AND OTHER BORROWINGS

Movements in borrowings are analysed as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
As at 1 January	3,801	247,246
Drawdown	43,791	–
Repayments	–	(242,985)
Reclassified to liabilities of disposal group classified as held for sale	–	(304)
Currency translation differences	–	(156)
As at 30 June	47,592	3,801

The interest rate of bank and other borrowings as at 30 June 2020 is 0% to 3.85% (31 December 2019: interest-free).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 PLEDGE OF ASSETS

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Bank deposits		
Pledged for credit facilities granted by suppliers to the Group's certain subsidiaries	36,291	16,311
Pledged for bank guarantees given in lieu of utility and rental deposits	926	2,022
	37,217	18,333
Buildings		
Pledged for credit facilities granted by suppliers to the Group's certain subsidiaries	1,271	1,456
	38,488	19,790

21 CONTINGENT LIABILITIES

At the end of the reporting period, material contingent liabilities not provided for in the interim financial report were as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Performance bond given to a customer for due performance of a sales contract	300	300

22 COMMITMENTS

At 30 June 2020, the Group had the following significant capital commitments:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Property project, land and buildings: Contracted, but not provided for	768,396	569,768
Plant and equipment and motor vehicles: Contracted, but not provided for	61,400	62,719
Scenic spots: Contracted, but not provided for	197,831	165,713
Unpaid capital contribution to an associate: Contracted, but not provided for	19,159	19,536
Acquisition of a subsidiary: Contracted, but not provided for	421,805	–



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

23 RELATED PARTY TRANSACTIONS

In addition to those related party balances and transactions disclosed elsewhere in this interim financial report, the Group had the following significant transactions with related parties during the period:

(a) Significant transactions with related parties

	Note	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Travel-related income from	(a)		
– immediate holding company**		48,206	144,540
– fellow subsidiaries*		552	17,767
– associates		3,294	22,259
– other related parties*		293	912
Hotel-related income from	(a)		
– immediate holding company		624	410
– fellow subsidiaries		323	905
Management income from	(b)		
– fellow subsidiaries*		29,721	26,844
– associates		1,212	3,300
– a non-controlling shareholder		3,338	15,602
Rental income from	(c)		
– immediate holding company		1,307	442
– fellow subsidiaries*		566	1,724
– an associate		3,802	22,091
– a non-controlling shareholder		1,266	1,469
– a related party		843	1,671
Interest income from			
– fellow subsidiaries		27,474	14,871
Travel-related expenses paid to	(a)		
– fellow subsidiaries*		(8,962)	(43,318)
– associates		–	(1,000)
– other related parties*		(1,303)	(2,967)
Management expenses paid to	(b)		
– fellow subsidiaries*		(423)	(1,046)



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (continued)

	Note	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Lease rental paid to	(c)		
– immediate holding company*		(4,556)	(7,530)
– fellow subsidiaries*		(337)	(454)
– an associate		–	(1,083)
– a non-controlling shareholder		(3,391)	(2,460)
– other related parties		(11,170)	(11,700)
Other operating expenses paid to			
– a related party		(4,727)	(12,519)

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.

* These related party transactions contain connected transactions or continuing connected transactions as defined in Chapter 14A of the "Listing Rules". The amounts disclosed above include certain income/expenses which are exempted from the announcements and reporting requirements as they are below de minimis threshold under the Listing Rule 14A.76(1).

Notes:

- (a) 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.
- (b) Management income and expense are charged at rates in accordance with relevant contracts.
- (c) Rental income and lease rental are charged in accordance with respective tenancy agreements.

(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 Shapotou, as borrower, with repayable on demand clause, 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 2020, the arrangement remained effective with RMB30,000,000 withdrawn.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant balances with related parties (continued)

- (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 with repayable on demand clause, pursuant to which China CTS has agreed to provide a loan of RMB39,000,000 to Anji. On 24 May 2020, China CTS and Anji renewed the Loan Agreement for a term commencing from 24 May 2020 and expiring on 23 May 2023. Under both agreement, the interest rate shall be the fixed rate 1.2% per annum. As at 30 June 2020, the arrangement remained effective with RMB39,000,000 withdrawn.
- (iii) On 17 May 2019, 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 17 May 2019 and ending on 16 May 2020. The Loan Agreement expired on 16 May 2020. On 27 May 2020, the Company entered into a new Loan Agreement with CTS Finance Investment commencing from 27 May 2020 and ending on 26 May 2021. Under both agreements, the Company has agreed to provide a loan of USD20,000,000 to CTS Finance Investment and 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 2020, the arrangement remained effective with USD20,000,000 withdrawn. These transactions also constitute connected transactions as defined under Listing Rules.
- (iv) On 8 November 2018, 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 1 January 2019 and ending on 31 December 2021. As at 30 June 2020, the related deposit balance was RMB938,534,345.08. These transactions also constitute continuing connected transactions as defined under Listing Rules.
- (v) On 2 August 2019, CTS (Shenzhen) Travel Management Company Limited (“CTS (Shenzhen)”), as lender, entered into a loan agreement with Hong Kong China Travel Service Investment (China) Limited (“CTS (China) Investment”), as borrower, for a term of three years commencing from 2 August 2019 and ending on 1 August 2022, pursuant to which CTS (Shenzhen) has agreed to provide a loan of RMB 210,000,000 to CTS (China) Investment. The interest rate shall be the fixed rate 5.225% per annum. As 30 June 2020, the arrangement remained effective with RMB210,000,000 withdrawn.
- (vi) On 11 June 2020, China Travel Service (Holdings) Hong Kong Limited (“CTS Holding”), as lender, entered into a loan agreement with the Company, as borrower, for a term of one year commencing from 11 June 2020 and ending on 10 June 2021, pursuant to which CTS Holding has agreed to provide a loan of USD30,000,000 to the Company. The interest rate shall be 1-month LIBOR on two working days before drawdown date plus 0.75% per annum. As at 30 June 2020, the arrangement remained effective with USD30,000,000 withdrawn.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant balances with related parties (continued)

