



# WING ON TRAVEL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1189)

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

### ANNUAL RESULTS

The Board of Directors (the "Board") of Wing On Travel (Holdings) Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004 together with comparative figures for the year ended 31 December 2003 as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<i>NOTES</i>		
Turnover	1,722,177	1,416,235
Direct operating costs	(1,426,652)	(1,258,481)
Gross profit	295,525	157,754
Other operating income	20,784	22,536
Distribution costs	(51,039)	(38,809)
Administrative expenses	(210,944)	(203,164)
Net unrealised holding loss on other investments	(127)	(2,849)
Reversal of impairment loss (impairment loss recognised) in respect of leasehold land and buildings	4,511	(301)
Release of negative goodwill arising on acquisition of subsidiaries	1,863	–
Impairment loss recognised in respect of investments in securities	(5,659)	(26,974)
Impairment loss recognised in respect of properties under construction	(1,100)	(2,400)
Surplus arising from revaluation of investment property	–	7
Loss on disposal of investment securities	–	(30,633)
Loss on disposal of interest in a co-operative joint venture	–	(20,000)
Amortisation of goodwill arising on acquisition of subsidiaries	–	(496)
Profit (loss) from operations	53,814	(145,329)
Finance costs	(53,711)	(25,045)
Gain (loss) on disposal of associates	37,930	(23,471)
Share of results of associates	(195)	(114,788)
Impairment loss recognised in respect of interest in an associate	–	(31,717)
Loss on disposal of discontinued operation	–	(32,697)
Profit (loss) before taxation	37,838	(373,047)
Taxation credit	23	2,075
Profit (loss) before minority interests	37,861	(370,972)
Minority interests	(2,484)	–
Net profit (loss) for the year	35,377	(370,972)
Dividends	–	–
	HK\$	HK\$ (Restated)
Earnings (loss) per share		
– Basic	0.18	(2.03)
– Diluted	0.13	N/A

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

In the current year, the Group has adopted the new accounting policy for its hotel properties as follows:

##### Hotel Properties

Hotel properties are stated at cost less accumulated impairment loss. Cost comprises land costs, development costs, borrowing cost capitalised in accordance with the Group's accounting policy and other direct cost attributable to the property. No depreciation or amortisation is provided on hotel property. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated life of this asset any depreciation would be insignificant.

The gain or loss arising from disposal or retirement of hotel property is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### 2. SEGMENT INFORMATION

##### (a) Business segments

During the year, for management purposes, the Group was organised into two operating divisions – travel and related services, and hotel and leisure services. In 2003, the Group was also involved in the business of transportation services that was discontinued in October 2003. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

For the year ended 31 December 2004

	Travel and related services HK\$'000	Hotel and leisure services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Turnover</b>				
External sales	1,532,143	190,034	–	1,722,177
Inter-segment sales	–	1,234	(1,234)	–
Total	1,532,143	191,268	(1,234)	1,722,177

Inter-segment sales are charged at prevailing market price.

<b>Results</b>				
Segment results	49,349	33,701	–	83,050
Interest income				3,381
Net unrealised holding loss on other investments				(127)
Impairment loss recognised in respect of investments in securities				(5,659)
Unallocated corporate expenses				(26,831)
Profit from operations				53,814
Finance costs				(53,711)
Gain on disposal of associates	37,930	–	–	37,930
Share of results of associates	(195)	–	–	(195)
Profit before taxation				37,838
Taxation credit				23
Profit before minority interests				37,861
Minority interests				(2,484)
Net profit for the year				35,377

