



WING ON TRAVEL (HOLDINGS) LIMITED

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 (collectively referred to as the “Group”) for the six months ended 30 June 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Six months ended	
	30.6.2004 HK\$'000 (Unaudited)	30.6.2003 HK\$'000 (Unaudited)
NOTES		
Turnover	814,139	553,709
Direct operating costs	(676,997)	(488,774)
Gross profit	137,142	64,935
Other operating income	8,836	6,303
Distribution costs	(19,613)	(10,460)
Administrative expenses	(102,500)	(91,322)
Allowance for irrecoverable trade debts	(1,262)	–
Release of negative goodwill (amortisation of goodwill) arising on acquisition of subsidiaries	1,042	(331)
Net unrealised holding gain (loss) on other investments	27	(1,870)
Impairment loss recognised in respect of leasehold land and buildings	–	(28,050)
Loss on disposal of other investments	–	(465)
Profit (loss) from operations	23,672	(61,260)
Finance costs	(28,547)	(11,161)
Share of results of associates	(181)	(95,877)
Gain on disposal of associates	37,924	–
Profit (loss) before taxation	32,868	(168,298)
Taxation (charge) credit	4 (8)	1,884
Profit (loss) before minority interests	32,860	(166,414)
Minority interests	93	–
Net profit (loss) for the period	32,953	(166,414)
Earnings (loss) per share	5	
– Basic	0.18 cents	(0.91) cents
– Diluted	0.14 cents	N/A

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2003 with the adoption of 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 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 sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. 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. During the year ended 31 December 2003, the Group was also engaged in the business of transportation services which was discontinued with effect from 31 October 2003. These divisions are the basis on which the Group reports its primary segment information for the respective periods.

Principal activities are as follows:

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	22,056	9,575	–	31,631
Interest income				4,132
Release of negative goodwill arising on acquisition of subsidiaries	–	1,042	–	1,042
Net unrealised holding gain on other investments				27
Allowance for irrecoverable trade debts	(1,262)	–	–	(1,262)
Unallocated corporate expenses				(11,898)
Profit from operations				23,672
Finance costs				(28,547)
Share of results of associates	(181)	–	–	(181)
Gain on disposal of associates	37,924	–	–	37,924
Profit before taxation				32,868
Taxation charge				(8)
Profit before minority interests				32,860
Minority interests				93
Net profit for the period				32,953

Six month ended 30 June 2003	Continuing operation	Discontinued operation		
	Travel and related services HK\$'000	Transportation services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Turnover				
External sales	489,205	64,504	–	553,709
Inter-segment sales	–	3,061	(3,061)	–
Total	489,205	67,565	(3,061)	553,709
Inter-segment sales are charged at prevailing market price.				
Results				
Segment results	1,128	(14,737)	–	(13,609)
Interest income				542
Impairment loss recognised in respect of leasehold land and buildings	(28,050)	–	–	(28,050)
Amortisation of goodwill arising on acquisition of subsidiaries	–	(331)	–	(331)
Net unrealised holding loss on other investments				(1,870)
Loss on disposal of other investments				(465)
Unallocated corporate expenses				(17,477)
Loss from operations				(61,260)
Finance costs				(11,161)
Share of results of associates	(95,877)	–	–	(95,877)
Loss before taxation				(168,298)
Taxation credit				1,884
Net loss for the period				(166,414)
4. TAXATION (CHARGE) CREDIT				
			Six months ended	
			30.6.2004	30.6.2003
			HK\$'000	HK\$'000
The (charge) credit comprises:				
The Company and subsidiaries			(8)	(12)
Taxation in other jurisdictions			–	1,533
Deferred taxation			–	1,521
Share of taxation attributable to associates			–	(44)
Taxation in other jurisdictions			–	407
Deferred taxation			–	363
			(8)	1,884
No provision for Hong Kong Profits Tax has been made in either period as the Group did not have any assessable profit during the periods.				
5. EARNINGS (LOSS) PER SHARE				
The calculation of the basic and diluted earnings (loss) per share is based on the following data:				
			Six months ended	
			30.6.2004	30.6.2003
			HK\$'000	HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) per share			32,953	(166,414)
Interest expenses on convertible notes			1,779	–
Earnings (loss) for the purpose of diluted earnings (loss) per share			34,732	(166,414)
			Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share			18,316,732,770	18,316,732,770
Effect of dilutive potential ordinary shares relating to convertible notes			6,375,164,549	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share			24,691,897,319	N/A
No diluted loss per share has been presented for the six months ended 30 June 2003 as the conversion of the convertible notes and shares issuable under the subscription agreement dated 31 May 2002 would result in a decrease in loss per share.				
6. DIVIDENDS				
The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (Nil for the six months ended 30 June 2003) and will consider the payment of any final dividend for the year ending 31 December 2004.				

