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CTEH INC.

加達控股有限公司

(incorporated in Ontario, Canada and continued in the Cayman Islands with limited liability)

(Stock Code: 1620)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020**

FINANCIAL HIGHLIGHTS

	Year ended December 31,		
	2020	2019	Increase/ (decrease)
	HK\$ million	HK\$ million	
Revenue	51.6	112.1	(54.0%)
Gross profit	23.6	80.3	(70.6%)
(Loss)/profit for the year	(48.1)	10.7	(549.5%)
Basic and diluted (losses)/earnings per share (HK cents)	(4.0)	0.9	(544.4%)
Proposed final dividend per share (HK cents)	—	0.54	N/A

The board (the “**Board**”) of directors (the “**Directors**”) of CTEH INC. (“**CTEH**” or the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2020, together with the comparative figures for the year ended December 31, 2019, as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

	Notes	Year ended December 31,	
		2020 HK\$'000	2019 HK\$'000
Revenue	3	51,605	112,141
Cost of sales	5	(28,024)	(31,792)
Gross profit		23,581	80,349
Other income	4	21,410	375
Other gains, net	4	4,127	357
Expected credit losses (“ECLs”) allowance on financial assets		(50,068)	—
Impairment loss on non-financial assets		(1,476)	—
Selling expenses	5	(11,270)	(17,599)
Administrative expenses	5	(39,671)	(47,221)
Operating (loss)/profit		(53,367)	16,261
Finance income	6	76	621
Finance costs	6	(314)	(227)
Finance (costs)/income, net	6	(238)	394
Share of net losses of joint ventures		(511)	(1,140)
(Loss)/profit before income tax		(54,116)	15,515
Income tax credit/(expense)	7	6,055	(4,768)
(Loss)/profit for the year attributable to owners of the Company		(48,061)	10,747
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
– <i>Currency translation differences</i>		(47)	1,669
Item that will not be reclassified to profit or loss:			
– <i>Change in fair value of equity instrument at fair value through other comprehensive income</i>		1,307	(639)
Other comprehensive income for the year		1,260	1,030
Total comprehensive (expenses)/income for the year attributable to owners of the Company		(46,801)	11,777
Basic and diluted (losses)/earnings per share (HK Cents)	8	(4.0)	0.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

		As at December 31, 2020 HK\$'000	As at December 31, 2019 HK\$'000
Non-current assets			
Property, plant and equipment		3,940	5,947
Intangible assets		2,027	4,920
Right-of-use assets		3,895	7,252
Interests in joint ventures		10,681	11,192
Financial assets at fair value through profit or loss (“FVTPL”)		1,507	1,395
Financial asset at fair value through other comprehensive income (“FVTOCI”)		3,774	2,359
Deferred income tax assets		22,052	17,678
		47,876	50,743
Current assets			
Trade receivables	10	4,183	15,727
Prepayments, deposits and other receivables		49,206	93,411
Financial assets at FVTPL		5,876	15,300
Income tax recoverable		2,224	5,814
Cash and cash equivalents		30,095	71,579
		91,584	201,831
Total assets		139,460	252,574
EQUITY			
Equity attributable to the owners of the Company			
Share capital	11(a)	120	120
Share premium		88,248	88,248
Other reserve	11(b)	(41,256)	(41,256)
Financial asset at FVTOCI reserve	11(c)	668	(639)
Exchange reserve		7,601	7,648
Retained earnings		58,484	113,025
		113,865	167,146
Total equity		113,865	167,146

		As at December 31, 2020 HK\$'000	As at December 31, 2019 HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		638	1,138
Lease liabilities		3,361	4,895
Loans from government		2,666	—
		<u>6,665</u>	<u>6,033</u>
Current liabilities			
Trade payables	12	184	34
Accruals and other payables		15,777	73,268
Contract liabilities		1,359	3,574
Lease liabilities		1,610	2,519
		<u>18,930</u>	<u>79,395</u>
Total liabilities		<u>25,595</u>	<u>85,428</u>
Total equity and liabilities		<u>139,460</u>	<u>252,574</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND REORGANISATION

CTEH INC. (the “**Company**”) was incorporated in Ontario, Canada on August 18, 2017 and continued in the Cayman Islands from October 20, 2017 as an exempted company with limited liability. The registered address of the Company is 4th Floor, Harbour Place, 103 South Church Street, PO Box 10240, Grand Cayman, KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries comprising the Group (together, the “**Group**”) are engaged in air ticket distribution, travel business process management and travel products and services (the “**Business**”) in Canada and the United States (the “**U.S.**”).

The Group operates under the licenses issued by the International Airport Transportation Association (“**IATA**”), the Travel Industry Council of Ontario (“**TICO**”), the Québec l’Office de la Protection du Consommateur (“**OPC**”) and the Business Practices & Consumer Protection Authority of British Columbia in Canada, which require the Group to comply with certain industry regulations.

