



WING ON TRAVEL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 1189)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

INTERIM RESULTS

The Board of Directors (the “Board”) of Wing On Travel (Holdings) Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

			At 30.6.2005 HK\$'000 (Unaudited)	At 31.12.2004 HK\$'000 (Audited) (Restated)
	Notes			
Turnover		Six months ended 30.6.2005 HK\$'000 (Unaudited)	30.6.2004 HK\$'000 (Unaudited) (Restated)	
Direct operating costs		836,603 (680,435)	814,139 (676,997)	
Gross profit		156,168	137,142	
Other operating income		3,016	8,836	
Distribution costs		(24,570)	(19,613)	
Administrative expenses		(120,665)	(117,559)	
Allowance for irrecoverable trade debts		(476)	(1,262)	
Discount on acquisition of subsidiaries		34,730	–	
Change in fair value of investments held for trading		(8,358)	–	
Net unrealised holding gain on other investments		–	27	
Release of negative goodwill arising on acquisition of subsidiaries		–	1,042	
Finance costs		(25,903)	(32,665)	
Share of results of associates		2,195	(181)	
(Loss) gain on disposal of associates		(62)	37,924	
Profit before taxation		16,075	13,691	
Taxation charge	6	–	(8)	
Profit for the period		16,075	13,683	
Attributable to:				
Shareholders of the parent		17,344	20,711	
Minority interests		(1,269)	(7,028)	
		16,075	13,683	
Dividends	7	8,752	–	
		HK cents	HK cents	
Earnings per share	8	4.34	11.31	
– Basic				
– Diluted		N/A	11.01	

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

		At 30.6.2005 HK\$'000 (Unaudited)	At 31.12.2004 HK\$'000 (Audited) (Restated)
	Notes		
Non-current assets			
Properties, plant and equipment		1,688,373	1,708,682
Investment property		3,400	3,400
Interests in associates		195,380	1,989
Investments in securities		–	93,789
Available-for-sale investments		93,789	–
Goodwill		50,862	50,215
Negative goodwill		–	(72,651)
Investment deposits		201,419	221,695
Club debenture, at cost		713	713
		2,233,936	2,007,832
Current assets			
Properties held for sale, at cost		98	98
Inventories		5,969	5,807
Amounts due from related companies		2,693	6,522
Amounts due from associates		126,534	391
Trade and other receivables	9	342,764	276,500
Loan receivables		158,101	131,000
Investments in securities		–	2,778
Investments held for trading		4,472	–
Tax recoverable		27	31
Pledged bank deposits		6,837	6,800
Trading cash balances		333	246
Bank balances and cash		38,970	134,317
		686,798	564,490

Current liabilities			
Trade and other payables	10	254,133	234,441
Loans from related companies		326,074	260,778
Amounts due to associates		8,601	11,327
Amounts due to related companies		22,274	17,598
Obligations under finance leases			
– amount due within one year		62	378
Borrowings – amount due within one year		43,936	57,066
		655,080	581,588
Net current assets (liabilities)		31,718	(17,098)
Total assets less current liabilities		2,265,654	1,990,734
Non-current liabilities			
Loans from related companies		–	112,098
Obligations under finance leases			
– amount due after one year		62	93
Borrowings – amount due after one year		285,864	300,395
Convertible notes		–	41,350
Promissory note		365,000	365,000
Deferred taxation		243,354	243,354
		894,280	1,062,290
Net assets		1,371,374	928,444
Capital and reserves			
Share capital		437,586	322,267
Reserves		525,810	307,875
		963,396	630,142
Equity attributable to shareholders of the parent		407,978	298,302
Minority interests			
		1,371,374	928,444

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INT”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed as required by HKAS 1 “Presentation of financial statements”. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3 “Business combinations” which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005, which was previously presented as a deduction from assets, with a corresponding decrease to accumulated losses (see note 3 for the financial impact).

Financial Instruments

In the current period, the Group has applied HKAS 32 “Financial instruments: disclosure and presentation” and HKAS 39 “Financial instruments: recognition and measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of the Statement of Standard Accounting Practice 24 “Accounting for investments in securities” (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively except for unquoted equity investments for which fair values cannot be measured reliably, such investments are stated at cost less impairment. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. As a result of the adoption of HKAS 39, the Group has redesignated “investments in securities” recorded in the consolidated balance sheet at 1 January 2005 amounting to HK\$93,789,000 as “available-for-sale investments” and HK\$2,778,000 as “investments held for trading”.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. These requirements of HKAS 39 did not have any financial impact to the Group.