No provision for Hong Kong Profits Tax has been made in either period as the Group did not have any assessable profit during the periods.

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

5. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30.6.2004 HK\$'000	30.6.2003 HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) per share	32,953	(166,414)
Interest expenses on convertible notes	1,779	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	34,732	(166,414)

	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	18,316,732,770
Effect of dilutive potential ordinary shares relating to convertible notes	6,375,164,549
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	24,691,897,319

No diluted loss per share has been presented for the six months ended 30 June 2003 as the conversion of the convertible notes and shares issuable under the subscription agreement dated 31 May 2002 would result in a decrease in loss per share.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (Nil for the six months ended 30 June 2003) and will consider the payment of any final dividend for the year ending 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the period under review, Hong Kong’s economy was undergoing a rapid rebound. The extended coverage of the PRC Individual Visit Scheme together with the Renminbi business initiative laid a strong foundation for the sustainable growth economy. This environment sets a positive consumer sentiment which benefits our business. In spite of the recovering economy, the travel business was by and large affected by the outbreak of avian flu in Asia and a few cases of severe acute respiratory syndrome (“SARS”) also in Asia during the period under review. All in all, with the effort of our fellow directors, senior management and all employees of the Company, the Group achieved an encouraging result.

Turnover and profit before taxation for the six months ended 30 June 2004 attained HK\$814.1 million and HK\$32.9 million respectively (1.1.2003 to 30.6.2003 : HK\$553.7 million and a loss of HK\$168.3 million). The profit before taxation was made up of profit from operations of HK\$23.7 million (1.1.2003 to 30.6.2003 : a loss of HK\$61.3 million), finance costs of HK\$28.5 million (1.1.2003 to 30.6.2003 : HK\$11.1 million), share of loss of associates of HK\$0.2 million (1.1.2003 to 30.6.2003 : HK\$95.9 million) and gain on disposal of associates of HK\$37.9 million (1.1.2003 to 30.6.2003 : HK\$ nil). The directors are pleased to report that the profit for the period represents an encouraging turn-around from the Group’s losses made since the year ended 31 March 2002.

Travel and Related Services

Given the above favourable factors, the turnover and profits of this segment for the first half of the year reached HK\$728.2 million and HK\$22.1 million respectively (1.1.2003 to 30.6.2003 : HK\$489.2 million and HK\$1.1 million respectively).

Hotel and Related Leisure Services

The Group operates the hotel and leisure related businesses through Apex Quality Group Limited (“Apex”), a 67.9% owned subsidiary that became a member of the Group since January 2004, which indirectly holds the entire interest in Best Western Rosedale On the Park in Hong Kong and the controlling interests in Rosedale Hotel & Suites ■ Guangzhou, Rosedale Hotel & Suites ■ Beijing and Luoyang Golden Gulf Hotel in the PRC.

With the implementation of the Closer Economic Partnership Arrangement (“CEPA”), the launch of PRC Individual Visit Scheme to Hong Kong and the successful containment of SARS, the hotel and leisure related businesses in Hong Kong and the PRC have shown a rapid recovery during the first half of 2004. The turnover and profit of this segment for the first half of the year has achieved HK\$85.9 million and HK\$9.6 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

During 2003, the directors had reviewed the carrying amount in the associate, operating a hotel in Harbin, the PRC, and had fully written down its book value to its estimated market value. During the period, the Group has disposed of its entire interest in the associate, which had incurred huge losses since the Group’s acquisition, to a third party. As a result, the Group did not record any share of results in this associate during the six months ended 30 June 2004 (1.1.2003 to 30.6.2003 : a loss of HK\$14.0 million).