For the year ended 31 December 2003

	Continuing operation Travel and related services HK\$'000	Discontinued operation Transportation services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Turnover</b>				
External sales	1,291,906	124,329	–	1,416,235
Inter-segment sales	–	5,248	(5,248)	–
Total	1,291,906	129,577	(5,248)	1,416,235
Inter-segment sales are charged at prevailing market price.				
<b>Results</b>				
Segment results	(60,207)	(20,169)	–	(80,376)
Interest income				1,150
Loss on disposal of investments in securities				(31,098)
Net unrealised holding loss on other investments				(2,849)
Unallocated corporate expenses				(32,156)
Loss from operations				(145,329)
Finance costs				(25,045)
Share of results of associates	(114,788)	–	–	(114,788)
Impairment loss recognised in respect of interest in an associate	(31,717)	–	–	(31,717)
Loss on disposal of discontinued operation	–	(32,697)	–	(32,697)
Loss on disposal of associates	(23,471)	–	–	(23,471)
Loss before taxation				(373,047)
Taxation credit				2,075
Loss before minority interests				(370,972)
Minority interests				–
Net loss for the year				(370,972)

(b) No geographical segment information in respect of the Group's operations has been presented as over 90% of the Group's operations were derived from Hong Kong.

3. TAXATION CREDIT

	2004 HK\$'000	2003 HK\$'000
Overprovision for taxation in other jurisdictions in prior years	23	–
Deferred tax	–	1,718
Taxation attributable to the Company and its subsidiaries	23	1,718
Share of taxation attributable to associates in other jurisdictions	–	357
Taxation credit	23	2,075

No provision for Hong Kong Profits Tax has been made as the companies comprising the Group either have no assessable profit in the year or the estimated assessable profits were wholly absorbed by tax losses brought forward.

Taxation for other jurisdictions represents overprovision for taxation in prior years. No provision for overseas taxation has been made as the Group has no taxable profit during the years ended 31 December 2004 and 2003 in other jurisdictions.

4. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: nil).

5. EARNINGS (LOSS) PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) per share	35,377	(370,972)
Interest expenses on convertible notes	3,102	–
Earnings for the purpose of diluted earnings per share	38,479	–
	Number of shares 2004	2003 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	201,251,437	183,167,328
Effect of dilutive potential ordinary shares relating to convertible notes	97,498,216	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	298,749,653	–

Notes:

- (a) The above weighted average number of ordinary shares for the calculation of the basic and diluted earnings (loss) per share for the years ended 31 December 2003 and 31 December 2004 have been adjusted to take into account of the consolidation of one hundred shares of HK\$0.01 in the issued and unissued share capital of the Company into one share of HK\$1.00 each completed subsequent to 31 December 2004.
- (b) No diluted loss per share has been presented for 2003 as the conversion of the convertible notes and shares issuable under the subscription agreement dated 31 May 2002 to a subscriber would result in a decrease in loss per share.
- (c) A reconciliation of the restatement of loss per share for 2003 to adjust for the consolidation of shares as mentioned above subsequent to 31 December 2004 is as follows:

	HK\$
As originally stated	(0.0203)
Consolidation of shares	(2.0097)
As restated	(2.0300)

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Throughout 2004, Hong Kong’s economy was picked up together with many countries around the world. Despite the increased interest rates in many other countries, local rates remained considerably low. The robust growth in domestic demand ended the prolonged six-year deflationary period. All these factors encouraged consumer confidence and boosted their spending power. Although the Indian Ocean tsunami did have an impact on travellers’ sentiment, overall performance of the travel industry was quite promising over the period under review, statistics shows both inbound arrivals and outbound departures upsurged greatly.

Our Group’s business was largely benefited from such growth. Turnover and profit before taxation for the year ended 31 December 2004 attained HK\$1,722.2 million and HK\$37.8 million respectively (2003: HK\$1,416.20 million and a loss of HK\$373.0 million respectively). The profit before taxation was made up of profit from operations of HK\$53.8 million (2003: a loss of HK\$145.3 million), finance costs of HK\$53.7 million (2003: HK\$25.0 million), gain on disposal of associates of HK\$37.9 million (2003: a loss of HK\$23.5 million), share of loss of associates of HK\$0.2 million (2003: HK\$114.8 million), impairment loss recognised in respect of interest in an associate of HK\$nil (2003: HK\$31.7 million) and a loss on disposal of discontinued operation of HK\$nil (2003: HK\$32.7 million).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: nil). However, the Directors are seeking legal advice to carry out a capital reduction scheme in order to cancel the credit amount standing at the share premium account and transfer such an amount to the contributed surplus account of the Company to enable the Company to eliminate its accumulated losses as at 31 December 2004. Only upon the successful implementation of such scheme, the Directors would consider the feasibility of recommending the payment of a dividend.