- (vii) On 1 April 2020, CTS Holding, as lender, entered into a loan agreement with China Travel Service (Hong Kong) Limited (“CTSHK”), as borrower, for a term of one year commencing from 1 April 2020 and ending on 30 March 2021, pursuant to which CTS Holding has agreed to provide a loan of HK\$25,000,000 to CTSHK. The interest rate shall be 12-month HIBOR on drawdown date plus 0.7% per annum. As at 30 June 2020, the arrangement remained effective with HK\$25,000,000 withdrawn.
- (viii) On 17 June 2020, CTS Holding, as lender, entered into a loan agreement with CTSHK, as borrower, for a term of one year commencing from 17 June 2020 and ending on 16 June 2021, pursuant to which CTS Holding has agreed to provide a loan of HK\$25,000,000 to CTSHK. The interest rate shall be 12-month HIBOR on drawdown date plus 0.7% per annum. As at 30 June 2020, the arrangement remained effective with HK\$25,000,000 withdrawn.

(c) Transactions with the PRC government related entities

- (i) 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.

24 ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 9 August 2019, Alton Services Limited (“Alton”), a wholly-owned subsidiary of the Company, entered into an agreement (“the Agreement”) in relation to the sale of its entire equity interest in China Travel Service (Hong Kong) Limited (formerly known as “China Travel (HK & Macau Tour) Management Hong Kong Limited”) and its wholly-owned subsidiaries (together “CTSHK group”), for a consideration of HK\$5,130,000 to China Travel Service Co., Ltd., a fellow subsidiary of the Company.

Pursuant to the Agreement, Alton will undergo a reorganisation by including entities that are relevant to the Group’s travel agency business under China Travel Service (Hong Kong) Limited prior to the completion of the disposal (the “Reorganisation”). The assets and liabilities of CTSHK group, after taking into account the impact of the Reorganisation, comprise the disposal group held for sale.

At 30 June 2020, the major classes of assets and liabilities of disposal group classified as held for sale are as follows:



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

24 ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (CONTINUED)

	2020 HK\$'000 (unaudited)
Assets of disposal group classified as held for sale	
Property, plant and equipment (including right-of-use assets)	45,111
Investment properties	24,500
Trade receivables	15,389
Deposits, prepayments and other receivables	43,821
Pledged time deposits	25,175
Cash and bank balances	81,805
Deferred tax assets	18,862
Others	2,779
	257,442
Liabilities of disposal group classified as held for sale	
Trade payables	113,084
Other payables and accruals	141,476
Loan from holding company	50,000
Lease liabilities	26,410
Others	8,790
	339,760

25 SUBSEQUENT EVENT

On 6 March 2020, Interdragon Limited (“Interdragon”) as the seller and Dalmore Investments Limited (“Dalmore”), a wholly-owned subsidiary of the Company, as the purchaser entered into SPA pursuant to which Interdragon has conditionally agreed to dispose of and Dalmore has conditionally agreed to purchase 21% of the issued share capital of Shun Tak – China Travel Shipping Investments Limited (“Shun Tak – China Travel”), an associate of the Company, at an aggregate consideration of HK\$437 million. Upon the completion of the purchase, Shun Tak – China Travel will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group’s financial results.

On the same day and simultaneously, the Company as the seller and Shun Tak – China Travel as the purchaser entered into another SPA pursuant to which the Company has conditionally agreed to dispose of and Shun Tak – China Travel has conditionally agreed to purchase the entire issued share capital and shareholder’s loan, of China Travel Tours Transportation Development (HK) Limited (“CTTTD”), a wholly-owned subsidiary of the Company, at an aggregate consideration of HK\$508 million. Upon completion of the disposal, the Company will hold the shares of CTTTD through its 50% interest in Shun Tak-China Travel, and hence CTTTD will be a non-wholly-owned subsidiary of the Company.

The transaction was completed on 16 July 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

In the first half of 2020, the Group's consolidated revenue was HK\$571 million, representing a 74% decrease compared with the same period last year. Loss before taxation was HK\$663 million, as compared with profit before taxation of HK\$638 million in the same period last year. Loss attributable to shareholders was HK\$443 million, as compared with profit attributable to shareholders of HK\$419 million in the same period last year. Loss attributable to operations was HK\$355 million, as compared with profit attributable to operations of HK\$379 million in the same period of last year. The decreased consolidated revenue and loss attributable to shareholders were mainly attributable to a significant drop in the number of tourist arrivals in Hong Kong, Macau and Mainland China in the wake of the novel coronavirus ("COVID-19") outbreak in the first half of 2020, negatively impacting the financial results of all lines of business of the Group.

