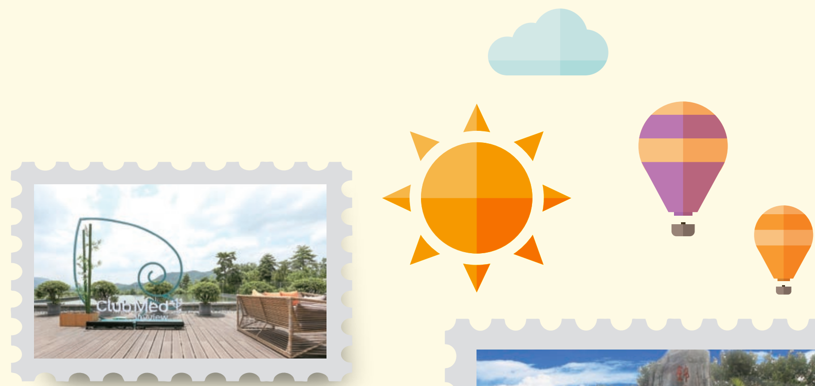
香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Stock Code：308)



Interim Report 2018

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	12
Management’s Discussion and Analysis	40
Other Information	45

CORPORATE INFORMATION

DIRECTORS

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

* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Fu Zhuoyang *(Chairman)*
Mr. Chen Xianjun
Mr. Wong Man Kong Peter
Mr. Sze Robert Tsai To
Mr. Chan Wing Kee

COMPANY SECRETARY

Mr. Lai Siu Chung

AUDITORS

KPMG

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 2018 interim results	16 August 2018
Closure of register of members	7 to 11 September 2018 (both dates inclusive)
Record date for 2018 interim dividend	11 September 2018
Payment of 2018 interim dividend	27 September 2018

REGISTERED OFFICE

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

SHARE REGISTRAR

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

COMPANY WEBSITE

www.irasia.com/listco/hk/ctii

STOCK CODE

308

INVESTOR RELATIONS CONTACT

Tel: (852) 2853 3111
Fax: (852) 2543 7270
Email: ir@hkcts.com

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 on pages 5 to 39 which comprises the consolidated statement of financial position of China Travel International Investment Hong Kong Limited (the "Company") as of 30 June 2018 and the related consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows 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 2018 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

16 August 2018

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June 2018 HK$'000	2017 HK$'000 (Note)
Continuing operations			
Revenue	7	**2,077,670**	2,352,109
Cost of sales		**(1,123,132)**	(1,402,693)
Gross profit		**954,538**	949,416
Other income and gains, net	8	**87,395**	115,978
Changes in fair value of investment properties		**17,214**	46,988
Selling and distribution costs		**(280,589)**	(262,817)
Administrative expenses		**(443,254)**	(435,559)
Operating profit	9	**335,304**	414,006
Finance income	10	**42,469**	26,482
Finance costs	10	**(7,655)**	(2,311)
Finance income, net	10	**34,814**	24,171
Share of profits less losses of			
– associates		**201,864**	59,062
– joint ventures		**–**	(607)
Profit before taxation		**571,982**	496,632
Taxation	11	**(123,723)**	(66,411)
Profit for the period from continuing operations		**448,259**	430,221
Discontinued operations			
Profit for the period from discontinued operations	28	**–**	20,538
Profit for the period		**448,259**	450,759
Attributable to:			
Equity owners of the Company		**379,173**	374,546
Non-controlling interests		**69,086**	76,213
Profit for the period		**448,259**	450,759
Earnings per share for profit attributable to equity owners of the Company (HK cents)	13		
Basic earnings per share			
From continuing operations		**6.96**	6.50
From discontinued operations		**–**	0.38
		6.96	6.88
Diluted earnings per share			
From continuing operations		**6.93**	6.49
From discontinued operations		**–**	0.38
		6.93	6.87

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Please refer to note 3.

The notes on pages 12 to 39 are an integral part of this interim financial report. Details of dividends payable to equity owners of the Company are set out in note 12.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
		(Note)
Profit for the period	**448,259**	450,759
Other comprehensive income for the period		
Items that will not be reclassified subsequently to profit or loss:		
Equity investments at fair value through other comprehensive income ("FVOCI") – net movement in fair value reserve (non-recycling)	**(9,693)**	–
Gain on property valuation, net of tax	**26,936**	1,332
Items that may be reclassified subsequently to profit or loss:		
Share of hedging reserve of an associate, net of tax	**286**	(3,791)
Exchange differences on translation of foreign operations, net	**(101,494)**	311,581
Release of exchange difference upon disposal of a subsidiary	**–**	(11,566)
Other comprehensive income for the period, net of tax	**(83,965)**	297,556
Total comprehensive income for the period	**364,294**	748,315
Attributable to:		
Equity owners of the Company	**301,425**	643,975
Non-controlling interests	**62,869**	104,340
Total comprehensive income for the period	**364,294**	748,315

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Please refer to note 3.

The notes on pages 12 to 39 are an integral part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 – unaudited

	Note	30 June 2018 HK$'000	31 December 2017 HK$'000 (Note)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**7,407,468**	7,398,349
Investment properties	15	**1,814,252**	1,754,106
Prepaid land lease payments		**2,320,061**	2,250,352
Goodwill		**1,323,828**	1,323,828
Other intangible assets		**208,271**	210,682
Interest in associates		**1,195,344**	1,076,902
Interest in a joint venture		**7,288**	7,084
Other financial assets		**56,381**	30,041
Prepayments and other receivables		**159,399**	37,310
Deferred tax assets		**137,467**	147,990
Total non-current assets		**14,629,759**	14,236,644
Current assets			
Inventories		**30,841**	21,339
Properties under development		**1,876,773**	1,883,541
Completed properties held for sale		**76,658**	92,092
Trade receivables	16	**151,662**	158,484
Deposits, prepayments and other receivables	17	**893,050**	748,103
Loan to a fellow subsidiary		**157,663**	156,831
Amounts due from holding companies		**20,319**	19,724
Amounts due from fellow subsidiaries		**43,033**	83,860
Tax recoverable		**10,336**	13,622
Financial assets at fair value through profit or loss	18	**1,348,392**	1,411,711
Pledged time deposits	19	**42,164**	37,720
Cash and bank balances	19	**3,519,397**	3,271,404
Total current assets		**8,170,288**	7,898,431
Total assets		**22,800,047**	22,135,075
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the Company			
Share capital		**9,115,699**	9,102,708
Reserves		**7,149,595**	7,109,921
		16,265,294	16,212,629
Non-controlling interests		**1,097,899**	1,181,217
Total equity		**17,363,193**	17,393,846

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 – unaudited

	Note	**30 June 2018 HK$'000**	31 December 2017 HK$'000 (Note)
LIABILITIES			
Non-current liabilities			
Deferred income		**729,190**	735,441
Bank and other borrowings	21	**902**	67,590
Deferred tax liabilities		**454,552**	453,069
Total non-current liabilities		**1,184,644**	1,256,100
Current liabilities			
Trade payables	20	**345,490**	397,206
Other payables and accruals		**2,557,259**	2,560,050
Loans from a holding company		**81,841**	82,545
Amounts due to holding companies		**118,219**	57,487
Amounts due to fellow subsidiaries		**6,681**	6,455
Tax payables		**339,219**	350,521
Bank and other borrowings	21	**803,501**	30,865
Total current liabilities		**4,252,210**	3,485,129
Total liabilities		**5,436,854**	4,741,229
Total equity and liabilities		**22,800,047**	22,135,075

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Please refer to note 3.