Travel and Related Services

During the year, the Hong Kong economy has successfully turned around from SARS that happened in 2003. The number of business and leisure travellers increased sharply for both the outbound and inbound market. Coupled with the Group’s policy of maintaining quality service on existing markets, developing and penetration into new markets aggressively, turnover and contribution to profit of this segment for the year reached HK\$1,532.1 million and HK\$49.3 million respectively (2003: HK\$1,291.9 million and a loss of HK\$60.2 million respectively).

Hotel and Leisure Services

The Group operates the hotel and leisure services through Apex Quality Group Limited (“Apex”), a 67.9% owned subsidiary, holding three “Rosedale” branded hotels in Hong Kong and the PRC, and Luoyang Golden Gulf Hotel in the PRC.

Benefited from the implementation of the Closer Economic Partnership Arrangement, the expansion of PRC Individual Visit Scheme to Hong Kong, the hotel and leisure related businesses in Hong Kong and the PRC have shown a rapid recovery during the year. The turnover and contribution to profit of this segment for the year achieved HK\$191.3 million and HK\$33.7 million respectively. This encouraging result was mainly due to the efforts rendered by the sales teams of our hotel division and the implementation of effective cost control measures on the hotel operations.

Associates

At the beginning of the year, the Group has disposed of its entire interest in the associate which operated a hotel in Harbin, the PRC, to a third party. This hotel had incurred huge losses since the Group’s acquisition. As a result, the Group did not record any share of results in this former associate during the year ended 31 December 2004 (2003: share of loss of HK\$26.4 million).

The Group disposed of its entire interest in Rosedale Hotel Group Limited in 2003 to an independent third party. As a result, the Group did not share the results of this former associate during the year ended 31 December 2004 (2003: share of loss of HK\$81.7 million).

Material Acquisitions and Disposals

On 19 December 2003, the Group made an offer (the “Apex Offer”) to acquire from the shareholders of Apex all Apex shares not already held by the Group and parties acting in concert with it. The Apex Offer was closed on 9 January 2004 with acceptances of 51,781,361 shares. As a result, the Group controlled 188,448,027 Apex shares, representing approximately 67.9% of the voting rights in Apex upon closing the Apex Offer.

In February 2004, a 50% owned associate of the Group, acquired an interest in a piece of land in Hong Kong for redevelopment. Subsequently, the Group entered into a sale and purchase agreement to dispose of the entire issued share capital of the subsidiary holding the 50% interest in the aforesaid associate. The disposal was completed on 30 June 2004.

During the year, the Group entered into certain agreements with various independent third parties for acquisition of 100% equity interests in certain companies holding land use rights in the PRC for development into a hotel, shopping malls, recreational and other tourists related amenities. The agreements have not yet been completed.

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 Hotel Limited (“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.

On 24 December 2004, the Group entered into an agreement with an independent third party to acquire the entire issued share capital of a company which has strategic investments in both the Hong Kong and PRC travel industry for a consideration of HK\$50 million. The agreement was completed during the year.

During the year, the Group entered into an agreement to acquire 51% interest in an enterprise established in the PRC engaging in full scale on-line and off-line hotel booking services. The agreement has not yet been completed.