The Group's financial position remains stable and healthy, with adequate investing and financing capabilities. As of 30 June 2020, total assets were HK\$21,479 million, a 2% decrease compared with the end of last year; equity attributable to shareholders was HK\$15,449 million, a 4% decrease compared with the end of last year; cash and bank balances, wealth management products and certain loan receivables amounted to HK\$3,267 million, a 11% decrease compared with the end of last year, of which cash and bank balances amounted to HK\$2,546 million and, deducting loans from holding company and bank loans and other borrowings of HK\$355 million, net cash was HK\$2,191 million, a 30% decrease compared with the end of last year.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

BUSINESS REVIEW

(I) Travel destination operations

The Group's travel destination operations mainly comprise city hotels, theme parks, natural and cultural scenic spot destinations, leisure resort destinations, non-controlling scenic spot investments and supplementary tourist attraction operations. Affected by COVID-19, in the first half of 2020, total revenue of the Group's travel destination operations was HK\$366 million, a 72% decrease compared with the same period last year. Attributable loss was HK\$180 million, compared with attributable profit of HK\$295 million in the same period last year.

City hotels

The Group's hotel operations include five hotels in Hong Kong and Macau, the Beijing Guang'anmen Grand Metropark Hotel ("**Beijing Metropark Hotel**") and CTS H.K. Metropark Hotels Management Company Limited.

In the first half of 2020, revenue of the Group's hotel operations was HK\$136 million, a 66% decrease compared with the same period last year. Attributable loss was HK\$71 million, as compared with attributable profit of HK\$80 million in the same period last year. Affected by COVID-19, the average occupancy rate and food and beverage revenue of the five hotels in Hong Kong and Macau and the Beijing Metropark Hotel decreased significantly during the first half of the year, and hotel operations recorded an overall decline. In response to the prevailing operating environment, the hotels introduced various discount and promotional activities and strengthened cost controls to counter the negative impact of the pandemic.

Theme parks

The Group's theme parks include Shenzhen The World Miniature Co., Ltd. ("**Window of the World**") and Shenzhen Splendid China Development Co., Ltd. ("**Splendid China**").



MANAGEMENT DISCUSSION AND ANALYSIS

Affected by COVID-19, in the first half of 2020, revenue of theme parks was HK\$72 million, a 82% decrease compared with the same period last year. Attributable loss was HK\$39 million, as compared with attributable profit of HK\$67 million in the same period last year. Splendid China recorded an increase in revenue from its management services compared with the same period last year. The recovery of theme park operations was relatively slow. During the second half of the year, Window of the World and Splendid China will increase efforts in market development and exploitation to enrich their products and expand their business.

Natural and cultural scenic spot destinations

The Group's natural and cultural scenic spot destinations include 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, Guangxi Ningming CTS Balai Tourism Culture Co., Ltd. (**"Huashan Scenic Spot"**) and Guangxi CTS Detian Waterfall Tourism Development Co., Ltd. (**"Detian Scenic Spot"**).

Affected by COVID-19, in the first half of 2020, revenue from natural and cultural scenic spots destinations was HK\$52 million, a 79% decrease compared with the same period last year. Attributable loss was HK\$34 million, as compared with attributable profit of HK\$12 million in the same period last year.

Due to a relatively slow recovery of operations, Songshan Scenic Spot recorded a decrease in revenue compared with the same period last year, turning profit into loss. Shapotou Scenic Spot recorded a 64% decrease in revenue compared with the same period last year, resulting in an increased loss. The occupancy rate and room rate for desert-view rooms and detached cabins at the Star Hotel of Shapotou Scenic Spot were higher than expected, and the Star Hotel project is planned to commence operation during the second half of the year. Huashan Scenic Spot saw losses decrease

in the first half of the year. Detian Scenic Spot recorded a decrease in its revenue in the first half of the year compared with the same period last year, turning profit into loss. With the "Far-sighted View of Vietnam", "Sino-Vietnam Cross-border Duty Free Street" and "Night Detian" projects successively beginning operations during the second half of the year, their operating performance is expected to improve gradually.

Leisure resort destinations

The Group's leisure resort destinations include China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd (**"Zhuhai OSR"**), Xianyang Ocean Spring Resort Co., Ltd (**"Xianyang OSR"**), Zhuhai Evergrande Ocean Spring Land Co., Ltd. (**"Evergrande OSR"**) and CTS (Anji) Tourism Development Company Limited (**"Anji Company"**).

As affected by COVID-19, in the first half of 2020, revenue of leisure resort destinations was HK\$85 million, a 64% decrease compared with the same period last year. Attributable loss was HK\$18 million, as compared with attributable profit of HK\$26 million in the same period last year.

