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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6882)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	Change in
	HK$'000	*HK$'000*	*%*
Revenue	**1,728,328**	1,776,614	-2.7
Gross profit	**312,493**	315,289	-0.9
Profit attributable to owners of the Company	**14,001**	34,817	-59.8
Earnings per share			
Basic and diluted *(HK cents)*	**2.79**	6.93	
Dividend per share *(HK cents) (note)*	**Nil**	5.0	
Profit margin			
Gross profit margin	**18.1%**	17.7%	
Operating profit margin	**0.9%**	2.1%	
Net profit margin	**0.8%**	2.0%	
Return on equity attributable to owners of the Company	**4.0%**	9.8%	
Gearing ratio	**34.1%**	29.6%	

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

The board ("Board") of directors ("Directors") of EGL Holdings Company Limited ("Company") announces the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2019 ("Year") together with comparative figures of 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*5*	**1,728,328**	1,776,614
Cost of sales		**(1,415,835)**	(1,461,325)
Gross profit		**312,493**	315,289
Other income and gain, net	*5*	**4,479**	9,590
Selling expenses		**(83,683)**	(86,413)
Administrative expenses		**(216,697)**	(204,690)
Share of results of associates		**2,198**	3,081
Finance costs	*6*	**(7,042)**	(3,913)
Profit before income tax	*6*	**11,748**	32,944
Income tax credit	*7*	**2,877**	2,120
Profit for the year		**14,625**	35,064
Other comprehensive income, that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**957**	2,974
Share of exchange differences on translation of foreign associates		**(437)**	(325)
Effect on cash flow hedge, net of tax		**1,180**	(2,055)
Other comprehensive income for the year, net of tax		**1,700**	594
Total comprehensive income for the year, net of tax		**16,325**	35,658
Profit for the year attributable to:			
Owners of the Company		**14,001**	34,817
Non-controlling interests		**624**	247
		14,625	35,064
Total comprehensive income attributable to:			
Owners of the Company		**15,660**	35,523
Non-controlling interests		**665**	135
		16,325	35,658
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cents)	*8*	**2.79**	6.93

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**456,324**	440,994
Right-of-use assets		**67,081**	–
Construction in progress		**129,864**	32,782
Interests in associates		**12,371**	10,611
Deferred tax assets		**14,561**	8,301
Deposits	*11*	**814**	2,669
		681,015	495,357
Current assets			
Inventories		**1,855**	4,273
Trade receivables	*10*	**7,144**	10,079
Deposits, prepayments and other receivables	*11*	**181,028**	162,115
Amount due from an associate		**6,163**	2,348
Tax recoverable		**1,854**	1,994
Pledged bank deposits		**6,702**	6,307
Cash at banks and on hand		**206,119**	230,003
		410,865	417,119
Current liabilities			
Trade payables	*12*	**47,295**	58,749
Accruals and other payables	*13*	**57,394**	64,140
Contract liabilities		**185,080**	150,215
Amounts due to associates		**3,732**	3,900
Lease liabilities		**47,257**	–
Provision for taxation		**1,306**	3,175
Bank borrowings	*14*	**37,620**	34,836
		379,684	315,015
Net current assets		**31,181**	102,104
Total assets less current liabilities		**712,196**	597,461
Non-current liabilities			
Provision		**782**	779
Bank borrowings	*14*	**335,255**	234,802
Lease liabilities		**20,569**	–
Deferred tax liabilities		**1,265**	1,674
Derivative financial instruments		**1,304**	2,055
		359,175	239,310
Net assets		**353,021**	358,151
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*15*	**50,245**	50,245
Reserves		**300,332**	304,770
		350,577	355,015
Non-controlling interests		**2,444**	3,136
Total equity		**353,021**	358,151

NOTES TO THE FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

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

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

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

The Company's immediate and ultimate holding company is Evergloss Management Group Company Limited, incorporated in the British Virgin Islands (the "BVI").

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under historical cost basis, except for a derivative financial instrument, which is measured at fair value.

There has been an outbreak of pneumonia caused by a new coronavirus which was subsequently named as COVID-19 by the World Health Organization ("WHO") since the beginning of the year 2020. On 30 January 2020, WHO declared the outbreak of COVID-19 to constitute a public health emergency of international concern. WHO has characterized COVID-19 as a pandemic on 11 March 2020. The governments and authorities in many cities and countries in the globe including Hong Kong, Macau, the Mainland of China, Japan, South Korea, US and the European nations have implemented various severe measures in controlling the spread of COVID-19 such as imposing travel restrictions and quarantine arrangements to travellers, home confinement of residents and border controls that significantly reduce the demand for travel related products and services of the Group. The Group cancelled and/or postponed its travel related products and services to those affected cities and countries. In particular, the Group cancelled and/or postponed its travel related products and services to Japan from 9 March 2020 till tentatively 17 June 2020 as a result of Japan government's implementation of quarantine arrangements for visitors from China including Hong Kong and Macau and suspension of visa-free visit arrangements to holders of Hong Kong passport and Macau passport in early March 2020. The Group may continue to postpone selling travel related products and services to those affected cities and countries if their control measures are not lifted. The duration and intensity of this global health emergency and related disruptions are uncertain. Given the dynamic nature of these circumstances, the related adverse impact caused by the severe measures taken by the governments and authorities in many cities and countries on the Group's operations, financial performance, cash flows and financial position for the year 2020 will be material, but cannot be reasonably estimated as at the date of approval of these consolidated financial statements.

The negative financial impacts caused by the severe measures to the Group indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern and the directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2019, after taking into consideration of the following:

i) the management of the Group has been endeavouring to improve the Group's operating cash flows through implementing various cost control measures;

ii) on 25 March 2020, the Group entered into a loan agreement with a related company, Great Port Limited ("Great Port") of HK$80 million which is unsecured, interest-free and repayable 12 months after the date of signing the loan agreement;

iii) the Group has unutilised banking facilities of approximately HK$77 million as at 25 March 2020; and

iv) the management of the Group will endeavour to seek additional sources of financing.

