

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

1. GENERAL

The Company is an exempted limited company incorporated in Bermuda with its shares listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The Group is principally engaged in the sale of air tickets and the provision of other travel related services ("Travel Business") and property investment. The activities of its principal subsidiaries are set out in note 32.

Pursuant to a financial restructuring (the "Financial Restructuring") completed during the year, the Group disposed of its entire interest in certain subsidiaries engaged in property investment and 49% equity interest in certain subsidiaries engaged in Travel Business to South China Information and Technology Limited ("SCIT"), a former controlling shareholder of the Company, for a consideration of HK\$15,000,000.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted for the first time a number of new and revised Statements of Standard Accounting Practices ("SSAP(s)") issued by the Hong Kong Society of Accountants. These revised and new accounting policies are set out in note 3. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. In addition, the new and the revised accounting policies have introduced additional and revised disclosure requirements which have been adopted in the financial statements.

In particular:

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and some additional and revised disclosure requirements for the Group's leasing arrangements. Adoption of this revised standard has not had any effect on the results for the current or prior periods. Disclosures for all the Group's leasing arrangements have been modified so as to comply with requirements of SSAP 14 (Revised). Comparative figures have been restated in order to achieve a consistent presentation.

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

In the current year, 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 1st 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 1st January, 2001 will be credited to the income statement at the time of disposal of the relevant subsidiary. Adoption of this accounting policy has not had any effect on the results for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Interests in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be 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.

Goodwill arising on the acquisitions after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life and is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on the acquisitions after 1st January, 2001 is presented separately in the balance sheet as a deduction from assets. Negative goodwill is released to the income statement based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to the income statement in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Revenue recognition

Sale of air tickets is recognised when the tickets are issued and delivered to the customers.

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

Incentive commission from airlines is recognised on an accrual basis.

Rental income is recognised on a straight line basis over the term of the relevant lease.

Sales of goods is recognised when the good are delivered and titled has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss identified.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. 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.

Any revaluation increase arising on revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2.5% - 4% or over the term of the lease, whichever is shorter
Other assets	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceed and the carrying amount of the asset and is recognised in the income statement.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is released to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rental expense is charged to the income statement on a straight-line basis over the term of the relevance lease.

Retirement benefits schemes

The retirement benefits costs charged in the income statement represent the contribution payable to the Group's defined contribution retirement scheme and mandatory provident fund scheme during the year.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated to Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***4. TURNOVER**

Turnover represents the amount received and receivable for air tickets sold and the provision of other travel related services, less allowances, to outside customers, property rental income and miscellaneous merchandise sold during the year. Turnover is analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Sale of air tickets, including incentive commission from airlines, and revenue from other travel related services	675,011	714,892
Property rental income	2,470	3,847
Others	286	1,256
	<u>677,767</u>	<u>719,995</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segment**

For management purposes, the Group is currently organised into three operating activities. These division are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Sale of air tickets	—	Sale of air tickets and provision of travel related services
Property investment	—	Leasing of properties
Other activities	—	Sale of miscellaneous merchandise

Segment information about these business is presented below.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segment (continued)

For the year ended 31st December, 2001

	Sale of air tickets HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	675,011	2,470	286	—	677,767
Inter-segment sales	2,959	488	15	(3,462)	—
Total	<u>677,970</u>	<u>2,958</u>	<u>301</u>	<u>(3,462)</u>	<u>677,767</u>

Inter-segment sales are charged at prevailing market rates.

RESULT

Segment result	<u>(376)</u>	<u>(80,317)</u>	<u>(518)</u>	<u>—</u>	(81,211)
Unallocated other revenue					329
Unallocated corporate expenses					<u>(2,038)</u>
Loss from operations					(82,920)
Finance costs					(11,777)
Gain on disposal of subsidiaries					29,075
Write back of provision for a guarantee in respect of a former associate					<u>4,445</u>
Loss before minority interests					<u>(61,177)</u>
OTHER INFORMATION					
Capital additions	1,045	—	—		1,045
Depreciation	<u>2,357</u>	<u>357</u>	<u>226</u>		<u>2,940</u>