Hotel properties

INT 2 “The appropriate accounting policies for hotel properties” clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group’s self-operated hotel properties were carried at cost less accumulated impairment losses and were not subject to depreciation. INT 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 “Property, plant and equipment”, and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in INT 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continued to be accounted for as property, plant and equipment. As the directors consider the allocation between the land and buildings elements cannot be made reliably, no restatement has been made in the financial statements.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 “Investment property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor SSAP were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current period, the Group has applied HKAS Interpretation 21 “Income taxes – recovery of revalued non-depreciable assets” which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively but did not have any financial impact to the Group.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended 30.6.2005 HK\$'000	30.6.2004 HK\$'000
Recognition of discount on acquisition directly in the income statement when the acquisition took place	34,730	–
Decrease in amortisation of goodwill	1,255	–
Depreciation of owner-operated hotel properties	(15,059)	(15,059)
Increase in interest on the liability component of convertible notes	(1,623)	(4,118)
Decrease in negative goodwill released to income	(932)	–
Increase (decrease) in profit for the period	18,371	(19,177)

An analysis of the increase (decrease) in profit for the period by line items presented according to their function is as follows:

	Six months ended 30.6.2005 HK\$'000	30.6.2004 HK\$'000
Discount on acquisition of subsidiaries	34,730	–
Decrease in amortisation of goodwill	1,255	–
Increase in administrative expenses	(15,059)	(15,059)
Increase in finance costs	(1,623)	(4,118)
Decrease in negative goodwill released to income	(932)	–
	18,371	(19,177)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 HK\$'000 (Originally stated)	Effect of INT 2 HK\$'000	Effect of HKAS 1 HK\$'000	Effect of HKAS 32 HK\$'000	Effect of HKAS 40 HK\$'000	At 31 December 2004 HK\$'000 (Restated)	Effect of HKFRS 3 HK\$'000	At 1 January 2005 HK\$'000 (Restated)
Balance sheet items affected:								
Property, plant and equipment	1,738,801	(30,119)	–	–	–	1,708,682	–	1,708,682
Negative goodwill	(72,651)	–	–	–	–	(72,651)	72,651	–
Convertible notes	(55,000)	–	–	13,650	–	(41,350)	–	(41,350)
Other assets and liabilities	(666,237)	–	–	–	–	(666,237)	–	(666,237)
Total effects on assets and liabilities	944,913	(30,119)	–	13,650	–	928,444	72,651	1,001,095
Share capital and other reserves	1,560,197	–	–	–	–	1,560,197	–	1,560,197
Investment property								
revaluation reserve	2,736	–	–	–	(2,736)	–	–	–
Convertible notes reserve	–	–	–	13,650	–	13,650	–	13,650
Other reserve	–	–	–	9,506	–	9,506	–	9,506
Accumulated losses	(930,191)	(16,250)	–	(9,506)	2,736	(953,211)	72,651	(880,560)
Minority interests	–	(13,869)	312,171	–	–	298,302	–	298,302
Total effects on equity	632,742	(30,119)	312,171	13,650	–	928,444	72,651	1,001,095
Minority interests	312,171	–	(312,171)	–	–	–	–	–
	944,913	(30,119)	–	13,650	–	928,444	72,651	1,001,095

The financial effects of the application of the new HKFRSs to the Group’s equity at 1 January 2004 are summarised below:

	As originally stated HK\$'000	Effect of HKAS 1 HK\$'000	Effect of HKAS 32 HK\$'000	Effect of HKAS 40 HK\$'000	As restated HK\$'000
Share capital and other reserves	1,258,153	–	–	–	1,258,153
Investment property revaluation reserve	736	–	–	(736)	–
Convertible notes reserve	–	–	20,468	–	20,468
Accumulated losses	(965,568)	–	(17,403)	736	(982,235)
Minority interests	–	29,778	–	–	29,778
Total effects on equity	293,321	29,778	3,065	–	326,164
Minority interests	29,778	(29,778)	–	–	–
	323,099	–	3,065	–	326,164

4. SEGMENT INFORMATION**Business segments**

During the period, for management purposes, the Group is organised into two operating divisions – travel and related services, and hotel and leisure services. These divisions are the basis on which the Group reports its primary segment information for the respective periods.