Zhuhai OSR recorded a 65% decrease in revenue compared with the same period last year, though with an improved cash flow by virtue of the government grants for the reception of quarantined persons. The renovation of the Neptune Hotel will be actively promoted during the second half of the year. Revenue from Xianyang OSR decreased by 73% as compared with the same period of last year, the upgrade and modification of the hot spring centre is underway and is scheduled to commence operation during the second half of the year. Profit recognised from the real estate project by the associate Evergrande OSR decreased compared with the same period last year. Anji Company achieved a stronger recovery and recorded a decrease of 49% in revenue and an increase in losses compared with the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

Non-controlling scenic spot investments

The Group's non-controlling scenic spot investments include Huangshan Yuping Cable Car Company Limited, Huangshan Taiping Cable Car Co., Ltd., Changsha Colorful World Company Limited and Changchun Jingyuetan Youle Co., Ltd.

In the first half of 2020, the attributable loss from non-controlling scenic spot investments was HK\$9.27 million, compared with an attributable profit of HK\$18 million for the same period last year.

Supplementary tourist attraction operations

The Group's supplementary tourist attraction operations include the China Heaven Creation International Performing Arts Co., Ltd. ("**Heaven Creation Company**"), China Travel Zhiye Culture Development (Shenzhen) Co., Ltd. ("**China Travel Zhiye**") and CTS Scenery (Beijing) Tourism Management Limited ("**Management Company**").

In the first half of the year, Heaven Creation Company recorded a decrease of 70% in revenue and an increase in losses compared with same period last year. This was mainly attributable to its major audiences being from the Occident where the epidemic was not effectively contained. China Travel Zhiye and the Management Company were established in 2018 to respectively provide tourism planning and management services and broaden the Group's sources of revenue. China Travel Zhiye recorded a decrease of 41% in revenue compared with same period last year, recorded a slight loss. Management Company recorded an increase of 68% in revenue compared with same period last year, turning loss into profit.

(ii) Travel agency, travel document and related operations

The Company's travel agency, travel document and related operations comprise a travel agency business (China Travel Service (Hong Kong) Limited ("**CTSHK**", formerly known as China Travel (HK & Macau Tour) Management Hong Kong Limited, renamed to the current name on 23 December 2019), and overseas travel agencies), a travel document business and China Travel Hi-Tech Computer Hong Kong Limited.

Affected by COVID-19, in the first half of 2020, revenue of the Group's travel agency, travel document and related operations was HK\$160 million, a 75% decrease compared with the same period last year. Attributable loss was HK\$35 million, compared with an attributable profit of HK\$95 million in the same period last year. The travel document operation's lower business volume resulted in a 80% decrease in attributable profit. The travel agency and related operations turned profit into loss.

On 15 May 2001, China Travel Service Property Investment Hong Kong Limited ("**CTSP**", formerly known as China Travel Service (Hong Kong) Limited, renamed to the current name on 23 December 2019) entered into an entrusted management agreement (the "**Agency Agreement**") with China Travel Service (Holdings) Hong Kong Limited ("**CTS (Holdings)**"), the controlling shareholder of the Company, pursuant to which CTSP was appointed by CTS (Holdings) to provide general administration services in Hong Kong for tourist visa and travel permit applications for entry into the PRC, for a term until 30 June 2047. On 1 June 2020, CTSP, China Travel Service Entry Permit Service Hong Kong Limited ("**China Travel Document**", formerly known as China Travel Air Service Hong Kong Limited, renamed to the current name on 10 January 2020), a wholly-owned subsidiary of the Company, and CTS (Holdings) entered into a deed of novation in relation to the Agency Agreement, pursuant to which the parties agreed China Travel Document to undertake and perform, on behalf of CTSP, all its obligations under the Agency Agreement, and receive, on behalf of CTSP, its rights and benefits under the Agency Agreement, for a term until 30 June 2047.



MANAGEMENT DISCUSSION AND ANALYSIS

On 9 August 2019, the Group and China Travel Service Co., Ltd. (“**CTS Head Office**”), a subsidiary of China National Travel Service Group Corporation Limited, entered into an asset and equity interest transfer master agreement, pursuant to which the Group agreed to dispose of its business and assets relating to travel agency to CTS Head Office upon the completion of an internal reorganisation for a consideration of HK\$5.13 million (the “**Disposal**”). For details, please refer to the Company announcement dated 9 August 2019. By streamlining its business structure, the Group will be able to focus on developing core businesses with better profit potential and further clarify its strategic position. Due to the complexity of the transactions involved, the Disposal is still underway and has not been completed as at the date of this report.

(III) Passenger transportation operations

The Company’s passenger transportation operations comprise China Travel Tours Transportation Services Hong Kong Ltd. (“**China Travel Tours Transportation Services**”) and Shun Tak-China Travel Shipping Investments Limited (“**Shun Tak-China Travel**”). In the first half of 2020, revenue of the Group’s passenger transportation operations was HK\$46 million, a 82% decrease compared with the same period last year. Attributable loss was HK\$120 million, compared with an attributable profit of HK\$4 million in the same period last year.

As affected by COVID-19 in the first half of the year, China Travel Tours Transportation Services recorded a decrease of 82% in its revenue due to the full suspension of its cross-border passenger transport routes, and turned profit to loss.

Attributable loss from our associate Shun Tak-China Travel increased compared with the same period last year, with COVID-19 leading to a drop in passenger numbers.

