

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. BASIS OF PREPARATION

In preparing the interim financial report, the Directors have given careful consideration to the future liquidity of the Group. At 30 June 2001, the Group had net current liabilities of approximately HK\$117,000,000 and net liabilities of approximately HK\$83,000,000.

As set out in note 13 (ii), the Company raised HK\$70,000,000 from the issue of 3,500,000,000 new shares of HK\$0.02 each to Giant Glory Assets Limited (“Giant Glory”) subsequent to 30 June 2001. The proceeds were used to repay the amount due to a group company of South China Information and Technology Limited (“SCIT”), a controlling shareholder of the Company prior to the completion of the transaction disclosed in note 13 (ii). Since then, the financial position of the Group has improved significantly.

In addition, as set out in note 13 (iii), the Group disposed of the entire interest in certain of its subsidiaries engaged in property investment and 49% equity interest in certain subsidiaries engaged in the sales of air tickets and the provision of other related travel services to SCIT for a consideration of HK\$15,000,000 subsequent to 30 June 2001. HK\$14,000,000 of the proceeds were also used to repay the amount due to a group company of SCIT. As a result of this transaction, the corresponding mortgaged properties and bank borrowings have been disposed of and the amount of working capital required to meet the principal and interest repayment of such bank borrowings has been greatly reduced.

Pursuant to a management agreement entered into between the Group and SCIT on 18 June 2001, SCIT unconditionally and irrevocably undertakes with the Group for the provision of normal working capital for the operation of the Group’s sales of air tickets and the provision of other related travel services for a period of 12 months after the completion of transactions as set out above.

In light of the favourable outcomes of the above arrangements, the Directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and have, accordingly, prepared the interim financial report on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties, and have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”), except that in this first year of implementation of the standard, as permitted by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, no comparative amounts have been presented for the condensed consolidated cash flow statement.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new SSAPs issued by the HKSA.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment reporting”. Segment disclosures for the six months ended 30 June 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current period, the Group has adopted SSAP 30 “Business combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SEGMENT INFORMATION

An analysis of the Group's consolidated turnover and attributable loss from operations by business segments is as follows:

BUSINESS SEGMENTS

For the six months ended 30 June 2001

	Sales of air tickets, and other related travel services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated Total <i>HK\$'000</i>
REVENUE					
External sales	331,456	2,187	235	—	333,878
Inter-segment sales	—	411	—	(411)	—
	<u>331,456</u>	<u>2,598</u>	<u>235</u>	<u>(411)</u>	<u>333,878</u>
SEGMENT RESULTS	<u>(2,296)</u>	<u>(83,901)</u>	<u>(348)</u>	<u>—</u>	<u>(86,545)</u>

For the six months ended 30 June 2000

	Sales of air tickets, and other related travel services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated Total <i>HK\$'000</i>
REVENUE					
External sales	336,262	2,364	710	—	339,336
Inter-segment sales	—	870	—	(870)	—
	<u>336,262</u>	<u>3,234</u>	<u>710</u>	<u>(870)</u>	<u>339,336</u>
SEGMENT RESULTS	<u>(8,981)</u>	<u>(165)</u>	<u>(137)</u>	<u>—</u>	<u>(9,283)</u>

No analysis of the Group's turnover and attributable loss from operations by geographic segment is presented as the Group's turnover and loss from operations are mainly from Hong Kong market.

4. LOSS FROM OPERATIONS

Loss from operations for the current period has been arrived at after charging depreciation of HK\$1,709,000 (2000: HK\$1,772,000).

5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the period.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

6. DIVIDEND

There was no dividend paid during the period.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$95,452,000 (2000: HK\$16,831,000) and on 380,782,558 shares (2000: weighted average number of 122,758,759 shares) in issue during the period after adjusting for the effect of the consolidation of the Company's shares on 29 August 2001 as set out in note 13(i)(a).

The comparative weighted average number of ordinary shares in issue during the six months ended 30 June 2000 has also been adjusted for the effect of the open offer of shares ("Open Offer") at a subscription price of HK\$0.02 per offer share to those qualifying shareholders on 17 July 2000 on the basis of three offer shares for every one ordinary share in issue on 27 June 2000. Details of the Open Offer are set out in the announcement dated 29 May 2000. Accordingly, the basic loss per share for the six months ended 30 June 2000 has been adjusted.

There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2001.

Diluted loss per share was not presented for the six months ended 30 June 2000 because the exercise price of the Company's warrants was higher than the average market price for shares for that period.

8. MOVEMENTS IN FIXED ASSETS

The Group's investment properties and leasehold land and buildings were revalued at 30 June 2001 by Sallmanns (Far East) Limited, an independent firm of professional property valuers, on an open market value basis.

The deficit arising on revaluation of the Group's investment properties amounted to HK\$81,000,000, of which HK\$1,293,000 was charged to the investment property revaluation reserve and the balance of HK\$79,707,000 was charged to the condensed consolidated income statement.