The notes on pages 12 to 39 are an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – unaudited

	Attributable to equity owners of the Company					
	Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	9,102,708	556,150	6,553,771	16,212,629	1,181,217	17,393,846
Impact on initial application of HKFRS 9	–	29,429	–	29,429	3,186	32,615
Adjusted balance at 1 January 2018	9,102,708	585,579	6,553,771	16,242,058	1,184,403	17,426,461
Comprehensive income						
Profit for the period	–	–	379,173	379,173	69,086	448,259
Other comprehensive income for the period:						
Items that will not be reclassified subsequently to profit or loss:						
Equity investments at FVOCI – net movement in fair value reserve (non-recycling)	–	(8,808)	–	(8,808)	(885)	(9,693)
Gain on property revaluation, net of tax	–	26,936	–	26,936	–	26,936
Items that may be reclassified subsequently to profit or loss:						
Share of hedging reserve of an associate, net of tax	–	286	–	286	–	286
Exchange differences on translation of foreign operations, net	–	(96,162)	–	(96,162)	(5,332)	(101,494)
Total other comprehensive income for the period, net of tax	–	(77,748)	–	(77,748)	(6,217)	(83,965)
Total comprehensive income for the period	–	(77,748)	379,173	301,425	62,869	364,294
Transactions with owners						
Equity-settled share option arrangement	–	13,186	–	13,186	–	13,186
Exercise of share options	12,991	(3,542)	–	9,449	–	9,449
Forfeiture of share options	–	(846)	–	(846)	–	(846)
Dividends paid to non-controlling shareholders	–	–	–	–	(149,373)	(149,373)
2017 final dividend paid	–	–	(299,978)	(299,978)	–	(299,978)
Total transactions with owners for the period	12,991	8,798	(299,978)	(278,189)	(149,373)	(427,562)
At 30 June 2018	9,115,699	516,629	6,632,966	16,265,294	1,097,899	17,363,193

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – unaudited

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

The notes on pages 12 to 39 are an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
		(Note)
Cash flows from operating activities		
Cash generated from operations	**232,644**	550,423
Income tax paid	**(125,282)**	(87,179)
Net cash generated from operating activities	**107,362**	463,244
Cash flows from investing activities		
Proceeds from disposal of a subsidiary	**–**	55,850
Proceeds from disposal of an available-for-sale investment	**–**	7,126
Finance income received	**35,932**	26,482
Income received from financial assets at fair value through profit or loss	**31,225**	28,423
Dividends received from associates and joint ventures	**22,091**	18,203
Purchases of property, plant and equipment and prepaid land lease payments	**(444,339)**	(289,989)
Cash inflow from a joint venture company reclassified as a subsidiary	**–**	56,086
Net cash paid for acquisition of a subsidiary	**–**	(49,571)
Net cash paid for acquisition of an associate	**–**	(1,697)
Capital contribution to an associate	**(14,233)**	–
Additions to financial assets at fair value through profit or loss	**(1,390,294)**	(2,716,808)
Proceeds upon maturity of financial assets at fair value through profit or loss	**1,442,873**	1,491,359
(Increase)/decrease in time deposits with original maturity of more than three months when acquired	**(8,018)**	429,961
Loan to a fellow subsidiary	**–**	(155,570)
Others	**7,820**	(3,134)
Net cash used in investing activities	**(316,943)**	(1,103,279)
Cash flows from financing activities		
Loans from a holding company	**–**	78,076
Share option exercised	**9,449**	1,853
Finance cost paid	**(7,655)**	(2,311)
Dividends paid	**(237,622)**	(121,090)
New bank and other borrowings, net	**706,830**	33,710
Net cash generated from/(used in) financing activities	**471,002**	(9,762)
Net increase/(decrease) in cash and cash equivalents	**261,421**	(649,797)
Cash and cash equivalents at 1 January	**2,505,392**	2,948,066
Effect of foreign exchange rate changes, net	**(27,636)**	–
Cash and cash equivalents at 30 June	**2,739,177**	2,298,269
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**3,519,397**	2,862,727
Deposits with maturity of more than three months	**(780,220)**	(564,458)
Cash and cash equivalents	**2,739,177**	2,298,269

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Please refer to note 3.

The notes on pages 12 to 39 are an integral part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 CORPORATE INFORMATION

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

– Tourist attraction and related operations

– Travel agency, travel document and related operations

– Hotel operations

– Passenger transportation operations

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

This interim financial report is presented in Hong Kong dollars, unless otherwise stated. This interim financial report was authorised for issue on 16 August 2018.

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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 4.

The financial information relating to the financial year ended 31 December 2017 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 2017 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.

2 BASIS OF PREPARATION

The 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 (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA. The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 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 2017 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.

3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those adopted in the annual financial statements for the year ended 31 December 2017, except for the new HKFRSs and amendments to HKFRSs that are effective for the financial year ending 31 December 2018.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*

- HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets. Other than this, none of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the interim financial report.

HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 9, *Financial instruments* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income and gains, net.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 9, *Financial instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

The following table summarises the impact of transition to HKFRS 9 on reserves and the related tax impact at 1 January 2018.

	HK$'000
Fair value reserve (non-recycling)	
Remeasurement effect of available-for-sale investments now measured at FVOCI and increase in fair value reserve (non-recycling)	33,141
Related tax	(3,712)
Net increase in fair value reserve (non-recycling) at 1 January 2018	29,429
Non-controlling interests	
Recognition of remeasurement effect of available-for-sale investments now measured at FVOCI and increase in non-controlling interests	4,028
Related tax	(842)
Net increase in non-controlling interests at 1 January 2018	3,186

The following table shows the original measurement categories for each impacted class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets measured at FVOCI (non-recycling)				
Equity securities *(note (a))*	–	30,041	37,169	67,210
Financial assets classified as available-for-sale under HKAS 39 *(note (a))*	30,041	(30,041)	–	–

3 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 9, *Financial instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

(a) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its available-for-sale investments at FVOCI (non-recycling), as the investment is held for strategic purposes.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9. The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit loss (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost, including deposits, prepayments and other receivables, trade receivables, loan to a fellow subsidiary, amounts due from holding companies, amounts due from fellow subsidiaries, pledged time deposits and cash and cash equivalents.

The adoption of the new ECL model has no significant impact to the financial statements of the Group.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 9, *Financial instruments* (Continued)

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

HKFRS 15, *Revenue from contracts with customers*

Under HKFRS 15, revenue from sale of goods and provision of services will be recognised when the customer obtains control of the promised good or service in the contract. Management has assessed the impact of the adoption of HKFRS 15 and the adoption of HKFRS 15 does not have a significant impact on the recognition of revenue of the Group.

4 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 2017.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim 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 2017.

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

5.2 Fair value estimation

5.2.1 Management analyses financial instruments and investment properties carried at fair value, by valuation method. The 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)

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair value estimation (Continued)

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

Assets

	As at 30 June 2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at fair value through profit or loss	**–**	**1,348,392**	**–**	**1,348,392**
Other financial assets	**–**	**–**	**56,381**	**56,381**
	–	**1,348,392**	**56,381**	**1,404,773**

	As at 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	–	1,411,711	–	1,411,711

During the period, there were no transfers between Level 1 and Level 2 (2017: Nil).

