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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

The board (the “**Board**”) of directors (the “**Directors**”) of CTEH INC. (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended June 30, 2020 together with the unaudited comparative figures for the six months ended June 30, 2019.

	Six months ended June 30,		
	2020	2019	Increase/ (decrease)
	HK\$ million	HK\$ million	
Revenue	40.1	57.0	(29.6%)
Gross profit	24.6	41.2	(40.3%)
Profit for the period	7.3	8.1	(9.9%)
Basic and diluted earnings per share (HK cents)	0.6	0.7	(14.3%)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2020

	Notes	Six months ended June 30,	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	4	40,097	56,952
Cost of sales	6	(15,531)	(15,766)
Gross profit		24,566	41,186
Other income	5	8,510	—
Other gains, net	5	3,833	1,331
Selling expenses	6	(6,095)	(8,287)
Administrative expenses	6	(21,922)	(22,663)
Operating profit		8,892	11,567
Finance income		60	366
Finance costs		(128)	(108)
Finance (costs)/income, net	7	(68)	258
Share of net profit/(loss) of joint ventures		645	(212)
Profit before income tax		9,469	11,613
Income tax expense	8	(2,177)	(3,545)
Profit for the period		7,292	8,068
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss subsequently:</i>			
– Currency translation differences		(3,487)	1,226
Other comprehensive (loss)/income for the period		(3,487)	1,226
Total comprehensive income for the period attributable to owners of the Company		3,805	9,294
Basic and diluted earnings per share (HK cents)	10	0.6	0.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

		As at June 30, 2020 HK\$'000 (Unaudited)	As at December 31, 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		5,237	5,947
Intangible assets		3,233	4,920
Right-of-use assets		5,515	7,252
Interests in joint ventures		11,837	11,192
Financial asset at fair value through profit or loss (“FVTPL”)		1,323	1,395
Financial asset at fair value through other comprehensive income (“FVTOCI”)		2,239	2,359
Deferred income tax assets		16,671	17,678
		46,055	50,743
Current assets			
Trade receivables	11	12,328	15,727
Prepayments, deposits and other receivables		75,413	93,411
Financial asset at FVTPL		18,375	15,300
Income tax recoverable		—	5,814
Cash and cash equivalents		55,208	71,579
		161,324	201,831
Total assets		207,379	252,574
EQUITY			
Equity attributable to the owners of the Company			
Share capital	12	120	120
Share premium		88,248	88,248
Other reserve		(41,256)	(41,256)
Financial asset at FVTOCI reserve		(639)	(639)
Exchange reserve		4,161	7,648
Retained earnings		113,837	113,025
		164,471	167,146
Total equity		164,471	167,146

		As at June 30, 2020 HK\$'000 (Unaudited)	As at December 31, 2019 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		1,080	1,138
Lease liabilities		3,601	4,895
Loans from government		2,275	—
		<u>6,956</u>	<u>6,033</u>
Current liabilities			
Trade payables	13	—	34
Accruals and other payables		31,461	73,268
Contract liabilities		1,666	3,574
Lease liabilities		2,290	2,519
Income taxes payables		535	—
		<u>35,952</u>	<u>79,395</u>
Total liabilities		<u>42,908</u>	<u>85,428</u>
Total equity and liabilities		<u>207,379</u>	<u>252,574</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with the International Accounting Standard (“**IAS**”) 34, “Interim financial reporting”.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statement. Accordingly, this announcement should be read in conjunction with the annual financial statements for the year ended December 31, 2019 (“**2019 annual report**”) which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and any public announcements made by the Group during the interim reporting period.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the annual report and the adoption of new or revised standards as set out below.

3.1 Adoption of new or revised international financial reporting standards

During the period, the Group has adopted all the new or revised IFRSs issued by International Accounting Standard Board (the “IASB”) that are relevant to its operations and effective for its accounting period beginning on January 1, 2020.