Having regard to the cash flow projection of the Group which are prepared after taking into the aforementioned financing arrangements, plans and operational measures, the directors of the Company are of the opinion that, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

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

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

3. ADOPTION OF HKFRSs

(a) Adoption of new or amended HKFRSs – effective 1 January 2019

In the current year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") have applied for the first time the following new or amended HKFRSs issued by the HKICPA which are relevant to and effective for the Group's financial statements for the annual period beginning on or after 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKFRS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12 and HKAS 23

HKFRS 16 – Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It supersedes HKAS 17 "Leases" ("HKAS 17"), HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" ("HK(IFRIC)-Int 4"), HK(SIC)-Int 15 "Operating Leases-Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases of which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to sections (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial applying as an adjustment to the opening balance of retained earnings, if any, at the date of initial application. The comparative financial information presented for 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	Increase/ (Decrease) in ***HK$'000***
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets	**105,187**
Lease liabilities (non-current)	**36,594**
Lease liabilities (current)	**64,125**
Prepayments	**(4,468)**

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments as of 31 December 2018	105,428
Less: future interest expenses	(4,709)
Total lease liabilities as of 1 January 2019	100,719

The weighted average of the lessees' incremental borrowing rates applied to lease liabilities by the relevant group entities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.4% per annum.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	HK$'000
Right-of-use assets relating to:	
Operating lease recognised upon application of HKFRS 16	100,719
Reclassified from prepaid lease payments	4,468
Carrying amount as at 1 January 2019	105,187
By class:	
Rental premises	34,840
Office equipment	12,008
Travel buses	58,339
	105,187

Note: Upon application of HKFRS 16, the current portion of prepaid lease payments of travel buses was previously included in the line item of deposits, prepayments and other receivables amounting to approximately HK$4,468,000 was reclassified to right-of-use assets.

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation on right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows in the annual report.

(ii) *New definition of a lease*

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the "underlying asset") for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease component, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease component from lease component, and instead account for each lease component and any associated non-lease component as a single lease component.

The Group has elected not to separate non-lease component and account for all each lease component and any associated non-lease component as a single lease component for leases of the travel buses.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Subsequent to the commencement date, under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liability. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on straight-line basis over the shorter of useful lives and lease term.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings, if any, at the date of initial application (i.e. 1 January 2019). The comparative financial information presented in this announcement has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities as at 1 January 2019 for leases previously classified as operating lease applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating lease under HKAS 17 at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to those leases recognised in the consolidated statement of financial position immediately before the date of initial application, and discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 "Impairment of Assets" at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied a practical expedient that the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4.

Except as described above, the application of the new or amended HKFRSs below had no material impact on the consolidated financial statements.

HK(IFRIC)-Int23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12 "Income Taxes", by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met instead of at fair value through profit or loss.

Amendments to HKAS 19 – Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 *Effective for annual periods beginning on or after 1 January 2020*

2 *No mandatory effective date yet determined but available for adoption.*

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

4. SEGMENT REPORTING

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

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

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

- Hotel operation ("Hotel Business")

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

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

(a) **Business segments**

	Travel Related Business *HK$'000*	Hotel Business *HK$'000*	Total *HK$'000*
For the year ended 31 December 2019:			
Revenue			
From external customers	**1,682,389**	**45,939**	**1,728,328**
Inter-segment revenue	**(25,836)**	**25,836**	**–**
Reportable segment revenue	**1,656,553**	**71,775**	**1,728,328**
Reportable segment profit/(loss)	**29,444**	**(14,003)**	**15,441**
Depreciation on property, plant and equipment	**9,866**	**37,379**	**47,245**
Depreciation on right-of-use assets	**77,285**	**–**	**77,285**
Share of results of associates	**2,198**	**–**	**2,198**
Finance costs	**3,483**	**3,559**	**7,042**
Income tax expense/(credit)	**1,279**	**(4,183)**	**(2,904)**
Reportable segment assets	**477,572**	**612,652**	**1,090,224**
Reportable segment liabilities	**356,447**	**379,901**	**736,348**
Additions to non-current assets	**43,752**	**152,296**	**196,048**
Share of net assets of associates	**12,371**	**–**	**12,371**
For the year ended 31 December 2018:			
Revenue			
From external customers	1,735,154	41,460	1,776,614
Inter-segment revenue	(25,764)	25,764	–
Reportable segment revenue	1,709,390	67,224	1,776,614
Reportable segment profit/(loss)	39,345	(2,142)	37,203
Depreciation on property, plant and equipment	11,891	29,479	41,370
Share of results of associates	3,081	–	3,081
Finance costs	891	3,022	3,913
Income tax expense/(credit)	4,237	(6,484)	(2,247)
Reportable segment assets	422,460	487,814	910,274
Reportable segment liabilities	272,964	278,473	551,437
Additions to non-current assets	3,375	105,692	109,067
Share of net assets of associates	10,611	–	10,611

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

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**1,728,328**	1,776,614
Consolidated revenue	**1,728,328**	1,776,614

	2019	2018
	HK$'000	*HK$'000*
Profit before income tax		
Reportable segment profit	**15,441**	37,203
Other gain and loss	**1**	4
Unallocated corporate expenses	**(3,694)**	(4,263)
Consolidated profit before income tax	**11,748**	32,944

	2019	2018
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**1,090,224**	910,274
Unallocated corporate assets	**1,656**	2,202
Consolidated total assets	**1,091,880**	912,476

	2019	2018
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**736,348**	551,437
Unallocated corporate liabilities	**2,511**	2,888
Consolidated total liabilities	**738,859**	554,325

(c) Geographic information

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

	Revenue from external customers (by customer location)		**Specified non-current assets (by physical location)**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and Macau (place of domicile)	**1,647,231**	1,703,859	**76,586**	13,098
Japan	**78,199**	69,372	**577,010**	461,423
Others	**2,898**	3,383	**12,044**	9,866
	1,728,328	1,776,614	**665,640**	484,387

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

(d) Information about a major customer

The Group did not have any single customer contributed more than 10% of the Group's revenue during the year ended 31 December 2019 (2018: Nil).