On 6 March 2020, a wholly-owned subsidiary of the Company and a non-wholly-owned subsidiary of Shun Tak Holdings Limited (“**STHL**”) entered into a share transfer agreement at a consideration of HK\$437 million (subject to adjustment), pursuant to which the Group has agreed to purchase 21% of the issued share capital of Shun Tak-China Travel. Upon completing the acquisition, the Company will indirectly hold 50% of the issued share capital of Shun Tak-China Travel, and Shun Tak-China Travel will become a non-wholly-owned subsidiary of the Company. On the same day, the Company and Shun Tak-China Travel entered into a share transfer agreement at a consideration of HK\$508 million (subject to adjustment), pursuant to which the Company agreed to dispose of the entire issued share capital, together with the shareholder’s loan, of its wholly-owned subsidiary China Travel Tours Transportation Development (HK) Limited (the shareholder of China Travel Tours Transportation Services) to Shun Tak-China Travel. Upon completing the disposal, China Travel Tours Transportation Development (HK) Limited will become a non-wholly-owned subsidiary of the Company. In addition, Shun Tak-China Travel and a wholly-owned subsidiary of STHL entered into a share transfer agreement at a consideration of HK\$55 million (subject to adjustment), pursuant to which Shun Tak-China Travel has agreed to purchase the entire issued share capital of Jointmight Investments Limited (the “**Vehicle and Ship Integration Project**”). For details, please refer to the Company announcement dated 6 March 2020 and the circular of the Company dated 27 March 2020. The Vehicle and Ship Integration Project was completed on 16 July 2020, upon which the Group recorded a one-off appreciation gain of approximately HK\$100 million.

DEVELOPMENT STRATEGY

The Group’s vision is to become “a first-class cultural tourist destination investment and operation service provider and ancillary facility and service developer”. It seeks to consolidate capabilities and resources to build a competitive and influential platform for the investment and operation of cultural tourism and city development.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to integrate existing businesses and plan for new business, further optimise management structures, and implement a concrete optimisation of resources, staff, business, platforms and management. The Group will increase its efforts to innovate in its business and product models, build project scenarios and traffic monetization, and enhance product attractiveness and the diversity of its product portfolio through product research and development and mergers and acquisitions of well-known travel IPs. It will create more opportunities and greater profitability by securing tourism resources and the acquisition of land.

The Group will continue to boost revenue and efficiency in its existing businesses by optimising their operations. Window of the World launched preferential product policies such as single daytime double tickets, parent-child package tickets and annual cards during the first half of the year, and a 3D projection project has been brought into operation. The renovation of its ice rink continued and is scheduled to begin operation during the second half of the year. Window of the World also introduced various products and market policies to cope with market changes induced by the epidemic. Splendid China will push forward the opening of its “Dragon sightseeing cable car project” in the second half of the year, strengthen comprehensive management services mechanisms, and enhance the overall value of its services.

Shapotou Scenic Spot will pursue development of the Star Hotel project, aiming for a Phase I opening during the second half of the year. It will develop a new “scenic spot + characteristic hotel” tourism model to facilitate transformation via recreational products such as hot springs, homestay lodgings, hotels, shows and nighttime tours. Detian Scenic Spot’s nighttime tour experience product “Night Detian”; “Far-sighted View of Vietnam” and “Sino-Vietnam Cross-border Duty Free Street project” has commenced operations during the second half of the year, with their operating performance expected to improve gradually. The upgrade and modification of Huashan Scenic Spot’s operating pleasure boat is scheduled to be completed during the second half of the year.

The Group continued to explore new marketing models. Anji Company used direct sales channels to increase the occupancy rate of hotel suites; the Star Hotel of Shapotou Scenic Spot launched some completed desert-view detached villas for trial operations during the May Day holiday, with an occupancy rate of 100% and recognition as a “local internet celebrity product”. China Travel Tours Transportation Services and Shenzhen Tencent Computer Systems Company Limited entered into strategic cooperation to jointly build a one-stop platform for smart transportation in the Guangdong-Hong Kong-Macao Bay Area and innovate profit models.

The Group will promote its digital transformation and pursue construction of a resource management platform (ERP platform). It has established a digital transformation office, completed a general plan and determined key projects and pilot units for digital transformation. The Group will also strengthen internal and external communications, implement special training in “the exploration and practice of the digital transformation of the cultural tourism industry”, and will aim to integrate the management and control of business, operations and administration.

Zhuhai OSR will upgrade existing products and develop new real estate business with a view to strengthening the “Ocean Spring” brand, enriching Ocean Spring’s portfolio with characteristic products, and utilising the complementary and interactive effect of “Travel+Real Estate”. Zhuhai OSR will also advance the renovation of the Neptune Hotel and strive to finalise the construction scheme and complete the pre-construction preparatory work in the second half of the year. Upon the completion of its upgrading and modification, Xianyang OSR’s hot spring centre is scheduled to commence operation during the second half of the year. Xianyang OSR will also actively seek sources of business and group travellers and optimise its customer structure. Anji Company will increase efforts to accelerate construction of the phase II real estate project and is scheduled to begin sales during the second half of the year. Anji Company will also strengthen product innovation and channel development and will increase sales using the benign interaction between existing and new products.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group intends to invest and develop its tourism resort and real estate business at Jintang County. On 8 May 2020, the Company succeeded in its tender for the state-owned construction land use rights of three land parcels in Jintang County, Chengdu City, Sichuan Province, the PRC, at a consideration of approximately RMB334 million. The parcels have a high development potential as they offer easy access to transportation and the facilities around them are relatively comprehensive. The Company's acquisition of the parcels is conducive to enhancing the market share of the Group's tourism real estate business, improving its industry position and brand awareness, and expanding the Group's profit growth drivers. For details, please refer to the Company announcement dated 8 May 2020.