The consolidated financial statements are presented in Hong Kong dollar (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation and going concern assumption

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) as issued by International Accounting Standards Board (“**IASB**”) and related interpretations and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Security on the Stock Exchange of Hong Kong Limited (the “**Listing Rule**”). The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets measured at FVTPL and financial asset measured at FVTOCI which are carried at fair value.

(i) New or revised standards adopted by the Group

A number of new or revised standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The adoption of these new or revised standards did not have any significant impact on the Group's consolidated financial statements.

(ii) New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after January 1, 2021.

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 16	Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 16	Covid-19-Related Rent Concessions	June 1, 2020
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Annual Improvements to IFRSs 2018 - 2020	Amendments to IFRS 1 – First-time Adoption of IFRS; Amendments to IFRS 9 – Financial Instruments; Amendments to IFRS 16 and Amendments to IAS 41 – Agriculture	January 1, 2022
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined*
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021

* The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

(a) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an material impact on the consolidated financial statements.

(b) Amendments to IAS 16 – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an material impact on the consolidated financial statements.

(c) Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC-Int 21 Levies, the acquirer applies IFRIC-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an material impact on the consolidated financial statements.

(d) Amendments to IFRS 16 – Covid-19-Related Rent Concessions

IFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in IFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) the reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of IFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The directors of the Company are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Except for those mentioned above, the new or revised IFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's consolidated results and consolidated financial position upon application.

3 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision makers that are used for making strategic decisions. The chief operating decision makers are identified as the executive directors of the Company. The chief operating decision makers regularly monitor and receive reports relating to the performance of the three lines of business the Group operates during the year. In this regard, management has identified three reportable operating segments, namely (1) Air ticket distribution, (2) Travel business process management and (3) Travel products and services.

The major business activities for the three segments are summarised as follows:

- Air ticket distribution: The Group sells air tickets on behalf of airlines in exchange for margin income and incentive commissions from airlines.
- Travel business process management: The Group performs certain administrative and management services mainly for travel agencies in exchange for travel business process management fees.
- Travel products and services: The Group packages various travel products from suppliers into company-operated tours. The Group also sells other travel products and services, where the travelers are responsible for their trips using travel services sourced by the Group.

The performance of the operating segments is assessed based on segment revenue and a measure of segment operating results. Unallocated administrative expenses, ECLs allowance on financial assets, other gains, net, other income, finance cost, net, share of net losses of joint ventures and income tax are not included in the segment results. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the Group's chief operating decision makers.

	Year ended December 31, 2020			
	Air ticket distribution HK\$'000	Travel business process management HK\$'000	Travel products and services HK\$'000	Total HK\$'000
Revenue from external customers	21,380	28,118	2,107	51,605
Time of revenue recognition				
At a point in time	21,380	28,118	747	50,245
Over the time	—	—	1,360	1,360
	<u>21,380</u>	<u>28,118</u>	<u>2,107</u>	<u>51,605</u>
Segment results	5,050	11,862	957	17,869
Other income				2,585
Other gains, net				4,127
ECLs allowance on financial assets				(50,068)
Administrative expenses				(27,880)
Finance costs, net				(238)
Share of net losses of joint ventures				(511)
Loss before income tax				(54,116)
Income tax credit				6,055
Loss for the year				(48,061)
Other segment items:				
Depreciation and amortisation	1,021	2,018	559	3,598
Capital expenditure	143	284	78	505
Depreciation of right-of-use assets	618	1,297	513	2,428

	Year ended December 31, 2019			Total HK\$'000
	Air ticket distribution HK\$'000	Travel business process management HK\$'000	Travel products and services HK\$'000	
Revenue from external customers	71,604	25,947	14,590	112,141
Time of revenue recognition				
At a point in time	71,604	25,947	3,563	101,114
Over the time	—	—	11,027	11,027
	<u>71,604</u>	<u>25,947</u>	<u>14,590</u>	<u>112,141</u>
Segment results	35,870	11,682	2,407	49,959
Other income				375
Other gain, net				357
Administrative expenses				(34,430)
Finance income, net				394
Share of net losses of joint ventures				(1,140)
Profit before income tax				15,515
Income tax expense				(4,768)
Profit for the year				<u>10,747</u>
Other segment items:				
Depreciation and amortisation	1,373	2,045	781	4,199
Capital expenditure	1,282	1,911	728	3,921
Depreciation of right-of-use assets	631	627	630	1,888

Revenue from external parties contributing 10% or more of the total revenues of the Group is as follows:

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Company A – travel business process management segment	12,872	24,626
Company B – travel business process management segment (note)	14,516	N/A

Note:

The customer did not contribute 10% or more of the total revenue of the Group in preceding financial year.

