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EGL Holdings Company Limited
東瀛遊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6882)

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

	Six months ended 30 June		
	2020	2019	Change in
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Revenue	236,417	847,840	-72.1
Gross profit	34,771	157,345	-77.9
(Loss)/Profit attributable to owners of the Company	(66,169)	6,898	-1,059.2
(Loss)/Earnings per share			
Basic and diluted (<i>HK cents</i>)	(13.17)	1.37	
Profit margin			
Gross profit margin	14.7%	18.6%	
Operating profit margin	-31.9%	1.1%	
Net profit margin	-28.0%	0.8%	
Return on equity attributable to owners of the Company	-23.3%	2.0%	
	As at	As at	
	30 June	31 December	
	2020	2019	
Gearing ratio	46.4%	34.1%	

Note: Details of the dividends attributable to owners of the Company for the period are set out in note 9 to the interim financial information.

The board (the “Board”) of directors (the “Directors”) of EGL Holdings Company Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (the “Period”) together with comparative figures for the corresponding period in 2019 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	6	236,417	847,840
Cost of sales		<u>(201,646)</u>	<u>(690,495)</u>
Gross profit		34,771	157,345
Other income and gains, net	6	3,595	3,168
Selling expenses		(28,338)	(42,224)
Administrative expenses		(83,198)	(108,548)
Share of results of associates		(355)	1,434
Finance costs	7	<u>(3,711)</u>	<u>(3,582)</u>
(Loss)/Profit before income tax	7	(77,236)	7,593
Income tax credit/(expense)	8	<u>10,769</u>	<u>(387)</u>
(Loss)/Profit for the period		<u>(66,467)</u>	<u>7,206</u>
Other comprehensive income, that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		206	1,866
Share of exchange differences on translation of foreign associates		(352)	(447)
Effect on cash flow hedge, net of tax		<u>266</u>	<u>238</u>
Other comprehensive income for the period, net of tax		<u>120</u>	<u>1,657</u>
Total comprehensive income for the period, net of tax		<u><u>(66,347)</u></u>	<u><u>8,863</u></u>

	Six months ended 30 June	
<i>Notes</i>	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/Profit for the period attributable to:		
Owners of the Company	(66,169)	6,898
Non-controlling interests	(298)	308
	<u>(66,467)</u>	<u>7,206</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	(66,084)	8,595
Non-controlling interests	(263)	268
	<u>(66,347)</u>	<u>8,863</u>
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company		
– Basic and diluted (HK cents)	<i>10</i> <u>(13.17)</u>	<u>1.37</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		As at	
	<i>Notes</i>	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		434,575	456,324
Right-of-use assets		52,291	67,081
Construction in progress		174,136	129,864
Interests in associates		11,664	12,371
Deferred tax assets		24,422	14,561
Deposits and prepayment	12	33,568	814
		<u>730,656</u>	<u>681,015</u>
Current assets			
Inventories		1,790	1,855
Trade receivables	11	942	7,144
Deposits, prepayments and other receivables	12	126,121	181,028
Amounts due from an associate		6,719	6,163
Tax recoverable		213	1,854
Pledged bank deposits		6,738	6,702
Cash at banks and on hand		80,941	206,119
		<u>223,464</u>	<u>410,865</u>
Current liabilities			
Trade payables	13	14,864	47,295
Accruals and other payables	14	48,955	57,394
Contract liabilities		25,663	185,080
Amounts due to associates		48	3,732
Loan from a related company		80,000	–
Lease liabilities		27,947	47,257
Provision for taxation		211	1,306
Bank borrowings	15	58,967	37,620
		<u>256,655</u>	<u>379,684</u>
Net current (liabilities)/assets		<u>(33,191)</u>	<u>31,181</u>
Total assets less current liabilities		<u><u>697,465</u></u>	<u><u>712,196</u></u>

		As at	
	<i>Notes</i>	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Non-current liabilities			
Provision		784	782
Bank borrowings	15	383,919	335,255
Lease liabilities		25,187	20,569
Deferred tax liabilities		–	1,265
Derivative financial instruments		901	1,304
		<u>410,791</u>	<u>359,175</u>
Net assets		<u>286,674</u>	<u>353,021</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16	50,245	50,245
Reserves		234,248	300,332
		<u>284,493</u>	<u>350,577</u>
Non-controlling interests		<u>2,181</u>	<u>2,444</u>
Total equity		<u>286,674</u>	<u>353,021</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. GENERAL

EGL Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 24 July 2014 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 15/F, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 November 2014.

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are provision of package tours, free independent travellers (“FIT”) packages, individual travel elements (together with FIT packages referred to as “FIT Products”) and ancillary travel related products and services as well as the ownership, development and management of hotel business.

2. BASIS OF PREPARATION AND PRESENTATION

The interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”), issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial information has been prepared with the same accounting policies adopted in the 2019 annual financial statements, except for those relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. Details of any changes in accounting policies are set out in note 4.

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

The interim financial information is presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. The interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The interim financial information and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the 2019 annual financial statements.

For the six months ended 30 June 2020, the Group recorded loss of approximately HK\$66,467,000. As at 30 June 2020, the Group’s current liabilities exceed its current assets by approximately HK\$33,191,000.

As a result of the outbreak of the coronavirus (the “COVID-19”) pandemic in the beginning of the year 2020, precautionary and control measures have since been implemented in various countries, which included entry restrictions and quarantine measures over international travel. The Group has cancelled and/or postponed its travel related products and services to those affected cities and countries. In particular, the Group has cancelled and/or postponed its travel related products and services to Japan since 9 March 2020 as a result of Japan government’s implementation of quarantine arrangements for visitors from China including Hong Kong and Macau and suspension of visa-free visit arrangements to holders of Hong Kong passport and Macau passport in early March 2020.

The negative financial impacts caused by the severe measures to the Group indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the interim financial information was prepared based on a going concern basis.

