

# Notes to the Financial Statements

31 December 2002

## 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"). The Group also entered into property development businesses during the year, details of which are set out in note 29(c) & (d) to the financial statement. The activities of its principal subsidiaries are set out in note 34.

Pursuant to a financial restructuring (the "Financial Restructuring") completed during the year, the Group disposed of its entire interest in certain subsidiaries engaged in Travel Business to Full Sino, a substantial shareholder of these subsidiaries, for a consideration of HK\$8,000,000, which are set out in note 23 and note 29(b).

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised SSAPs issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statement
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

### Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### Interests in subsidiaries

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

# Notes to the Financial Statements

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## 3. SUMMARY OF 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 recognize any identified impairment loss in the value of individual investments.

### **Goodwill**

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid for subsidiaries/associates over the fair values ascribed to the net underlying assets acquired and is amortised on the straight-line basis over 10 years.

### **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 1 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 1 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 recognized 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 aggregated fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

### **Revenue recognition**

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

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

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

Service fee income is recognised when the services have been provided to the customers.

Incentive commission from airlines is recognised on an accrual basis.

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

# Notes to the Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Any surplus arising on revaluation of 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 this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an assets is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to previous revaluation of that assets. On the subsequent sales or retirement of a revalued assets, the attributable revaluation surplus is transferred to retained profits.

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 or valuation of property, plant and equipment over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture and equipment	20%
Motor vehicles	20%

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

### **Investment properties**

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

No depreciation is provided for investment properties which are held on leases with an unexpired term of more than 20 years. Investment properties are stated at their open market value based on professional valuation at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

# Notes to the Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investment properties** *(continued)*

On the subsequent sale of an investment property, the attributable revaluation surplus is transferred to income statement.

### **Investments in securities**

Investments in securities are recognized on a trade date basis and are initially measured at cost.

Held-to-maturity securities are stated at amortized cost less provision, if any, for diminution in value if it is expected that the carrying value of the investments cannot be recovered.

Securities trading income is recognized on a trade date basis when contracts are concluded.

Investment securities are stated at cost less provision, if any, for diminution in value which is expected to be other than temporary.

Other investments in securities are stated at fair value. Unrealised holding gains and losses for other investments in securities are dealt with in the income statement.

The gain or loss on disposal of securities are accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying value of the securities.

### **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 recognized as an expense immediately, unless the relevant asset is carried a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

### **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 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 will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

# Notes to the Financial Statements

31 December 2002

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Operating leases

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

### Retirement benefits scheme contribution

The Group operates a defined contribution retirement benefits scheme for its qualifying employees. The assets of the scheme are held separately in a fund which is under the control of an independent trustee. The retirement benefits scheme contributions charged to the income statement represent contributions payable by the Group to the fund at rates specified in the rules of the scheme. When there are employees who leave the scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

### Foreign currencies

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated at the rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange fluctuation reserve.

### Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## 4. TURNOVER

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

Turnover is analysed as follows:

	2002			2001		
	Continuing operation	Discontinued operation	Total	Continuing operation	Discontinued operation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of air tickets, including incentive commission from airlines, and revenue from other travel related services	–	869,439	869,439	–	675,011	675,011
Property rental income	–	–	–	–	2,470	2,470
Others	–	–	–	–	286	286
	–	869,439	869,439	–	677,767	677,767

# Notes to the Financial Statements

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## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### a) Business segment

For management purposes, the Group was organized 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.

#### For the year ended 31 December 2002

	Sale of air tickets HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	869,439	–	–	–	869,439
<b>RESULT</b>					
Segment result	4,519	–	–		4,519
Unallocated other revenue					1,015
Unallocated corporate expenses					(11,697)
Loss from operations					(6,163)
Finance costs					(1,195)
Gain on disposal of subsidiaries					11,755
Share of results of associates					12,838
Taxation					317
Profit before minority interests					17,552
<b>OTHER INFORMATION</b>					
Capital additions	1,526	–	–		1,526
Depreciation	(1,427)	–	–		(1,427)



# Notes to the Financial Statements

31 December 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### a) Business segment *(continued)*

As at 31 December, 2002

	Sale of air tickets HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
<b>BALANCE SHEET</b>				
<b>ASSETS</b>				
Segment assets	-	-	-	-
Unallocated corporate assets				138,105
Consolidated total assets				<u>138,105</u>
<b>LIABILITIES</b>				
Segment liabilities	-	-	-	-
Unallocated corporate liabilities				260
Consolidated total liabilities				<u>260</u>

For the year ended 31 December 2001

	Sale of air tickets HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
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	(376)	(80,317)	(518)	-	(81,211)
Unallocated other revenue					329
Unallocated corporate expenses					(2,038)
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					4,445
Loss before minority interests					<u>(61,177)</u>

### OTHER INFORMATION

Capital additions	1,045	-	-		1,045
Depreciation	2,357	357	226		2,940

# Notes to the Financial Statements

31 December 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### a) Business segment *(continued)*

As at December 31, 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				25,104
Consolidated total assets				<u>95,754</u>
LIABILITIES				
Segment liabilities	73,682	–	–	73,682
Unallocated corporate liabilities				5,823
Consolidated total liabilities				<u>79,505</u>