(e) Disaggregation of revenue

	Travel-Related Business		**Hotel Business**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Primary geographical markets						
Hong Kong and Macau (place of domicile)	**1,647,231**	1,703,859	**–**	–	**1,647,231**	1,703,859
Japan	**6,424**	2,148	**71,775**	67,224	**78,199**	69,372
Others	**2,898**	3,383	**–**	–	**2,898**	3,383
	1,656,553	1,709,390	**71,775**	67,224	**1,728,328**	1,776,614
Timing of revenue recognition						
At a point in time	**188,828**	212,527	**–**	–	**188,828**	212,527
Transferred over time	**1,467,725**	1,496,863	**71,775**	67,224	**1,539,500**	1,564,087
	1,656,553	1,709,390	**71,775**	67,224	**1,728,328**	1,776,614

5. REVENUE AND OTHER INCOME AND GAIN, NET

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

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Package tours	**1,467,725**	1,496,863
FIT Products *(note)*	**17,827**	22,720
Ancillary travel related products and services *(note)*	**171,001**	189,807
Hotel room rental and ancillary services	**71,775**	67,224
	1,728,328	1,776,614

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

	2019	2018
	HK$'000	*HK$'000*
Gross proceeds received and receivable	**286,975**	360,216

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

	As at 31 December 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Trade receivables *(Note 10)*	**7,144**	10,079
Contract liabilities	**185,080**	150,215

	2019	2018
	HK$'000	*HK$'000*
Other income and gain, net		
Exchange gain, net	**2,437**	6,117
Handling income	**555**	582
Interest income on bank deposits	**222**	358
Rebate from a supplier	**351**	1,552
Sundry income	**914**	981
	4,479	9,590

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2019	2018
	HK$'000	*HK$'000*
Auditors' remuneration	**2,288**	2,193
Bad debts written off in respect of other receivables	**74**	–
Cost of inventories recognised as expenses	**13,598**	25,553
Depreciation on property, plant and equipment	**47,245**	41,370
Depreciation on right-of-use assets	**77,285**	–
Loss on disposal of property, plant and equipment	**57**	–
Gain on termination of lease	**4**	–
Operating lease rental for leases previously classified as operating leases under HKAS 17 in respect of:		
– Premises	**–**	28,029
– Office equipment	**–**	3,623
– Travel buses	**–**	60,789
Finance costs:		
– Interest expense incurred on lease liabilities	**3,355**	–
– Interest expense incurred on derivative financial instruments	**462**	–
– Interest expense incurred on bank borrowings	**3,583**	4,039
– Less: Imputed interest capitalised into construction in progress *(note 14)*	**(358)**	(126)
	7,042	3,913
Employee costs (including directors' emoluments):		
– Salaries and other benefits in kind	**135,236**	131,234
– Retirement scheme contributions	**5,941**	5,847
	141,177	137,081

7. INCOME TAX CREDIT

	2019	2018
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Tax for the year	**1,974**	3,992
– Over-provision in respect of prior year	**(1,436)**	(364)
	538	3,628
Current tax – Macau Complementary Tax		
– Tax for the year	**37**	123
Current tax – Taiwan Profit – Seeking Enterprise Income Tax		
– Tax for the year	**236**	549
Current tax – Japan Profits Tax		
– Tax for the year	**2,528**	2,467
Deferred tax		
– Credit to profit or loss for the year	**(6,216)**	(8,887)
	(2,877)	(2,120)

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

Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK$2 million for the years ended 31 December 2019 and 2018. The profit of group entities not qualifying for the two-tiered profits tax rates regime continued to be taxed at 16.5% for both years.

Macau Complementary Tax is calculated at 12% (2018: 12%) on the estimated assessable profit of a subsidiary operating in Macau for the year.

PRC Enterprise Income Tax is calculated at 25% (2018: 25%) on the estimated assessable profit of a subsidiary operating in the PRC for the year. The Group has no estimated assessable profit arising from the subsidiary operating in the PRC for the year ended 31 December 2019 (2018: Nil).

Taiwan Profit – Seeking Enterprise Income Tax is calculated at 20% (2018: 20%) on the estimated assessable profit of a subsidiary operating in Taiwan for the year ended 31 December 2019.

Subsidiaries operating in Japan are subject to corporate income tax, prefectural and municipal inhabitant taxes, and business tax (hereinafter collectively referred to as "Japan Profits Tax") in Japan, which, in aggregate, resulted in effective statutory income tax rates ranging from approximately 30.6% to approximately 34.6% (2018: approximately 31.1% to approximately 34.6%) for the year based on the existing legislation, interpretations and practices in respect thereof.

8. EARNINGS PER SHARE

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company	**14,001**	34,817

	2019	2018
	'000	*'000*
Number of shares		
Number of ordinary shares	**502,450**	502,450

Diluted earnings per share were the same as the basic earnings per share as the Company had no dilutive potential shares during the years ended 31 December 2019 and 2018.

9. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
2018 interim dividends of HK1 cent per share paid	**–**	5,024
2018 final dividends of HK4 cents (2018: 2017 final dividends of HK1 cent) per share paid	**20,098**	5,025
	20,098	10,049

Together with the 2018 interim dividends of HK1 cent per share and the 2018 final dividends of HK4 cents per share have been paid, the board of directors declared payment of a full-year dividend of HK5 cents per share for the year ended 31 December 2018. The directors do not recommend payment of any final dividend for the year ended 31 December 2019 (2018: HK4 cents).

10. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**7,144**	10,079

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**7,081**	9,672
91 – 180 days	**63**	326
181 – 365 days	**–**	81
Over 365 days	**–**	–
	7,144	10,079

The Group has a policy of granting trade customers with credit terms of generally 10 days to 90 days. The ageing analysis of the Group's gross trade receivables, based on due date, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Not yet past due	**1,371**	1,347
Past due within three months	**5,723**	8,334
Past due more than three months but within six months	**50**	317
Past due more than six months but within one year	**–**	81
	7,144	10,079

The maximum exposure to credit risk as at 31 December 2019 was the carrying amount mentioned above. Trade receivables that not yet past due related to a large number of independent customers that had a good track record of credit with the Group. In general, the Group does not hold any collateral or other credit enhancements over these balances.

The Group applies the simplified approach to provide for expected credit losses ("ECLs") prescribed by HKFRS 9, which permit the use of lifetime ECL provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. As at 31 December 2019, the directors of the Company consider ECLs against the gross amounts of trade receivables are immaterial.

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Non-current asset		
Deposits *(note)*	**814**	2,669
Current assets		
Other receivables	**25,151**	14,728
Deposits *(note)*	**11,155**	11,670
Prepayments	**144,722**	135,717
	181,028	162,115

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Group does not hold any collateral as security.

Note: The amount included rental deposits paid to a related company, Great Port, of approximately HK$2,117,000 (2018: HK$2,771,000). The amount due is unsecured, interest-free and repayable at the end of the rental periods.

12. TRADE PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**43,217**	55,105
91– 180 days	**2,238**	2,117
181 – 365 days	**1,818**	1,339
Over 365 days	**22**	188
	47,295	58,749

13. ACCRUALS AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Accrued expenses	**13,303**	13,406
Other payables	**44,091**	50,734
	57,394	64,140

14. BANK BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Current		
Bank borrowings, secured	**37,620**	34,836
Non-current		
Bank borrowings, secured	**335,255**	234,802
	372,875	269,638

As at 31 December 2019, the bank borrowings of approximately HK$372,875,000 (2018: HK$269,638,000) were secured by charges over certain property, plant and equipment and pledged bank deposits with aggregate carrying amounts of approximately HK$386,103,000 (2018: HK$287,606,000) and approximately HK$309,000 (2018: Nil) respectively. In addition, among these bank borrowings, an amount of approximately HK$4,862,000 (2018: HK$6,585,000) was also secured by a property of a former non-controlling shareholder of a subsidiary in Japan.

As at 31 December 2019, the Group accepted the facilities letters issued by banks in Hong Kong and Macau offering for grant of guarantees, general banking facilities, foreign exchange facilities and corporate credit cards in aggregate amounts of HK$142,438,000 (2018: HK$142,438,000) and the facilities were secured by:

- corporate guarantees provided by the Company;
- undertakings provided by Mr. Yuen Man Ying, Mr. Huen Kwok Chuen, Mr. Leung Shing Chiu and Ms. Lee Po Fun; and
- a charge over deposits owned by the Group of approximately HK$5,672,000 (2018:HK$5,609,000).

As at 31 December 2019 and 2018, none of the bank borrowing has been drawn down in relation to the above facilities letters issued by banks in Hong Kong and Macau.

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

The bank borrowings are subsequently measured at amortised cost using effective interest rate of 0.79% to 1.67% (2018: 1.22% to 1.67%) per annum and imputed interest of approximately HK$358,000 (2018: HK$126,000) was capitalised into construction in progress during the year.

At the end of each reporting period, total bank borrowings were scheduled to repay as follows:

	2019	2018
	HK$'000	*HK$'000*
Analysed into *(note)***:**		
Within one year	**37,620**	34,836
Over one year, but within two years	**34,844**	29,176
Over two years, but within five years	**101,664**	85,607
Over five years	**198,747**	120,019
	372,875	269,638

Note: The amounts due shown in the repayment schedule are based on the scheduled repayment dates set out in the loan agreement.

Details of the bank borrowings as at 31 December 2019 are stated below:

	Principal amount *HK$'000*	**Interest rate**	**Repayment terms**
Loan denominated in Japanese Yen ("JPY")	248,172	3-month Tokyo Interbank Offered Rate + 1.0% per annum	Payable within 12 years
Loan denominated in JPY	4,862	Fixed rate 1.2% per annum	Payable within 5 years
Loan denominated in JPY	119,841	3-month Tokyo Interbank Offered Rate + 0.5% per annum	Payable within 26 years

Details of the bank borrowings as at 31 December 2018 are stated below:

	Principal amount *HK$'000*	**Interest rate**	**Repayment terms**
Loan denominated in JPY	263,053	3-month Tokyo Interbank Offered Rate + 1.0% per annum	Payable within 12 years
Loan denominated in JPY	6,585	Fixed rate 1.2% per annum	Payable within 5 years

15. SHARE CAPITAL

	Number *'000*	**Amount** *HK$'000*
Authorised		
Ordinary shares of HK$0.1 each		
At 1 January 2018, 31 December 2018 and 2019	1,000,000	100,000

	Number *'000*	**Amount** *HK$'000*
Ordinary shares, issued and fully paid		
At 1 January 2018, 31 December 2018 and 2019	502,450	50,245

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

During the Year, the Company's operations were adversely impacted by deteriorating general economic conditions and market sentiment in Hong Kong, which affected the Company's travel business markedly where demand was weakened and decimated the Company's profitability in the second half of the Year. In this challenging environment, despite gross profit margin of the Group increased from 17.7% to 18.1% under management's focused effort in adopting competitive pricing strategy towards the market changes, revenue decreased by 2.7% from approximately HK$1,776.6 million in 2018 to approximately HK$1,728.3 million in 2019, gross profit decreased by 0.9% from approximately HK$315.3 million in 2018 to approximately HK$312.5 million in 2019. The operating result of the Company had also constrained by the increase in operating expenses of the Group's hotel business, which mainly arose from the increase in depreciation on property, plant and equipment following the completion of the construction work of the Group's hot spring bath building in March 2019. Profit attributable to owners of the Company decreased by 59.8% to approximately HK$14.0 million in 2019 (2018: HK$34.8 million).