Rosedale Hotel Group Limited (“Rosedale”) (name changed to China Velocity Group Limited on 26 January 2004) had undergone a reorganisation in December 2003 and resulted in Apex holding all assets and liabilities in relation to the hotel and leisure-related businesses prior to the reorganisation. The Group disposed of its entire interest in Rosedale on 16 December 2003 to an independent third party. As a result, the Group did not share the results of this former associate during the period ended 30 June 2004 (1.1.2003 to 30.6.2003 : a loss of HK\$80.6 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 totally 51,781,361 shares. As a result, the Group controlled 188,488,027 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.

Liquidity and Financial 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 had taken place on 14 June 2004.

At balance sheet date, the Group’s total borrowings were approximately HK\$1,410.7 million (31.12.2003 : HK\$519.9 million) which comprised loans from related companies of HK\$415.0 million (31.12.2003 : HK\$231.3 million), bank and short term loan repayable within one year of HK\$135.3 million (31.12.2003 : HK\$28.2 million), bank and other loans repayable after one year of HK\$234.8 million (31.12.2003 : HK\$6.3 million), obligations under finance lease and sales and lease back arrangements of HK\$0.6 million (31.12.2003 : HK\$ nil), promissory note of HK\$365.0 million (31.12.2003 : HK\$ nil) due in 2007 and convertible notes of HK\$260 million (31.12.2003 : HK\$254.1 million) repayable in 3 years from the date of issue. 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 newly acquired subsidiary, Apex, has an outstanding borrowings and promissory note totaled to HK\$825.5 million as at 30 June 2004. Coupled with the effect on additional fundings arranged for the operations of the Group, the gearing ratio, expressed as a percentage of total borrowings to shareholders’ funds, increased from 177.3% as at 31 December 2003 to 433.1% as at 30 June 2004.

Pledge of Assets

At 30 June 2004, certain assets of the Group at net book value of HK\$670.2 million (at 31.12.2003 : HK\$20.2 million) were pledged to banks and financial institutions for credit facilities. In addition, certain hotel properties of the Group at net book value of HK\$465.0 million were pledged to the promissory note holder as securities as at balance sheet date.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 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 30 June 2004, the Group has approximately 1,870 employees of which 24 employees were stationed overseas and approximately 1,010 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 provided training programmes, provident fund scheme and medical insurance for its employees. Total staff remuneration incurred for the six months ended 30 June 2004 were approximately HK\$56.0 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

The global economy is improving and stimulates increase demand for international travel. These in turn should flow through in traveling and lodging demand in the coming second half year. In sales and marketing, by continuing to explore new innovative tours, of which were very well received in the past, we will redouble our efforts to tap a market segment not fully served by our traditional sales and marketing network and focus on delivering superior services to our customers.

In view of PRC’s accession to the World Trade Organisation, the implementation of CEPA, Beijing’s hosting of the 2008 Olympic Games and the continuous mutual support between Hong Kong and the PRC, it is expected that the hotel and other leisure-related businesses will continue to grow with positive demand and the average room rate of our hotels for the remaining half of 2004 will exceed the rate achieved in the past. The Board is confident that our travel and hotel businesses will contribute significant recurring income to the Group in the forthcoming years.

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 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 unaudited financial statements for the six months ended 31 June 2004 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 2004. The Audit Committee currently comprises two independent non-executive directors, namely Mr. Kwok Ka Lap, Alva and Mr. Sin Chi Fai.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the six months ended 30 June 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the New Bye-Laws of the Company.

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 (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code. Having made specific enquiry of all directors, the Company has ascertained that all of its directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2004.

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 2004 published by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of 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, MBE, J.P. (Chairman) Mr. Cheung Hon Kit (Managing Director) Dr. Chan Kwok Keung, Charles Dr. Yap, Allan Mr. Chan Pak Cheung, Natalis Mr. Lui Siu Tsuen, Richard Ms. Luk Yee Lin, Ellen	Non-Executive Directors: Mr. Chan Yeuk Wai (Honorary Chairman) Mr. Fok Kin-ning, Canning Ms. Shih, Edith (alternate to Mr. Fok Kin-ning, Canning) Independent Non-Executive Directors: Mr. Kwok Ka Lap, Alva Mr. Sin Chi Fai
---	---

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

Hong Kong, 21 September 2004