For this purpose, the directors of the Company prepared a cash flow forecast covering a period of eighteen months from the end of the interim period by considering the following plans and measures:

- (a) the management of the Group has been endeavouring to improve the Group’s operating cash flows through implementing various cost control measures, including implementing salary reduction for the directors of the Company, staff cost saving plan, closures of under-performed branches, seeking rent concession from landlords on the lease of certain branches;
- (b) On 26 August 2020, the Group entered into a new loan agreement with a related company, Great Port Limited (“Great Port”) of HK\$80 million which is unsecured, interest-free and repayable on 31 July 2022. On the same date, the HK\$80 million loan from the previous loan agreement signed on 25 March 2020 with Great Port was extended with a new repayment date on 31 July 2022;
- (c) The Group has applied for the Employment Support Scheme launched by the Hong Kong Government (note 3(c)); and
- (d) The management of the Group keeps endeavouring to seek additional sources of financing.

Having regard to the cash flow forecast of the Group which is prepared after taking into account the aforementioned plans and measures, the directors of the Company are of the opinion that, the Group will have sufficient cash resources to satisfy its working capital and other financing requirements over the forecast period.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the interim financial information to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of such adjustments has not been reflected in the interim financial information.

The interim financial information is unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

3. SIGNIFICANT EVENTS

As a result of the outbreak of COVID-19 pandemic in the beginning of the year 2020, the Group has cancelled and suspended package tours to, and FIT Products for, different countries and territories from sale since mid-March this year. Such arrangements have halted the operation of the Group’s travel business and hotel business and adversely impacted the Group’s revenue and other financial results for the six months ended 30 June 2020.

The significant events and transactions occurred since 31 December 2019 that relate to the effects of the pandemic on the Group’s interim financial information for the six months ended 30 June 2020 are summarised as follows:

(a) Decrease in sales and operating cash inflows, which may trigger impairment of non-current assets

As disclosed in note 6, most revenue streams have experienced significant reductions since the pandemic’s effects became widespread. The Group considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher than the carrying amount of the respective cash generating units. There was no impairment of non-current assets recognised during the six months ended 30 June 2020.

(b) Rent concessions received from lessors

The Group has received rent concessions from lessors including:

- Rent forgiveness; and
- Deferrals of rent

As discussed in note 4, the Group has elected to apply the practical expedient introduced by the amendments to HKFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during the six months ended 30 June 2020 satisfy the criteria to apply the practical expedient.

The application of the practical expedient has resulted in the reduction of total lease liabilities of approximately HK\$1,280,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those reduction in payments occurs.

The Group has engaged in further negotiations with lessors subsequent to 30 June 2020.

(c) Government grants

The Group applied for various government support programs introduced in response to the pandemic.

During the six months ended 30 June 2020, the Hong Kong Government has launched the “Employment support scheme”(ESS) which provides time-limited financial support to employers to retain employees who may otherwise be made redundant. Under the ESS, the Group received the fund of approximately HK\$12,025,000 during the period, for which eligible subsidies of wages which cover the period from June to August 2020.

Included in profit or loss is approximately HK\$3,892,000 of government grants obtained relating to supporting the payroll of the Group’s employees for June 2020, which the Group complied with the conditions attaching to the ESS that provide the undertaking to spend wage subsidies on paying wages to its employees in June 2020. The Group has elected to reduce the related salary expense, rather than present this government grant separately. The subsidies of wages of approximately HK\$8,133,000 which cover the period from July to August 2020 were recognised as other payables until the attached condition is fulfilled. The Group returned the unspent balance of the subsidies with penalty when the Group failed to pay all wage subsidies received for that month to its employee.

The Group applied the employment adjustment subsidy from Japan government during the period. The applications are still in progress up to the date of authorisation for issue of the interim financial information.

4. ADOPTION OF HKFRSs

The Group has applied the following new or amended HKFRSs issued by the HKICPA for the Group’s financial statements in the current accounting period:

- Amendments to HKFRS 3, Definition of a business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8, Definition of material
- Conceptual Framework for Financial Reporting (Revised)
- Amendments to HKFRS 16, COVID-19-Related Rent Concessions (early adopted)

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group’s accounting policies.

Except for the early adoption of the amendment to HKFRS 16, the Group has not early adopted any other new standards and interpretations that are not yet effective for the current accounting period.

Amendments to HKFRS 16: COVID-19-Related Rent Concessions

Effective from 1 June 2020, HKFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (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) Any reduction in lease payments affects only payments originally due on or before 30 June 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 the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in HKFRS 16 in accounting for the concession.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. The practical expedient has been applied retrospectively, meaning it has been applied to all rent concessions that satisfy the criteria, which in the case of the Group, occurred from February 2020 to June 2020.

Accounting for the 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. There is no impact on the opening balance of equity at 1 January 2020. The effect of applying the practical expedient is disclosed in note 3(b).

5. SEGMENT REPORTING

The Group has identified its operating segments based on the regular internal financial information reported to the chief operating decision-makers about allocation of resources to assess the performance of the Group's business.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Travel and travel related services business ("Travel Related Business")
- Hotel operation ("Hotel Business")

Management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenue, cost of sales, other income and gain, selling expenses, administrative expenses and share of results of associates directly attributable to each operating segment. Central administrative costs are not allocated to the operating segments as they are not included in the measure of the segment results that are used by the chief operating decision-makers for assessment of segment performance.

Segment assets include all assets with exception of corporate assets, including cash at banks, tax recoverable and certain prepayments which are not directly attributable to the business activities of operating segments as these assets are managed on a group basis. Likewise, segment liabilities exclude corporate liabilities, such as certain accrued expenses and other payables, which are not directly attributable to the business activities of any operating segments and not allocated to segments.