The Group has not early applied new or revised IFRSs that have been issued but are not yet effective for the financial period beginning on January 1, 2020. The Directors anticipate that the new or revised IFRSs will be adopted in the Group’s unaudited interim condensed consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all the new or revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3.2 Use of judgments and estimates

In preparing this condensed consolidated interim financial information, the significant judgments made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 annual report.

4 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 six months ended June 30, 2020. 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, other income, other gains, net, share of net profit/(loss) of joint ventures, finance cost, net and income tax expense 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.

Six months ended June 30, 2020 (Unaudited)

	Air ticket distribution HK\$'000	Travel business process management HK\$'000	Travel products and services HK\$'000	Total HK\$'000
Revenue from external customers	<u>20,113</u>	<u>18,605</u>	<u>1,379</u>	<u>40,097</u>
Timing of revenue recognition				
At a point in time	20,113	18,605	20	38,738
Over the time	<u>—</u>	<u>—</u>	<u>1,359</u>	<u>1,359</u>
	<u>20,113</u>	<u>18,605</u>	<u>1,379</u>	<u>40,097</u>
Segment results	5,550	6,011	362	11,923
Other income				8,510
Other gains, net				3,833
Administrative expenses				(15,374)
Finance cost, net				(68)
Share of net profit of joint ventures				<u>645</u>
Profit before income tax				9,469
Income tax expense				<u>(2,177)</u>
Profit for the period				<u><u>7,292</u></u>
Other segment items:				
Depreciation and amortisation	599	1,025	334	1,958
Capital expenditure	158	270	87	515
Depreciation of right-of-use assets	<u>333</u>	<u>570</u>	<u>185</u>	<u>1,088</u>

Six months ended June 30, 2019 (Unaudited)

	Air ticket distribution HK\$'000	Travel business process management HK\$'000	Travel products and services HK\$'000	Total HK\$'000
Revenue from external customers	35,791	13,096	8,065	56,952
Timing of revenue recognition				
At a point in time	35,791	13,096	—	48,887
Over the time	—	—	8,065	8,065
	<u>35,791</u>	<u>13,096</u>	<u>8,065</u>	<u>56,952</u>
Segment results	16,655	7,624	1,484	25,763
Other gains, net				1,331
Administrative expenses				(15,527)
Finance income, net				258
Share of net loss of joint ventures				(212)
Profit before income tax				11,613
Income tax expense				(3,545)
Profit for the period				<u>8,068</u>
Other segment items:				
Depreciation and amortisation	808	462	577	1,847
Capital expenditure	741	422	528	1,691
Depreciation of right-of-use assets	414	236	295	945

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

	Six months ended June 30,	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Company A- travel business process management segment	9,870	*
Company B- travel business process management segment	8,447	12,768

* Represents the amount of revenue from such customer which is less than 10% of total revenue of that period.

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:

	Six months ended June 30,	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Canada	33,474	46,640
United States	6,623	10,312
	40,097	56,952

5 OTHER INCOME AND OTHER GAINS, NET

	Six months ended June 30,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Other income		
Subsidies (Note)	7,872	—
Dividends income	638	—
	<u>8,510</u>	<u>—</u>
Other gains, net		
Foreign exchange gain/(loss)	758	(244)
Fair value change in financial assets at FVTPL	3,075	1,575
	<u>3,833</u>	<u>1,331</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.

6 EXPENSES BY NATURE

	Six months ended June 30,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of packaged tours and tickets	669	5,014
Employee benefit expenses (including directors' emoluments)	29,445	25,384
Office, telecommunication and utility expenses	2,225	2,180
Depreciation of right-of-use assets	1,392	1,290
Advertising and promotion	175	703
Credit card fees	260	524
Auditor's remuneration		
– Audit service	873	151
– Non-audit service	—	88
Depreciation of property, plant and equipment	1,062	1,045
Amortisation of intangible assets	1,437	1,534
Legal and professional fees	1,105	1,179
Service fees	2,183	3,273
Others	2,722	4,351
	<u>43,548</u>	<u>46,716</u>
Total cost of sales, selling and administrative expenses		