At 31st December, 2001

	Sale of air tickets HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
BALANCE SHEET				
ASSETS				
Segment assets	68,550	2,100	—	70,650
Unallocated corporate assets				<u>25,104</u>
Consolidated total assets				<u>95,754</u>
LIABILITIES				
Segment liabilities	73,682	—	—	73,682
Unallocated corporate liabilities				<u>5,823</u>
Consolidated total liabilities				<u>79,505</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segment (continued)

For the year ended 31st December, 2000

	Sale of air tickets	Property investment	Other activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
External sales	714,892	3,847	1,256	—	719,995
Inter-segment sales	3,588	1,276	26	(4,890)	—
Total	<u>718,480</u>	<u>5,123</u>	<u>1,282</u>	<u>(4,890)</u>	<u>719,995</u>
Inter-segment sales and charged at prevailing market rates.					
RESULT					
Segment result	<u>(13,191)</u>	<u>(1,160)</u>	<u>(826)</u>	<u>—</u>	<u>(15,177)</u>
Unallocated other revenue					177
Unallocated corporate expenses					<u>(3,402)</u>
Loss from operations					(18,402)
Finance costs					<u>(20,618)</u>
Loss before minority interests					<u>(39,020)</u>
OTHER INFORMATION					
Capital additions	1,057	—	—		1,057
Depreciation	<u>2,519</u>	<u>859</u>	<u>344</u>		<u>3,722</u>

At 31st December, 2000

	Sale of air tickets	Property investment	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
BALANCE SHEET				
ASSETS				
Segment assets	56,515	206,396	2,134	265,045
Interest in an associate	(4,445)	—	—	(4,445)
Unallocated corporate assets				74
Consolidated total assets				<u>260,674</u>
LIABILITIES				
Segment liabilities	173,166	63,581	367	237,114
Unallocated corporate liabilities				<u>3,241</u>
Consolidated total liabilities				<u>240,355</u>

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

The Group's operations are located in Hong Kong. Accordingly, all the carrying amounts of segment assets and additions to property, plant and equipment are located in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***6. LOSS FROM OPERATIONS**

	2001	2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	500	450
Depreciation	2,940	3,722
Staff costs, excluding directors' remuneration and retirement benefits scheme contributions	18,260	22,480
Loss on disposal of property, plant and equipment	229	353
Retirement benefits scheme contributions, net of forfeited contributions of HK\$34,921 (2000: HK\$131,000)	700	96
and after crediting:		
Gross rental income from investment properties	2,470	3,847
Less: Outgoings	(1,160)	(1,563)
Net rental income from investment properties	1,310	2,284
Interest income	329	178

7. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	6,066	13,333
Amounts due to related companies	5,711	7,284
Obligations under finance leases	—	1
	<u>11,777</u>	<u>20,618</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees:		
Executive directors	27	49
Independent non-executive directors	120	20
	<u>147</u>	<u>69</u>
Other emoluments for executive directors:		
Salaries and other benefits	2,668	4,224
Retirement benefits scheme contributions	16	—
	<u>2,684</u>	<u>4,224</u>
Total emoluments	<u><u>2,831</u></u>	<u><u>4,293</u></u>

The emoluments of the directors are within the following bands:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	13	7
HK\$3,000,001 - HK\$3,500,000	—	1
	<u>13</u>	<u>8</u>

During the year ended 31st December, 2001, no director waived any emoluments (2000: Nil).

Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2000: two), details of whose emoluments are set out above. The emoluments of the remaining three (2000: three) highest paid individuals were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other benefits	1,507	1,515
Retirement benefits scheme contributions	36	—
	<u>1,543</u>	<u>1,515</u>

The emoluments of the highest paid individuals were within the following band:

	Number of individuals	
	2001	2000
Nil - HK\$1,000,000	<u>3</u>	<u>3</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

9. TAXATION

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

Details of the unprovided deferred taxation of the Group are set out in note 26.

10. DIVIDEND

No dividend was paid by the Company during the year.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$56,664,000 (2000: HK\$39,020,000) and on the weighted average number of 1,525,440,092 (2000: 241,225,044) ordinary shares in issue during the year as adjusted for the effect of consolidation of shares of the Company as set out in note 20(i)(a).

There were no dilutive potential ordinary shares in issue during the current year and, accordingly, no diluted loss per share was presented.