(a) **Business segments**

	Travel Related Business HK\$'000	Hotel Business HK\$'000	Total HK\$'000
For six months ended 30 June 2020 (unaudited):			
Revenue			
From external customers	231,498	4,919	236,417
Inter-segment revenue	(3,133)	3,133	–
	<u>228,365</u>	<u>8,052</u>	<u>236,417</u>
Reportable segment revenue	228,365	8,052	236,417
Reportable segment loss	(49,523)	(25,983)	(75,506)
Depreciation on property, plant and equipment	(4,667)	(19,527)	(24,194)
Depreciation on right-of-use assets	(31,787)	–	(31,787)
Share of results of associates	(355)	–	(355)
Finance costs	(2,034)	(1,677)	(3,711)
Income tax credit	2,253	8,528	10,781
	<u>2,253</u>	<u>8,528</u>	<u>10,781</u>
For six months ended 30 June 2019 (unaudited):			
Revenue			
From external customers	825,146	22,694	847,840
Inter-segment revenue	(11,916)	11,916	–
	<u>813,230</u>	<u>34,610</u>	<u>847,840</u>
Reportable segment revenue	813,230	34,610	847,840
Reportable segment profit/(loss)	14,891	(4,747)	10,144
Depreciation on property, plant and equipment	(5,038)	(17,763)	(22,801)
Depreciation on right-of-use assets	(38,255)	–	(38,255)
Share of results of associates	1,434	–	1,434
Finance costs	(1,747)	(1,835)	(3,582)
Income tax (expense)/credit	(1,442)	1,055	(387)
	<u>(1,442)</u>	<u>1,055</u>	<u>(387)</u>

	Travel Related Business HK\$'000	Hotel Business HK\$'000	Total HK\$'000
As at 30 June 2020 (unaudited):			
Reportable segment assets	273,419	679,457	952,876
Reportable segment liabilities	260,962	403,527	664,489
Additions to non-current assets	19,122	43,916	63,038
Share of net assets of associates	11,664	–	11,664
	<u>11,664</u>	<u>–</u>	<u>11,664</u>
As at 31 December 2019 (audited):			
Reportable segment assets	477,572	612,652	1,090,224
Reportable segment liabilities	356,447	379,901	736,348
Additions to non-current assets	43,752	152,296	196,048
Share of net assets of associates	12,371	–	12,371
	<u>12,371</u>	<u>–</u>	<u>12,371</u>

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	<u>236,417</u>	<u>847,840</u>
Consolidated revenue	<u>236,417</u>	<u>847,840</u>
Six months ended 30 June		
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit before income tax		
Reportable segment (loss)/profit	(75,506)	10,144
Other gains	–	2
Unallocated corporate expenses	(1,730)	(2,553)
Consolidated (loss)/profit before income tax	<u>(77,236)</u>	<u>7,593</u>

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Assets		
Reportable segment assets	952,876	1,090,224
Unallocated corporate assets	<u>1,244</u>	<u>1,656</u>
Consolidated total assets	<u><u>954,120</u></u>	<u><u>1,091,880</u></u>
	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Liabilities		
Reportable segment liabilities	664,489	736,348
Unallocated corporate liabilities	<u>2,957</u>	<u>2,511</u>
Consolidated total liabilities	<u><u>667,446</u></u>	<u><u>738,859</u></u>

(c) **Geographic information**

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial assets and deferred tax assets ("Specified non-current assets"):

	Revenue from external customers (by customer location) Six months ended 30 June		Specified non- current assets (by physical location) As at	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
Hong Kong and Macau (place of domicile)	227,488	808,345	59,847	76,586
Japan	8,752	37,905	633,012	577,010
Others	<u>177</u>	<u>1,590</u>	<u>11,594</u>	<u>12,044</u>
	<u><u>236,417</u></u>	<u><u>847,840</u></u>	<u><u>704,453</u></u>	<u><u>665,640</u></u>

The place of domicile is determined by referring to the place the Group regards as its hometown, has the majority of operation and centre of management.

(d) **Information about a major customer**

The Group did not have any single customer contributed more than 10% of the Group's revenue during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

(e) **Disaggregation of revenue**

	Travel Related Business		Hotel Business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Primary geographical markets						
Hong Kong and Macau (place of domicile)	227,488	808,345	-	-	227,488	808,345
Japan	700	3,295	8,052	34,610	8,752	37,905
Others	177	1,590	-	-	177	1,590
	<u>228,365</u>	<u>813,230</u>	<u>8,052</u>	<u>34,610</u>	<u>236,417</u>	<u>847,840</u>
Timing of revenue recognition						
At a point in time	15,116	101,136	-	-	15,116	101,136
Transferred over time	213,249	712,094	8,052	34,610	221,301	746,704
	<u>228,365</u>	<u>813,230</u>	<u>8,052</u>	<u>34,610</u>	<u>236,417</u>	<u>847,840</u>

6. **REVENUE AND OTHER INCOME AND GAINS, NET**

Revenue includes the net invoiced value of package tours, ancillary travel related products, and hotel room rental and ancillary services; the net proceeds from FIT Products and ancillary travel related services. The amounts of each significant category of revenue recognised during the period are as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue		
Package tours	213,248	712,094
FIT Products (<i>note</i>)	2,219	9,136
Ancillary travel related products and services (<i>note</i>)	12,898	92,000
Hotel room rental and ancillary services	<u>8,052</u>	<u>34,610</u>
	<u>236,417</u>	<u>847,840</u>

Note: The Group's revenue from FIT Products and certain ancillary travel related services is considered as cash collected on behalf of principals as an agent, and thus recorded on a net basis. The gross proceeds received and receivable are as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross proceeds received and receivable	<u>22,874</u>	<u>150,141</u>

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	As at	As at
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (<i>note 11</i>)	942	7,144
Contract liabilities	<u>25,663</u>	<u>185,080</u>