Basic earnings per share for profit attributable to owners of the Company for 2019 was HK2.79 cents (2018: HK6.93 cents). Net proceeds from the initial public offering of the shares of the Company ("IPO") had been fully utilised on intended uses of proceeds before June 2019. Details will be discussed in the sub-section headed "Management Discussion and Analysis – Use of proceeds from the IPO" below.

BUSINESS OVERVIEW

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

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

	2019			2018		
	Revenue	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	HK$'000	***HK$'000***	*%*	*HK$'000*	*HK$'000*	*%*
Package tours						
– Japan	**900,682**	**124,231**	**13.8**	926,968	123,659	13.3
– Non-Japan	**567,043**	**67,425**	**11.9**	569,895	66,249	11.6
Total package tours	**1,467,725**	**191,656**	**13.1**	1,496,863	189,908	12.7
FIT Products and ancillary travel related products and services	**188,828**	**68,770**	**36.4**	212,527	75,461	35.5
Hotel operation	**71,775**	**52,067**	**72.5**	67,224	49,920	74.3
Total	**1,728,328**	**312,493**	**18.1**	1,776,614	315,289	17.7

PACKAGE TOURS

Revenue from package tours mainly represents tour fees received from customers for outbound package tours. The main source of the Group's revenue is derived from package tours, which contributed 84.9% to the Group's total revenue during 2019 (2018: 84.2%).

Japan-bound package tours remain the major source of the Group's revenue, which contributed 52.1% (2018: 52.2%) to the Group's total revenue during 2019. Demand for Japan-bound package tours was weakened by deteriorating general economic conditions and market sentiment in Hong Kong, number of customers decreased from 98,679 in 2018 to 91,718 in 2019, whilst revenue decreased by 2.8% from approximately HK$927.0 million in 2018 to approximately HK$900.7 million in 2019. Nevertheless, gross profit and gross profit margin increased slightly by 0.5% and 0.5 percentage point respectively as compared to 2018 by adopting competitive pricing strategy towards the market changes.

Impact of deteriorating general economic conditions and market sentiment in Hong Kong affected not only the performance of Japan-bound package tours, but also hindered the efforts put on performance of non-Japan-bound package tours. Non-Japan-bound package tours contributed 32.8% (2018: 32.0%) to the Group's total revenue during 2019. Number of customers for non-Japan-bound package tours decreased from 82,202 in 2018 to 77,900 in 2019 and revenue decreased slightly by 0.5% from approximately HK$569.9 million in 2018 to approximately HK$567.0 million in 2019, whilst gross profit and gross profit margin increased by 1.8% and 0.3 percentage point as compared to 2018. Notwithstanding that tours bound to long haul destination were still well-perceived by customers where reducing number of terrorist attacks in 2019 stimulated customers' sentiments, the improved results were eroded by decline in demand for tours bound to Southeast Asia region impacted heavily by deteriorating general economic conditions and intensifying impacts of social instability, and tours bound to Australia impacted heavily by catastrophic bushfire in the second half of 2019 and cessation of certain flight routes or reduction of scheduled flights by airlines.

FIT PRODUCTS AND ANCILLARY TRAVEL RELATED PRODUCTS AND SERVICES

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

Subject to influence by intensive market competition from budget airlines and online sales platforms and deteriorating general economic conditions and market sentiment in Hong Kong, revenue from FIT Products and ancillary travel related products and services decreased by 11.2% from approximately HK$212.5 million in 2018 to approximately HK$188.8 million in 2019, it contributed 10.9% (2018: 12.0%) to the Group's total revenue during 2019. Gross profit decreased by 8.9% whilst gross profit margin increased by 0.9 percentage point as compared to 2018.

HOTEL OPERATION

The Group's first hotel, Osaka Hinode Hotel, provides quality hospitality services for guests worldwide. In April 2019, hot spring bath building beside Osaka Hinode Hotel starts to commence its operation which enables guests to enjoy hot spring with relaxation near the hotel. Revenue from hotel operation mainly represents income generated from letting the hotel rooms, which contributed 4.2% to the Group's total revenue during 2019 (2018: 3.8%). On the Company's continual endeavour to provide guests with unique and comfortable Japanese-style accommodations, higher average hotel room occupancy rate was recorded from 59.9% in 2018 to 69.3% in 2019. Revenue increased by 6.8% from approximately HK$67.2 million in 2018 to approximately HK$71.8 million in 2019 whilst gross profit increased by 4.3% from approximately HK$49.9 million in 2018 to approximately HK$52.1 million in 2019, despite gross profit margin decreased slightly by 1.8 percentage points.

FINANCIAL REVIEW

KEY FINANCIAL RATIOS

	2019	2018
Gross profit margin	**18.1%**	17.7%
Operating profit margin	**0.9%**	2.1%
Net profit margin*	**0.8%**	2.0%
Interest coverage ratio	**4.6 times**	9.4 times
Return on total assets*	**1.3%**	3.8%
Return on equity attributable to owners of the Company*	**4.0%**	9.8%
Current ratio	**1.1 times**	1.3 times
Gearing ratio	**34.1%**	29.6%

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

REVENUE AND GROSS PROFIT

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

SELLING EXPENSES

Frontline employee costs, advertising and promotion expenses for media advertising and promotional activities are key elements of selling expenses. Selling expenses of the Group decreased by 3.2% to approximately HK$83.7 million (2018: HK$86.4 million) which was primarily contributed by the decrease in advertising and promotion expenses for media advertising and promotional activities in the second half of 2019 as compared to 2018, with marketing strategy closely adjusted with weak market sentiments in Hong Kong.