Changes in fair value of financial assets at fair value through profit or loss are recorded in other income and gains, net (note 8) in the 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 2018: 3.15%-4.84%; 31 December 2017: 3.90%-4.90%). The fair values are within level 2 of the fair value hierarchy.

There were no changes in valuation techniques during the period.

Upon the effective of HKFRS 9 on 1 January 2018, 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 or enterprise value/earning before interest, taxes, depreciation and amortisation 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 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 1% would have increased/decreased the Group's other comprehensive income by HK$734,000.

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair value estimation (Continued)

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

	2018 HK$'000 (unaudited)
Unlisted equity securities:	
At 1 January	**67,210**
Net unrealised gains or losses recognised in other comprehensive income during the period	**(9,693)**
Related tax	**(1,083)**
Currency translation differences	**(53)**
At 30 June	**56,381**

From 1 January 2018, 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. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity securities were presented in the "Other income and gains, net" line item in the consolidated income statement.

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

The Group used discounted cash flow analysis to estimate contingent consideration by respective year Weihe Power profits and estimated future period Weihe Power profits to respective base value. During the period ended 30 June 2017, the contingent consideration was finalised and a net gain of approximately HK$21 million was recognised. The amount was included in discontinued operations in the consolidated income statement.

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair value estimation (Continued)

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

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Recurring fair value measurements		
Hong Kong:		
– Commercial properties	**890,600**	865,000
Outside Hong Kong:		
– Commercial properties	**923,652**	889,106
	1,814,252	1,754,106

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 2018 by RHL Appraisal Ltd. and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers, at HK$1,814,252,000 (2017: HK$1,754,106,000). For all investment properties, their current use equates to the highest and best use.

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

At each financial period/year end the team:

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

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair value estimation (Continued)

5.2.3 (Continued)

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

5.2.4 The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost approximate their fair values as at 30 June 2018.

6 OPERATING SEGMENT INFORMATION

Executive management is the Group's chief operating decision-maker and regularly reviews the segment results. For management purposes, the Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. No operating segments have been aggregated to form the reportable segments. A summary of details of the operating segments is as follows:

(a) the tourist attraction and related operations segment engages in the operation of theme parks, scenic spots, cable car systems, skiing facilities, hotspring resorts, other resorts, golf club (business closed at 6 November 2017), 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.

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

6 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, result from disposal of investments and property, plant and equipment and share option expenses.

Six months ended 30 June 2018 (unaudited)

	Continuing operations							Discontinued operations	
	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$'000	Power generation operations HK$'000	Consolidated HK$'000
Segment revenue:									
Sales to external customers	886,874	580,567	384,764	225,465	2,077,670	–	2,077,670	–	2,077,670
Inter-segment revenue	2,537	851	1,115	497	5,000	7,642	12,642	–	12,642
	889,411	581,418	385,879	225,962	2,082,670	7,642	2,090,312	–	2,090,312
Elimination of inter-segment revenue					(5,000)	(7,642)	(12,642)	–	(12,642)
Revenue					2,077,670	–	2,077,670	–	2,077,670
Segment results	149,176	89,056	72,495	74,607	385,334	(5,741)	379,593	–	379,593
Non-controlling interests							69,086	–	69,086
Segment operating results before non-controlling interests							448,679	–	448,679
Changes in fair value of investment properties, net of tax							15,517	–	15,517
Share option expense							(12,340)	–	(12,340)
Others							(3,597)	–	(3,597)
Profit for the period							448,259	–	448,259

6 OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2017 (unaudited)

	Continuing operations							Discontinued operations	
	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$'000	Power generation operations HK$'000	Consolidated HK$'000
Segment revenue:									
Sales to external customers	1,219,608	556,295	362,740	213,466	2,352,109	–	2,352,109	–	2,352,109
Inter-segment revenue	6,435	1,898	1,398	652	10,383	7,110	17,493	–	17,493
	1,226,043	558,193	364,138	214,118	2,362,492	7,110	2,369,602	–	2,369,602
Elimination of inter-segment revenue					(10,383)	(7,110)	(17,493)	–	(17,493)
Revenue					2,352,109	–	2,352,109	–	2,352,109
Segment results	71,221	65,753	60,788	72,484	270,246	40,339	310,585	–	310,585
Non-controlling interests							76,213	–	76,213
Segment operating results before non-controlling interests							386,798	–	386,798
Changes in fair value of investment properties, net of tax							37,266	–	37,266
Net gain on disposal of subsidiaries, net of tax							22,615	20,538	43,153
Share option expense							(14,517)	–	(14,517)
Others							(1,941)	–	(1,941)
Profit for the period							430,221	20,538	450,759

7 REVENUE

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

Disaggregation of revenue

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
– Tourist attraction and related income	**795,399**	770,791
– Tour, travel agency, travel document and related income	**580,567**	556,295
– Hotel income	**378,991**	331,174
– Passenger transportation income	**225,465**	213,466
– Property sales income	**17,387**	414,469
– Consultancy and service income	**48,680**	34,348
	2,046,489	2,320,543
Revenue from other sources		
– Rental income	**31,181**	31,566
	2,077,670	2,352,109

8 OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Gross rental income	**22,285**	20,722
Foreign exchange differences, net	**6,605**	2,677
Government grants	**5,925**	5,849
Income from financial assets at fair value through profit or loss	**31,416**	28,423
Gain on disposal of subsidiaries	**–**	28,570
Loss on disposal of property, plant and equipment	**(3,597)**	(721)
Others	**24,761**	30,458
	87,395	115,978

9 OPERATING PROFIT

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

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Staff costs	**652,688**	604,518
Depreciation	**203,758**	210,215
Amortisation of prepaid land lease payments	**9,672**	15,490
Amortisation of other intangible assets	**1,601**	1,481
Minimum lease payments under operating leases:		
Land and buildings	**34,306**	40,270
Plant and machinery and motor vehicles	**8,023**	4,196

10 FINANCE INCOME, NET

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest income:		
Bank deposits and entrustment loans	**42,469**	26,482
Finance income	**42,469**	26,482
Interest expense:		
Bank borrowings, overdrafts and other borrowings		
– Wholly repayable within five years	**(7,655)**	(2,311)
Finance costs	**(7,655)**	(2,311)
Finance income, net	**34,814**	24,171

11 TAXATION

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

The amount of taxation charged to consolidated income statement represents:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current taxation		
Hong Kong	**30,889**	33,561
Mainland China and other territories	**88,994**	15,652
Deferred taxation	**3,840**	17,198
	123,723	66,411

The gain on property revaluation as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK$4,775,000 (2017: HK$627,000).

The share of hedging reserve of an associate as other comprehensive income included in the consolidated statement of comprehensive income comprised of related tax effect of HK$57,000 (2017: HK$749,000).

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$1,083,000 (2017: HK$Nil).

12 DIVIDENDS

(a) Dividends payable to equity owners attributable to the interim period

	2018 **HK$'000**	2017 HK$'000
Interim dividend declared after the interim period of HK3 cents (2017: HK3 cents) per ordinary share	**163,624**	163,428

The interim dividend has not been recognised as a liability in this interim financial report. It will be recognised in shareholder's equity in the year ending 31 December 2018.