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income and gains, net		
Exchange gain, net	260	1,815
Handling income	315	213
Interest income on bank deposits	88	122
Rebate from a supplier	–	459
Sundry income	356	559
Gain on rental concession of lease	1,280	–
Government sponsor income	1,044	–
Gain on modification of loan payment	<u>252</u>	<u>–</u>
	<u>3,595</u>	<u>3,168</u>

7. LOSS/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories recognised as expenses	1,483	6,873
Depreciation on property, plant and equipment	24,194	22,801
Depreciation on right-of-use assets	31,787	38,255
Bad debts written-off in respect of prepayments and other receivables	858	–
Gain on termination of lease	57	–
Loss on disposal of property, plant and equipment	17	–
Finance costs:		
– Interest expense incurred on lease liabilities	1,654	1,776
– Interest expense incurred on derivative financial instruments	213	233
– Interest expense incurred on bank borrowings	2,354	1,726
Less: Imputed interest capitalised into construction in progress	(510)	(153)
	3,711	3,582
Employee costs (including directors' emoluments):		
– Salaries and other benefits in kind	49,030	67,718
– Retirement scheme contributions	2,506	3,073
	51,536	70,791

8. INCOME TAX CREDIT/EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
– Tax for the period	27	1,047
Current tax – Taiwan Profit-Seeking Enterprise Income Tax		
– Tax for the period	–	111
Current tax – Japan Profits Tax		
– Tax for the period	151	1,398
Deferred tax		
– Credited to profit or loss for the period	<u>(10,947)</u>	<u>(2,169)</u>
	<u>(10,769)</u>	<u>387</u>

The group entities incorporated in the Cayman Islands and the British Virgin Islands (the “BVI”) are tax-exempted as no business is carried out in the Cayman Islands and the BVI under the laws of the Cayman Islands and the BVI respectively.

Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK\$2 million for both periods. The profit of group entities not qualifying for the two-tiered profits tax rates regime continued to be taxed at 16.5% for both periods.

Macau Complementary Tax is calculated at 12% on the estimated assessable profits of a subsidiary operating in Macau for both periods. There were no estimated assessable profits derived from the subsidiary in Macau for both periods.

Enterprise Income Tax of the People’s Republic of China (“PRC”) is calculated at 25% on the estimated assessable profits of a subsidiary operating in the PRC for both periods. The Group has no estimated assessable profits arising from the subsidiary operating in the PRC for both periods.

Taiwan Profit-Seeking Enterprise Income Tax is calculated at 20% on the estimated assessable profits of a subsidiary operating in Taiwan for both periods. No provision for Taiwan Profit-seeking Enterprise Income Tax was provided for the six months ended 30 June 2020 as the Group had no estimated assessable profit arising in Taiwan.

Subsidiaries operating in Japan are subject to corporate income tax, prefectural and municipal inhabitant taxes, and business tax (hereinafter collectively referred to as “Japan Profits Tax”) in Japan, which, in aggregate, resulted in effective statutory income tax rates ranging from approximately 30.5% to approximately 34.6% (six months ended 30 June 2019: approximately 31% to approximately 34.6%) for the six months ended 30 June 2020 based on the existing legislation, interpretations and practices in respect thereof.

11. TRADE RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables	<u>942</u>	<u>7,144</u>

The ageing analysis of the Group's trade receivables as at the end of the reporting period, based on invoice date, is as follows:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0 – 90 days	389	7,081
91 – 180 days	383	63
181 – 365 days	170	–
	<u>942</u>	<u>7,144</u>

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Non-current assets		
Deposits (<i>note</i>)	1,781	814
Prepayment of construction cost	31,787	–
	<u>33,568</u>	<u>814</u>
Current assets		
Other receivables	25,743	25,151
Deposits (<i>note</i>)	10,118	11,155
Prepayments	90,260	144,722
	<u>126,121</u>	<u>181,028</u>

Note: The amount included rental deposits paid to a related company, Great Port, of approximately HK\$2,117,000 (as at 31 December 2019: HK\$2,117,000). The amount due is unsecured, interest-free and repayable at the end of the rental periods.

13. TRADE PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers, which normally range from 1 day to 30 days. Based on the receipts of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of the reporting period is as follows:

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
0 – 90 days	9,040	43,217
91 – 180 days	1,621	2,238
181 – 365 days	3,064	1,818
Over 365 days	1,139	22
	<u>14,864</u>	<u>47,295</u>

14. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Accrued expenses	7,480	13,303
Other payables	41,475	44,091
	<u>48,955</u>	<u>57,394</u>

15. BANK BORROWINGS

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Current		
Bank borrowings	58,967	37,620
Non-current		
Bank borrowings	383,919	335,255
	442,886	372,875

As at 30 June 2020, the bank borrowings of approximately HK\$412,886,000 (as at 31 December 2019: HK\$372,875,000) were secured by charges over property, plant and equipment and pledged bank deposits with aggregate carrying amounts of HK\$384,254,000 (as at 31 December 2019: HK\$386,103,000) and approximately HK\$2,589,000 (as at 31 December 2019: HK\$309,000) respectively. In addition, among these bank borrowings, an amount of approximately HK\$3,994,000 (as at 31 December 2019: HK\$4,862,000) was also secured by a property of a former non-controlling shareholder of a subsidiary in Japan.

As at 30 June 2020, the Group accepted the facilities letter issued by banks in Hong Kong and Macau offering for grant of guarantees, general banking facilities, foreign exchange facilities and corporate credit cards in aggregate amounts of HK\$142,438,000 (as at 31 December 2019: HK\$142,438,000) and the facilities were secured by:

- corporate guarantees provided by the Company;
- undertakings provided by Mr. Yuen Man Ying, Mr. Huen Kwok Chuen, Mr. Leung Shing Chiu and Ms. Lee Po Fun;
- a charge over deposits owned by the Group of approximately HK\$5,706,000 (as at 31 December 2019: HK\$5,672,000).

As at 30 June 2020, approximately HK\$40,000,000 at the bank borrowing has been drawn down (as at 31 December 2019: Nil) in relation to the above facilities letter issued by banks in Hong Kong and Macau.

