



**ET-CHINA.COM INTERNATIONAL HOLDINGS LIMITED**

("Et-china", "the Group" or "the Company")

**Final results for the year ended 31 December 2009**

**Interim Chairman and CEO Statement**

I am pleased to announce the Group's third full year results as a public company. It has been another challenging year for the Company in terms of the operating environment but the Group has adapted well to adverse external conditions, such as financial crisis starting from end of 2008 and H1N1 health scare, and has made significant progress at both of its operating divisions. We have emerged from the year as the travel services market's dominant leader in South China in terms of revenue.

**Results**

The Group delivered a double digit growth in top line performance in 2009 despite a number of external adverse conditions. Overall, Group revenue for 2009 reached RMB 1,909.1 million with a gross profit of RMB 211.4 million. Although the Group achieved only a modest 10% revenue improvement due to the reasons noted above, gross profits increased by 15% reflecting a higher gross profit margin of 11.07% compared to 10.61% in 2008. The overall operating loss has been reduced from RMB 64.4 million in 2008 to RMB 13.2 million, a reduction of 80%. Including finance costs, the total loss for the year has been reduced by 62% from RMB 83.9 million in 2008 to RMB 31.5 million in 2009.

GZL generated net revenue of RMB 1,859.0 million and a gross profit of RMB 182.6 million, representing an increase of approximately 9% and 10% respectively over the prior year. Its re-instated or normalized operating profit has increased by 24% to RMB 12.1 million over 2008. Net profit for the year (including the Grandbuy Department share disposal gain and other incomes) has increased from RMB 13.8 million to RMB 40.9 million in 2009. It is a solid performance by GZL, given its business was mostly affected by travel restriction under H1N1 and consumer confidence during the global financial crisis during the year under review. The split of travel destinations by revenue contribution remained broadly similar to that of 2008, being approximately 50% outbound with the balance represented by domestic, inbound and others although there was a continued reduction in the inbound segment which is now below 5% of overall revenue.

The wholly owned Et-china subsidiary, which is the Group's primary FIT (frequent independent traveler) and corporate traveler business, saw its revenue decrease by 32% to RMB 29 million but its gross profit increased by 37% to RMB 12.9 million. This is

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primarily due to the continuing refocus on FIT and direct customers away from the previous group package travel and wholesale air ticketing businesses. As a result, this subsidiary has seen its gross profit margin double from 22% to 44% in 2009. In 2009, Et-china has also undergone an integration exercise with the newly acquired online business of Beijing Yooe.com Limited. Although the combined business did not achieve the merged revenue target, it did achieve the cost reduction target by reducing overall operating cost by 40% in 2009. The adjusted or normalized operating loss was reduced by 70% to RMB 18.9 million from RMB 63.1 million in 2008. The loss after tax for the period was RMB 34.0 million, which is a 42% improvement on the loss of RMB 58.7 million in 2008.

The e-JV with China Southern Airlines, achieved a 43% increase in net revenues to RMB 47.2 million and 29% increase in gross profit to RMB 25.8 million. It has made a net profit of RMB 2.8 million, an increase of 62% over 2008. The result of the e-JV has been proportionately consolidated into the Group's consolidated financial statements by 49%.

Unfortunately in March of this year we identified a fraud which had been committed by an employee in GZL during the course of 2009. A provision of RMB 6.2 million has been made in the results to 31 December 2009. A number of actions including changes in financial management personnel have been taken to improve controls and ensure such an incident does not occur again.

At the end of 2009, the combined cash and cash equivalent in the Group was RMB 281.7 million (2008: RMB 185.3 million). The net cash position was RMB184.8 million (2008: RMB 147.1 million).

## **Key Events**

The Company completed the acquisition of Beijing Yooe.com Limited in March 2009. The total consideration paid was RMB 5 million in cash and an issuance of 1,561,306 ETCI shares to Yooee.com founding management. This acquisition has established the Company's presence in Beijing and obtained a team of highly effective online travel executives. On 15th January 2010, Et-china launched a DIY or pure play online model in air booking and subsequently on 15th March 2010 a new model in hotel booking. The DIY model essentially saw the Company giving rebates to FIT customers completing their transaction online without significant interaction with customer services. This has made the Company's air and hotel offering more attractive in price but at the same time reducing service cost incurred by the Company due to the minimal customer service requirement. The Et-china management has seen booking growth in excess of 200% since the launch of this new model.