ADMINISTRATIVE EXPENSES

Employee costs, directors' remuneration, bank charges, rent and rates and management fee and depreciation on property, plant and equipment contributed to majority of administrative expenses. Administrative expenses of the Group increased by 5.9% to approximately HK$216.7 million (2018: HK$204.7 million), the increase was primarily contributed by increase in staff costs for travel related business of approximately HK$5.3 million, increase in expenses for hotel business of approximately HK$12.4 million which was mainly driven by the increase in depreciation on hotel's property, plant and equipment of approximately HK$7.9 million, cleaning expenses of approximately HK$1.5 million and sundry taxes of approximately HK$1.4 million following the completion of hot spring bath building construction in March 2019, partially offset by decrease in directors' remuneration of approximately HK$1.7 million.

FINANCE COSTS

Imputed interests of approximately HK$358,000 (equivalent to approximately JPY5.0 million) incurred on the bank borrowings for construction of hot spring bath building and a hotel building located in Okinawa were capitalised into construction in progress in 2019 (2018: HK$126,000 (equivalent to approximately JPY1.8 million) on the bank borrowings for construction of hot spring bath building). Upon the completion of hot spring bath building construction in March 2019, imputed interests on construction of hot spring bath building were transferred thereupon to property, plant and equipment.

After capitalisation of the above-mentioned imputed interests, finance costs of approximately HK$3.2 million was incurred (2018: HK$3.9 million on the bank borrowings for construction and decoration of hotel building, acquisition of travel bus and daily operations of travel related business) on the bank borrowings which were used to finance the construction and decoration of hotel buildings and hot spring bath building, acquisition of travel buses and daily operations of travel related business.

Following the adoption of HKFRS 16 “Leases” by the Group on 1 January 2019, finance costs incurred on lease liabilities in 2019 amounting to approximately HK$3.4 million (2018: Nil) was recorded.

INCOME TAX CREDIT

The income tax credit of the Group in 2019 amounted to approximately HK$2.9 million (2018: HK$2.1 million), it was resulted from the decrease in income tax of approximately HK$3.4 million offset the decrease in deferred tax credit of approximately HK$2.6 million.

ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The impact of the adoption of HKFRS 16 “Leases” have been assessed and opening adjustments have been made of which details are set out in note 3 to the financial information. The other new or amended HKFRSs that are effective from 1 January 2019 did not have material impact on the Group’s accounting policies.

INTEREST COVERAGE RATIO

Interest coverage ratio of the Group decreased from 9.4 times in 2018 to 4.6 times in 2019. This was mainly contributed by decrease in profit before interest expenses and taxation resulted from the factors driven to higher administrative expenses as mentioned above, and more finance costs on bank borrowings were borne for hotel business as compared to 2018.

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

GROSS PROFIT MARGIN, OPERATING PROFIT MARGIN AND NET PROFIT MARGIN

For the increase in gross profit margin, please refer to the factors already discussed in the sub-section headed "Management Discussion and Analysis – Business Overview" above.

Operating profit margin of the Group decreased from 2.1% in 2018 to 0.9% in 2019 whilst net profit margin decreased from 2.0% in 2018 to 0.8% in 2019, these were primarily attributable to higher administrative expenses and finance costs driven by the factors as mentioned above.

CURRENT RATIO

As at 31 December 2019, the Group's current ratio was 1.1 times (as at 31 December 2018: 1.3 times). The slight decrease in current ratio was mainly attributable to increase in contract liabilities of approximately HK$34.9 million and lease liabilities of approximately HK$47.3 million, offset by the decrease in cash at banks and on hand by approximately HK$23.9 million.

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio was 34.1% (as at 31 December 2018: 29.6%) as the Group had further drawn down the bank borrowings, whilst its impact was net-off by additions of property, plant and equipment, construction in progress for construction of hotel located in Okinawa and recognition of right-of-use assets following the adoption of HKFRS 16 in 2019.

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

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

Return on total assets and return on equity attributable to owners of the Company in 2019 were 1.3% (2018: 3.8%) and 4.0% (2018: 9.8%) respectively. The decrease in return on total assets and return on equity were mainly due to decrease in profit attributable to owners of the Company in 2019 as compared to 2018.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

To finance the construction of hotel located in Okinawa, the Group had withdrawn bank borrowing of approximately JPY1,735.0 million (equivalent to approximately HK$122.4 million), the carrying amount of the bank borrowing as at 31 December 2019 amounted to approximately JPY1,682.9 million (equivalent to approximately HK$119.8 million) (as at 31 December 2018: Nil).

Also, for construction of hot spring bath building which was completed in March 2019, the Group had already withdrawn bank borrowings of approximately JPY349.0 million (equivalent to approximately HK$24.7 million) in 2018, and made further withdrawal of approximately JPY151.0 million (equivalent to approximately HK$10.6 million) in 2019, which in turn increased the total bank borrowings withdrawn by the Company on construction of hot spring bath building to JPY500.0 million thereon. The carrying amount of the bank borrowings as at 31 December 2019 amounted to approximately JPY471.5 million (equivalent to approximately HK$33.6 million) (as at 31 December 2018: JPY346.1 million (equivalent to approximately HK$24.5 million)).

Regarding to the construction of Osaka Hinode Hotel completed in 2017, the carrying amount of the bank borrowings as at 31 December 2019 amounted to approximately JPY3,013.6 million (equivalent to approximately HK$214.6 million) (as at 31 December 2018: JPY3,365.7 million (equivalent to approximately HK$238.5 million)).

For acquisition of five travel buses in 2017, the carrying amount of the bank borrowing as at 31 December 2019 amounted to approximately JPY68.3 million (equivalent to approximately HK$4.9 million) (as at 31 December 2018: JPY92.9 million (equivalent to approximately HK$6.6 million)).

To meet short-term needs for travel related business operation, the Group had withdrawn bank borrowing of HK$10.0 million in 2019 (2018: HK$214.4 million), it had been fully paid and there was no bank borrowing as at 31 December 2019 (as at 31 December 2018: Nil).