(b) Dividends payable to equity owners attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2018 **HK$'000**	2017 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK5.5 cents (2017: HK1 cent) per ordinary share	**299,978**	54,470
Special final dividend in respect of the previous financial year, approved and paid during the following interim period, Nil (2017: HK1 cent) per ordinary share	**–**	54,470
	299,978	108,940

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

Basic

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

	Six months ended 30 June	
	2018 **(unaudited)**	2017 (unaudited)
Profit from continuing operations attributable to equity owners of the Company (HK$'000)	**379,173**	354,008
Profit from discontinued operations attributable to equity owners of the Company (HK$'000)	**–**	20,538
Profit attributable to equity owners of the Company (HK$'000)	**379,173**	374,546
Weighted average number of ordinary shares in issue	**5,451,572,464**	5,446,329,591
Basic earnings per share from continuing operations (HK cents)	**6.96**	6.50
Basic earnings per share from discontinued operations (HK cents)	**–**	0.38
	6.96	6.88

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

Diluted

Diluted earnings per share for the six months ended 30 June 2018 and 2017 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share option is the only category of dilutive potential ordinary shares of the Group. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the 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	
	2018 **(unaudited)**	2017 (unaudited)
Profit from continuing operations attributable to equity owners of the Company (HK$'000)	**379,173**	354,008
Profit from discontinued operations attributable to equity owners of the Company (HK$'000)	**–**	20,538
Profit attributable to equity owners of the Company (HK$'000)	**379,173**	374,546
Weighted average number of ordinary shares in issue	**5,451,572,464**	5,446,329,591
Adjustments for:		
– Share options	**22,398,952**	2,760,958
Weighted average number of ordinary shares for diluted earnings per share	**5,473,971,416**	5,449,090,549
Diluted earnings per share from continuing operations (HK cents)	**6.93**	6.49
Diluted earnings per share from discontinued operations (HK cents)	**–**	0.38
	6.93	6.87

14 PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2018, additions of items of property, plant and equipment amounted to HK$276,647,000 (2017: HK$217,387,000) and the Group disposed of and wrote off items of property, plant and equipment with an aggregate net book value of HK$16,206,000 (2017: HK$2,353,000).

15 INVESTMENT PROPERTIES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
At fair value		
At the beginning of the period/year	**1,754,106**	1,567,692
Changes in fair value recognised in income statement	**17,214**	80,843
Gain on property valuation recognised in other comprehensive income	**31,711**	26,141
Transfer from property, plant and equipment and prepaid land lease payments	**19,104**	31,361
Currency translation differences	**(7,883)**	48,069
At the end of the period/year	**1,814,252**	1,754,106

16 TRADE RECEIVABLES

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

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Within 3 months	**131,951**	141,790
Over 3 months to 6 months	**9,300**	9,486
Over 6 months to 12 months	**4,927**	3,448
Over 1 year to 2 years	**3,698**	3,435
Over 2 years	**1,786**	325
	151,662	158,484

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

At 30 June 2018, the balances included entrustment loans as provided to the non-controlling shareholders of Shenzhen Splendid China Development Co., Ltd. ("Splendid China") and Shenzhen The World Miniature Co., Ltd. ("Window of the World") respectively, which are the Group's 51%-owned subsidiaries. These entrustment loans of RMB230 million (31 December 2017: RMB230 million) are unsecured, repayable by the non-controlling shareholders upon one month notice from the Group, and bear interest at the 1-year People's Bank of China ("PBOC") Benchmark Lending Rate.

At 31 December 2017, 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 Group, of RMB32 million, which was unsecured and interest-free, except that RMB10 million was interest bearing at 5.52% per annum. During the period ended 30 June 2018, RMB10 million was settled.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period ended 30 June 2018, the Group subscribed RMB denominated principal-protected with floating yields investments issued and managed by banks in the PRC. The principals amount to RMB1,137,000,000 (equivalent to approximately HK$1,390,294,000) and the estimated yields are 2.25%-4.84% per annum. The Group received proceeds of RMB1,180,000,000 (equivalent to approximately HK$1,442,873,000) upon maturity.

19 CASH AND BANK BALANCES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Cash and bank balances	**1,200,737**	1,244,427
Time deposits	**2,360,824**	2,064,697
	3,561,561	3,309,124
Less: pledged time deposits	**(42,164)**	(37,720)
	3,519,397	3,271,404
Cash and bank balances in the consolidated statement of financial position	**3,519,397**	3,271,404
Less: Deposits with maturity of more than three months	**(780,220)**	(766,012)
Cash and cash equivalents in the condensed consolidated statement of cash flows	**2,739,177**	2,505,392

20 TRADE PAYABLES

At 30 June 2018, the ageing analysis of trade payables, based on the invoice date, is as follows:

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Within 3 months	**206,440**	343,884
Over 3 months to 6 months	**93,144**	16,100
Over 6 months to 12 months	**15,374**	4,617
Over 1 year to 2 years	**5,648**	5,532
Over 2 years	**24,884**	27,073
	345,490	397,206

21 BANK AND OTHER BORROWINGS

Movements in borrowings is analysed as follows:

	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
At 1 January	**98,455**	98,528
Borrowings	**1,135,031**	34,565
Repayments	**(428,201)**	(897)
Currency translation differences	**(882)**	2,988
At 30 June	**804,403**	135,184
Less: Non-current portion	**(902)**	(87,121)
Current portion	**803,501**	48,063

The interest charged on the bank and other borrowings ranged from 1.5%-4.75% per annum as at 30 June 2018 (2017: 1.5%-4.75% per annum).

22 PLEDGE OF ASSETS

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Bank deposits		
Pledged for credit facilities granted by suppliers to the Group's certain subsidiaries	**40,148**	35,704
Pledged for bank guarantees given in lieu of utility and rental deposits	**2,016**	2,016
	42,164	37,720
Buildings		
Pledged for credit facilities granted by suppliers to the Group's certain subsidiaries	**1,472**	1,295
	43,636	39,015

23 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 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Performance bond given to a customer for due performance of a sales contract	**300**	300

24 COMMITMENTS

At 30 June 2018, the Group had the following significant capital commitments:

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Property project, property, plant and equipment and land	**955,884**	974,184
Unpaid capital contribution to associates	**35,211**	20,935

25 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 **2018** **HK$'000** **(unaudited)**	2017 HK$'000 (unaudited)
Travel-related income from	(a)		
– immediate holding company#*		**117,244**	99,983
– fellow subsidiaries*		**5,923**	8,641
– associates		**29,188**	25,336
– other related parties*		**6**	4,177
Hotel-related income from	(a)		
– immediate holding company		**750**	1,383
– fellow subsidiaries		**729**	1,615
Management income from	(b)		
– fellow subsidiaries*		**2,651**	4,222
– associates		**5,157**	5,006
– a non-controlling shareholder		**22,846**	40,353
Rental income from	(c)		
– fellow subsidiaries*		**3,056**	2,563
– an associate		**21,490**	20,355
– a non-controlling shareholder		**1,459**	1,199
– a related party		**1,655**	1,908
Interest income from a loan to			
– a fellow subsidiary		**3,495**	747
Travel-related expenses paid to	(a)		
– fellow subsidiaries*		**(30,149)**	(23,210)
– an associate		**(746)**	(1,251)
– other related parties*		**(3,365)**	(7,044)
Management expenses paid to	(b)		
– fellow subsidiaries*		**(4,380)**	(4,672)

25 RELATED PARTY TRANSACTIONS (Continued)

(a) Significant transactions with related parties (Continued)

	Note	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Rental expenses paid to	(c)		
– immediate holding company*		**(7,422)**	(8,026)
– fellow subsidiaries*		**(1,629)**	(1,262)
– an associate		**(1,053)**	(1,136)
– a non-controlling shareholder		**(1,323)**	(1,584)
– other related parties		**(11,882)**	(11,119)
Other operating expenses paid to			
– a related party		**(12,978)**	(10,732)

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 expenses 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 Limited ("China CTS"), as lender, entered into the Loan Agreement with CTS (Ningxia) Shapotou Tourist Spot Co., Ltd. ("Shapotou"), as borrower, for a term of three years commencing from 26 May 2017 and 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 2018, the arrangement remained effective with RMB30,000,000 withdrawn.