Diluted loss per share for the year ended 31st December, 2000 was not presented because the exercise price of the Company's warrants was higher than the average market price for shares during that year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST OR VALUATION					
At 1st January 2001	31,700	—	20,732	324	52,756
Additions	—	148	797	100	1,045
Disposals	—	—	(7,395)	(324)	(7,719)
Deficit on revaluation	(11,343)	—	—	—	(11,343)
Disposal of subsidiaries	(20,357)	—	(1,732)	—	(22,089)
At 31st December, 2001	—	148	12,402	100	12,650
Comprising:					
At cost	—	148	12,402	100	12,650
At valuation	—	—	—	—	—
	—	148	12,402	100	12,650
DEPRECIATION					
At 1st January, 2001	—	—	15,782	324	16,106
Charge for the year	357	10	2,557	16	2,940
Eliminated on disposals	—	—	(7,151)	(324)	(7,475)
Eliminated on disposals of subsidiaries	(357)	—	(1,453)	—	(1,810)
At 31st December, 2001	—	10	9,735	16	9,761
NET BOOK VALUES					
At 31st December, 2001	—	138	2,667	84	2,889
At 31st December, 2000	31,700	—	4,950	—	36,650

During the year, the Group disposed of certain subsidiaries which held all of the Group's leasehold land and buildings. Prior to the disposal of these subsidiaries, the Group's leasehold land and buildings were revalued at 30th 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 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***12. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

The carrying amount of the Group's land and buildings comprises:

	2001 HK\$'000	2000 HK\$'000
Land in Hong Kong held under:		
Long-term leases	—	19,500
Medium-term leases	—	12,200
	<u>—</u>	<u>31,700</u>
	<u>—</u>	<u>31,700</u>

At 31st December, 2000, had all of the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, the carry amount would have been approximately HK\$27,393,000.

THE COMPANY

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1st January, 2001	—	61	61
Additions	148	244	392
	<u>148</u>	<u>305</u>	<u>453</u>
At 31st December, 2001	148	305	453
DEPRECIATION			
At 1st January, 2001	—	61	61
Charge for the year	10	16	26
	<u>10</u>	<u>77</u>	<u>87</u>
At 31st December, 2001	10	77	87
NET BOOK VALUES			
At 31st December, 2001	<u>138</u>	<u>228</u>	<u>366</u>
At 31st December, 2000	<u>—</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

13. INVESTMENT PROPERTIES

THE GROUP

	<i>HK\$'000</i>
VALUATION	
At 1st January, 2001	182,700
Deficit on revaluation	(81,000)
Transferred to properties held for resale	(19,500)
Disposal of subsidiaries	(80,100)
	<u>2,100</u>
At 31st December, 2001	<u>2,100</u>

During the year, the Group disposed of certain subsidiaries which held investment properties of the Group. Prior to the disposal of these subsidiaries, the Group's investment properties were revalued at 30th 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 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 income statement.

On 30th 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.

The remaining investment properties of the Group were revalued at 31st December, 2001 by BMI Appraisals Limited, an independent firm of professional property valuers, on an open market value basis. There was no surplus or deficit arising on from the revaluation.

The carrying amount of the Group's investment properties comprises:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Land in Hong Kong held under:		
Long-term leases	—	42,800
Medium-term leases	2,100	111,100
Land outside Hong Kong held under:		
Medium-term leases	—	28,800
	<u>2,100</u>	<u>182,700</u>

The investment properties are either rented out under operating leases or vacant.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	79,251	79,251
Less: Pre-acquisition's dividend	(2,050)	(2,050)
	<u>77,201</u>	<u>77,201</u>
Amounts due from subsidiaries	190,999	121,681
	<u>268,200</u>	<u>198,882</u>
Less: Accumulated impairment loss	(260,200)	(102,961)
	<u>8,000</u>	<u>95,921</u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***14. INTERESTS IN SUBSIDIARIES** *(continued)*

Particulars of the Company's principal subsidiaries at 31st December, 2001 are set out in note 32.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

During the year, the directors of the Company reviewed the carrying amount of the investments in subsidiaries and the amounts due from subsidiaries based on the past performance, earning potential and realisable value of its principal subsidiaries. In the opinion of the directors, the recoverable amount of these assets would approximate to HK\$8,000,000, being the consideration to be received by the Group upon the exercise of an option to require SCIT to acquire the Group's interests in certain principal subsidiaries, details of which are set out in note 29 (b). Accordingly, an additional impairment loss of HK\$157,239,000 was recognised in the current year.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Provision for losses	—	(4,445)
	<u> </u>	<u> </u>

At 31st December, 2000, the amount represented provision for an outstanding claim in respect of a guarantee given by the Group to a bank for banking facilities granted to a former associate. The amount was written back during the year, details of which are set out in note 31(a).