The deficit arising on revaluation of the Group's leasehold land and buildings amounted to HK\$11,343,000, of which HK\$7,009,000 was charged to the property revaluation reserve attributable to the relevant properties and the balance of HK\$4,334,000 was charged to the condensed consolidated income statement.

At 30 June 2001, certain of the Group's investment properties with a revalued amount of HK\$19,500,000 were transferred to properties held for resale as a result of a change in the Directors' intention for holding these properties.

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables were trade receivables of HK\$34,556,000 (31 December 2000: HK\$32,384,000). The Group maintains a defined credit policy to its customers. An aging analysis of trade receivables is as follows:

	At 30 June 2001 <i>HK\$'000</i>	At 31 December 2000 <i>HK\$'000</i>
0-30 days	29,879	30,464
31-60 days	1,981	1,446
Over 60 days	2,696	474
	<u>34,556</u>	<u>32,384</u>

10. TRADE AND OTHER PAYABLES

Included in trade and other payables were trade payables of HK\$55,732,000 (31 December 2000: HK\$58,673,000). An aging analysis of trade payables is as follows:

	At 30 June 2001 <i>HK\$'000</i>	At 31 December 2000 <i>HK\$'000</i>
0-30 days	54,348	56,276
31-60 days	237	1,011
Over 60 days	1,147	1,386
	<u>55,732</u>	<u>58,673</u>

11. SHARE CAPITAL

There was no movement in the share capital of the Company during the six months ended 30 June 2001. Details of changes in the share capital of the Company subsequent to 30 June 2001 are set out in note 13.

12. RESERVES

	Capital		Investment property		Property		Total <i>HK\$'000</i>
	Share redemption premium <i>HK\$'000</i>	reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	revaluation reserve <i>HK\$'000</i>	revaluation reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	
At 1 January 2000	35,793	1,074	16,042	1,293	29,621	(106,532)	(22,709)
Issue of shares, net of expenses	5,032	—	—	—	—	—	5,032
Surplus arising on revaluation of properties	—	—	—	—	859	—	859
Net loss for the year	—	—	—	—	—	(39,020)	(39,020)
At 1 January 2001	40,825	1,074	16,042	1,293	30,480	(145,552)	(55,838)
Deficit arising on revaluation of properties	—	—	—	(1,293)	(7,009)	—	(8,302)
Net loss for the period	—	—	—	—	—	(95,452)	(95,452)
At 30 June 2001	<u>40,825</u>	<u>1,074</u>	<u>16,042</u>	<u>—</u>	<u>23,471</u>	<u>(241,004)</u>	<u>(159,592)</u>

13. EVENTS AFTER THE BALANCE SHEET DATE

Subsequently to 30 June 2001, the Group had the following significant events:

- (i) Pursuant to a special resolution passed on 29 August 2001 at a special general meeting, the share capital of the Company were reorganised (“Capital Reorganisation”) with effect on the same date as follows:
 - (a) Share Consolidation - Every ten issued and unissued shares of HK\$0.02 each were consolidated into one issued and unissued share of HK\$0.20 each.
 - (b) Capital Reduction - Based on the number of issued shares and unissued shares immediately after the Share Consolidation, the nominal value of issued share of HK\$0.20 were reduced to HK\$0.02 by cancelling to the extent of HK\$0.18 paid up on each issued share and the nominal value of all the unissued shares of HK\$0.20 each were also reduced to HK\$0.02 each. Accordingly, the authorised share capital of the Company has been reduced from HK\$200,000,000 to HK\$20,000,000.
 - (c) Increase of authorised capital - After the Share Consolidation and the Capital Reduction, the authorised share capital of the Company were increased from HK\$20,000,000 to HK\$200,000,000 divided into 10,000,000,000 shares of HK\$0.02 each (“New Shares”).
- (ii) Pursuant to an agreement entered into between the Company, Giant Glory and SCIT on 18 June 2001 (“Subscription Agreement”), the Company issued 3,500,000,000 New Shares (“Subscription Shares”) at a subscription price of HK\$0.02 each to Giant Glory upon the completion of the Subscription Agreement on 3 September 2001, representing approximately of 90.19% of the Company’s enlarged issued capital after the Capital Reorganisation.

The proceeds from the issue of Subscription Shares amounting to HK\$70,000,000 were used to repay the amount due to a group company of SCIT.

- (iii) Pursuant to an agreement entered into between the Group and SCIT on 18 June 2001, the Group disposed of the entire interest in certain of its subsidiaries engaged in property investment and 49% equity interest in certain subsidiaries engaged in the sales of air tickets and the provision of other related travel services to SCIT for a consideration of HK\$15,000,000 upon the completion of the Subscription Agreement.

HK\$14,000,000 of the proceeds were also used to repay the amount due to a group company of SCIT.