7 FINANCE (COST)/INCOME, NET

	Six months ended June 30,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Finance income		
– Interest income	<u>60</u>	<u>366</u>
Finance costs		
– Interest expense on lease liabilities	<u>(128)</u>	<u>(108)</u>
Finance (costs)/income, net	<u><u>(68)</u></u>	<u><u>258</u></u>

8 INCOME TAX EXPENSE

Canadian corporate income tax has been provided at the rate of 26.5% for the six months ended June 30, 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 six months ended June 30, 2020 (2019: 21%) on the Group's respective taxable income and the United States state and city tax has been calculated on the estimated assessable profit at 11.8% for the six months ended June 30, 2020 (2019: 8.85%).

	Six months ended June 30,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current income tax		
– Canadian corporate income tax	947	1,478
– United States federal and state income tax	212	2,148
Deferred income tax	<u>1,018</u>	<u>(81)</u>
Income tax expense	<u><u>2,177</u></u>	<u><u>3,545</u></u>

9 DIVIDENDS

A dividend of HK\$6,480,000 in respect of the year ended December 31, 2019 was declared and subsequently paid in July 2020 while a dividend of HK\$5,520,000 in respect of the year ended December 31, 2018 was declared and paid in June 2019.

The Board does not recommend the payment of any dividend for the six months ended June 30, 2020 (Six months ended June 30, 2019: Nil).

10 EARNINGS PER SHARE

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

	Six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	<u>7,292</u>	<u>8,068</u>
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 earnings per shares (HK cents)	<u><u>0.6</u></u>	<u><u>0.7</u></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 loss per share. During the six months ended June 30, 2020 and 2019, the Group has no dilutive potential ordinary shares.

11 TRADE RECEIVABLES

	As at	As at
	June 30,	December 31,
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Incentive commission receivables	<u>7,184</u>	<u>13,158</u>
Other trade receivables	<u>5,144</u>	<u>2,569</u>
	<u><u>12,328</u></u>	<u><u>15,727</u></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 based on initiation date is as follows:

	As at June 30, 2020 HK\$'000 (Unaudited)	As at December 31, 2019 HK\$'000 (Audited)
0 to 60 days	12,199	15,609
Over 60 days	129	118
	<u>12,328</u>	<u>15,727</u>

12 SHARE CAPITAL

	Number of ordinary shares ('000)	Nominal value of ordinary shares HK\$'000
Authorised:		
Ordinary shares of HK\$0.0001 each		
As at December 31, 2019 (audited) and June 30, 2020 (unaudited)	<u>90,000,000</u>	<u>9,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.0001 each		
As at December 31, 2019 (audited) and June 30, 2020 (unaudited)	<u>1,200,000</u>	<u>120</u>

13 TRADE PAYABLES

As at June 30, 2020 and December 31, 2019, the aging analysis of trade payables based on invoice date are as follows:

	As at June 30, 2020 HK\$'000 (Unaudited)	As at December 31, 2019 HK\$'000 (Audited)
0 to 30 days	—	24
31 to 60 days	—	10
	<u>—</u>	<u>34</u>

14 BANKING FACILITIES

The Group had banking facilities available in the form of a demand revolving loan of HK\$17,061,000 as at June 30, 2020 (December 31, 2019: HK\$17,989,000).

The banking facilities were secured by trade and other receivables and cash and cash equivalents of the Group and a security subordination agreement in favour of one of the banks.

The banking facilities were also secured by a guarantee from a Canadian Crown corporation, an enterprise wholly owned by the Government of Canada, in the amount of HK\$66,038,000 as at December 31, 2019. The guarantee was released as at June 30, 2020.

The Group did not draw down any borrowings from the banking facilities and in compliance with all banking covenants as at June 30, 2020 and December 31, 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.