Principal activities are as follows:

	Travel and related services HK\$'000	Hotel and leisure services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2005				
Turnover				
External sales	734,107	102,496	–	836,603
Inter-segment sales	–	591	(591)	–
Total	734,107	103,087	(591)	836,603
Inter-segment sales are charged at prevailing market price.				
Results				
Segment results (<i>Note</i>)	18,247	43,395	–	61,642
Interest income				1,961
Change in fair value of investments held for trading				(8,358)
Unallocated corporate expenses				(15,400)
Finance costs				(25,903)
Share of results of associates	29	2,166	–	2,195
Loss on disposal of an associate	(62)	–	–	(62)
Profit for the period				16,075

Note: Segment results of hotel and leisure services for the six months ended 30 June 2005 included a discount on acquisition of subsidiaries of HK\$34,730,000.

Six months ended 30 June 2004

	Travel and related services HK\$'000	Hotel and leisure services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Turnover				
External sales	728,191	85,948	–	814,139
Inter-segment sales	–	395	(395)	–
Total	728,191	86,343	(395)	814,139
Inter-segment sales are charged at prevailing market price.				
Results				
Segment results	20,794	(4,442)	–	16,352
Interest income				4,132
Net unrealised holding gain on other investments				27
Unallocated corporate expenses				(11,898)
Finance costs				(32,665)
Share of results of associates	(181)	–	–	(181)
Gain on disposal of associates	37,924	–	–	37,924
Profit before taxation				13,691
Taxation charge				(8)
Profit for the period				13,683

5. DEPRECIATION

During the period, depreciation of HK\$29,726,000 (HK\$28,905,000 for the six months ended 30 June 2004) was provided in respect of the Group's property, plant and equipment.

6. TAXATION CHARGE

	Six months ended	
	30.6.2005	30.6.2004
	HK\$'000	HK\$'000

The charge comprises:

Taxation in other jurisdictions	—	(8)
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No provision for Hong Kong Profits Tax has been made in both periods as the Group did not have any assessable profit during the periods.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. DIVIDENDS

The directors have declared an interim dividend of HK 2 cents per share for the six months ended 30 June 2005 (Nil for the six months ended 30 June 2004) to those shareholders whose names appear on the Register of Members of the Company at the close of business on 14 October 2005.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2005	30.6.2004
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	<u>17,344</u>	20,711
Interest expenses on convertible notes		6,483
Earnings for the purpose of diluted earnings per share		<u>27,194</u>

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>399,180,495</u>	183,167,328
Effect of dilutive potential ordinary shares relating to convertible notes		63,751,645
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>246,918,973</u>

No disclosure of diluted earnings per share for the current period is presented as the conversion of the Company's convertible notes would only serve to increase the earnings per share.

The above weighted average number of ordinary shares for the calculation of the basic and diluted earnings per share for the six months ended 30 June 2004 has been adjusted to take into account the consolidation of every one hundred shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company into one share of HK\$1.00 each in March 2005.

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of earnings per share for the six months ended 30 June 2004:		
As originally stated	0.18	0.14
Adjustments arising from the changes in accounting policies	(6.69)	(2.99)
Consolidation of shares	<u>17.82</u>	13.86
As restated	<u>11.31</u>	<u>11.01</u>

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$17,804,000 (at 31 December 2004: HK\$13,538,000) and the aged analysis of the trade receivables at the reporting dates is as follows:

	At 30.6.2005 HK\$'000	At 31.12.2004 HK\$'000
0 – 30 days	9,929	7,446
31 – 60 days	3,624	2,869
61 – 90 days	1,497	1,414
Over 90 days	<u>2,754</u>	1,809
	<u>17,804</u>	<u>13,538</u>

The Group allows an average credit period of 60 days to local customers and 90 days to overseas customers.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$107,240,000 (at 31 December 2004: HK\$113,844,000) and the aged analysis of the trade payables at the reporting dates is as follows:

	At 30.6.2005 HK\$'000	At 31.12.2004 HK\$'000
0 – 30 days	56,082	60,876
31 – 60 days	24,888	22,542
61 – 90 days	11,248	16,316
Over 90 days	<u>15,022</u>	14,110
	<u>107,240</u>	<u>113,844</u>

INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of HK 2 cents per share for the six months ended 30 June 2005 (Nil for the six months ended 30 June 2004) to those shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 14 October 2005. The relevant dividend warrants will be despatched to shareholders on or around Friday, 28 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 12 October 2005 to Friday, 14 October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the above interim dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 10 October 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The notable growth momentum of the Hong Kong economy continued into the first half year of 2005. The unemployment rate fell to 6.1% in the first quarter and was further down to a recent years' record low of 5.7% in the second quarter of the year. Domestic consumption demand held firm along with the more entrenched economic recovery and improving labour market condition. Notwithstanding the increasing interest rates and the recent appreciation of Renminbi, consumer demand and their spending power continued to be strong. Under this favourable economic atmosphere, the performance of the tourism industry was promising and encouraging over the period under review where statistics shows that both inbound arrivals and outbound departures upsurged greatly.

Turnover for the six months ended 30 June 2005 attained HK\$836.6 million and is increased by approximately 2.8% compared with the year 2004. Profit before taxation for the first six months of the year achieved HK\$16.1 million and represents a 17.5% increase over the same period in 2004.

Travel and Related Services

The Indian Ocean tsunami affected travellers' sentiment to visit certain southeast Asian countries during the first quarter of the year. The high oil prices and increasing operating cost shrunk further the profit margin of the travel industry. To mitigate the impact of these adverse factors, the Group has, during the period under review, continued to launch series of new products, provide quality service on existing markets and explore new markets aggressively. Coupled with the growing number of business and leisure travellers to other destinations, the Group has achieved an encouraging result during the first half of the year.

Turnover and contribution to profit of this segment for the first six months of the year reached HK\$734.1 million and HK\$18.2 million respectively (2004: HK\$728.2 million and HK\$20.8 million respectively).

Hotel and Leisure Services

Benefited from the expansion of the Closer Economic Partnership Arrangement and the PRC Individual Visit Scheme to Hong Kong, the hotel and leisure business in Hong Kong and the PRC have shown a rapid recovery during the period.

The performance of the Group's hotel and leisure business, operated under the three "Rosedale" branded hotels in Hong Kong and the PRC and Luoyang Golden Gulf Hotel in the PRC, during the reporting period were largely benefited from the aforesaid arrangements in terms of both the occupancy rate and room rate. Coupled with the adoption of appropriate market positioning strategy, the performance of this segment during the period under review was encouraging.

The turnover and contribution to profit of this segment for the period achieved HK\$102.5 million and HK\$43.4 million respectively (2004: HK\$85.9 million and a loss of HK\$4.4 million).

Associates

The Group entered into the hospitality industry in Macau by the acquisition of approximately 36.26% attributable interests in Kingsway Hotel Limited ("Kingsway") at the end of February 2005. Resulted from the blooming tourism business of Macau, Kingsway has achieved a net profit for the six months ended 30 June 2005 of approximately HK\$8.5 million of which HK\$2.2 million were shared by the Group for the period under review.

Material Acquisitions

On 20 November 2004, the Group entered into a conditional sale and purchase agreement with an independent third party to acquire an 80% equity interest in Triumph Up Investments Limited ("Triumph") for a total consideration of approximately HK\$157.5 million. The Group, through Triumph, would, at completion, hold indirectly approximately 34.24% attributable interest in Kingsway of which its principal asset is Kingsway Hotel. On 17 February 2005, the parties entered into a supplemental agreement to amend the terms of the acquisition that the attributable interest in Kingsway acquired by the Group was increased from approximately 34.24% to 36.26% and the consideration was proportionally adjusted to approximately HK\$166.8 million which has been settled in cash. Completion of the supplemental agreement took place on 17 February 2005.

Liquidity and Financial Resources

On 30 November 2004, the Company entered into two placing and subscription agreements with China Enterprises Limited ("CEL") and a placing agent pursuant to which the placing agent agreed to place, on a fully underwritten basis, 6,000 million existing shares held by a nominee of CEL at the price of HK\$0.028 per placing share to no less than six placees who are independent third parties and CEL would subscribe for 6,000 million new shares at the same price of HK\$0.028 per share. The issue and subscription of 3,660 million and 2,340 million new shares have been completed on 14 December 2004 and 31 January 2005 respectively. The net proceeds of approximately HK\$160.4 million was used principally towards payment of HK\$107.5 million of the consideration for the acquisition of Kingsway and the balance was utilised as general working capital.