16. INVENTORIES

At 31st December, 2000, the amount represented miscellaneous merchandise held for resale carried at net realisable value.

17. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$49,414,000 (2000: HK\$32,384,000).

The Group grants a credit period ranging from 30 to 60 days on average to its customers.

The following is an aging analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 - 30 days	41,043	30,464
31 - 60 days	6,473	1,446
Over 60 days	1,898	474
	<u> </u>	<u> </u>
	<u>49,414</u>	<u>32,384</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$40,763,000 (2000: HK\$58,673,000).

The following is an aging analysis of trade payables at the balance sheet date:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 - 30 days	39,470	56,276
31 - 60 days	761	1,011
Over 60 days	532	1,386
	<u>40,763</u>	<u>58,673</u>

19. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank borrowings comprise:				
Bank overdrafts	27,565	13,438	—	150
Bank loans	—	3,081	—	—
Mortgage loans	—	99,252	—	—
	<u>27,565</u>	<u>115,771</u>	<u>—</u>	<u>150</u>
Analysed as:				
Secured	—	115,771	—	150
Unsecured	27,565	—	—	—
	<u>27,565</u>	<u>115,771</u>	<u>—</u>	<u>150</u>
Bank borrowings are repayable as follows:				
On demand or within one year	27,565	37,105	—	150
In the second year	—	41,560	—	—
In the third to fifth year inclusive	—	22,126	—	—
After five years	—	14,980	—	—
	<u>27,565</u>	<u>115,771</u>	<u>—</u>	<u>150</u>
Less: Amount due within one year shown under current liabilities	<u>(27,565)</u>	<u>(37,105)</u>	<u>—</u>	<u>(150)</u>
Amount due after one year	<u>—</u>	<u>78,666</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***20. SHARE CAPITAL**

	Number of shares	Amount HK\$'000
Share Capital		
Authorised:		
Ordinary shares of HK\$0.02 each		
- Balance at 1st January, 2000 and 31st December, 2000	10,000,000,000	200,000
- Consolidation of shares	(9,000,000,000)	—
- Reduction in capital	—	(180,000)
- Increase in capital	9,000,000,000	180,000
	<u>10,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
- Balance at 1st January, 2000	917,136,250	18,343
- Open offer of shares	2,855,869,185	57,118
- Exercise of warrants	34,820,145	696
	<u>3,807,825,580</u>	<u>76,157</u>
- Balance at 31st December, 2000	3,807,825,580	76,157
- Consolidation of shares	(3,427,043,022)	—
- Reduction in capital	—	(68,541)
- Issue of new shares	3,600,000,000	72,000
	<u>3,980,782,558</u>	<u>79,616</u>

- (i) Pursuant to a special resolution passed on 29th August, 2001 at a special general meeting (“SGM”), the share capital of the Company were reorganised with effect on the same date as follows:
- (a) Every ten issued and unissued ordinary shares of HK\$0.02 each were consolidated into one issued and unissued ordinary share of HK\$0.20 each, respectively;
 - (b) The authorised share capital of HK\$200,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.20 each was reduced by HK\$180,000,000 and the issued share capital of HK\$76,157,000 divided into 380,782,558 ordinary shares of HK\$0.20 each was reduced by HK\$68,541,000, by cancelling the authorised share capital and the paid up share capital to the extent of HK\$0.18 on each of the unissued ordinary shares and the ordinary shares in issue, respectively. The credit of HK\$68,541,000 arising from the effect of reduction in capital was transferred to the special capital reserve account;
 - (c) After the consolidation of shares and reduction in share capital as set out above, the authorised share capital was increased from HK\$20,000,000 to HK\$200,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.02 each (“New Shares”).
- (ii) Pursuant to an agreement entered into between the Company, SCIT, the then controlling shareholder of the Company, and Giant Glory Assets Limited (“Giant Glory”) on 18th June, 2001 (the “Subscription Agreement”), the Company issued 3,500,000,000 New Shares at a subscription price of HK\$0.02 each to Giant Glory on 3rd September, 2001, being the completion date of the Subscription Agreement.