There is no material inter-segment revenue.

The Group's revenue by geographical locations (as determined by the area or country in which the Group operates) is analysed as follows:

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Canada	44,237	93,638
United States	7,368	18,503
	51,605	112,141

The following is an analysis of the carrying amounts of the Group's assets analysed by geographical area in which the assets are located:

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Canada	69,710	147,155
United States	38,630	57,080
Hong Kong	31,120	48,339
	139,460	252,574

As at December 31, 2020, all material non-current assets, other than deferred income tax assets of approximately HK\$9,818,000 (2019: HK\$129,000) and interests in joint ventures of approximately HK\$10,681,000 (2019: HK\$ 11,192,000), are located in Canada.

4 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Other income		
Subsidies (Note)	20,322	—
Dividends income from financial assets at FVTPL	1,088	375
	<u>21,410</u>	<u>375</u>
Other gains/(losses), net		
Foreign exchange gain/(loss)	476	(393)
Gain on disposal of financial assets at FVTPL	2,981	—
Fair value change in financial assets at FVTPL	670	750
	<u>4,127</u>	<u>357</u>

Note: It mainly represents grants received in relation to wage subsidies from Canada Emergency Wage Subsidy Program. There are no unfulfilled conditions or contingencies relating to these grants as at December 31, 2020.

5 EXPENSES BY NATURE

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Cost of package tours and tickets	626	9,325
Employee benefit expenses (including directors' emoluments)	53,688	56,011
Office, telecommunication and utility expenses	4,164	4,791
Depreciation of right-of-use assets	2,746	2,252
Short-term leases expenses	360	267
Advertising and promotion	269	1,990
Credit card fees	284	954
Auditor's remuneration		
– Audit service	1,300	1,500
– Non-audit service	175	100
Depreciation of property, plant and equipment	2,081	2,145
Amortisation of intangible assets	2,538	3,076
Legal and professional fees	2,534	3,551
Service fees	3,478	4,544
Others	4,722	6,106
	<u>78,965</u>	<u>96,612</u>
Total cost of sales, selling and administrative expenses		

6 FINANCE (COSTS)/INCOME, NET

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Finance income		
– Interest income	76	621
Finance costs		
– Interest expense on lease liabilities	(277)	(227)
– Imputed interest expense on loans from government	(37)	—
	<u>(314)</u>	<u>(227)</u>
Finance (costs)/income, net	<u>(238)</u>	<u>394</u>

7 INCOME TAX CREDIT/(EXPENSE)

Canadian corporate income tax has been provided at the rate of 26.5% for the year ended December 31, 2020 (2019: 26.5%) on the Group's respective taxable income. United States federal income tax has been provided at the rate of 21% for the year ended December 31, 2020 (2019: 21%) on the Group's respective taxable (loss)/income and the United States state and city tax has been calculated on the estimated assessable profit at 11.8% for the year ended December 31, 2020 (2019: 11.8%).

	Year ended December 31,	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
– Canadian corporate income tax	1,770	(3,814)
– United States federal income tax	(137)	(281)
– United States state and city income tax	(83)	(220)
– Under provision in prior years	(83)	(82)
Deferred income tax	<u>4,588</u>	<u>(371)</u>
Income tax credit/(expense)	<u>6,055</u>	<u>(4,768)</u>

8 (LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share is calculated by dividing the (losses)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Year ended December 31,	
	2020	2019
(Loss)/profit attributable to owners of the Company (HK\$'000)	(48,061)	10,747
Weighted average number of ordinary shares in issue (Number of shares in thousand)	<u>1,200,000</u>	<u>1,200,000</u>
Basic and diluted (losses)/earnings per shares (HK Cents)	<u>(4.0)</u>	<u>0.9</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase losses per share. For the years ended December 31, 2020 and 2019, the Group has no dilutive potential ordinary shares.

9 DIVIDEND

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended December 31, 2020.

On March 31, 2020, the Board resolved to propose a final dividend in respect of the year ended December 31, 2019 of 0.54 HK cents per share, amounting to a total dividend of approximately HK\$6,480,000. The dividend was fully settled during the year ended December 31, 2020.

10 TRADE RECEIVABLES

	As at December 31, 2020 HK\$'000	As at December 31, 2019 HK\$'000
Incentive commission receivables	3,620	13,158
Less: ECLs allowance	<u>(520)</u>	<u>—</u>
	<u>3,100</u>	<u>13,158</u>
Other trade receivables	1,193	2,569
Less: ECLs allowance	<u>(110)</u>	<u>—</u>
	<u>1,083</u>	<u>2,569</u>
	<u>4,183</u>	<u>15,727</u>

Trade receivables primarily represent incentive commission receivables from airlines. The payment periods from customers generally range from 30 to 60 days.