The bank borrowings are initially measured at fair value, net of directly attributable costs incurred and subsequently measured at amortised cost using the effective interest method.

The bank borrowings are subsequently measured at amortised cost using effective interest rate ranging from 0.80% to 2.94% (as at 31 December 2019: 0.79% to 1.67%) per annum and imputed interest of approximately HK\$510,000 (six months ended 30 June 2019: HK\$153,000) was capitalised as construction in progress during the period.

Some of the Group's loan agreements are subjected to covenant clauses, whereby the Group is required to meet certain key financial ratios. The Group did not fulfil certain financial ratios and conditions as required in the contract for a credit line of HK\$142,438,000, of which the Group has currently drawn an amount of HK\$40,000,000.

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of HK\$40,000,000. The outstanding balance is presented as a current liability as at 30 June 2020.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan agreement with the bank and expects that a revised loan agreement will be in place.

16. SHARE CAPITAL

	Number <i>'000</i>	Amount <i>HK\$'000</i>
Authorised		
<i>Ordinary shares of HK\$0.1 each</i>		
At 31 December 2019 and 30 June 2020	<u>1,000,000</u>	<u>100,000</u>
	Number <i>'000</i>	Amount <i>HK\$'000</i>
Ordinary shares, issued and fully paid		
At 31 December 2019 and 30 June 2020	<u>502,450</u>	<u>50,245</u>

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

2020 promises to be a most difficult year than ever, many countries tighten their borders and impose stricter containment measures to deal with the lingering of Coronavirus pandemic, except sustained damage brought by the epidemic to global economy, ongoing Sino-US trade tensions and the Brexit also lead to global economy upheaval, all of these have plunged the Company into a nadir.

During the Period, the Company faced onslaught of cancellation of all bookings upon quarantine order was imposed by Hong Kong government since mid-March, suspension of sales of package tours and FIT Products and hotel operation since then, the Company spares no effort on mapping out contingency plan to maintain its sustainability. The Company implements cost-saving measures to reduce operational costs, developed online shopping platform to generate new income stream to fade out in minimal extent the impact of stagnant travel and hotel business operation, meanwhile receiving subsidies granted by Hong Kong and overseas government on assistance to tourism industry. The Group suffered from 72.1% slump in revenue for the Period, from approximately HK\$847.8 million in 2019 to approximately HK\$236.4 million in 2020. Gross profit and gross profit margin decreased by 77.9% and 3.9 percentage points respectively. It is the first time for the Group to record a loss since listing on the Main Board, loss attributable to owners of the Company for the six months ended 30 June 2020 was approximately HK\$66.2 million (six months ended 30 June 2019: profit attributable to owners of the Company of approximately HK\$6.9 million).

Basic loss per share for loss attributable to owners of the Company for the first half of 2020 was HK13.17 cents (six months ended 30 June 2019: basic earnings per share of HK1.37 cents).

BUSINESS OVERVIEW

The principal activities of the Group comprise provision of package tours, free independent travellers (“FIT”) packages, individual travel elements (together with FIT packages referred to as “FIT Products”) and ancillary travel related products and services as well as the ownership, development and management of hotel business.

Revenue and gross profit from various business segments for the periods are set out as follows:

	Six months ended 30 June					
	2020			2019		
	Revenue HK\$'000	Gross profit HK\$'000	Gross profit margin %	Revenue HK\$'000	Gross profit HK\$'000	Gross profit margin %
Package tours						
– Japan	135,838	12,658	9.3	438,517	66,360	15.1
– Non-Japan	77,410	8,903	11.5	273,577	31,097	11.4
Total package tours	213,248	21,561	10.1	712,094	97,457	13.7
FIT Products and ancillary travel related products and services	15,117	7,949	52.6	101,136	34,310	33.9
Hotel operation	8,052	5,261	65.3	34,610	25,578	73.9
Total	236,417	34,771	14.7	847,840	157,345	18.6

PACKAGE TOURS

Revenue from package tours mainly represents tour fees received from customers for outbound package tours. The main source of the Group's revenue is derived from package tours, which contributed 90.2% to the Group's total revenue during the first half of 2020 (six months ended 30 June 2019: 84.0%).

Japan-bound package tours remain the major source of the Group's revenue, which contributed 57.5% (six months ended 30 June 2019: 51.7%) to the Group's total revenue during the first half of 2020. Outbreak of Coronavirus led to sluggish demand for Japan-bound package tours in early 2020, travel related business operation has further been frozen following the quarantine order laid by the Hong Kong government. Number of customers decreased sharply from 44,819 in the first half of 2019 to 12,169 in the first half of 2020, revenue decreased by 69.0% from approximately HK\$438.5 million in 2019 to approximately HK\$135.8 million in 2020 over the same period, whilst gross profit and gross profit margin decreased by 80.9% and 5.8 percentage points respectively as compared to the first half of 2019.

Coronavirus has swept across the travel related business, inevitably the performance of non-Japan-bound package tours was also adversely hit. Non-Japan-bound package tours contributed 32.7% (six months ended 30 June 2019: 32.3%) to the Group's total revenue during the Period. Number of customers for non-Japan-bound package tours decreased from 40,335 in the first half of 2019 to 7,302 in the first half of 2020 and revenue decreased by 71.7% from approximately HK\$273.6 million in 2019 to approximately HK\$77.4 million in 2020 over the same period, whilst gross profit decreased by 71.4% whilst gross profit increased slightly by 0.1 percentage point as compared to the first half of 2019.

FIT PRODUCTS AND ANCILLARY TRAVEL RELATED PRODUCTS AND SERVICES

Revenue from FIT Products and ancillary travel related products and services mainly represents income from sale of air tickets, hotel accommodation, public transportation tickets, theme park admission tickets, commission income from travel insurance services and handling fees for remittance services provided to souvenir and merchandise suppliers in Japan.