(ii) On 24 May 2017, China CTS, as lender, entered into the Loan Agreement with CTS (Anji) Tourism Development Company Limited ("Anji"), as borrower, for a term of three years commencing from 24 May 2017 and with repayable on demand clause, pursuant to which China CTS has agreed to provide a loan of RMB39,000,000 to Anji. The interest rate shall be the fixed rate 1.2% per annum. As at 30 June 2018, the arrangement remained effective with RMB39,000,000 withdrawn.

25 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant balances with related parties (Continued)

(iii) On 19 May 2017, the Company, as lender, entered into the Loan Agreement with China Travel Financial Investment Holdings Co., Ltd. ("CTS Finance Investment"), as borrower, for a term of one year commencing from 19 May 2017 and ending on 18 May 2018, pursuant to which the Company has agreed to provide a loan of USD20,000,000 to CTS Finance Investment. On 18 May 2018, the Company entered into an extension agreement with CTS Finance Investment to extend the loan maturity date to 17 May 2019. Under both agreements, 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 2018, the arrangement remained effective with US$20,000,000 withdrawn.

(iv) On 29 September 2016, a 1-year (extendable for up to two years beyond the initial term) entrustment loan arrangement of RMB300 million was entered into between Window of the World and Splendid China, 51% owned subsidiaries of the Company, Shenzhen Overseas Chinese Town Co., Ltd., a state-owned enterprise, and a bank. The interest rate is 1 year Benchmark Lending Rate set by PBOC. As at 30 June 2018, the arrangement remained effective with RMB230 million withdrawn. The balance is included in deposits, prepayments and other receivables.

(v) On 14 January 2016, the Company and China National Travel Service (HK) Finance Company Limited ("CTS Finance") entered into a financial services framework agreement in respect of the provision of (i) deposit services, (ii) the comprehensive credit line services, (iii) the entrustment loan services; and (iv) the cross-border RMB cash pooling services by CTS Finance for a term commenced from 14 January 2016 and ending on 31 December 2018. As at 30 June 2018, the related deposit balance was RMB137,795,000.

(vi) On 24 August 2017, the Company entered into a share transfer agreement with China International Travel Service Group Corporation ("CITS Corporation"), pursuant to which the Company agreed to dispose of and CITS Corporation agreed to acquire the 5% registered capital of Shapotou (the "Target Company") for a consideration of RMB38,173,300. On the same date, the Company and CITS Corporation entered into a concert party agreement, pursuant to which CITS Corporation unconditionally agreed to vote all its interests in the Target Company in the same way as the company after the completion of the disposal, and the financial results and financial positions of the Target Company will continue to be consolidated into the financial statements of the Group.

(c) Transaction with the PRC government related entity

On 4 January 2010, Henan Province Songshan Scenic Spot Management Committee entered into a franchise agreement pursuant to which CTS (Dengfeng) will be authorised 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.

26 BUSINESS COMBINATIONS

(a) A joint venture company transferred to a subsidiary

On 1 January 2017, Macao CTS Passenger Road Transport Company LTD. became a subsidiary of the Group pursuant to the revised articles that confer the Group the exclusive decision making rights in all significant activities, including but not limited to operation and financing activities.

The following table summarises the net assets of the company at the date of acquisition. The joint venture company had a carrying value of HK$73,424,000 before the change of control. No goodwill or bargain purchase was recognised from this transaction.

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

	1 January 2017 HK$'000
Inflow of cash to acquire business	
– cash and bank balances in subsidiary acquired	56,086

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

As at 31 December 2017, the Group has finalised the fair value assessments for net assets acquired from the business combination activities. The relevant fair value adjustments were recognised in the consolidated financial statements for the year ended 31 December 2017.

26 BUSINESS COMBINATIONS (Continued)

(b) Acquisition of a subsidiary

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

The following table summarises the consideration paid for Associated Motor Service and Repair Limited, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	30 March 2017 HK$'000
Purchase consideration	
– Cash paid	49,800
– Payable	5,540
Total purchase consideration	55,340
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and bank balances	229
Property, plant and equipment	5,827
Other intangible assets	50,063
Deposits, prepayments and other receivables	351
Tax payable	(52)
Deferred tax liabilities	(961)
Other payables and accruals	(117)
Total identifiable net assets	55,340

	30 March 2017 HK$'000
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	49,800
– cash and bank balances in subsidiary acquired	(229)
Cash outflow on acquisition	49,571

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

As at 31 December 2017, the Group has finalised the fair value assessments for net assets acquired from the business combination activities. The relevant fair value adjustments were recognised in the consolidated financial statements for the year ended 31 December 2017.

27 DISPOSAL OF A SUBSIDIARY

In 2016, a wholly-owned subsidiary of the Company, Wisepak Enterprises Limited, entered into an agreement with a third party to dispose of the entire 60% interest of its indirect non-wholly owned subsidiary, Yangzhou Grand Metropole Hotel ("Yangzhou Hotel"), at a consideration of approximately RMB52,650,000. The Yangzhou Hotel operates hotel in Mainland China. The gain on disposal of HK$28,570,000 was recognised during the period ended 30 June 2017 and included in other income and gains, net of the consolidated income statement.

28 DISCONTINUED OPERATIONS

In March 2015, the Company entered into an agreement with its immediate holding company, China Travel Services (Holdings) Hong Kong Limited, to dispose of the entire interest of its wholly-owned subsidiary, Chadwick for a consideration of RMB510 million (equivalent to approximately HK$643 million and subject to future adjustments).

Chadwick owns 51% equity interest in Weihe Power, which is principally engaged in the operation of power generation in Mainland China and was an associate of the Group.

As power generation operation was identified as one of separate operating business of the Group by management, the operations of Weihe Power was classified as discontinued operations in the interim financial report. The disposal was completed in June 2015. During the period ended 30 June 2017, a net gain of approximately HK$21 million on contingent consideration was recognised. The results from discontinued operations are attributable entirely to equity owners of the Company. During the year ended 31 December 2017, the contingent consideration was finalised.

RESULTS OVERVIEW

In the first half of 2018, the Group's consolidated revenue was HK$2,078 million, representing a 12% decrease compared with the same period last year, mainly attributable to the fact that a majority of property units of the real estate projects of Zhuhai OSR and Anji Company has been sold in last year and only the sales of the remaining few units were recognised as revenue during the period. Profit before taxation was HK$572 million, representing a 15% increase compared with the same period last year. Profit attributable to shareholders was HK$379 million, representing a 1% increase compared with the same period last year. Profit attributable to the operations was HK$380 million, representing a 22% increase compared with the same period last year. Each of the principal operations had favorable prospects for development, in particular, attributable profit of tourist attraction and related operations increased by 109%, attributable profit of travel agency, travel document and related operations increased by 35%, attributable profit of hotel operations increased by 19% and attributable profit of passenger transportation operations increased by 3% compared with the same period last year.