Liquidity and Capital Resources

On 13 January 2004, the Company entered into agreements (“CN Agreements”) (as subsequently amended on 17 March 2004 and further amended by the supplemental agreements dated 4 May 2004) with each of China Enterprises Limited (“CEL”) and Hutchison International Limited (“HIL”) for the issue of convertible notes by the Company to each of CEL and HIL or their respective nominee(s) with a principal amount of HK\$155 million and HK\$105 million respectively. Completion of the CN Agreements took place on 14 June 2004. During the year, HIL and CEL have exercised their right to convert in aggregate of HK\$205 million into 10,250 million new shares of the Company.

On 30 November 2004, the Company entered into two placing and subscription agreements with 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 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 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 was approved by the shareholders of the Company in a special general meeting held on 14 March 2005.

At balance sheet date, the Group’s total borrowings were approximately HK\$1,150.8 million (2003: HK\$519.9 million) which comprised loans from related companies of HK\$372.9 million (2003: HK\$231.3 million), bank and short term loan repayable within one year of HK\$57.1 million (2003: HK\$28.2 million), bank and other loans repayable after one year of HK\$300.4 million (2003: HK\$6.3 million), obligations under finance leases of HK\$0.4 million (2003: HK\$ nil), promissory note of HK\$365.0 million (2003: HK\$ nil) due in December 2007 and convertible notes of HK\$55 million (2003: HK\$254.1 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’ funds, increased from 177.3% as at 31 December 2003 to 181.9% as at 31 December 2004.

Pledge of Assets

At 31 December 2004, certain assets of the Group at net book value of HK\$662.4 million (2003: HK\$20.2 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 31 December 2004.

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. As such, the fluctuation of foreign currencies did not have a significant impact on the performance, results and operations of the Group for the reporting period.

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

## Employees

At 31 December 2004, the Group has 1,934 employees of which 22 employees were stationed overseas and 1,036 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 year ended 31 December 2004 were approximately HK\$128.0 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.

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

## PROSPECTS

Our Group will continue to embark on several initiatives to strengthen the presence and awareness of “Wing On Travel” brand. We are delighted to receive a number of awards during the year under review including Hong Kong Super Brand, Yahoo Sentiment Brand, Hong Kong Quality Agent. Our aim is to make our brand synonymous with the delivery of superior services and values to our customers.

Along with high oil prices and weakened US dollar both continuing to shadow economic growth to certain extent, local economic environment will remain broadly favourable. PRC economy is undergoing certain sectoral de-heating and yet the country’s rate of real economic growth will remain strong. Consequently, the Group will continue to explore and develop the hotel and tourists market in the PRC. However, rosy forecasts are conditional on domestic and foreign stability that cannot be taken for granted. Steady emergence of low cost carriers within the region will place pressure on further lowering the tour prices, which will inevitably hedge our gains. Our principal focus for 2005 is to achieve further revenue growth together with the introducing of more new creative products, which will spread through a much wider spectrum of the market share. Our Group is confident that we are well placed to meet the challenges ahead.

Following the policy trend in the PRC, it is likely the limit on foreign holding in a company operating with outbound travel licence be gradually opened up. Our Group thinks it is imperative to lay hands on this lucrative PRC outbound market and is actively negotiating for opportunities to make appropriate investments. We believe that with our expertise and far-reaching global connections, there will be overflowing synergies when our Group in effect established our presence in the PRC outbound market.

## 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 year ended 31 December 2004.

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) 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 audited financial statements for the year ended 31 December 2004. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kwok Ka Lap, Alva, Mr. Sin Chi Fai and Mr. Wong King Lam, Joseph.

## COMPLIANCE OF CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out 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”) which was in force prior to 1 January 2005, except that the non-executive directors are not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws of the Company.

## 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 “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 Code during the year ended 31 December 2004.

## ANNUAL GENERAL MEETING

The 2005 Annual General Meeting of the Company will be held at 8th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Friday, 27 May 2005 at 10:00 a.m. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which will be published in due course.

## PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE’S WEBSITE

All the information of the annual results of the Group for the year ended 31 December 2004 required by paragraphs 45(1) to 45(3) 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**  
**Cheung Hon Kit**  
*Managing Director*