At the time when sales of FIT Products and ancillary travel related products and services was brought to a stop in response to travel restrictions and border measures imposed by many countries, the Group developed online shopping platform in May 2020 to generate new income stream. Revenue from FIT Products and ancillary travel related products and services decreased by 85.1% from approximately HK\$101.1 million in the first half of 2019 to approximately HK\$ 15.1 million in the first half of 2020, it contributed 6.4% (six months ended 30 June 2019: 11.9%) to the Group's total revenue during the Period. Gross profit decreased by 76.8% whilst gross profit margin increased by 18.7 percentage points as compared to the corresponding period in 2019.

HOTEL OPERATION

Osaka Hinode Hotel, the Group's first hotel, provides quality hospitality services for guests worldwide. Hot spring bath building adjacent to Osaka Hinode Hotel has also put into operation since April 2019 which enables guests to enjoy hot spring with relaxation near the hotel. Impacted by outbreak of Coronavirus, hotel business operation was suspended since mid-March. Revenue from hotel operation mainly represents income generated from letting the hotel rooms, which contributed 3.4% to the Group's total revenue during the first half of 2020 (six months ended 30 June 2019: 4.1%). Revenue decreased by 76.7% from approximately HK\$34.6 million in the first half of 2019 to approximately HK\$8.1 million in the first half of 2020, gross profit and gross profit margin decreased by 79.4% and 8.6 percentage points as compared to the corresponding period in 2019.

FINANCIAL REVIEW

KEY FINANCIAL RATIOS

	Six months ended 30 June	
	2020	2019
Gross profit margin	14.7%	18.6%
Operating profit margin	-31.9%	1.1%
Net profit margin*	-28.0%	0.8%
Interest coverage ratio	-40.9 times	5.8 times
Return on total assets*	-6.9%	0.6%
Return on equity attributable to owners of the Company*	-23.3%	2.0%
	As at	As at
	30 June	31 December
	2020	2019
Current ratio	0.9 time	1.1 times
Gearing ratio	46.4%	34.1%

* Profit/loss in calculation refers to the profit/loss attributable to owners of the Company.

REVENUE AND GROSS PROFIT

Please refer to the discussion on the Group's revenue and gross profit in the sub-section headed "Management Discussion and Analysis – Business Overview" above.

SELLING EXPENSES

Frontline employee costs, advertising and promotion expenses for media advertising and promotional activities are key elements of selling expenses. Selling expenses of the Group decreased by 32.9% to approximately HK\$28.3 million (six months ended 30 June 2019: HK\$42.2 million) which was primarily contributed by the decrease in advertising and promotion expenses for media advertising and promotional activities and frontline employee costs in travel related business.

ADMINISTRATIVE EXPENSES

Employee costs, directors' remuneration, depreciation on right-of-use assets and depreciation on property, plant and equipment contributed to majority of administrative expenses.

Administrative expenses of the Group decreased by 23.4% to approximately HK\$83.2 million (six months ended 30 June 2019: HK\$108.5 million), the decrease was primarily contributed by decrease in staff costs and directors' remuneration, depreciation on right-of-use assets, bank charges for travel related business of approximately HK\$13.8 million, approximately HK\$2.0 million and approximately HK\$7.2 million respectively, offset by increase in depreciation of hotel's property, plant and equipment of approximately HK\$1.8 million.

FINANCE COSTS

Imputed interests of approximately HK\$510,000 (equivalent to approximately JPY7.1 million) incurred on the bank borrowings for construction of a hotel building located in Okinawa were capitalised into construction in progress during the Period (six months ended 30 June 2019: approximately HK\$153,000 (equivalent to approximately JPY2.2 million) incurred on the bank borrowings for construction of hot spring bath building and a hotel building located in Okinawa were capitalised into construction in progress. Upon the completion of hot spring bath building construction in March 2019, imputed interests on construction of hot spring bath building were transferred thereupon to property, plant and equipment).

After capitalisation of the above imputed interests, finance costs of approximately HK\$1.8 million was incurred (six months ended 30 June 2019: HK\$1.6 million on the bank borrowings for construction and decoration of hotel building and hot spring bath building, and acquisition of travel bus and daily operations of travel related business) on the bank borrowings which were used to finance the construction and decoration of hotel buildings and hot spring bath building, acquisition of travel buses and daily operations of travel related business.

Following the adoption of HKFRS 16 "Leases" by the Group on 1 January 2019, finance costs incurred on lease liabilities during the Period amounting to approximately HK\$1.7 million (six months ended 30 June 2019: HK\$1.8 million) was recorded.

INCOME TAX CREDIT/EXPENSE

The income tax credit of the Group during the Period amounted to approximately HK\$10.8 million (six months ended 30 June 2019: income tax expense of approximately HK\$0.4 million), it was resulted from the decrease in income tax of approximately HK\$2.4 million and the increase in deferred tax credit of approximately HK\$8.8 million.

INTEREST COVERAGE RATIO

Interest coverage ratio of the Group decreased from 5.8 times in 2019 to –40.9 times in 2020 over the first half of the respective years. This was mainly contributed by decrease in profit before interest expenses and taxation resulted from the factors driven to sharp decrease in revenue and gross profit as discussed in the sub-section headed “Management Discussion and Analysis – Business Overview” above.

Interest coverage ratio is calculated by dividing profit before interest expenses on bank borrowings and taxation by interest expenses on bank borrowings over the respective period.

GROSS PROFIT MARGIN, OPERATING PROFIT MARGIN AND NET PROFIT MARGIN

For the decrease in gross profit margin, operating profit margin and net profit margin, please refer to the factors already discussed in the sub-section headed “Management Discussion and Analysis – Business Overview” above.