The Group's financial position remained stable and healthy, with strong investing and financing capabilities. As of 30 June 2018, total assets were HK$22,800 million, a 3% increase compared with the end of last year; the equity attributable to shareholders was HK$16,265 million, similar to that of the end of last year; cash and bank balances, wealth management products and certain loan receivables amounted to HK$5,340 million, an increase of HK$187 million compared with the end of last year, of which cash and bank balances amounted to HK$3,519 million and deducting loans from a holding company, bank loans and other borrowings of HK$886 million, net cash was HK$2,633 million, a 15% decrease compared with the end of last year. The decrease in net cash was mainly due to the capital expenditure used in the development of Anji Company and Shapotou Scenic Spot, and the payment of land premium for Hip Kee Godown (No. 3), Hung Hom, with an aim of laying a solid foundation for future profit development.

DIVIDEND

The Board declared an interim dividend of HK3 cents per share (2017: HK3 cents) for the six months ended 30 June 2018. The interim dividend is to be paid to our shareholders on 27 September 2018. The dividend payout ratio is 43%.

CORE PRINCIPAL OPERATIONS AND OPERATION FIGURES

(I) Travel Destination Operations of the Group mainly include:

City hotels	Five hotels in Hong Kong and Macau Beijing Guang'anmen Grand Metropark Hotel ("**Beijing Metropark Hotel**") CTS H.K. Metropark Hotels Management Company Limited
Theme parks	Shenzhen The World Miniature Co., Ltd. ("**Window of the World**") Shenzhen Splendid China Development Co., Ltd. ("**Splendid China**")
Natural and cultural scenic spot destinations	CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd ("**Songshan Scenic Spot**") CTS (Ningxia) Shapotou Tourist Spot Co., Ltd and CTS (Ningxia) Shapotou Cable Car Co., Ltd ("**Shapotou Scenic Spot**") Jiangxi Xing Zi Lu Shan Xiu Feng Passage Cable Car Co., Ltd
Leisure resort destinations	China Travel Hong Kong (Zhuhai) Ocean Spring Co., Ltd ("**Zhuhai OSR**") Xianyang Ocean Spring Resort Co., Ltd ("**Xianyang OSR**") Zhuhai Evergrande Ocean Spring Land Co., Ltd. ("**Evergrande OSR**") CTS (Anji) Tourism Development Company Limited ("**Anji Company**")
Non-controlling scenic spot investments	Huangshan Yuping Cable Car Company Limited Huangshan Taiping Cable Car Co., Ltd. Changsha Colorful World Company Limited Changchun Jingyuetan Youle Co., Ltd.
Supplementary tourist attraction operations	China Heaven Creation International Performing Arts Co., Ltd. China Travel Zhiye Culture Development (Shenzhen) Co., Ltd. ("**China Travel Zhiye**") CTS Scenery (Beijing) Tourism Management Limited ("**Management Company**")

In the first half of 2018, total revenue of the Group's travel destination operations was HK$1,272 million, a 20% decrease compared with the same period last year; and attributable profit was HK$222 million, a 68% increase compared with the same period last year.

In the first half of the year, revenue of the Group's hotel operations was HK$385 million, a 6% increase compared with the same period last year; and attributable profit was HK$72 million, a 19% increase compared with the same period last year. The average room rate of the five hotels in Hong Kong and Macau and Beijing Metropark Hotel increased compared with the same period last year and the entire hotel business achieved satisfying performance.

Revenue of theme parks was HK$410 million, a 13% increase compared with the same period last year; and attributable profit was HK$71 million, an increase of 5% compared with the same period last year. Attributable profit of Window of the World slightly increased compared with the same period last year. Driven by the increase in number of visitors and revenue of management and consultation, revenue and profit of Splendid China grew significantly compared with the same period last year.

Revenue of natural and cultural scenic spots was HK$221 million, a 4% increase compared with the same period last year; and attributable profit was HK$3 million, a decrease from the same period last year. Songshan Scenic Spot implemented an interactive marketing model comprising online branding, offline theme activities and direct sales channels, resulting in an increase in the number of visitors, driving a 13% increase in revenue and a 10% increase in attributable profit compared with the same period last year. Shapotou Scenic Spot introduced discount tickets, driving an increase in the number of visitors but a decrease in average per capita consumption, which resulted in a decrease in revenue compared with the same period last year. In addition, the tourist distribution center was opened in mid last year, which increased cost for the first half of the year, turning the profit into loss of Shapotou Scenic Spot during the low season in the first half of 2018.

Revenue of leisure resort destinations was HK$210 million, a 63% decrease compared with the same period last year; and attributable profit was HK$52 million, turning loss into profit during the period. The decrease in revenue was mainly due to the fact that a majority of property units of the real estate projects of Zhuhai OSR and Anji Company has been sold in last year and only the sales of the remaining few units were recognised as revenue during the period. The leisure resort destinations turned loss into profit during the period, which was mainly due to the increased profit from the sales revenue recognised from real estate project of the associate, Evergrande OSR. Xianyang OSR proactively coped with difficulties and enhanced its marketing and cost-control measures, achieving a decrease in losses compared with same period last year.

Attributable profit from non-controlling scenic spot investments was HK$21 million, a 21% increase compared with the same period last year.

China Travel Zhiye and Management Company were officially opened to provide tourism planning, management services and other related businesses, which became another new profit engine of the Company.

(II) Travel Agency, Travel Document and Related Operations

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

In the first half of 2018, revenue of the Group's travel agency, travel document and related operations was HK$581 million, a 4% increase compared with the same period last year; and attributable profit was HK$89 million, a 35% increase compared with the same period last year. The increase in revenue and profit was largely due to an increase in the business volume under the travel document operations.

(III) Passenger Transportation Operations

In the first half of 2018, revenue of the Group's passenger transportation operations was HK$225 million, a 6% increase compared with the same period last year; and attributable profit was HK$75 million, a 3% increase compared with the same period last year.

Revenue and profit of China Travel Tours Transportation Services Hong Kong Limited increased by 6% and 11%, respectively, compared with the same period last year, mainly attributable to the increase in number of passengers and the rise in ticket prices for major routes such as Airport Express and Urban Lines.

Attributable profit of our associate, Shun Tak-China Travel Shipping Investments Limited, decreased compared with the same period last year due to the decrease in number of passengers and the increase in fuel price.

DEVELOPMENT STRATEGY

With its mission to "creating a new travel destination and leading a new lifestyle for mass tourism" and the strategic position of becoming "an investor, developer and operator of top-tier travel destinations", the Group will focus on the development of natural and cultural scenic spots and leisure resort destinations, exploring new travel destinations, and capturing investment opportunities in businesses offering strong synergies with its core operations.

The Group will push forward the development of new businesses by acquiring strategic quality scenic spot resources to create new growth engines. It will focus on regions which are rich in tourism resources and tourists, and quality scenic spots with potential for expansion and appreciation. The Group will acquire scenic spot resources through various forms of flexible cooperation including joint ventures, provision of management services and entrusted operations, and will foster new profit growth through large-scale expansion. The Group will strive to push forward projects development and has recently achieved breakthroughs in several projects in southwestern regions and the Guangdong-Hong Kong-Macao Bay Area. In the meantime, the Group will undertake in-depth studies on major travel destinations associated with the "Belt and Road", with an aim of seeking out business partners and exploring overseas markets.