The Vehicle and Ship Integration Project was completed on 16 July 2020. The project will reinforce and expand Shun Tak-China Travel's multimodal transportation platform, reinforce strategic cooperation between the Company and STHL, and give the Group a crucial role in developing transportation in the Greater Bay Area by boosting synergy among the Company's road and sea transport, hotel, tourism and other segments, and the scale and diversity of its passenger transport operations in the area. Looking ahead, in addition to expanding cross-border road transportation operations on the Hong Kong-Zhuhai-Macao Bridge, there will be chances to explore new areas of business. Upon the consolidation of financial results from Shun Tak-China Travel, the Company's overall results will be enhanced by virtue of significantly increased assets and staff in Hong Kong. The Group is expected to become a key transport operator across Guangzhou, Hong Kong, Macau and Shenzhen and will contribute to fulfilling the Chinese government's strategic goals in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area issued in February 2019. It is expected that the Pearl River Delta port cluster's transportation network, overall competitiveness and throughput will be significantly enhanced, bringing abundant business opportunities to the area.

The Group will develop new business and create new growth engines by acquiring strategic quality scenic spot resources, and exploring breakthroughs in overseas markets. During the first half of the year, the Group undertook in-depth studies on major travel destinations associated with the "Belt and Road Initiative", continued business negotiations and research with relevant parties in the Maldives, expanded the scope of the targeted development area, and broadened its business network to identify suitable targets, focus on the Japanese holiday market which is the preferred destination for most Chinese tourists, and seized investment opportunities. The Group will strive to make a breakthrough with its presence in the Guangdong-Hong Kong-Macao Bay Area market, consolidate its market share in the Yangtze River Delta, and facilitate implementation of its planned projects.

The Group is studying the revitalisation and optimisation of existing assets, including properties in Hong Kong, with the aim of enhancing operational efficiency and unlocking value. In particular, the Group completed procedures for a land premium payment for the land parcel at Hung Hom on which Hip Kee Godown (No. 3) is located, owned by the Group, in 2018. The parcel's change to hotel use has been approved by the government, and has significantly increased the land value and development potential. A market survey and other preliminary work for the Hip Kee Godown (No. 3) hotel project have been completed, and a tender has been awarded to the construction unit for the foundation. Preparatory work prior to the construction has commenced, and construction is scheduled to begin during the second half of the year.

The Group will continue to strengthen the functional capacities of its headquarters, recruit high-calibre talent, intensify its control and business synergies, improve existing rules and systems, continue to optimise workflow, and strengthen its production safety system, so as to ensure its healthy and sustainable development.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

According to the Organisation for Economic Cooperation and Development (“**OECD**”), given the heavy economic losses due to measures for the prevention and control of the COVID-19 outbreak, the global economy is projected to shrink by at least 6% in 2020, though it may begin to restore growth and recover to 5.2% in 2021 should the pandemic be contained. The OECD temporarily ranks China as first among major countries in terms of economic growth in the second quarter of 2020. In the first quarter of 2020, China’s GDP shrank by 6.8% compared with the same period last year, mainly attributable to the suspension of operations of the majority of industries due to COVID-19. China’s GDP recorded an increase of 3.2% in the second quarter of 2020 compared with the same period last year.

Currently, the main characteristics of the global economy are high degree of financialisation, high liquidity, low growth, low inflation and high level of bubbles, coupled with the uncertainty of the cancellation or imposition of trade tariffs between China and the United States. China’s economy is facing increasing risks and challenges. With respect to the pre-judgement on China’s economy, based on the achievement of the goals of “doubling GDP and income of urban and rural residents” and building a moderately prosperous society in all respects, it is expected that its macroeconomic policies during the second half of the year will focus on bottom-line thinking and alertness to potential risks.

Since the COVID-19 outbreak, the consumer market has been seriously affected, the tourism industry was devastated with the prosperity index and operating results of hotel operations hitting the lowest point. The development of the Group’s various businesses faced multiple severe challenges. However, the easing of the epidemic in China has gradually released suppressed consumer and tourism demand, and the tourism industry is slowly recovering. However, the recent resurgence of COVID-19 in Hong Kong and the tough market environment have caused the Company to implement effective management and control of cost and expenditure, cash flow, human allocation and planning for its future operation, to ensure that cash flow risks are controllable and help smooth the ride through the epidemic period.