CURRENT RATIO

As at 30 June 2020, the Group’s current ratio was 0.9 time (as at 31 December 2019: 1.1 times). The decrease in current ratio was mainly attributable to increase in loan from a related company of HK\$80.0 million, decrease in deposits, prepayments and other receivables of approximately HK\$54.9 million and the decrease in cash at banks and on hand by approximately HK\$125.2 million, offset by decrease in trade payables and contract liabilities of approximately HK\$32.4 million and approximately HK\$159.4 million respectively.

GEARING RATIO

As at 30 June 2020, the Group’s gearing ratio was 46.4% (as at 31 December 2019: 34.1%) as the Group had further drawn down the bank borrowings for construction of a hotel building located in Okinawa and for travel related business operation and cash at banks and on hand decreased as captioned above, whilst its impact was offset by the net impact of increase in construction in progress of the hotel building.

Gearing ratio is calculated by dividing the total interest-bearing loans by the total assets as at the respective period ends.

RETURN ON TOTAL ASSETS AND RETURN ON EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

Return on total assets and return on equity attributable to owners of the Company during the Period were -6.9% (six months ended 30 June 2019: 0.6%) and -23.3% (six months ended 30 June 2019: 2.0%) respectively. The decrease in return on total assets and return on equity were mainly due to decrease in profit attributable to owners of the Company in 2020 as compared to 2019 over the same period.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

To finance the construction of hotel located in Okinawa, the Group had withdrawn bank borrowing of approximately JPY640.0 million (equivalent to approximately HK\$45.7 million) during the Period (as at 31 December 2019: JPY1,735.0 million (equivalent to approximately HK\$122.4 million)), the carrying amount of the bank borrowing as at 30 June 2020 amounted to approximately JPY2,305.3 million (equivalent to approximately HK\$164.6 million) (as at 31 December 2019: JPY1,682.9 million (equivalent to approximately HK\$119.8 million)).

For construction of hot spring bath building which was completed in March 2019, the Group had withdrawn bank borrowings in total of JPY500.0 million (equivalent to approximately HK\$35.7 million)). The carrying amount of the bank borrowings as at 30 June 2020 amounted to JPY446.3 million (equivalent to approximately HK\$31.9 million) (as at 31 December 2019: approximately JPY471.5 million (equivalent to approximately HK\$33.6 million)).

Regarding to the construction of Osaka Hinode Hotel completed in 2017, the carrying amount of the bank borrowings as at 30 June 2020 amounted to approximately JPY2,834.4 million (equivalent to approximately HK\$202.4 million) (as at 31 December 2019: JPY3,013.6 million (equivalent to approximately HK\$214.6 million)).

For acquisition of five travel buses in 2017, the carrying amount of the bank borrowing as at 30 June 2020 amounted to approximately JPY55.9 million (equivalent to approximately HK\$4.0 million) (as at 31 December 2019: JPY68.3 million (equivalent to approximately HK\$4.9 million)).

To meet the needs of working capital for travel related business operation, the Group had withdrawn bank borrowing of HK\$50.0 million during the Period. After HK\$10.0 million has repaid, the carrying amount as at 30 June 2020 amounted to HK\$40.0 million (as at 31 December 2019: Nil). Furthermore, an interest-free and unsecured loan of HK\$80.0 million has been withdrawn from the related company, Great Port Limited, during the Period and was outstanding as at 30 June 2020 (as at 31 December 2019: Nil).

Other than the above, the Group financed its operation with its own capital, with the total equity attributable to owners of the Company as at 30 June 2020 amounted to approximately 284.5 million (as at 31 December 2019: HK\$350.6 million). As at 30 June 2020, the Group's cash at banks and on hand amounted to approximately HK\$80.9 million (as at 31 December 2019: HK\$206.1 million). Cash at banks and on hand were mainly denominated in HKD accounting for approximately 37.2% (as at 31 December 2019: 53.4%), MOP accounting for approximately 8.0% (as at 31 December 2019: 10.3%), Euro accounting for approximately 6.0% (as at 31 December 2019: 7.2%), TWD accounting for approximately 7.7% (as at 31 December 2019: 2.8%), Renminbi accounting for approximately 3.1% (as at 31 December 2019: 2.0%) and JPY accounting for approximately 28.0% (as at 31 December 2019: 17.7%).

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged bank deposits of approximately HK\$6.7 million (as at 31 December 2019: HK\$6.7 million), majority of which were pledged to certain licensed banks in Hong Kong and Macau to secure letters of guarantees issued to certain third parties on behalf of the Group. Together with corporate guarantee provided by the Company and guarantee provided by the executive Directors to maintain the control over the management and business of the Group, the Group's total guarantees amounted to approximately HK\$18.7 million (as at 31 December 2019: HK\$22.5 million), which were mainly issued to the Group's suppliers, such as airlines and hotels, to guarantee the Group's trade payable balances due to the suppliers.

Also, as at 30 June 2020, property, plant and equipment of Osaka Hinode Hotel and hot spring bath building, hotel construction project in Okinawa, travel buses and certain pledged bank balances in Japan of approximately HK\$384.6 million in total (as at 31 December 2019: HK\$386.4 million) were pledged for the bank borrowings as mentioned in the sub-section headed "Management Discussion and Analysis – Financial Review – Capital Structure, Liquidity and Finance Resources".

Save as disclosed above, the Group had no other pledge of assets as at 30 June 2020 (as at 31 December 2019: Nil).

CAPITAL COMMITMENTS AND FUTURE CAPITAL EXPENDITURES

The Group had capital commitments of construction work and relevant preliminary works for hotel development in Okinawa of approximately HK\$55.8 million (equivalent to approximately JPY0.8 billion) (as at 31 December 2019: HK\$134.9 million (equivalent to approximately JPY1.9 billion)), it mainly included the residual outstanding commitment for the construction contract for the new hotel in Okinawa with contract sum of JPY3,750.0 million as disclosed in the Company's announcement dated 12 March 2019.

As at 30 June 2020, the Group had capital commitment of approximately HK\$0.5 million (as at 31 December 2019: HK\$1.2 million) to acquire property, plant and equipment for its travel related business.