Leveraging its rich experience in the operation and management of scenic spots and its brand and industrial chain advantages, the Group will enhance the development of light-asset businesses such as China Travel Zhiye and Management Company in order to expand market share, increase brand awareness and improve profitability.

The Group will continue to boost revenue and efficiency in its existing businesses by optimising their operations. Also, it will focus on procuring the planning and development of the land reserve of the Zhuhai OSR Phase 2 Project while vigorously developing the Songshan Shaolin Town Project and the subsequent Anji land development. The Group will also well carry out environmental assessment, planning and preparation work for the new projects of Shapotou Scenic Spot to accelerate the construction of scenic spot projects.

The Group will vigorously participate in the real estate, duty-free shop, hotel and travel agency and related businesses of the parent company to promote strategic cooperation and synergy among these businesses. To this end, it will strive to achieve mutual and complementary advantages and win-win outcomes. In keeping with the operational principles of marketisation, we will encourage resource-sharing and synergies with other business segments to add value to our brand.

The Group will continue its establishment of informatisation, promotion of digitalised transformation, and will carry out in-depth studies on the impact of the internet, artificial intelligence and other technologies. It will explore digitalised business models and push forward the intelligent operation and management of scenic spots, with a view to building a management platform of smart scenic spots.

The Group will strengthen the functional capacities of its headquarters, recruit high caliber talent, intensify its control and business synergies, give full play to the supervisory duties of the functional departments at headquarters, reinforce its resistance to risk, implement a production safety system, and ensure compliance with all relevant laws and regulations.

BUSINESS PROSPECTS

In the first half of the year, amid an escalating Sino-US trade dispute, the global economy faces various challenges and grows slower with increasing downside risks pressure. However, China's current economy continues to develop rapidly, supported by a solid domestic economy and the normalisation of tourism consumption. The Group's overall business fundamentals remain steady and healthy. In addition, the Group has a healthy cash position and possesses the capabilities to invest and develop. The Group is fully confident in the prospects of future development guided under its proven strategy.

The land parcel at Hung Hom on which Hip Kee Godown (No. 3) is located, owned by CTSHK, the Group's subsidiary, has been granted government approval to be modified as hotel use by way of land premium payments. This significantly increases the land value and its development potential. The Group will continue to finalise the project's reconstruction plan while exploring the vitalisation and optimisation of all its existing assets and properties in Hong Kong, with the aim of unleashing market value and enhancing operational efficiency. In future, the Group will have more new growth areas in its existing scenic spots businesses, facilitating a rapid growth in operating profits. Our associate, Evergrande OSR, is expected to contribute profit by recognising revenue in property sales during the year. The value of the majority of land reserves of Zhuhai OSR is expected to be enhanced and post-development profitability is promising. Additionally, the official opening of the Mediterranean Club Hotel of the Anji project will significantly increase the development value of the subsequent land reserve, while the development of the Songshan Shaolin Town and the upgrading of facilities and products of Shapotou Scenic Spot will enrich the tourist experience, boosting average consumption per visitor and greatly stimulating passenger flow.

At present, as positioned by parent company China National Travel Service Group Corporation Limited as its core business and strongly supported by it, the Group will actively cope with challenges, enhance the efficiency of its existing businesses and explore new project investments, in addition to promoting innovation in the areas of product, management and business model. The ultimate aim is to launch benchmark products, achieve a sustainable and high quality corporate development, and bring more favourable returns to shareholders.

NUMBER AND REMUNERATION OF EMPLOYEE

As at 30 June 2018, the Group had 6,278 employees. The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from the retirement benefit and in-house training programs, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group was strong. The Group generally finances its operations with internally generated cash flows and loan facilities from banks. As at 30 June 2018, the cash and bank balances of the Group amounted to HK$3,519 million whereas the bank and other borrowings and loans from a holding company amounted to HK$886 million. The debt-to-capital ratio was 24% and the debt includes bank and other borrowings, trade and other payables, loans from a holding company, amounts due to holding companies and fellow subsidiaries.

FOREIGN EXCHANGE RISK

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

CHARGE ON ASSETS

As at 30 June 2018, the Group's bank deposits of approximately HK$42 million (31 December 2017: HK$38 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 2018, certain of the Group's buildings with net carrying amounts of HK$1,472,000 (31 December 2017: HK$1,295,000) were pledged to secure bank guarantees given to suppliers in connection with credit facilities granted.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group did not have any material acquisitions and 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 to its existing businesses. The Group will only consider any potential investments which are in the interests of the Company and the shareholders as a whole. No agreement for material investment has been conducted as at the date of this report.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group's performance bond given to a customer for due performance of a sale contract was HK$0.3 million (31 December 2017: HK$0.3 million).

SIGNIFICANT INVESTMENTS HELD

To utilise the Group's idle funds more efficiently without affecting operating cash while ensuring fund safety, the Group used some of the idle funds to subscribe for RMB denominated wealth management products. As at 30 June 2018, the wealth management products held by the Group amounted to a total of RMB1,137 million (equivalent to HK$1,348 million). During the period, the income from financial assets at fair value through profit or loss was approximately HK$31.42 million. The movements of the subscribed wealth management products during the period were as follows:

OTHER INFORMATION

	1 January 2018 HK$'000	Subscribed during the period HK$'000	Recovered during the period HK$'000	Exchange difference HK$'000	Income from financial assets at fair value through profit or loss HK$'000	30 June 2018 HK$'000	Tenor (Month)	Expected annualised yields (%)
Issuers								
With agreed maturity date								
China Resources Bank of Zhuhai Co., Ltd.	734,483	–	(763,305)	16,159	12,663	–	6	4.57-4.9
Ping An Bank Co., Ltd.	48,214	666,412	(49,436)	(19,414)	6,480	652,256	3-6	4.5-4.8
Industrial Bank Co., Ltd.	183,505	200,535	(189,434)	(1,961)	2,030	194,675	3	4.84
China Merchants Bank Co., Ltd.*	289,931	232,327	(300,189)	(611)	5,536	226,994	6	4.49
China Citic Bank	155,578	103,936	–	(4,627)	4,161	259,048	3-6	4.5-4.65
Agricultural Bank of China Ltd.	–	122,277	(122,766)	–	489	–	1	4
Without agreed maturity date								
Agricultural Bank of China Ltd.	–	48,911	(48,968)	–	57	–	N/A	2.25
Bank of Communications Co., Ltd.	–	15,896	–	(477)	–	15,419	N/A	3.15
	1,411,711	**1,390,294**	**(1,474,098)**	**(10,931)**	**31,416**	**1,348,392**		

* Issuers have no early termination rights

The key terms for the wealth management products above are:

(i) Type of return: Principal-protected with floating yields

(ii) Payment of principal and income: The principal and the earned income of the wealth management products will be paid one-off within 1-3 business days subsequent to the agreed maturity date or confirmed redemption date.

(iii) Terms of redemption: During the agreed holding period, subscribers have no rights to redeem the products. For products without agreed maturity date, subscribers can perform the redemption on the business days.

(iv) Early termination rights: Subscribers are not entitled to terminate such products early. Unless otherwise specified, issuers are entitled to early termination. In case of early termination, issuers shall settle the one-off payment of the principal and the earned income of the wealth management products within 2-3 business days subsequent to the termination day.