In June 2009, Kuoni Travel Holding Limited ("Kuoni"), one of the largest global leisure travel companies, acquired a 31.8% stake in the Company from an existing shareholder; Gandhara Master Fund Limited. In February 2010, Kuoni further increased its stake to 32.5% by buying shares from GSPAN Limited. At the same time, Kuoni also acquired

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the interest in the convertible bond which was owned by GSPAN. We believe that with Kuoni as a significant shareholder it will give us an opportunity to create a strategic alliance with an established global tour operator to capitalise on growth opportunities in our respective inbound and outbound businesses.

## **Outlook**

The Chinese economy has managed to recover rather rapidly from the global financial crisis in 2009. It is going through a structural change shifting from an export-driven economy to a domestic consumption driven economy. With a GDP growth of 8.7% in 2009, the economy is expected to return to double-digit growth in 2010.

We believe the global financial crisis is finally behind us in China. 2010 will present tremendous opportunities to the Group due to the following factors:

1. The Chinese government has positioned the travel and tourism industry as a strategic pillar industry in its November 2009 Cabinet meeting. This is very encouraging as it would mean that substantial investments would be made by the government to stimulate growth in the industry. The government would also encourage more investments from private sector and foreign capital in the sector;
2. The Chinese government has actively promoting domestic consumption since 2009 and has made domestic travel a key area for such promotion; and
3. A number of international events in China should stimulate travel demand such as the Shanghai World Expo in May 2010 which will last for 6 months as well as the Asian Games in Guangzhou in 2010.

The management has seen promising sign in the first quarter of this year with the Company's unaudited revenue increasing by 21% to RMB 576 million. The Group has seen its EBITDA increased by 3.8 times to RMB 5.31 million. GZL has achieved record level of revenue in February 2010, reaching RMB 328 million thanks to a very robust trading during the Chinese New Year period. For the first quarter, GZL has seen its revenue growing by 22% to RMB 563 million and its EBITDA growing by 77% to RMB 13 million. The Company will continue to expand its business across China, while enhancing internal management and control to improve operating efficiency.

With the global financial crisis gradually coming to an end and China resuming its double digit growth, the Board can look forward to a better business environment with an increasing degree of confidence in 2010.

**Matthew Ng**  
**CEO, President and Interim Chairman**  
**28 April 2010**

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**Consolidated income statement for the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	1,909,066	1,740,589
Direct operating costs	(1,697,661)	(1,555,981)
<b>Gross profit</b>	<u>211,405</u>	<u>184,608</u>
Other operating income	32,019	4,744
Selling, general and administrative expenses	(256,602)	(253,753)
<b>Result from operating activities</b>	<u>(13,178)</u>	<u>(64,401)</u>
Finance income	10,722	24,923
Finance expense	(23,704)	(53,681)
<b>Net finance expense</b>	<u>(12,982)</u>	<u>(28,758)</u>
Share of profit / (loss) of associates, net of income tax expense	101	(78)
<b>Loss before income tax expense</b>	(26,059)	(93,237)
Income tax (expense) / credit	(5,430)	9,319
<b>Loss for the year</b>	(31,489)	(83,918)
<b>Other comprehensive income</b>		
Foreign currency translation differences for foreign operations	(9,903)	19,916
Other comprehensive income for the year, net of income tax expense	(9,903)	19,916
<b>Total comprehensive income for the year</b>	<u>(41,392)</u>	<u>(64,002)</u>

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**Consolidated balance sheet at 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Assets</b>		
Property, plant and equipment	55,342	54,720
Intangible assets	50,170	47,067
Investment properties	10,061	11,175
<b>Total non-current assets</b>	<b>148,425</b>	<b>183,623</b>
Inventories	18,858	19,610
Trade receivables	79,307	77,756
Deposits, prepayments and other receivables	131,558	104,817
Fair value of foreign exchange forward contracts	992	3,086
Tax recoverable	-	1,371
Amount due from a director	-	-
Pledged deposits	246,582	126,633
Cash and cash equivalents	281,739	185,352
<b>Total current assets</b>	<b>759,036</b>	<b>518,625</b>
<b>Total assets</b>	<b>907,461</b>	<b>702,248</b>