The aging analysis of trade receivables (net of ECLs allowance) based on initiation date is as follows:

	As at December 31,	
	2020	2019
	HK\$'000	HK\$'000
0 to 60 days	3,838	15,609
Over 60 days	345	118
	<u>4,183</u>	<u>15,727</u>

As at December 31, 2020 trade receivables of HK\$345,000 (2019: HK\$118,000) were past due but not impaired. These primarily represent incentive commission receivables from airlines and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables (net of ECLs allowance), based on due date, is as follows:

	As at December 31,	
	2020	2019
	HK\$'000	HK\$'000
Not overdue	3,838	15,609
1 to 90 days	307	—
91 to 180 days	38	—
Over 180 days	—	118
	<u>4,183</u>	<u>15,727</u>

The carrying amounts of trade receivables approximate their fair values at each reporting date and are denominated in the following currencies:

	As at December 31,	
	2020	2019
	HK\$'000	HK\$'000
CAD	3,518	12,568
USD	665	3,159
	<u>4,183</u>	<u>15,727</u>

The maximum exposure to credit risk is the carrying amount of trade receivables and the Group does not have any receivables held as collateral or security.

11 SHARE CAPITAL AND OTHER RESERVE

(a) Share capital

	Number of ordinary shares (‘000)	Nominal value of ordinary shares HK\$’000
Authorised:		
Ordinary shares of HK\$0.0001 each		
As at January 1, 2019, and December 31, 2019 and 2020	<u>90,000,000</u>	<u>9,000</u>
Issued and fully paid:		
As at January 1, 2019	900,000	90
Issue of shares pursuant to the Share Offer (i)	<u>300,000</u>	<u>30</u>
As at December 31, 2019 and 2020	<u><u>1,200,000</u></u>	<u><u>120</u></u>

Note:

- (i) In connection with the Company’s listing on Main Board of the Stock Exchange of Hong Kong Limited on June 28, 2018, 300,000,000 new ordinary shares of HK\$0.0001 each were issued at a price of HK\$0.36 per share for a total cash consideration (before share issuance expenses) of approximately HK\$108,000,000, with net issuance costs amounted to approximately HK\$19,752,000 being charged to the share premium account of the Company. Net share premium of approximately HK\$88,248,000 was credited to equity.

(b) Other reserve

The other reserve presented in the consolidated statements of financial position represented the difference between the face value and the redemption value of the 10,000,000 Class A redeemable preference shares issued to the shareholders on September 1, 2011.

Upon completion of the exchange of redeemable preference shares into the ordinary shares of the Company on October 9, 2017 for reorganisation, the carrying amount of redeemable preference shares amounting to HK\$54,920,000 was recorded in other reserve.

(c) Financial asset at FVTOCI reserve

Financial asset at FVTOCI reserve comprises the cumulative net change in fair value of unlisted equity investments held at the end of the reporting period.

12 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date are as follows:

	As at December 31, 2020 HK\$'000	As at December 31, 2019 HK\$'000
0 to 30 days	33	24
31 to 60 days	5	10
Over 60 days	146	—
	<hr/> 184 <hr/>	<hr/> 34 <hr/>

The carrying amounts of the trade payables approximate their fair values as at December 31, 2020 and 2019 and are all denominated in CAD.

13 BANKING FACILITIES

As at December 31, 2020, the Group had banking facilities which are secured by a guarantee from a Canadian Crown corporation, an enterprise wholly owned by the Government of Canada, in the amount of HK\$7,805,000 (2019: HK\$66,038,000). Another banking facility available in the form of a demand revolving loan was terminated during the year (2019: HK\$17,989,000).

The Group did not draw down any borrowing from the banking facilities and was in compliance with all banking covenants as at December 31, 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a long-established air ticket consolidator, travel business process management provider and travel products and services provider in Canada, founded in 1976 and with more than 40 years of operating history. The principal businesses of the Group include (i) air ticket distribution in which it distributes air tickets to travel agents and travelers and issue air tickets directly on behalf of contracted airlines; (ii) travel business process management in which it provides mid-office and back-office support services to travel agents; and (iii) travel products and services in which it designs, develops and sells package tours, as well as other travel products and services to travel agents and travelers.