The first half of 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 29.6% from approximately HK\$57.0 million for the six months ended June 30, 2019 to approximately HK\$40.1 million for the six months ended June 30, 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\$16.6 million or approximately 40.3%, from approximately HK\$41.2 million for the six months ended June 30, 2019 to HK\$24.6 million for the six months ended June 30, 2020. The overall gross profit margin decreased by approximately 11.0% from approximately 72.3% for the six months ended June 30, 2019 to approximately 61.3% for the six months ended June 30, 2020 due to the increasingly higher portion of the revenue from travel business process management in 2020 which derived lower profit margins as compared to the air ticket distribution segment. In the first half of 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 two new customers were engaged during the period.

Air Ticket Distribution

Air ticket distribution business segment continued to be the largest revenue contributor of the Group. Segment revenue dropped by approximately 43.9%, from approximately HK\$35.8 million for the six months ended June 30, 2019 to approximately HK\$20.1 million for the six months ended June 30, 2020, and accounted for approximately 50.2% 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 as a result of 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 June 30, 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 42.0%, from approximately HK\$13.1 million for the six months ended June 30, 2019 to approximately HK\$18.6 million for the six months ended June 30, 2020, and accounted for approximately 46.4% 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 period ended June 30, 2020, the Group had been providing travel business process management services to 12 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 82.7%, from approximately HK\$8.1 million for the six months ended June 30, 2019 to approximately HK\$1.4 million for the six months ended June 30, 2020, and accounted for approximately 3.4% of the total revenue of the Group. Such decrease was mainly due to decreased sales volume of package tours as a result of the COVID-19 pandemic.

FUTURE PROSPECT

It is expected that the COVID-19 pandemic continues to impact on the airline, travel and tourism industry worldwide for the remainder of the year. A series of measures have been adopted to control costs and to enhance cash flow and operational efficiency, including (i) implemented salary reduction of the Directors and senior management; (ii) applied for the Canada Emergency Wage Subsidy program; (iii) obtained rent concessions on office premise leases from the landlords; and (iv) streamlined workflow and reduced marketing expenses. The situation relating to the spread and containment of the COVID-19 pandemic remains uncertain and fluid, 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 periods:

	For the six months ended			
	2020		2019	
	HK\$'000 (Unaudited)	% (Unaudited)	HK\$'000 (Unaudited)	% (Unaudited)
Air ticket distribution	20,113	50.2%	35,791	62.8%
Travel business process management	18,605	46.4%	13,096	23.0%
Travel products and services	1,379	3.4%	8,065	14.2%
Total	<u>40,097</u>	<u>100.0%</u>	<u>56,952</u>	<u>100.0%</u>

The Group's revenue decreased by approximately HK\$16.9 million or approximately 29.6%, from approximately HK\$57.0 million for the six months ended June 30, 2019 to HK\$40.1 million for the six months ended June 30, 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\$15.7 million, or approximately 43.9%, from approximately HK\$35.8 million for the six months ended June 30, 2019 to approximately HK\$20.1 million for the six months ended June 30, 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 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\$5.5 million or approximately 42.0%, from approximately HK\$13.1 million for the six months ended June 30, 2019 to approximately HK\$18.6 million for the six months ended June 30, 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\$6.7 million or approximately 82.7%, from HK\$8.1 million for the six months ended June 30, 2019 to approximately HK\$1.4 million for the six months ended June 30, 2020. Such decrease was mainly attributable to the decreased sales volume of package tours due to the COVID-19 pandemic.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

	For the six months ended			
	2020		2019	
	Gross profit		Gross profit	
	Gross profit HK\$'000 (Unaudited)	margin % (Unaudited)	Gross profit HK\$'000 (Unaudited)	margin % (Unaudited)
Air ticket distribution	14,055	69.9%	28,777	80.4%
Travel business process management	9,801	52.7%	9,358	71.5%
Travel products and services	710	51.5%	3,051	37.8%
Total	24,566	61.3%	41,186	72.3%

The gross profit decreased by approximately HK\$16.6 million or approximately 40.3%, from approximately HK\$41.2 million for the six months ended June 30, 2019 to HK\$24.6 million for the six months ended June 30, 2020.