The Group strives to seek new opportunities amidst crisis and changes to maintain its high-quality development, follow the national lines of “Six Stabilities” and “Six Guarantees”, hold its bottom line, contribute to stabilising the economic fundamentals, and winning the battle against COVID-19. The Group’s overall business fundamentals remain steady and healthy. It possesses adequate funds and the capability to invest and develop. The Company remains cautious on its future prospects as the impact from COVID-19 may last for a period of time. The overall financial effect of the epidemic cannot be reliably estimated as of the date of this report. The Group will continue to monitor the COVID-19 situation and assess its potential risks and impact on the Group’s financial and trading prospects. With the right development strategies, the Company will complete its work tasks, facilitate in-depth reform and integrated development, and build a solid foundation to achieve its strategic objectives and create better returns for shareholders.



OTHER INFORMATION

NUMBER AND REMUNERATION OF EMPLOYEE

As at 30 June 2020, the Group had 8,375 employees. 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 management. Apart from the retirement benefit and in-house training programmes, discretionary bonuses and share options are awarded to certain employees according to assessments of their 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 2020, the cash and bank balances of the Group amounted to HK\$2,546 million, whereas the bank and other borrowings and loans from the holding company amounted to HK\$355 million. The debt-to-capital ratio was 18% and the debt includes bank and other borrowings, trade payables, other payables and accruals loans from a holding company, and 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, and is thus exposed to different 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 its foreign currency exposure and to make use of appropriate measures when required.

CHARGE ON ASSETS

As at 30 June 2020, the Group's bank deposits of approximately HK\$12 million (31 December 2019: HK\$18 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 2020, certain of the Group's buildings with net carrying amounts of HK\$1.27 million (31 December 2019: HK\$1.5 million) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

Save as disclosed in the section "BUSINESS REVIEW" under the "MANAGEMENT DISCUSSION AND ANALYSIS" section above, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures for the reporting period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group is actively identifying and exploring suitable investments with potential and synergy effect for 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. Save as disclosed in the "MANAGEMENT DISCUSSION AND ANALYSIS" section above, no agreement for material investment has been conducted as at the date of this report.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group's performance bond given to a customer for due performance of a sale contract was HK\$0.3 million (31 December 2019: HK\$0.3 million).

SIGNIFICANT INVESTMENTS HELD

To utilize the Group's idle fund more efficiently without affecting operating cash while ensuring fund safety, the Group used some idle funds to subscribe for RMB denominated wealth management products. As at 30 June 2020, The Group held wealth management products amounting to a total of RMB 296 million (equivalent to approximately HK\$324 million). During the period, the income from financial assets at fair value through profit or loss was approximately HK\$1.6 million. The movements of the subscribed wealth management products during the period were as follows:



OTHER INFORMATION

	1 January 2020 HK\$'000	Subscribed during the period HK\$'000	Recovered during the period HK\$'000	Exchange difference HK\$'000	Income receivable from financial assets at fair value through profit or loss HK\$'000	30 June 2020 HK\$'000	Tenor (Month)	Expected annualised yields (%)
Issuers								
With agreed maturity date								
Bank of Communications Co., Ltd.	-	123,686	(62,948)	(1,337)	811	60,212	1-4	2.48-3
Agricultural Bank of China Ltd	-	265,042	-	(2,299)	784	263,527	1-3	3.3-3.5
Without agreed maturity date								
Bank of Communications Co., Ltd.	56,904	-	(55,217)	(1,687)	-	-	N/A	2.93
	56,904	388,728	(118,165)	(5,323)	1,595	323,739		

* Issuers have no early termination rights

The key terms for the wealth management products above are :

- (i) Type of return: Principal-protected with floating yield.
- (ii) Payment of principal and income: The principal and the earned income of the wealth management products will be received 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 the income risks derived from such financial assets and it diversifies the relevant investment risks via appropriate asset allocation.

During the period, in respect to each subscription above, the relevant applicable percentage ratios (as defined under Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) calculated by the Group were all less than 5% and the subscription 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 gradually recovered before the end of this year; whereas the outstanding wealth management products without agreed maturity date will be redeemed where appropriate according to the Group's fund position.



OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2020, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of 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 2020
	Corporate interest	Personal interest	Family interest			
Mr. Lo Sui On	–	600,000	–	–	600,000	0.01%
Mr. Wu Qiang	–	600,000	–	–	600,000	0.01%
Mr. You Cheng	–	450,000	–	–	450,000	0.01%

Save as disclosed in the section "Share Option Scheme" below, at no time during the six months ended 30 June 2020 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 2020 are set out below:



OTHER INFORMATION

Name or category of participant	Number of share options				Balance as at 30 June 2020	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)
	Balance as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled or lapsed during the period				
Directors								
Fu Zhuoyang ^(Note 3)	768,000			(768,000)	-	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
Jiang Hong	800,000			(800,000)	-	18 June 2010	18 June 2012 to 17 June 2020	1.70
Sub-Total	2,338,000	-	-	(2,338,000)	-			
Other employees in aggregate	10,798,000	-	-	(10,798,000)	-	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand Total	13,136,000	-	-	(13,136,000)	-			

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. All the share options granted and yet to be exercised under the 2002 Share Option Scheme have been lapsed on 17 June 2020. No further shares can be issued by the Company upon exercise of share options granted and yet to be exercised under the 2002 Share Option Scheme as at 30 June 2020.