2020 was challenging marked by the ongoing pandemic of the coronavirus disease 2019 (“COVID-19”) and continuous escalation of China-US trade frictions. These uncertainties negatively affected the Group’s performance which led to a corresponding significant decrease in revenue and gross profit. The total revenue of the Group decreased by approximately HK\$60.5 million or approximately 54.0%, from approximately HK\$112.1 million for the year ended December 31, 2019 to approximately HK\$51.6 million for the year ended December 31, 2020, which was mainly due to lower revenue generated from air ticket distribution and travel products and services segments. The gross profit decreased by approximately HK\$56.7 million or approximately 70.6%, from approximately HK\$80.3 million for the year ended December 31, 2019 to approximately HK\$23.6 million for the year ended December 31, 2020. The overall gross profit margin decreased by approximately 25.9%, from approximately 71.6% for the year ended December 31, 2019 to approximately 45.7% for the year ended December 31, 2020, which was due to the decrease in the gross profit margin in air ticket distribution segment and travel business process management segment. In 2020, the Group acquired technological tools to adopt the work from home policy for all employees, requiring them to work remotely from their homes to maintain the operation of the Group during the COVID-19 pandemic. The Group also continued to expand the travel business process management business and one new customer was engaged during the year.

Air Ticket Distribution

Air ticket distribution business segment was impacted by the COVID-19 pandemic in 2020. Segment revenue dropped by approximately 70.1%, from approximately HK\$71.6 million for the year ended December 31, 2019 to approximately HK\$21.4 million for the year ended December 31, 2020 and accounted for approximately 41.4% of the total revenue of the Group. Such decrease was mainly attributable to the decline in transaction volume of air tickets sales and gross sales proceeds generated from air tickets sales due to the travel restrictions imposed by countries of its own and across the world during the COVID-19 pandemic, which further resulted in declining international travel. As one of the International Airport Transportation Association (IATA) accredited travel agents in Canada and one of the Airlines Reporting Corporation (ARC) accredited travel agents in the United States, the Group is qualified to obtain ticketing authority to issue air tickets of all available flights (origins and destinations) on behalf of IATA member airlines and ARC member airlines and secure private fare deals directly from them. As of December 31, 2020, the Group had ticketing authority for more than 150 airlines and private fare deals with around 70 airlines, including top airlines based in Canada, the United States and China.

Travel Business Process Management

The Group continued to provide a range of travel business process management including air ticket transaction processing, customer contact, BSP/ARC settlement and reconciliation, software development and travel licensing, compliance, and other administrative matters to its customers. Segment revenue generated from travel business process management increased by approximately 8.5%, from approximately HK\$25.9 million for the year ended December 31, 2019 to approximately HK\$28.1 million for the year ended December 31, 2020 and accounted for approximately 54.5% of the total revenue of the Group. The management has continued to expand the Group's customer base by initiating sales efforts targeting travel agents that share similar profile and market positioning as its existing customers. During the year ended December 31, 2020, the Group had been providing travel business process management services to 11 customers which include some of well-known global brands.

Travel Products and Services

The Group continued to offer package tours and other travel products and services to more than 200 cities in over 40 countries in Asia, Europe, Middle East, North America and South American to its customers. Segment revenue generated from travel products and services decreased by approximately 85.6%, from approximately HK\$14.6 million in the year ended December 31, 2019 to approximately HK\$2.1 million in the year ended December 31, 2020 and accounted for approximately 4.1% of the total revenue of the Group. Such decrease was mainly due to decreased sales volume of package tours.

DIVIDENDS

In order to retain more cash to finance the working capital requirements and future development of the Group, the Board does not recommend the payment of final dividend for the year ended December 31, 2020 (2019: HK\$6,480,000). The Board will consider future dividend distribution in due course according to the Company's dividend policy.

FUTURE PROSPECT

It is expected that the COVID-19 pandemic continues to impact on the airline, travel and tourism industry worldwide afterwards until widespread vaccinations. A series of measures have been adopted by the Group to control costs and to enhance cash flow and operational efficiency, including (i) implementing salary reduction of the Directors and senior management; (ii) applied for the Canada Emergency Wage Subsidy program; (iii) obtaining rent concessions on office premise leased from the landlords; and (iv) streamlining workflow and reducing marketing expenses. The situation relating to the spread and containment of the COVID-19 pandemic remains uncertain and fluid, and the Group will closely monitor the trend of the global environment and maintain pragmatic approach for its businesses.

FINANCIAL REVIEW

REVENUE

The following table sets forth the components of the revenue by business segment for the years:

	Year ended December 31,			
	2020		2019	
	HK\$'000	%	HK\$'000	%
Air ticket distribution	21,380	41.4	71,604	63.9
Travel business				
process management	28,118	54.5	25,947	23.1
Travel products and services	2,107	4.1	14,590	13.0
Total	<u>51,605</u>	<u>100.0</u>	<u>112,141</u>	<u>100.0</u>

The Group's revenue decreased by approximately HK\$60.5 million or approximately 54.0%, from approximately HK\$112.1 million for the year ended December 31, 2019 to approximately HK\$51.6 million for the year ended December 31, 2020. Such decrease was mainly attributable to lower revenue generated from air ticket distribution and travel products and services segment.