The overall gross profit margin decreased by approximately 11.0%, from approximately 72.3% for the six months ended June 30, 2019 to approximately 61.3% for the six months ended June 30, 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\$14.7 million, or approximately 51.0%, from HK\$28.8 million for the six months ended June 30, 2019 to HK\$14.1 million for the six months ended June 30, 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 10.5% from approximately 80.4% for the six months ended June 30, 2019 to approximately 69.9% for the six months ended June 30, 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 increased by approximately HK\$0.4 million, or approximately 4.3%, from approximately HK\$9.4 million for the six months ended June 30, 2019 to approximately HK\$9.8 million for the six months ended June 30, 2020. The gross profit margin for travel business process management segment decreased by approximately 18.8% from approximately 71.5% for the six months ended June 30, 2019 to approximately 52.7% for the six months ended June 30, 2020, which was mainly due to the combined effect of (i) decrease in revenue generated from transaction processing which has higher profit margin; and (ii) staff costs increased as the six months ended June 30, 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.

Travel Products and Services

The gross profit attributable to travel products and services segment decreased by approximately HK\$2.4 million or approximately 77.4%, from approximately HK\$3.1 million for the six months ended June 30, 2019 to approximately HK\$0.7 million for the six months ended June 30, 2020. The gross profit margin for travel products and services segment increased by approximately 13.7% from approximately 37.8% for the six months ended June 30, 2019 to approximately 51.5% for the six months ended June 30, 2020, which was primarily attributable to the increase in handling fee for cancellation of travel products and services due to the COVID-19 pandemic.

Selling Expenses

The selling expenses decreased by approximately HK\$2.2 million or approximately 26.5%, from approximately HK\$8.3 million for the six months ended June 30, 2019 to HK\$6.1 million for the six months ended June 30, 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 period.

Administrative Expenses

The administrative expenses slightly decreased by approximately HK\$0.8 million or approximately 3.5%, from HK\$22.7 million for the six months ended June 30, 2019 to HK\$21.9 million for the six months ended June 30, 2020, which was mainly due to the implemented salary reduction of the Directors and senior management in response to the COVID-19 pandemic.

Profit for the period

The profit of the Group decreased by approximately HK\$0.8 million or approximately 9.9%, from approximately HK\$8.1 million for the six months ended June 30, 2019 to HK\$7.3 million for the six months ended June 30, 2020. Such decrease was mainly attributable to the following:

- decrease in gross profit by approximately HK\$16.6 million or approximately 40.3% from approximately HK\$41.2 million for the six months ended June 30, 2019 to HK\$24.6 million for the six months ended June 30, 2020 as discussed in the sub-section headed “Gross Profit and Gross Profit Margin” above; offset by
- increase in the fair value change from the Company’s investment in the shares of Xinyi Energy Holdings Limited by approximately HK\$3.1 million;
- increase in other income by approximately HK\$8.5 million, which was primarily attributable to the wage subsidies received from local governments in Canada; and
- decrease in selling expenses by approximately HK\$2.2 million or approximately 26.5%, from HK\$8.3 million for the six months ended June 30, 2019 to HK\$6.1 million for the six months ended June 30, 2020 as discussed in the sub-section headed “Selling Expenses” above.

FINANCIAL RESOURCES AND LIQUIDITY

During the six months ended June 30, 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 HK\$14.7 million in six months ended June 30, 2020, as compared with net cash generated from operating activities of HK\$11.2 million in six months ended June 30, 2019. Net cash generated from investing activities was HK\$44,000 in 2020, as compared with net cash used in investing activities of HK\$19.3 million in six months ended June 30, 2019, respectively. Net cash generated from financing activities in six months ended June 30, 2020 was HK\$1.2 million, as compared with net cash used in financing activities of HK\$5.5 million in six months ended June 30, 2019.

As at June 30, 2020, the Group’s cash and cash equivalents amounted to HK\$55.2 million, representing a decrease of approximately 22.9% from HK\$71.6 million as at December 31, 2019.