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**Consolidated balance sheet at 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Equity</b>		
Share capital	-	-
Share premium	203,396	192,508
Other reserves	141,968	147,721
Accumulated losses	(282,997)	(241,754)
<b>Total equity attributable to owners of the Company</b>	<b>62,367</b>	<b>98,475</b>
Non-controlling interest	66,245	65,122
<b>Total equity</b>	<b>128,612</b>	<b>163,597</b>
<b>Liabilities</b>		
Deferred income	1,070	1,070
Deferred tax liabilities	8,519	19,604
Loans and borrowings	60,000	39,064
Fair value of conversion option of convertible loan notes	473	5,236
<b>Total non-current liabilities</b>	<b>70,062</b>	<b>64,974</b>
Trade payables	124,149	84,078
Accrued expenses and other payables	286,482	259,986
Income tax payable	12,619	-
Fair value of foreign exchange forward contracts	437	1,509
Amounts due to directors	1,651	2,192
Loans and borrowings	283,449	125,912
<b>Total current liabilities</b>	<b>708,787</b>	<b>473,677</b>
<b>Total liabilities</b>	<b>778,849</b>	<b>538,651</b>
<b>Total equity and liabilities</b>	<b>907,461</b>	<b>702,248</b>

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## Consolidated cash flow statement for the year ended 31 December 2009

	2009	2008
	RMB'000	RMB'000
<b>Cash flows from operating activities</b>		
Net loss for the year	(31,489)	(83,918)
Adjustments for:		
Amortization on intangible assets	2,167	1,343
Impairment losses on intangible assets	5,785	-
Depreciation of property, plant and equipment	9,507	11,525
Depreciation of investment properties	1,114	1,201
Amortization on lease prepayments	802	802
(Gain) / loss on disposals of property, plant and equipment	(56)	14
Gain) / loss on disposal of other investment	(26,509)	464
Provision / (reversal) for impairment of trade and other receivables	7,911	(147)
Dividend income	(772)	(720)
Investment income	(3,231)	(1,223)
Share of profit / (loss) of associates	(101)	78
Interest income	(4,871)	(5,197)
Interest expense	15,673	10,599
Income tax expense / (credit)	5,430	(9,319)
Foreign exchange (loss) / gain	(4,690)	6,563
Share-based payment	5,492	5,416
Fair value change on other investment	-	41,479
Fair value change of conversion option of convertible loan notes	(5,079)	(16,511)
Change in fair value of foreign exchange forward contracts	1,021	(2,495)
<b>Operating loss before working capital changes</b>	<b>(21,896)</b>	<b>(40,046)</b>
Movements in working capital elements:		
Change in inventories	752	1,267
Change in trade receivables	(7,808)	(1,242)
Change in deposits, prepayments and other receivables	(21,745)	(17,643)
Change in amount due from / to directors	1,580	1,527
Change in trade payables	35,420	(32,384)
Change in accrued expenses and other payables	22,700	23,263
Income tax paid	(3,629)	(855)
<b>Net cash generated / (used in) from operating activities</b>	<b>5,374</b>	<b>(66,113)</b>

## Consolidated cash flow statement for the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(11,089)	(4,078)
Acquisition of a subsidiary, net of cash acquired	(2,940)	-
Acquisition of intangible assets	(303)	(442)
Proceeds from sale of investment	66,847	4,672
Proceeds from sale of properties, plant and equipment	1,565	168
Interest received	3,619	4,111
Contribution from non-controlling interest	-	180
Dividend received from other investment	772	720
Payment for pledged deposits	(119,949)	(62,697)
<b>Net cash used in investing activities</b>	<b>(61,478)</b>	<b>(57,366)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of convertible loan notes, net of transaction costs	-	70,491
Proceeds from bank borrowings	287,694	60,363
Acquisition of non-controlling interest	(1,624)	(3,057)
Repayment of bank borrowings	(125,912)	-
Interest paid	(4,127)	(2,098)
Dividend paid to non-controlling interest	(4,545)	(1,100)
<b>Net cash generated from financing activities</b>	<b>151,486</b>	<b>124,599</b>
Effect of foreign exchange rate changes on cash and cash equivalents	1,005	(3,410)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>96,387</b>	<b>(2,290)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>185,352</b>	<b>187,642</b>

### Note on changes in accounting policies

The consolidated financial statements for the financial year ended 31 December 2009 does not constitute statutory accounts and have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). These are the Group's first consolidated financial statement prepared in accordance with IFRSs and IFRS 1 First-time Adoption of

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International Financial Reporting Standards has been applied. Given the adoption of the new accounting standards, the comparative information presented in these financial statements for the year ended 31 December 2008 and in the preparation of an opening IFRS statement of financial position as at 1 January 2008 (the Group's date of transition). In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in accordance with International Financial Reporting Standards as adopted by EU ("Adopted IFRS"). There is no financial impact on the Group's financial position, financial performance and cash flows transition from Adopted IFRS to IFRSs.