Giant Glory has become the existing controlling shareholder of the Company since the completion of the Subscription Agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

20. SHARE CAPITAL (continued)

- (iii) On 6th December, 2001, Giant Glory entered into a placing agreement with an independent third party to place 100,000,000 shares to the independent third party at a price of HK\$0.32 each, representing a discount of 11.11% to the closing price of HK\$0.36 per share quoted on the Stock Exchange on 5th December, 2001.

On the same date, Giant Glory entered into a subscription agreement with the Company to subscribe for 100,000,000 new shares of the Company at a price of HK\$0.32 each. The net proceeds of approximately of HK\$31,000,000 from the issue would be used partly for working capital and partly for future investment potential of the Group. These shares were issued under the general mandate granted to the directors at the SGM.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

Warrants

All outstanding warrants lapsed on 8th December, 2000. There were no outstanding warrants at 31st December, 2000 and at 31st December, 2001.

Share Options

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 8th October, 1992, the directors of the Company may, at any time within a period of ten years after 8th October, 1992, grant options to employees, including directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at their discretion.

There were no options granted or exercised during the year or outstanding at the balance sheet date.

21. RESERVES**THE GROUP**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Negative goodwill HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Special capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2000	35,793	1,074	16,042	29,621	1,293	—	(106,532)	(22,709)
Issue of shares, net of expenses	5,032	—	—	—	—	—	—	5,032
Surplus arising on revaluation	—	—	—	859	—	—	—	859
Net loss for the year	—	—	—	—	—	—	(39,020)	(39,020)
At 1st January, 2001	40,825	1,074	16,042	30,480	1,293	—	(145,552)	(55,838)
Issue of shares, net of expenses	27,427	—	—	—	—	—	—	27,427
Deficit arising on revaluation	—	—	—	(7,009)	(1,293)	—	—	(8,302)
Released upon disposal of subsidiaries	—	—	(16,042)	(17,976)	—	—	—	(34,018)
Effect of reduction in share capital	—	—	—	—	—	68,541	—	68,541
Net loss for the year	—	—	—	—	—	—	(56,664)	(56,664)
At 31st December, 2001	68,252	1,074	—	5,495	—	68,541	(202,216)	(58,854)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

21. RESERVES (continued)

THE COMPANY

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2000	35,793	1,074	—	77,001	(98,885)	14,983
Issue of shares, net of expenses	5,032	—	—	—	—	5,032
Net loss for the year	—	—	—	—	(3,418)	(3,418)
At 1st January, 2001	40,825	1,074	—	77,001	(102,303)	16,597
Issue of shares, net of expenses	27,427	—	—	—	—	27,427
Effect of reduction in share capital	—	—	68,541	—	—	68,541
Net loss for the year	—	—	—	—	(159,770)	(159,770)
At 31st December, 2001	68,252	1,074	68,541	77,001	(262,073)	(47,205)

The special capital reserve of the Group and the Company represents the credit arising from the effect of reduction in share capital during the year.

At 31st December, 2001, the property revaluation reserve of the Group is attributable to those properties previously held as land and buildings which were subsequently reclassified as investment properties. Property revaluation reserve was frozen upon the transfer of the relevant land and buildings to investment properties until the disposal or retirement of the relevant properties. Upon the disposal or retirement of the relevant properties, the frozen property reserve attributable to such properties will be transferred to accumulated losses.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the underlying net assets of subsidiaries which were acquired by the Company pursuant to a group reorganisation in the previous year.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st December, 2001, the Company has no reserve available for distribution (2000: Nil).

22. RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss from operations	(82,920)	(18,402)
Interest income	(329)	(178)
Depreciation	2,940	3,722
Loss on disposal of property, plant and equipment	229	353
Deficit arising on revaluation of properties	84,041	—
Write off of advance to an associate	—	36
Decrease in inventories	324	1,401
Increase in trade and other receivables	(19,493)	(7,233)
(Decrease) increase in trade and other payables	(13,176)	3,880
Net cash outflow from operating activities	(28,384)	(16,421)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

23. DISPOSAL OF SUBSIDIARIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	20,279	—
Investment properties	80,100	—
Properties held for resale	20,943	—
Inventories	978	—
Trade and other receivables	5,192	—
Bank balances and cash	103	—
Trade and other payables	(7,661)	—
Bank borrowings	(99,991)	—
	<u>19,943</u>	—
Capital reserve released	(16,042)	—
Property revaluation reserve released	(17,976)	—
Gain on disposal	29,075	—
	<u>15,000</u>	—
Satisfied by:		
Cash	1,000	—
Amounts due to related companies	14,000	—
	<u>15,000</u>	—
Net cash outflow arising on disposal:		
Cash consideration	1,000	—
Bank balances and cash disposed of	(103)	—
	<u>897</u>	—

The subsidiaries disposed of during the year contributed HK\$2,298,000 (2000: HK\$4,410,000) to the Group's turnover and accounted for HK\$80,341,000 (2000: HK\$2,039,000) of the Group's loss from operations.

The subsidiaries disposed of during the year accounted for HK\$15,384,000 of the Group's net operating cash outflow, paid HK\$5,881,000 in respect of the net returns on investment and servicing of finance, paid no taxation, utilised HK\$3,093,000 for investing activities and raised HK\$6,910,000 in respect of financing activities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Amounts due to related companies HK\$'000	Bank and mortgage loans HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000
At 1st January, 2000	54,136	49,959	129,878	7	—
Proceeds from issue of shares	64,081	—	—	—	—
Share issue expenses incurred	(1,235)	—	—	—	—
Net cash inflow (outflow)	—	1,848	—	(7)	—
Repayment of bank and mortgage loans	—	—	(27,545)	—	—
At 1st January, 2001	116,982	51,807	102,333	—	—
Disposal of subsidiaries	—	—	(99,991)	—	—
Proceeds from issue of shares	102,000	—	—	—	—
Share issue expenses incurred	(2,573)	—	—	—	—
Transferred to special capital reserve on capital reduction	(68,541)	—	—	—	—
Net cash outflow	—	(37,807)	—	—	—
Repayment of bank and mortgage loans	—	—	(2,342)	—	—
Amount satisfied as part of consideration for disposal of subsidiaries	—	(14,000)	—	—	—
Loss shared by a minority shareholder (Note)	—	—	—	—	(4,513)
At 31st December, 2001	147,868	—	—	—	(4,513)

Note:

Pursuant to an agreement entered into between the Group and the minority shareholder during the year, the minority shareholder shall be solely responsible for the operating losses of certain non-wholly owned subsidiaries of the Group for a period of twelve months, details of which are set out in note 29(c).

25. MAJOR NON-CASH TRANSACTIONS

During the year, the Group disposed of certain subsidiaries for a consideration of HK\$15,000,000, of which HK\$14,000,000 was satisfied by reducing the amounts due to related companies.

26. DEFERRED TAXATION

At the balance sheet date, the major components of the unrecognised deferred tax asset are analysed as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(564)	(2,016)	(34)	(1)
Tax losses	20,265	16,912	1,992	1,569
	19,701	14,896	1,958	1,568

No deferred tax asset has been recognised in the financial statements as it is uncertain that the amount will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***26. DEFERRED TAXATION (continued)**

The major components of the unrecognised deferred tax credit for the year are analysed as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
(Shortfall) excess of tax allowances over depreciation	(1,452)	1,119	33	4
Tax losses arising	(3,353)	(1,148)	(423)	(551)
	<u>(4,805)</u>	<u>(29)</u>	<u>(390)</u>	<u>(547)</u>

No deferred taxation is provided on the surplus on the revaluation of properties situated in Hong Kong as future profits arising on the disposal of these assets would not be subject to taxation. The revaluation surplus therefore does not constitute a timing difference for taxation purpose.

27. RETIREMENT BENEFITS SCHEMES

Before 1st December, 2000, the Group operated a defined contribution retirement scheme for qualified employees in Hong Kong. Where there are employees who leave the scheme prior to vesting fully the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all qualifying employees of its Hong Kong subsidiaries. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

The total costs charged to the income statement of HK\$700,000 (2000: HK\$96,000) represents contributions payables to the schemes by the Group at rates specified in the rules of the schemes.

28. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

Minimum lease payments under operating lease of the Group recognised in the income statement during the year in respect of:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Premises	1,295	1,216
Other assets	154	145
	<u>1,449</u>	<u>1,361</u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***28. OPERATING LEASE ARRANGEMENTS** *(continued)*

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:				
Within one year	1,251	145	1,156	—
In the second to fifth year inclusive	893	73	893	—
	<u>2,144</u>	<u>218</u>	<u>2,049</u>	<u>—</u>

Operating lease payments in respect of rented premises represent rentals payable by the Group for certain of its offices. Leases are either negotiated by the Group or former subsidiaries of the Group for an average term of two years.

At the balance sheet date, the Group and the Company had no commitments for future minimum lease payments in respect of other assets under non-cancellable operating leases.

The Group as lessor

At the balance sheet date, the Company had contracted with tenants for the following future minimum lease payments:

	2001 HK\$'000	2000 HK\$'000
Within one year	—	2,032
In the second to fifth year inclusive	—	1,094
	<u>—</u>	<u>3,126</u>

29. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

Other than the Subscription Agreement as disclosed in note 20(ii), the Group also entered into a disposal agreement (the "Disposal Agreement") and a management agreement (the "Management Agreement") with SCIT on 18th June, 2001 in respect of the Financial Restructuring. Since SCIT was the then controlling shareholder of the Company, these transactions constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange.

- Pursuant to the Disposal Agreement completed on 3rd September, 2001, the Group disposed of its entire interest in certain subsidiaries engaged in property investment and 49% equity interest in certain subsidiaries engaged in Travel Business to SCIT for a consideration of HK\$15,000,000, of which HK\$14,000,000 was utilised to repay the amounts due to SCIT and its group companies ("SCIT Group").
- In accordance with the Subscription Agreement, SCIT granted an option to the Group, at an exercise price of HK\$8,000,000, which can exercise the option to require SCIT to acquire the remaining 51% equity interest held by the Group in those subsidiaries engaged in Travel Business ("Put Option"). The Put Option is exercisable within 365 days from the completion date of the Disposal Agreement.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2001***29. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- (c) Pursuant to the Management Agreement, SCIT is required to provide the Group with management services for those subsidiaries engaged in Travel Business for a term of six years from the completion date of the Disposal Agreement. Under the Management Agreement, the Group is required to pay an annual management fee, as determined in the Management Agreement, to SCIT.

During the year, the Group paid a management fee of HK\$2,000,000 to SCIT. For the year ended 31st December, 2000, the Group paid management fee of HK\$2,000,000 to SCIT Group which was based on actual level of services provided to the Group.

Under the Management Agreement, SCIT shall unconditionally and irrevocably undertake with the Group for the provision of working capital to the Group's subsidiaries that are engaged in the Travel Business and be solely responsible for their operating losses for a period of twelve months from the completion date of the Disposal Agreement. For each of the remaining periods, the Company is required to provide working capital to those subsidiaries engaged in Travel Business. The maximum amount required to provide by the Company is determined in the Management Agreement and shall be in proportion to its equity interest in those subsidiaries.

During the year, the Group paid interest expense of HK\$5,711,000 (2000: HK\$7,261,000) on advances made by SCIT Group. Pursuant to the Management Agreement, the advances made by SCIT Group carry interest at rates ranging from 2% above HIBOR to 1.75% above the Hong Kong prime lending rate.

In addition to the above, the Group had the following significant transactions and balances with related parties during the year:

Related parties	Nature of transactions/balances	Notes	2001	2000
			HK\$'000	HK\$'000
SCIT Group	Sale of air tickets	(i)	3,031	3,722
	Rental expenses	(ii)	111	—
	Trade receivables	(iii)	3,051	1,338
	Amounts due to related companies	(iv)	—	51,807
			3,051	51,807

Notes:

- (i) These transactions were carried out at market price.
- (ii) These transactions were carried out in accordance with the terms as agreed by both parties.
- (iii) The amounts are unsecured, interest free and repayable on demand.
- (iv) The amounts was unsecured, carried interest at rates ranging from 0-2% above the Hong Kong prime lending rate and was full repaid upon the completion of the Financial Restructuring during the year.