Note 3: Mr. Fu Zhuoyang was resigned as the Chairman and an Executive Director of the Company with effect from 20 May 2020.



OTHER INFORMATION

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 2020 are set out below.

Name or category of participant	Number of share options				Balance as at 30 June 2020	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)
	Balance as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled or lapsed during the period				
Director								
Wu Qiang	680,000	-	-	(680,000)	-	15 September 2016	15 September 2018 to 14 September 2021	2.304
Sub-Total	680,000	-	-	(680,000)	-			
Other employees in aggregate								
	26,730,800	-	-	(26,730,800)	-	15 September 2016	15 September 2018 to 14 September 2021	2.304
	2,924,000	-	-	(2,924,000)	-	30 December 2016	30 December 2018 to 29 December 2021	2.304
Sub-Total	29,654,800	-	-	(29,654,800)	-			
Grand Total	30,334,800	-	-	(30,334,800)	-			

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

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 2020, the number of shares of the Company available for issue in respect thereof was 567,779,152 shares, representing 10.25% 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 2020, 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.



OTHER INFORMATION

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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 2020
China National Travel Service Group Corporation Limited ("China CTS")	Interest of controlled corporation (<i>Note 1</i>)	3,385,492,610	61.15%
China Travel Service (Holdings) Hong Kong Limited ("CTS (Holdings)")	Interest of controlled corporation and beneficial owner (<i>Note 1 and 2</i>)	3,385,492,610	61.15%
Hongkong New Travel Investments Ltd.	Beneficial owner (<i>Note 2</i>)	1,136,254,901	20.52%
CTS Asset Management (I) Limited	Interest of controlled corporation (<i>Note 2</i>)	1,136,254,901	20.52%

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 3,385,492,610 shares, 2,228,047,188 shares are held directly by CTS (Holdings). 21,190,521 shares are directly held by Foden International Limited, a wholly-owned subsidiary of CTS (Holdings). 1,136,254,901 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 100% by CTS Asset Management (I) 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.

Save as aforesaid, as at 30 June 2020, 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. Pursuant to the terms of the facility agreement, the Company undertook to the bank, inter alia, that (i) CTS (Holdings), the controlling shareholder of the Company, shall remain as the ultimate single largest shareholder of the Company with ownership not less than 40% in the Company and maintain management control of the Company; and (ii) CTS (Holdings) shall remain to be under the direct or indirect management and 100% ownership of the State Council of the PRC.



OTHER INFORMATION

On 11 September 2019, the Company, as borrower, entered into a facility agreement with a bank for an uncommitted revolving loan up to an aggregate amount of HK\$1,000,000,000. The bank may at any time without prior notice modify, cancel or suspend the facility(ies) at its sole discretion including, without limitation, canceling any unutilized facilities, and declaring any outstanding amount to be immediately due and payable. Pursuant to the terms of the facility agreement, the Company undertook with the bank, inter alia, that (i) CTS (Holdings) shall hold, directly or indirectly, more than 40% of the issued share capital of the Company and maintain as a single largest beneficial

shareholder of the Company; and (ii) CTS (Holdings) shall be wholly-owned, indirectly or directly, by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China ("SASAC") and is under the direct or indirect management control by SASAC.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in Directors' information since the date of the 2019 Annual Report are set out below:

Name of Director	Changes
Jiang Hong	<ul style="list-style-type: none"> — Appointed as a director of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS, with effect from 26 May 2020. — Appointed as a director of Shun Tak-China Travel Ship Management Limited, a subsidiary of the Company, with effect from 16 July 2020. — Appointed as a director of China Travel Tours Transportation Development (HK) Limited, a subsidiary of the Company, with effect from 16 July 2020.
Wu Qiang	<ul style="list-style-type: none"> — Appointed as a director of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS, with effect from 26 May 2020.
Yang Hao	<ul style="list-style-type: none"> — Appointed as a director of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS, with effect from 26 May 2020.
You Cheng	<ul style="list-style-type: none"> — Appointed as a director of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS, with effect from 26 May 2020.
Fan Dongsheng	<ul style="list-style-type: none"> — Appointed as a director of CTS (Shenzhen) Investment Development Limited, a subsidiary of China CTS, with effect from 26 May 2020.



OTHER INFORMATION

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 2020, 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 Mr. Lo Sui On, Mr. Yang Hao, Mr. Fan Dongsheng and Mr. Tsang Wai Hung. However, the said 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.

- Code Provision E.1.2 specifies that the Chairman of the Board should attend the annual general meeting. The Chairman of the Board of the Company has not attended the Company's annual general meeting held on 29 May 2020 because of other business commitment.

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. 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 2020.

DIVIDENDS

The Board does not recommend the payment of an interim dividend (2019: HK3 cents) for the six months ended 30 June 2020.

REVIEW OF INTERIM FINANCIAL REPORT

The unaudited condensed interim financial report of the Group for the six months ended 30 June 2020 has been reviewed by the Audit Committee of the Company.

The condensed consolidated interim financial report for the six months ended 30 June 2020 has not been audited but has been reviewed by the Company's external auditors, KPMG.

By order of the Board
Jiang Hong
Chairman

Hong Kong, 28 August 2020