For future capital expenditures other than above-mentioned, the Group currently intends to finance such expenses by internal resources.

CONTINGENT LIABILITIES

The Directors considered that there were no material contingent liabilities as at 30 June 2020 (as at 31 December 2019: Nil).

FOREIGN CURRENCY EXCHANGE RISK AND TREASURY POLICIES

Foreign currency exchange risk exposure is encountered by the Group to the extent that receipt from customers and payments to suppliers may not be reconciled, subject to prevailing foreign currency fluctuations. As at 30 June 2020, the Group had one floating to fixed interest rate swap contract with a bank in Japan to hedge its exposure to interest rate risk and cash flow changes of its floating-rate bank borrowings. Other than the aforesaid swap contract, the Group did not rely on hedging arrangements. The Group had implemented foreign exchange risk management procedures to closely monitor the risk exposure. The procedures were established to prevent carrying excessive cash balance in foreign currencies, of which the purchase amounts were limited to the corresponding costs of travel elements based on estimated sales amount for one week, to cover the foreign exchange risk exposure in connection. The objective of our foreign exchange risk management procedures is to cover the foreign exchange risk exposure in connection with those costs of travel elements denominated in foreign currencies to be incurred for one week. The procedures do not allow us to exercise any judgement over the future direction of foreign exchange fluctuation and are strict procedural steps for our operational staff to follow. The Group will review the procedures from time to time and make appropriate changes when necessary. Other than the transactional foreign currency exchange risk, assets and liabilities of the group entities are mainly denominated in its respective functional currency. The Group's treasury management policy is to place surplus cash into bank deposits with licensed banks in mainly Hong Kong, Macau and Japan. Also, working capital are centrally managed to ensure proper and efficient collection and deployment of funds, and sufficient funds to settle liabilities when they fall due. Net exchange gain of approximately HK\$0.3 million was recorded during the Period (six months ended 30 June 2019: HK\$1.8 million).

HUMAN RESOURCES AND EMPLOYEE ' S REMUNERATION

As at 30 June 2020, the Group had a total workforce of 582 employees (as at 31 December 2019: 625), of which 190 (as at 31 December 2019: 196) were full-time tour escorts. Employees' remuneration packages are determined with reference to the market information and individual performance and will be reviewed on a regular basis. The remuneration policy will be reviewed by the Board from time to time. Emoluments of Directors are determined by the remuneration committee of the Board after considering the Group's operating results, individual performance and comparing with market conditions. In addition to basic remuneration, the Group also provides medical insurance, provident funds and other benefits in kind to the employees. To intensify personnel training and development, the Group provides a series of employee training programmes, which aims to accelerate professional growth and identify competences and talents of diversified teams. Through operating talent development scheme and also Youth Upward Mobility Mentorship Program, the Group has successfully extended the recruitment channels and enhanced the opportunities on the hiring of high quality and suitable staff. High potential staff will be groomed and developed intensively according to the promotion plan towards the management level. To attract and retain the suitable personnel for the development of the Group, the Group has adopted a share option scheme since November 2014. Pursuant to the share option scheme, share options may be granted to eligible employees of the Group as a long-term incentive. No share options were granted, cancelled, lapsed or exercised in the first half of 2020 (six months ended 30 June 2019: Nil). During the Period, there was no significant change in the remuneration policies, bonus, share option scheme and training scheme of the Group (six months ended 30 June 2019: Nil).

OUTLOOK

In Hong Kong, the recent resurgence in Coronavirus cases is threatening again the recovery of tourism industry, being the hardest hit after bringing the virus infection under control early this year. We are thankful for the construction of new hotel in Okinawa to be completed as scheduled and put into operation in the fourth quarter of this year. Even tourism slump is not yet over, we are pinning our hopes on the availability of effective vaccine to stop the crisis in the near future.

We are well-positioned in the market on providing quality services and products, we are confident in Hong Kong's economic recovery and strengthen ourselves to regain our momentum step by step and to rekindle Hong Kong people's interest for the return of tourism after getting through this hard time.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of corporate transparency and accountability. The Company is committed to achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. During the six months ended 30 June 2020, the Board is of opinion that the Company has applied the principles and complied with all the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

EXTRACT OF INDEPENDENT REVIEW REPORT

The interim financial report of the Group for the six months ended 30 June 2020 has not been audited, but has been reviewed by BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders of the Company.

BDO Limited expressed an unmodified conclusion with a Material Uncertainty Related to Going Concern section in its report. An extract of BDO Limited's conclusion is set out below:

“Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to note 2 to the interim financial information, which indicates that for the six months ended 30 June 2020, the Group recorded a loss of approximately HK\$66,467,000. As at 30 June 2020, the Group's current liabilities exceeded its current assets by approximately HK\$33,191,000. These conditions, along with others set forth in note 2 to the interim financial information, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.”

REVIEW BY AUDIT COMMITTEE AND AUDITOR

The interim results for the six months ended 30 June 2020 have been reviewed by the audit committee of the Board which comprises three independent non-executive Directors namely, Mr. Chan Kim Fai, Mr. Tang Koon Hung Eric and Ms. Wong Lai Ming. The interim financial information of the Group for the six months ended 30 June 2020 has been reviewed by the Company's independent auditor, BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.egltours.com/travel/pages/investor_relations/#eng.

The interim report of the Company will be despatched to the shareholders of the Company and published on the above websites in September 2020.

On behalf of the Board
EGL Holdings Company Limited
Yuen Man Ying
Chairman and Executive Director

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises four Executive Directors, namely Mr. Yuen Man Ying (Chairman), Mr. Huen Kwok Chuen, Mr. Leung Shing Chiu and Ms. Lee Po Fun, and three Independent Non-executive Directors, namely Mr. Chan Kim Fai, Mr. Tang Koon Hung Eric and Ms. Wong Lai Ming.