Other than the above, the Group financed its operation with its own capital, with the total equity attributable to owners of the Company as at 31 December 2019 amounted to approximately HK$350.6 million (as at 31 December 2018: HK$355.0 million). As at 31 December 2019, the Group's cash at banks and on hand amounted to approximately HK$206.1 million (as at 31 December 2018: HK$230.0 million). Cash at banks and on hand were mainly denominated in HKD accounting for approximately 53.4% (as at 31 December 2018: 50.9%), MOP accounting for approximately 10.3% (as at 31 December 2018: 8.1%), Euro accounting for approximately 7.2% (as at 31 December 2018: 6.3%), TWD accounting for approximately 2.8% (as at 31 December 2018: 3.0%), Renminbi accounting for approximately 2.0% (as at 31 December 2018: 2.3%) and JPY accounting for approximately 17.7% (as at 31 December 2018: 23.3%).

PLEDGE OF ASSETS

As at 31 December 2019, the Group had pledged bank deposits of approximately HK$6.7 million (as at 31 December 2018: HK$6.3 million), majority of which were pledged to certain licensed banks in Hong Kong and Macau to secure letters of guarantees issued to certain third parties on behalf of the Group. Together with corporate guarantee provided by the Company and undertakings provided by the executive Directors to maintain the control over the management and business of the Group, the Group's total guarantees amounted to approximately HK$22.5 million (as at 31 December 2018: HK$17.9 million), which were mainly issued to the Group's suppliers, such as airlines and hotels, to guarantee the Group's trade payable balances due to the suppliers.

Also, as at 31 December 2019, property, plant and equipment of Osaka Hinode Hotel, hot spring bath building and hotel construction project in Okinawa, travel buses and certain pledged bank balances in Japan of approximately HK$386.4 million in total (as at 31 December 2018: HK$287.6 million) were pledged for the bank borrowings as mentioned in the sub-section headed "Management Discussion and Analysis – Financial Review – Capital Structure, Liquidity and Finance Resources".

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2019 (as at 31 December 2018: Nil).

CAPITAL COMMITMENTS AND FUTURE CAPITAL EXPENDITURES

The Group had capital commitments of construction work and relevant preliminary works for hotel development in Okinawa of approximately HK$134.9 million (equivalent to approximately JPY1.9 billion) as at 31 December 2019 (as at 31 December 2018: HK$4.8 million (equivalent to approximately JPY68.3 million) for preliminary construction work for hotel development in Okinawa), it mainly included the residual outstanding commitment for the construction contract for the new hotel in Okinawa with contract sum of JPY3,750.0 million as disclosed in the Company's announcement dated 12 March 2019.

As at 31 December 2019, the Group had capital commitment of approximately HK$1.2 million (as at 31 December 2018: HK$2.5 million) to acquire property, plant and equipment for its travel related business.

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

CONTINGENT LIABILITIES

The Directors considered that there were no material contingent liabilities as at 31 December 2019 (as at 31 December 2018: Nil).

FOREIGN CURRENCY EXCHANGE RISK AND TREASURY POLICIES

Foreign currency exchange risk exposure is encountered by the Group to the extent that receipt from customers and payments to suppliers may not be reconciled, subject to prevailing foreign currency fluctuations. As at 31 December 2019, the Group had one floating to fixed interest rate swap contract with a bank in Japan to hedge its exposure to interest rate risk and cash flow changes of its floating-rate bank borrowings. Other than the aforesaid swap contract, the Group did not rely on hedging arrangements. The Group had implemented foreign exchange risk management procedures to closely monitor the risk exposure. The procedures were established to prevent carrying excessive cash balance in foreign currencies, of which the purchase amounts were limited to the corresponding costs of travel elements based on estimated sales amount for one week, to cover the foreign exchange risk exposure in connection. The objective of our foreign exchange risk management procedures is to cover the foreign exchange risk exposure in connection with those costs of travel elements denominated in foreign currencies to be incurred for one week. The procedures do not allow us to exercise any judgement over the future direction of foreign exchange fluctuation and are strict procedural steps for our operational staff to follow. The Group will review the procedures from time to time and make appropriate changes when necessary. Other than the transactional foreign currency exchange risk, assets and liabilities of the group entities are mainly denominated in its respective functional currency. The Group's treasury management policy is to place surplus cash into bank deposits with licensed banks in mainly Hong Kong, Macau and Japan. Also, working capital are centrally managed to ensure proper and efficient collection and deployment of funds, and sufficient funds to settle liabilities when they fall due. Net exchange gain of approximately HK$2.4 million was recorded in 2019 (2018: HK$6.1 million).

HUMAN RESOURCES AND EMPLOYEE ' S REMUNERATION

As at 31 December 2019, the Group had a total workforce of 625 employees (as at 31 December 2018: 635), of which 196 (as at 31 December 2018: 207) were full-time tour escorts. Employees' remuneration packages are determined with reference to the market information and individual performance and will be reviewed on a regular basis. The remuneration policy will be reviewed by the Board from time to time. Emoluments of Directors are determined by the remuneration committee of the Board after considering the Group's operating results, individual performance and comparing with market conditions. In addition to basic remuneration, the Group also provides medical insurance, provident funds and other benefits in kind to the employees. To intensify personnel training and development, the Group provides a series of employee training programmes, which aims to accelerate professional growth and identify competences and talents of diversified teams. Through operating talent development scheme and also Youth Upward Mobility Mentorship Program, the Group has successfully extended the recruitment channels and enhanced the opportunities on the hiring of high quality and suitable staff. High potential staff will be groomed and developed intensively according to the promotion plan towards the management level. To attract and retain the suitable personnel for the development of the Group, the Group has adopted a share option scheme since November 2014. Pursuant to the share option scheme, share options may be granted to eligible employees of the Group as a long-term incentive. No share options were granted, cancelled, lapsed or exercised in 2019. During 2019, there was no significant change in the remuneration policies, bonus, share option scheme and training scheme of the Group.