On 4 February 2005, the Company entered into a placing and subscription agreement with CEL and a placing agent pursuant to which the placing agent agreed to place, on a best effort basis, up to 6,400 million shares at the price of HK\$0.022 per share. The Company intended to utilise HK\$50 million of the net proceeds of approximately HK\$137 million from the subscription to finance the refurbishment, renovation and upgrading of Kingsway Hotel in Macau, so as to enhance its competitiveness. The remaining HK\$87 million of the proceeds of the subscription are to be used for future investment opportunities related to existing business. The issue and subscription of shares were completed on 18 February 2005.

The Company announced on 4 February 2005 to propose a consolidation that every one hundred shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company be consolidated into one consolidated share of HK\$1.00 each (the "Consolidation"). The Consolidation was approved by the shareholders of the Company in a special general meeting held on 14 March 2005.

The Company announced on 17 May 2005 to propose, inter alia, a cancellation of the entire amount standing to the credit of the share premium account (the "Cancellation") and transfer the credit arising from the Cancellation to the contributed surplus account of the Company and such credit would be partially used to set off against the accumulated losses of the Company (the "Set Off"). The Cancellation and the Set Off were approved by the shareholders of the Company in a special general meeting held on 5 July 2005.

At balance sheet date, the Group's total borrowings were approximately HK\$1,021.0 million (2004: HK\$1,137.2 million) which comprised loans from related companies of HK\$326.1 million (2004: HK\$372.9 million), bank and short term loan repayable within one year of HK\$43.9 million (2004: HK\$57.1 million), bank and other loans repayable after one year of HK\$285.9 million (2004: HK\$300.4 million), obligations under finance leases of HK\$0.1 million (2004: HK\$0.5 million), promissory note of HK\$365.0 million (2004: HK\$365.0 million) due in December 2007 and convertible notes of HK\$Nil (2004: HK\$41.3 million) repayable in June 2007. Other than the convertible notes which bear interest at a fixed interest rate of 2% per annum, all other borrowings bear floating interest rates.

The gearing ratio, expressed as a percentage of total borrowings to shareholders' equity, improved significantly from 180.5% as at 31 December 2004 to 106.0% as at 30 June 2005.

Pledge of Assets

At 30 June 2005, certain assets of the Group at net book value of HK\$638.4 million (2004: HK\$656.8 million) were pledged to banks and financial institutions for credit facilities. The promissory note is secured by the entire issued share capital of, and shareholders' loan to, an indirect subsidiary of the Company, Makerston Limited, and its subsidiaries holding the Rosedale Hotel and Suites ■ Beijing.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2005.

Foreign Currency Exposure

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, US dollars and Renminbi. Despite the recent appreciation of Renminbi, the impact on the Group's operation is minimal. As a result, the fluctuations of foreign currencies do not have a significant impact on the performance, results and operations of the Group during the reporting period and in the foreseeable future.

The Group will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

Employees

At 30 June 2005, the Group has approximately 2,050 employees of which 20 employees were stationed overseas and 1,109 employees were stationed in the PRC. Competitive remuneration packages are structured to commensurate with the responsibilities, qualifications, experience and performance of individuals. The Group also provides training programmes, provident fund scheme and medical insurance for its employees. Total staff remuneration incurred for the six months ended 30 June 2005 were approximately HK\$64.1 million.

The Group had a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, to enable the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme (the "General Limit"). The Company proposed to refresh the General Limit so that the number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company would be increased to 10% of the shares in issue as at the date of approval of the General Limit as "refreshed". The refreshment of the General Limit was approved by the shareholders of the Company in the annual general meeting held on 27 May 2005.

No options have been granted under the Scheme since its adoption.

PROSPECTS

Travel and Related Services

The mainland authorities have relaxed the restrictions to allow foreign investors to take a controlling stake in inbound travel agencies. Coupled with the effect of the 2008 Beijing Olympic Games, the inbound revenue of the mainland will multiply in the coming years. The Group has well equipped itself to grasp these opportunities and to expand its business in the PRC actively through its existing network in the mainland and by further acquisition of and alliance with reputable travel agencies in the PRC.