Air Ticket Distribution

The revenue from air ticket distribution segment decreased by approximately HK\$50.2 million, or approximately 70.1%, from approximately HK\$71.6 million for the year ended December 31, 2019 to approximately HK\$21.4 million for the year ended December 31, 2020. Such decrease was mainly attributable to the decrease in the transaction volume of air tickets sales and gross sales proceeds generated from air tickets sales as a result of declining international travel due to the COVID-19 pandemic and travel restrictions such as entry restrictions, visa suspensions and quarantine measures imposed by countries of its own and across the world.

Travel Business Process Management

The revenue from travel business process management segment increased by approximately HK\$2.2 million or approximately 8.5%, from approximately HK\$25.9 million for the year ended December 31, 2019 to approximately HK\$28.1 million for the year ended December 31, 2020. Such increase was mainly attributable to the increase in number of transaction volume and number of travel business process management customers.

Travel Products and Services

The revenue from travel products and services segment decreased by approximately HK\$12.5 million or approximately 85.6%, from approximately HK\$14.6 million for the year ended December 31, 2019 to approximately HK\$2.1 million for the year ended December 31, 2020. Such decrease was mainly attributable to the decreased sales volume of package tours.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth the components of the gross profit and gross profit margin by business segment:

	For the year ended December 31,			
	2020		2019	
	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %
Air ticket distribution	10,925	51.1	57,627	80.5
Travel business				
process management	11,176	39.7	17,457	67.3
Travel products and services	1,480	70.2	5,265	36.1
Total	23,581	45.7	80,349	71.6

The gross profit decreased by approximately HK\$56.7 million or approximately 70.6%, from approximately HK\$80.3 million for the year ended December 31, 2019 to approximately HK\$23.6 million for the year ended December 31, 2020.

The overall gross profit margin decreased by approximately 25.9%, from approximately 71.6% for the year ended December 31, 2019 to approximately 45.7% for the year ended December 31, 2020, which was due to the decrease in the gross profit margin in air ticket distribution segment and travel business process management segment.

Air Ticket Distribution

The gross profit attributable to air ticket distribution segment decreased by approximately HK\$46.7 million, or approximately 81.1%, from approximately HK\$57.6 million for the year ended December 31, 2019 to approximately HK\$10.9 million for the year ended December 31, 2020, which was in line with the decrease in the transaction volume of air tickets sales and gross sales proceeds generated from air tickets sales as a result of declining international travel due to the COVID-19 pandemic. The gross profit margin for air ticket distribution segment decreased by approximately 29.4% from approximately 80.5% for the year ended December 31, 2019 to approximately 51.1% for the year ended December 31, 2020, which was primarily attributable to a greater proportional decrease in the business segment revenue than in the business segment cost of sales.

Travel Business Process Management

The gross profit attributable to travel business process management segment decreased by approximately HK\$6.3 million, or approximately 36.0%, from approximately HK\$17.5 million for the year ended December 31, 2019 to approximately HK\$11.2 million for the year ended December 31, 2020. The gross profit margin for travel business process management segment decreased by approximately 27.6% from approximately 67.3% for the year ended December 31, 2019 to approximately 39.7% for the year ended December 31, 2020, which was mainly due to the combined effect of (i) decrease in revenue generated from transaction processing which has higher gross profit margin; (ii) increase in staff costs for the year ended December 31, 2020 due to the group had expanded one of the regional office in Canada in the second half of 2019 of travel business process management; and (iii) lower gross profit margin for new customers in 2021 that were in startup stage.

Travel Products and Services

The gross profit attributable to travel products and services segment decreased by approximately HK\$3.8 million or approximately 71.7%, from approximately HK\$5.3 million for the year ended December 31, 2019 to approximately HK\$1.5 million for the year ended December 31, 2020. The gross profit margin for travel products and services segment increased by approximately 34.1% from approximately 36.1% for the year ended December 31, 2019 to approximately 70.2% for the year ended December 31, 2020, which was mainly due to the combined effect of (i) decrease in sales volume of package tours which has lower gross profit margin; and (ii) increase in handling fee for cancellation of travel products and services due to the COVID-19 pandemic.

Selling Expenses

The selling expenses slightly decreased by approximately HK\$6.3 million or approximately 35.8%, from approximately HK\$17.6 million for the year ended December 31, 2019 to approximately HK\$11.3 million for the year ended December 31, 2020, which was mainly due to the decrease in advertising and promotion expenses and temporary closure of retail branch by the order of government of closure of the non-essential businesses in Ontario and Quebec during the year.