EVENTS AFTER REPORTING DATE

Outbreak of novel coronavirus ("COVID-19") since January 2020 across countries gives a serious shock to tourism industry, certain countries and territories have imposed different levels of travel restrictions and quarantine arrangements to travellers that significantly affect customer sentiments and demand for travel related products, services and hotel accommodations. In early 2020, various measures were imposed by China government and Hong Kong government on prevention the spread of COVID-19 contagious disease, such as travel restrictions, home confinement and new border control measures. There was temporarily suspension of service for the Group's subsidiary located in PRC, the Directors estimated the extent of influence is relatively low to the Group. In mid-March, Hong Kong government had issued the red outbound travel alert on all overseas countries and territories and also imposed compulsory quarantine orders on all persons arriving from all places outside China for 3 months starting from 19 March 2020. In response to this sudden change, the Group had cancelled and suspended package tours and FIT Products in different countries and territories from sale by phases with the last departure date till mid-June, the Group also implements cost-saving measures to reduce operational costs, such as bargaining for rent concession, making no-pay leaves arrangement for staff, suspension of services in some branches, and also suspension of hotel accommodation service in Osaka Hinode Hotel from mid-March to end of April. It is expected that the Group's revenue and other financial results for the six months ending 30 June 2020 will be adversely affected. Under the circumstance that there is high degree of uncertainties on the duration of the outbreak and action to be taken by various travel destinations that the influence is not predictable, the related impact on the Group's operation, financial performance, cash flows and financial position will be material, but cannot be reasonably estimated as at the date of this announcement. Notwithstanding the potential risks or uncertainties the Company may face, the Company pays its best effort on implementation of preventive measures in office environment and development of contingency plans to maintain its operation. The Company is also closely monitoring the immigration restrictions, quarantine measures and home confinement that other countries imposed to outbound travellers, and responds actively to comply with regulations and rules in place.

OUTLOOK

As always, the Group does its utmost to enable its customers to obtain unique and tailored travel experience through its quality services and products in well-diversified business mix. Following the operation of the Group's first hotel "Osaka Hinode Hotel" in November 2017, the Group is now constructing a new hotel in Okinawa with construction work commenced from March 2019 as disclosed in the Company's announcement dated 12 March 2019, and it is expected that the hotel construction work will be completed and put into operation in the fourth quarter of 2020.

In 2019, the Group released a new brand "Guru & Guru" which allows its customers to customise their itineraries on their preferences, it is expected that more new product mix and featured products will be developed and explored.

USE OF PROCEEDS FROM THE IPO

The net proceeds from the IPO of the Company after deducting underwriting commissions and related expenses were approximately HK$115.8 million and had been fully utilised before June 2019. The following table lists out the details of use of net proceeds from the IPO:

Use of Proceeds		**Amounts utilised up to 31 December 2019** *HK$'000*
(i)	Enhancing sales channel	
	– Refurbishment and face lifting of existing branches	**9,200**
	– Development of a comprehensive online web portal	**17,400**
(ii)	Promoting brand image and recognition through market initiatives	
	– Conducting marketing initiatives with focus on conventional media channels	**9,300**
	– Employing featured products or signature tours marketing campaigns with suitable spokespersons	**8,100**
	– Launching reward and incentive scheme	**11,500**
(iii)	Strengthening operational infrastructure	
	– Improving management information system by implementing enterprise resources planning system	**13,900**
	– Arranging charter flights to destination not served by scheduled flights	**25,400**
	– Attracting and recruiting experienced employees	**5,800**
(iv)	Developing overseas wedding tours	**5,700**
(v)	For working capital and other general corporate purposes	**9,500**
		115,800

CORPORATE GOVERNANCE PRACTICES

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

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

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SCOPE OF WORK OF BDO LIMITED

The financial figures contained in this announcement in respect of the Group's results for the Year have been agreed by the Company's external auditor, BDO Limited, as to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by BDO Limited on this announcement.

REVIEW BY AUDIT COMMITTEE

The annual results of the Group for the Year have been reviewed by the audit committee of the Board.

AUDIT OPINION

BDO Limited issued an opinion with an emphasis of matter on the consolidated financial statements of the Group for financial year 2019. An extract of the independent auditor's report is set out in the section headed "EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT" below.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to the consolidated financial statements, which discloses that the Group's operations, financial performance, cash flows and financial position for the year 2020 shall be adversely affected by the severe measures taken by the governments and authorities in many cities and countries in the globe after the reporting date of 31 December 2019 in response to the pandemic of the coronavirus COVID-19. The negative financial impacts caused by these severe measures to the Group indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

DIVIDEND

According to the Company's existing divided policy, the Company, subject to consideration of, among other things, its results of operations, cash flows and financial condition, operating and capital requirements and such other factors which the Directors deem relevant, pay annual dividends of not less than 50% of the Group's consolidated profit attributable to the shareholders of the Company. Having considered, among other factors, the current financial and operational conditions of the Group (in particular, those conditions as set out in the sub-section headed "Events after Reporting Date" in relation to the impact of COVID-19 to the financial position of the Group), the Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK4 cents per share).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company ("AGM") will be held on Friday, 29 May 2020. For details of the AGM, please refer to the Notice of AGM which is expected to be published in late April 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed on the dates as set out below:

Latest time to lodge transfer documents for registration with the Company's registrar	At 4:30 p.m. on Monday, 25 May 2020
Closure of register of members of the Company	Tuesday, 26 May 2020 to Friday, 29 May 2020 (both days inclusive)

During the above closure period of the register of members of the Company, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than the aforementioned latest time.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report of the Company for the Year will be despatched to the shareholders of the Company and published on the above websites in late April 2020.

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

Hong Kong, 25 March 2020

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