The Group's gearing ratio is calculated based on total loans divided by the shareholders' equity at the end of the financial period and multiplied by 100%. As at June 30, 2020, the Group's gearing ratio was 1.4%. It is mainly due to the loans of approximately HK\$2.3 million and equity of approximately HK\$164.5 million, as compare, the Group recorded a net cash position and its gearing ratio was not applicable as at December 31, 2019. 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 June 30, 2020, the Group had net current assets of HK\$125.3 million as compared with net current assets of HK\$122.4 million as at December 31, 2019.

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 Canadian dollar, the Group's functional currency. 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\$0.8 million was recorded for the six months ended June 30, 2020 and exchange loss of approximately HK\$0.2 million was recorded for both the six months ended June 30, 2019.

During the six months ended June 30, 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 June 30, 2020, the Group had a total of 150 employees as compared with 167 employees as at December 31, 2019, of which 148 were in Canada and two were in the United States of America. The total staff costs incurred by the Group for the six months ended June 30, 2020 were approximately HK\$29.4 million as compared with approximately HK\$25.4 million for the six months ended June 30, 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.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENTS

During the six months ended June 30, 2020, no material acquisition and disposal of subsidiaries and affiliated companies were conducted by the Group.

PLEDGE OF ASSETS

As of June 30, 2020, the Group had government bond issued by the Canadian government of approximately HK\$1.3 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% with a maturity date of March 21, 2023.

CONTINGENT LIABILITIES

As at June 30, 2020, the Group did not have any material contingent liabilities or guarantees.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have plans for material investments and capital assets as at June 30, 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 will be used in the manner consistent with that set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus of the Company.

An analysis of the utilization of the net proceeds from the listing date up to June 30, 2020 is set out below:

Use of net proceeds	Net proceeds from the Share Offer HK\$ million	Actual utilisation up to June 30, 2020 HK\$ million	Unutilised amounts as at June 30, 2020 HK\$ million	Expected year of full utilisation of remaining balance
Repayment of bank borrowings	21.5	21.5	—	—
Expansion of air ticket distribution business	13.4	0.8	12.6	2021
Upgrade the information technology infrastructure	6.7	4.8	1.9	2020
Expansion the travel business process management business	6.9	6.7	0.2	2020
Advertising and promotion	1.2	0.8	0.4	2020
	<u>49.7</u>	<u>34.6</u>	<u>15.1</u>	

SHARE OPTION SCHEME

The Company has adopted a share option scheme on May 7, 2018 (the “**Share Option Scheme**”). The Share Option Scheme is designed to motivate eligible participants, including executives and key employees, who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions. Since adoption of the Share Option Scheme and up to the date of this announcement, no share options had been granted, exercised, lapsed or cancelled under the Share Option Scheme. For the details of the Share Option Scheme, please refer to the Prospectus.

INTERIM DIVIDENDS

The Board resolved not to declare any payment of an interim dividend for the six months ended June 30, 2020.

The proposed final dividend of 0.54 HK cents per ordinary share of the Company issued for the year ended December 31, 2019 was declared payable and approved by the shareholders at the annual general meeting of the Company on June 18, 2020.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”). The Company has fully complied with the code provisions set out in the CG Code contained in Appendix 14 the Listing Rules during the six months ended June 30, 2020 and thereafter up to the date of this announcement. The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

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**”). 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 during the six months ended June 30, 2020 and thereafter up to the date of this announcement.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

AUDIT COMMITTEE

The Company established an audit committee on May 7, 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. 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 primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the policies and to perform other duties and responsibilities as assigned by the Board. It also acts as an important link between the Board and the Company’s auditor in matters within the scope of the group audit. Meetings shall be held at least twice a year.

The unaudited interim results and financial report of the Group for the six months ended June 30, 2020 has been reviewed by the audit committee and the audit committee is of the view that the interim result for the six months ended June 30, 2020 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosure have been duly made.

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

During the six months ended June 30, 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the company website (<http://www.toureast.com>). An interim report of the Company for the period ended June 30, 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, August 28, 2020

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.