Administrative Expenses

The administrative expenses decreased by approximately HK\$7.5 million or approximately 15.9%, from approximately HK\$47.2 million for the year ended December 31, 2019 to approximately HK\$39.7 million for the year ended December 31, 2020, which was mainly due to the implemented salary reduction of the Directors and senior management in response to the COVID-19 pandemic.

Loss for the year

The result of the Group decreased by approximately HK\$58.8 million or approximately 549.5%, from the profit of approximately HK\$10.7 million for the year ended December 31, 2019 to the loss of HK\$48.1 million for the year ended December 31, 2020. Such decrease was mainly attributable to the following:

- decrease in gross profit by approximately HK\$56.7 million or approximately 70.6%, from approximately HK\$80.3 million for the year ended December 31, 2019 to approximately HK\$23.6 million for the year ended December 31, 2020 as discussed in the sub-section headed “Gross Profit and Gross Profit Margin” above;
- increase in ECLs allowance made in accordance with International Financial Reporting Standard 9 to certain financial assets due to uncertainty of economic recovery raising from COVID-19 pandemic by approximately HK\$50.1 million; offset by the following:
- increase in the gain on disposal from the Company’s investment in the shares of Xinyi Energy Holdings Limited by approximately HK\$3.0 million;
- increase in other income by approximately HK\$21.0 million, which was primarily attributable to the wage subsidies received from local governments in Canada of approximately HK\$20.3 million in response to the COVID-19 pandemic; and
- decrease in selling expenses by approximately HK\$6.3 million and administrative expenses by approximately HK\$7.5 million for the year ended December 31, 2020 as discussed in the sub-section headed “Selling Expenses” and “Administrative Expenses “above respectively.

FINANCIAL RESOURCES AND LIQUIDITY

During the year ended December 31, 2020, the Group's primary source of funding included its own working capital, the net proceeds from the listing and the credit facilities provided by the Group's principal bank in Canada.

Net cash used in operating activities was approximately HK\$47.7 million in the year ended December 31, 2020, as compared with net cash used in operating activities of approximately HK\$35.5 million in the year ended December 31, 2019. Net cash generated from investing activities was approximately HK\$13.5 million in the year ended December 31, 2020, as compared with net cash used in investing activities of approximately HK\$21.4 million in the year ended December 31, 2019, respectively. Net cash used in financing activities in the year ended December 31, 2020 was approximately HK\$6.3 million, as compared with net cash used in financing activities of approximately HK\$7.6 million in the year ended December 31, 2019.

As at December 31, 2020, the Group's cash and cash equivalents amounted to approximately HK\$30.1 million, representing a decrease of approximately 58.0% from approximately HK\$71.6 million as at December 31, 2019.

The Group's gearing ratio is calculated based on total debt divided by the shareholders' equity at the end of the financial year and multiplied by 100%. As of December 31, 2020, the Group's gearing ratio was approximately 2.3%. Taking into consideration of the Group's current bank balances and cash, together with the credit facilities available and the expected cash flow from operations, it is anticipated that the Company should have adequate financial resources to meet its ongoing operating and development requirements.

Net current assets

As at December 31, 2020, the Group had net current assets of HK\$72.7 million as compared with net current assets of HK\$122.4 million as at December 31, 2019.

BORROWINGS

As of December 31, 2020, the Group had interest-free borrowings from the Government of Canada under the Regional Economic Growth Through Innovation program of approximately HK\$2.7 million (2019: nil), which were denominated in Canadian dollars. The directors expect that all such borrowings will either be repaid by internally generated funds and will continue to provide funding to the Group's operations.

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to the end of the reporting period which would materially affect the Group's operating and financial performance as of the date of this announcement.

FOREIGN EXCHANGE RISKS

The Group has foreign currency exposures that mainly arise from the balance of assets and liabilities in currencies other than in Hong Kong dollar. The Group's policy requires the management to control the Group's foreign exchange risk to an acceptable level by ensuring that the Group is able to obtain sufficient amount of USD at acceptable exchange rate for meeting the payment obligations arising from business operations. A net foreign exchange gain of approximately HK\$0.5 million was recorded for the year ended December 31, 2020 and exchange loss of approximately HK\$0.4 million for the year ended December 31, 2019.

During the year ended December 31, 2020, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

EMPLOYEES AND REMUNERATION POLICIES

As of December 31, 2020, the Group had a total of 127 employees as compared with 167 employees as at December 31, 2019, of which 126 were in Canada and 1 were in the United States of America. The total staff costs incurred by the Group for the year ended December 31, 2020 were HK\$53.7 million as compared with HK\$56.0 million for the year ended December 31, 2019. The Group will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees. In addition, the Company has adopted a share option scheme on May 7, 2018 to attract and retain individuals with experience and ability and to reward them for their contributions. Further details will be set out in the annual report of the Company for the year ended 31 December 2020.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENTS

On September 8, 2020, the Company disposed on-market of a total of 7,500,000 shares of Xinyi Energy Holdings Limited in a series of transactions at the price between HK\$2.49 and HK\$2.55 per shares for an aggregate gross sale proceeds of approximately HK\$18.86 million (excluding transaction costs). For details, please refer to the announcement of the Company dated September 9, 2020.