The outbound market to southeast Asian countries is recovering gradually from the Indian Ocean tsunami happened at the end of last year. The Group will put more efforts in allying strategically with airlines and hotels so as to rebuild and to strengthen travellers' confidence in spending their holidays in those attractive destinations.

Through the popularity and wide-spread use of Internet, travel knowledge and destination information can be accessed directly and conveniently. More and more young travellers are keen on planning their own itineraries. In order to cope with the growing market of free itinerary travel ("FIT"), the Group has strengthened its leisure section and actively negotiated with its vendors to provide discounted airfare, high quality accommodation, transportation and dining services to our FIT customers. It is expected that the revenue generated from this business stream will take up a significant portion of the total revenue of the Group in the coming years.

During the period under review, the Group has put considerable resources into its inbound business and the results are promising. Following the opening of the Hong Kong Disneyland in September this year, the Ngong Ping Skyrail to Po Lin Monastery in early 2006 and the staging of the equestrian events of 2008 Olympic Games in Hong Kong, the number of visitors travelling to and transiting through Hong Kong is expected to grow significantly. We are confident that the inbound business of the Group will be greatly benefited from such favourable environment and will constitute a significant source of revenue and profits to the Group in the future.

Hotel and Leisure Services

The opening of the Hong Kong Disneyland in September this year, the holding of the Canton Trade Fair in October 2005, the hosting of the sixth Ministerial Conference of the World Travel Organisation in December 2005 in Hong Kong and the holding of the Beijing Olympic Games in 2008 will all boost the overall room rate and occupancy rate of our hotels operated in these cities in the second half year of 2005 and in the coming years.

Following the recent concession by the United Nations Educational, Scientific and Cultural Organisation to enter Macau into the list of World Heritage Sites, the number of visitors to Macau is expected to grow significantly in the coming years. This will further boost the blooming tourism industry of the city. These developments provide the Group with immense opportunities to enlarge its market share through its branch network and the recently acquired Kingsway Hotel. Besides, the Group will keep on exploring new investment opportunities in Macau so as to cope with its business strategy in the Pearl River Delta area.

The Group will continue to develop and launch new products so as to stand out from our competitors, cope with the increasing needs of our honourable customers and to stay ahead of the industry.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the unaudited financial statements for the six months ended 30 June 2005 on the basis that such review does not in itself constitute an audit. The Audit Committee is not aware of any material modifications that should have been made to the interim financial statements for the six months ended 30 June 2005. The Audit Committee, with written terms of reference in line with the code provisions set out in the Code on Corporate Governance Practices as stipulated 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"), currently comprises three independent non-executive directors, namely Mr. Kwok Ka Lap, Alva, Mr. Sin Chi Fai and Mr. Wong King Lam, Joseph.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2005 except for the following deviations:-

Code Provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of "chief executive officer" ("CEO") but instead the duties of a CEO are performed by Mr. Cheung Hon Kit, the Managing Director of the Company in the same capacity as the CEO of the Company.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive directors of the Company are not appointed for a specific term. However, all directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 99 of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Code Provision E.1.2

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Yu Kam Kee, Lawrence was unable to attend the annual general meeting of the Company held on 27 May 2005 as he was on business trip for other important business engagement. However, the other executive director, present at the annual general meeting who then took the chair of that meeting in accordance with Bye-Law 68 of the Bye-Laws of the Company, and the member of the Audit Committee were present at that annual general meeting.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors (the "Model Code"). Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2005.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information of the interim results of the Group for the six months ended 30 June 2005 required by paragraphs 46(1) to 46(9) inclusive of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

As at the date of this announcement, the Board comprises of:-

Executive Directors:

Mr. Yu Kam Kee, Lawrence, *M.B.E., J.P. (Chairman)*
Mr. Cheung Hon Kit (*Managing Director*)
Dr. Yap, Allan
Mr. Chan Pak Cheung, Natalis
Mr. Lui Siu Tsuen, Richard
Ms. Luk Yee Lin, Ellen

Non-Executive Director:

Mr. Chan Yeuk Wai (*Honorary Chairman*)

Independent Non-Executive Directors:

Mr. Kwok Ka Lap, Alva
Mr. Sin Chi Fai
Mr. Wong King Lam, Joseph

By Order of the Board
Wing On Travel (Holdings) Limited
Yu Kam Kee, Lawrence
Chairman

Hong Kong, 21 September 2005