Notes to the Financial Statements

1 Basis of preparation

In the preparation of the financial statements, the directors have reviewed the Group's improved operations, the carrying values of the assets and liabilities and working capital requirements. As a result of the improved working capital situation and taking into account of funding to be made available from the investing group, the directors consider that the Group will have sufficient working capital for the ensuing twelve months. Accordingly, the accounts have been prepared on a going concern basis.

2 Principal accounting policies

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain leasehold and investment properties, in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill or capital reserve on consolidation represents respectively the excess or shortfall of the purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired. Goodwill or capital reserve is written off or credited directly to reserves respectively in the year/period of acquisition.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

(b) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued share capital as a long-term investment. In the Company's balance sheet, investment in subsidiaries is stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

(c) Associates

An associate is a company, not being a subsidiary or joint venture, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of its associate for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associate.

In the Company's balance sheet the investments in associate are stated at cost less provision, if necessary, for any permanent diminution in value. The results of associate are accounted for by the Company to the extent of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Principal accounting policies *(continued)*

(d) Revenue recognition

Revenue from the sales of air tickets is recognised when the tickets are issued and delivered to the customers.

Incentive commission from airlines is recognised on an accrual basis.

Revenue from the provision of other related travel services is recognised when the services are provided.

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.

Rental income is recognised on a straight-line basis over the lease period.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

(e) Fixed assets

(i) Investment properties

Investment properties are interests in land (including land-use rights) and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued at their open market value based on professional valuations at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Principal accounting policies *(continued)*

(ii) Other properties and tangible fixed assets

Other properties are interests in land and buildings other than investment properties and are stated at valuation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land and buildings are depreciated over the shorter of unexpired lease or their estimated useful lives on a straight-line basis.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis.

The principal annual rates are as follows:

Leasehold land	2% - 4%
Leasehold buildings	2.5% - 4%
Furniture and fixtures, office equipment and motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

Notes to the Financial Statements *(continued)*

2 Principal accounting policies *(continued)*

(f) Leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their lease period or their economic useful lives. The principal rates used are set out in note 2(e)(ii).

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(g) Properties held for resale

Properties held for resale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building cost and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price which a property can be realised less related selling expenses.

(h) Inventories

Inventories comprises goods held for resale and are stated at the lower of cost and net realisable value. Cost calculated on the first-in, first-out basis, comprises purchase cost, customs and transportation costs incurred in bringing the stocks to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 Turnover and Revenues

The Group is principally engaged in the sale of air tickets and provision of other related travel services and property investment. Revenues recognised during the year are as follows:

	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000
Turnover		
Sale of air tickets, including commission from airlines, and other related travel services	**714,892**	434,408
Gross rental income	**3,847**	3,595
Others	**1,256**	2,397
	719,995	440,400
Other revenues		
Interest income	**178**	490
Secondment fee	**—**	112
Other income	**1,760**	669
	1,938	1,271
Total revenues	**721,933**	441,671

An analysis of the Group's turnover and contribution to loss from operations for the year by principal activity is as follows:

	Turnover		Loss from operation	
	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000
Sale of air tickets, and other related travel services	**714,892**	434,408	**(15,990)**	(21,450)
Rental of properties	**3,847**	3,595	**(1,057)**	(496)
Other operations	**1,256**	2,397	**(789)**	(2,984)
	719,995	440,400	**(17,836)**	(24,930)

No geographical analysis is provided as all the consolidated turnover and loss from operations of the Group are attributable to the Hong Kong market.

Notes to the Financial Statements *(continued)*

4 Loss from operations

	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000
Loss from operations is stated after crediting and charging the following:		
Crediting		
Recovery of bad debts previously written-off	—	1,579
Reversal of bad debts provision	180	1,134
Charging		
Cost of sales:		
- air tickets and other related travel services	690,498	418,541
- trading of goods	1,276	1,767
- outgoings in respect of investment properties	1,563	805
Auditors' remuneration	450	450
Provision for bad and doubtful debts	766	1,972
Staff costs:		
- salary and benefits (excluding retirement benefits)	25,828	25,703
- retirement benefits scheme contributions, net of forfeited contributions of HK$131,000 (1999: HK$189,000)	96	104
Redundancy costs	964	2,373
Depreciation	3,722	3,121
Operating lease rentals for		
- land and buildings	1,216	761
- office equipment	145	414

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5 Finance costs

	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000
Interest on bank loans and overdrafts	**13,333**	13,313
Interest on other loans wholly repayable within five years	**7,284**	3,129
Interest element of finance leases	**1**	55
Other incidental borrowings costs	**566**	481
Total borrowing costs incurred	**21,184**	16,978

6 Taxation credit

(a) The amount of taxation credited to the consolidated income statement represents:

	Year ended 31st December 2000 HK$'000	Period from 1st April 1999 to 31st December 1999 HK$'000
Hong Kong profits tax at 16%	**—**	(86)
Over-provision in prior years	**—**	1,683
	—	1,597

No provision has been made for Hong Kong profits tax as the companies comprising the Group have no estimated assessable profit for the year.

(b) At 31st December 2000, the Group has no material unprovided deferred taxation liabilities.

(c) The revaluation of investment properties and leasehold land and buildings does not constitute a timing difference for deferred taxation purposes as the realisation of the revaluation surplus would not result in a taxation liability.