FS . com

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

30. PLEDGE OF ASSETS

At 31st December, 2001, the Group pledged its bank deposits of HK\$8,715,000 (2000: Nil) to a bank to secure certain credit facilities granted to the Group.

At 31st December, 2000, certain properties of the Group with an aggregate net book value of HK\$175,900,000 were pledged to banks to secure banking facilities granted to the Group. During the year, all of these pledges were released.

31. CONTINGENT LIABILITIES

(a) At 31st December, 2000, the Company had a corporate guarantee in respect of the banking facilities granted to a former associate in the amount of US\$3 million (equivalent to approximately HK\$23.3 million). Such facilities were also secured by an irrecoverable standby letter of credit issued by a bank established in the People's Republic of China (the "PRC") and guaranteed by a former director of the Company and three other parties. At 31st December, 2000, there was an outstanding legal claim originally lodged in March, 1999 by the bank against the Company and the three other parties in respect of the outstanding borrowings of the former associate of approximately HK\$19 million. A provision of HK\$4,445,000 was made in previous year in respect of this claim.

Upon the completion of the Subscription Agreement as disclosed in note 20(ii), SCIT unconditionally and irrevocably undertakes all of the Company's liabilities, excluding the amounts due to SCIT Group, and contingent liabilities to the extent that existed at the completion date of the Subscription Agreement. Accordingly, the directors do not consider the Company has any exposure to this claim and the provision of HK\$4,445,000 was written back during the year.

(b) At 31st December, 2000, there was an outstanding litigation in respect of a claim made by a third party against the Group for HK\$3 million syndication fee in connection with the arrangement of a proposed HK\$30 million loan to the Group. The directors considered the conditions of the loan agreement had not been fully complied with by the third party and that the HK\$3 million was not payable. Accordingly, no provision had been made in the financial statements.

During the year, the Group and the third party jointly applied for a consent order and the case was settled without liability incurred.

(c) At 31st December, 2000, the Company had corporate guarantees totalling HK\$146,790,000 to banks for facilities granted to certain subsidiaries. During the year, all of these guarantees were released.

Other than as disclosed above, in the opinion of the directors, the Group and the Company had no significant contingent liabilities or outstanding litigation as at 31st December, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

32. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Class of share held	Paid up issued share capital	Proportion of nominal value of issued capital held by the Group		Principal activities
				Directly	Indirectly	
Four Seas Corporate Management Limited	Hong Kong	Ordinary	HK\$100	—	51%	Provision of corporate management services
Four Seas Tours Limited	Hong Kong	Ordinary	HK\$3,000,000	—	51%	Sale of air tickets and provision of other travel related services
Four Seas Travel Investments Limited	Hong Kong	Ordinary	HK21	100%	—	Investment holding
Hong Kong Four Seas Tours Limited	Hong Kong	Ordinary	HK\$1,800,000 Deferred HK\$1,200,000*	—	51%	Sale of air tickets and provision of other travel related services
Gainfield Holdings Limited	Hong Kong	Ordinary	HK8,000,000	—	51%	Investment holding

* The deferred shares practically carry minimal rights to dividend and no rights to receive notice of or to attend or vote at any general meeting of the company. On winding up, the holders of the deferred shares are entitled out of the remaining assets of the company after a sum of HK\$50,000,000,000 has been distributed amongst the holders of the ordinary shares of the company.

The above list the subsidiaries which, in the opinion of the directors, materially affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

33. POST BALANCE SHEET EVENT

On 25th March, 2002, Best East Development Limited ("Best East"), a newly set up wholly owned subsidiary of the Company entered into an agreement ("Capital Injection Agreement") with 上海証大置業有限公司 ("上海証大") and a brother of Mr. Dai Zhi Kang, a director of the Company. Pursuant to the Capital Injection Agreement, Best East has conditionally agreed to inject RMB20,000,000 (equivalent to approximately HK\$18,692,000) as additional capital into 上海新世紀水清木華房地產開發有限公司 ("水清木華"), a limited liability company established in the PRC. 水清木華 is principally engaged in property development and property management services in the PRC and its registered capital is owned as to 25% by 上海証大 and 75% by the brother of Mr. Dai Zhi Kang. Upon the completion of the Capital Injection Agreement, Best East will be interested in 25% of the registered capital of 水清木華. The transaction has not yet been completed at the date of this report.