Save for the above, no other significant investments, material acquisition and disposal of subsidiaries, associates or joint ventures were conducted by the Group for the year ended December 31, 2020.

PLEDGE OF ASSETS

As of December 31, 2020, the Group had government bond issued by the Canadian government of approximately HK\$1.5 million (December 31, 2019: HK\$1.4 million). The bond is held as a security pledge for the operating permits required under the Quebec Travel Agents Act by the OPC. The interest rate for the bond is 1.8% per annum with a maturity date of March 21, 2023.

CONTINGENT LIABILITIES

As at December 31, 2020, the Group did not have any material contingent liabilities or guarantees.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated June 15, 2018 (the “**Prospectus**”), the Group did not have plans for material investments and capital assets as of December 31, 2020.

USE OF PROCEEDS FROM THE LISTING

The Shares of the Company were listed on the Stock Exchange on June 28, 2018, with net proceeds received by the Company from the Share Offer in the amount of HK\$49.7 million after deducting underwriting commission and all related listing expenses. The net proceeds received from the Share Offer and the unitised portion as of December 31, 2020 will be used in the manner consistent with that set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

An analysis of the utilization of the net proceeds from the listing date up to December 31, 2020 is set out below:

Use of net proceeds	Net proceeds from the Share Offer HK\$ million	Actual utilization for the year ended December 31, 2020 HK\$ million	Actual utilization up to December 31, 2020 HK\$ million	Unutilised amounts as at December 31, 2020 HK\$ million	Expected year of full utilization of remaining balance
Repayment of bank borrowings	21.5	—	21.5	—	—
Expansion of air ticket distribution business	13.4	0.5	1.0	12.4	2022
Upgrade the information technology infrastructure	6.7	0.5	4.8	1.9	2021
Expansion the travel business process management business	6.9	3.9	6.9	—	—
Advertising and promotion	1.2	0.2	0.9	0.3	2021
	<u>49.7</u>	<u>5.1</u>	<u>35.1</u>	<u>14.6</u>	

As at December 31, 2020, the net proceeds received from the listing have been, and will be used in accordance with the intentions as disclosed in the Prospectus.

ANNUAL GENERAL MEETING

It is proposed that the AGM will be held on June 29, 2021. A notice convening the AGM will be published and despatched to the Shareholders in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed during the following period:

Latest time to lodge transfers documents

for registration..... 4:30 p.m. on June 23, 2021

Closure of register of members..... June 24, 2021 to June 29, 2021
(both days inclusive)

For purposes mentioned above, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road North Point, Hong Kong for registrations no later than the aforementioned latest time.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company has adopted all applicable code provisions as set out in the Code on Corporate Governance Practices (“**CG Code**”) as set out in Appendix 14 to the Listing Rules and has also put in place certain recommended best practices as set out in the CG Code.

The Board is of the opinion that the Company has complied with all applicable code provisions set out in the CG Code during the year ended December 31, 2020 and up to the date of this announcement.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended December 31, 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct of the Company regarding Directors’ transactions of the listed securities of the Company. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they had complied with the Model Code and its code of conduct from the year ended December 31, 2020 and up to the date of this announcement.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) consists of three members, two of whom are independent non-executive Directors, being Mr. Sik Yuen Lau and Dr. Michael Edward Ricco, and one non-executive Director, being Dr. Kwok Chun Dennis Chu. The Audit Committee is chaired by Mr. Sik Yuen Lau. The annual results for the year ended December 31, 2020 of the Company have been reviewed by the Audit Committee. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed risk management and internal control with senior management members and is of the view that the results for the year ended December 31, 2020 are prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

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

During the year ended December 31, 2020 and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended December 31, 2020 have been agreed by the Company's external auditor, BDO Limited ("BDO"), to the amounts set forth in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.toueast.com>). The annual report of the Company for the year ended December 31, 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

By order of the Board
CTEH INC.

Mrs. Rita Pik Fong Tsang
Chairperson and executive Director

Hong Kong, March 31, 2021

As at the date of this announcement, the executive Directors are Mrs. Rita Pik Fong Tsang and Ms. Annie Shuk Fong Tsu, the non-executive Director is Dr. Kwok Chun Dennis Chu, and the independent non-executive Directors are Dr. Michael Edward Ricco, Mrs. Kitty Yuk Yee Yeung and Mr. Sik Yuen Lau.