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

During the period, in respect of each subscription above, the relevant applicable percentage ratios (as define under Rule 14.07 of the Listing Rules) calculated by the Group were all less than 5%, which did not constitute a notifiable transaction under Chapter 14 of the Listing Rules. The above outstanding wealth management products at the end of the period with agreed maturity date will be 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 funds position of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2018, the interests and short positions of the Directors and the Company's Chief Executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

Long positions in shares and underlying shares of the Company

	Interests in shares			Interests in underlying shares pursuant to share options		% of the issued share capital as at 30 June 2018
Name of Director	Corporate interest	Personal interest	Family interest		Aggregate interests	
Mr. Fu Zhuoyang *(Note 1)*	–	–	–	768,000	768,000	0.01%
Mr. Lo Sui On	–	600,000	–	770,000	1,370,000	0.03%
Mr. Zhang Xing	–	–	–	2,000,000	2,000,000	0.04%
Mr. Chen Xianjun	–	–	–	1,300,000	1,300,000	0.02%
Dr. Fong Yun Wah	50,000 *(Note 2)*	–	–	–	50,000	0.00%

Note 1: Mr. Fu Zhuoyang was appointed as an Executive Director and Chairman of the Board of the Company on 13 June 2018.

Note 2: These shares are beneficially owned by certain corporations the voting power at general meetings of which Dr. Fong Yun Wah controlled one-third or more. Dr. Fong Yun Wah is taken to be interested in such shares pursuant to Divisions 7 and 8 of Part XV of the SFO.

Save as disclosed in the section "Share Option Scheme" below, at no time during the six months ended 30 June 2018 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 resolution 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 2018 are set out below:

	Number of share options								
Name or category of participant	Balance as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	Reclassified during the period	Balance as at 30 June 2018	Date of grant	Exercise period *(Note 1)*	Exercise price (HK$)
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
Sub-Total	770,000	–	–	–	768,000	1,538,000			
Other employees in aggregate	19,944,000	–	(5,558,000)	–	(768,000)	13,618,000	18 June 2010	18 June 2012 to 17 June 2020	1.70
Grand Total	20,714,000	–	(5,558,000)	–	–	15,156,000			

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

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

Note 2: No further share options can be granted under the 2002 Share Option Scheme since its termination on 4 May 2012. The total number of shares of the Company which may be issued upon exercise of all share options granted and yet to be exercised under the 2002 Share Option Scheme as at 30 June 2018 was 15,156,000 shares, representing 0.28% of the total number of issued shares of the Company as at the date of this interim report.

Note 3: Mr. Fu Zhuoyang was appointed as an Executive Director and Chairman of the Board of the Company on 13 June 2018.

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 2018 are set out below.

	Number of share options								
Name or category of participant	**Balance as at 1 January 2018**	**Granted during the period**	**Exercised during the year**	**Cancelled or lapsed during the period**	**Reclassified during the period**	**Balance as at 30 June 2018**	**Date of grant**	**Exercise period** *(Note 1)*	**Exercise price** (HK$)
Director									
Zhang Xing	2,000,000	–	–	–	–	2,000,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
Chen Xianjun	1,300,000	–	–	–	–	1,300,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
Sub-Total	3,300,000	–	–	–	–	3,300,000			
Other employees in aggregate	135,940,000	–	–	(3,860,000)	–	132,080,000	15 September 2016	15 September 2018 to 14 September 2021	2.304
	16,400,000	–	–	(1,300,000)	–	15,100,000	30 December 2016	30 December 2018 to 29 December 2021	2.304
Sub-Total	152,340,000	–	–	(5,160,000)	–	147,180,000			
Grand Total	155,640,000	–	–	(5,160,000)	–	150,480,000			

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

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

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 2018, the number of shares of the Company available for issue in respect thereof was 567,779,152 shares, representing 10.41% 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 2018, none of the Directors or the Company's Chief Executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 2018
China National Travel Service Group Corporation Limited (formerly known as China National Travel Service Group Corporation) ("**China CTS**")	Interest of controlled corporation (Note 1)	3,276,164,728	60.07%
China Travel Service (Holdings) Hong Kong Limited ("**CTS (Holdings)**")	Interest of controlled corporation and beneficial owner (Notes 1 and 2)	3,276,164,728	60.07%
Hongkong New Travel Investments Ltd. (formerly known as Alliance Power Resources Ltd.)	Beneficial owner (Note 2)	1,109,952,705	20.35%
CTS Asset Management (I) Limited	Interest of controlled corporation (Note 2)	1,109,952,705	20.35%
CNIC Corporation Limited (formerly known as GUOXIN International Investment Corporation Limited)	Interest of controlled corporation (Note 3)	1,115,340,456	20.45%
Ryden Holdings Company Limited	Interest of controlled corporation (Note 3)	1,115,340,456	20.45%
中國華馨投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.45%
博遠投資有限公司	Interest of controlled corporation (Note 3)	1,115,340,456	20.45%

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

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

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

OTHER INFORMATION

Save as aforesaid, as at 30 June 2018, the Directors are not aware of any other person who had any interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

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

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

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

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

On 25 July 2018, a wholly-owned subsidiary of the Company, as borrower, and the Company, as guarantor, entered into a facility agreement with a bank for a committed revolving loan of HK$300,000,000. The final maturity date of the credit facility is 25 July 2019.

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

On 24 May 2018, the Company, as borrower, entered into a facility agreement with a bank, as lender, for a committed revolving loan of up to HK$300,000,000. The final maturity date of the credit facility is one year from 24 May 2018, the starting date on which the credit facility was made available to the Company for drawdown. Pursuant to the facility agreement, the Company undertakes 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 the single largest shareholder of the Company; and (ii) CTS (Holdings) shall be wholly-owned, directly or indirectly, by the State Council of the People's Republic of China and is under the direct or indirect management control of the State Council of the People's Republic of China.

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

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in Directors' information since the date of the 2017 Annual Report are set out below:

Name of Director	Changes
Sze Robert Tsai To	Resigned as an Independent Non-Executive Director, a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of Min Xin Holdings Limited (Stock Code: 222) with effect from 1 April 2018.

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 2018, the Company has complied with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

– Code Provision A.4.1 specifies that Non-Executive Directors should be appointed for a specific term, subject to re-election. Although the Company's Non-Executive Directors do not have a specific term of appointment, pursuant to the Company's articles of association (the "**Articles**"), at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Board considers that such requirements are sufficient to meet the underlying objective and spirit of the relevant Code Provisions.

– Code Provision D.1.4 specifies that the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors because all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles. In addition, the Directors are expected to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the directors of the Company confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

DIVIDEND

The Board has declared an interim dividend of HK3 cents per share (2017: HK3 cents) for the six months ended 30 June 2018. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 11 September 2018. The interim dividend will be paid on Thursday, 27 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 7 September 2018 to Tuesday, 11 September 2018 (both dates inclusive), for the purposes of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 6 September 2018.

REVIEW OF INTERIM FINANCIAL REPORT

The unaudited condensed consolidated interim financial report of the Group for the six months ended 30 June 2018 has been reviewed by the Audit Committee of the Company.

The condensed consolidated interim financial report for the six months ended 30 June 2018 has not been audited but has been reviewed by the Company's external auditors, KPMG.

By order of the Board
Fu Zhuoyang
Chairman

Hong Kong, 16 August 2018