### b) Geographical segment

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

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## 6. (LOSS)/PROFIT FROM OPERATIONS

	2002			2001		
	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
(Loss)/profit from operation has been arrived at after charging:						
Auditors' remuneration	403	240	643	500	–	500
Depreciation	200	1,227	1,427	–	2,940	2,940
Staff costs, excluding directors' remuneration and retirement benefits scheme contributions	841	19,715	20,556	–	18,260	18,260
Loss on disposal of property, plant and equipment	–	183	183	–	229	229
Directors' emoluments	2,704	–	2,704	–	2,831	2,831
Retirement benefits scheme contribution, net of forfeited contribution of HK\$NIL (2001: HK\$35,000)	28	821	849	–	700	700
and after crediting:						
Gross rental income from investment properties	–	–	–	2,470	–	2,470
Less: Outgoings	–	–	–	(1,160)	–	(1,160)
Net rental income from investment properties	–	–	–	1,310	–	1,310
Interest income	460	136	596	26	303	329

## 7. FINANCE COSTS

	2002			2001		
	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
Interest on:						
Bank overdraft	–	121	121	–	–	–
Bank borrowings wholly repayable within five years	–	–	–	–	6,066	6,066
Amounts due to related companies	–	1,074	1,074	–	5,711	5,711
	–	1,195	1,195	–	11,777	11,777

# Notes to the Financial Statements

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## 8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

### Directors' emoluments

	2002			2001		
	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
Fees:						
Executive directors	-	-	-	-	27	27
Independent non-executive directors	208	-	208	-	120	120
	208	-	208	-	147	147
Other emoluments for executive directors:						
Salaries and other benefits	2,472	-	2,472	-	2,668	2,668
Retirement benefits scheme contributions	24	-	24	-	16	16
	2,496	-	2,496	-	2,684	2,684
<b>Total emoluments</b>	<b>2,704</b>	<b>-</b>	<b>2,704</b>	<b>-</b>	<b>2,831</b>	<b>2,831</b>

The emoluments of the directors are within the following bands:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	9	13

During the year ended 31 December 2002, no director waived any emoluments (2001: Nil).

### Highest paid individuals' emoluments

During the year, the five highest paid individuals included four directors (2001: Two), details of whose emoluments are set out above. The emoluments of the remaining one (2001: three) highest paid individuals were as follows:

	2002			2001		
	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
Salaries and other benefits	248	-	248	-	1,507	1,507
Retirement benefits scheme contributions	8	-	8	-	36	36
	256	-	256	-	1,543	1,543

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

	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	1	3

# Notes to the Financial Statements

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## 9. TAXATION

	2002			2001		
	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operation HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
The charge comprises:						
Prior years over provision	-	(317)	(317)	-	-	-
Share of taxation attributable to an associate	5,524	-	5,524	-	-	-
	5,524	(317)	5,207	-	-	-

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

No tax is payable on profits for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Overseas taxation has been calculated on the estimated assessable profits for the year at rates prevailing in the respective jurisdictions.

## 10. DIVIDENDS

No dividend was paid by the Company during the year.

## 11. EARNING/(LOSS) PER SHARE

The calculation of the basic earning/(loss) per share is based on the net profit for the year of HK\$11,801,000 (2001: Loss of HK\$56,664,000) and on the weighted average number of 4,193,659,270 (2001: 1,525,440,092) ordinary shares in issue during the year.

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

# Notes to the Financial Statements

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## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>The Group</b>				
<b>COST</b>				
At 1 January 2002	148	12,402	100	12,650
Additions	37	1,489	–	1,526
Disposals	–	(688)	–	(688)
Disposals of subsidiaries	–	(12,740)	(100)	(12,840)
At 31 December 2002	185	463	–	648
<b>DEPRECIATION</b>				
At 1 January 2002	10	9,735	16	9,761
Charge for the year	140	1,267	20	1,427
Written back on disposals	–	(505)	–	(505)
Written back on disposals of subsidiaries	–	(10,360)	(36)	(10,396)
At 31 December 2002	150	137	–	287
<b>NET BOOK VALUES</b>				
At 31 December 2002	35	326	–	361
At 31 December 2001	138	2,667	84	2,889
	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000	
<b>The Company</b>				
<b>COST</b>				
At 1 January 2002		148	305	453
Additions		37	158	195
At 31 December 2002		185	463	648
<b>DEPRECIATION</b>				
At 1 January 2002		10	77	87
Charge for the year		140	60	200
At 31 December 2002		150	137	287
<b>NET BOOK VALUES</b>				
At 31 December 2002		35	326	361
At 31 December 2001		138	228	366

# Notes to the Financial Statements

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## 13. INVESTMENT PROPERTIES

	HK\$'000
AT VALUATION	
At 1 January 2002	2,100
Disposal of subsidiaries	(2,100)
<hr/>	
At 31 December 2002	–

The carrying amount of the Group's investment properties are land in Hong Kong held under medium-term leases.

During the year, the Group disposed of certain subsidiaries which held investment properties. Prior to the disposal of these subsidiaries, the Group's investment properties were revalued at 31 December 2001 by BMI Appraisals Limited, an independent professional property valuers, on an open market value basis. There was no surplus or deficit arising from the revaluation.

## 14. INTERESTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1	79,251
Less: Pre-acquisition's dividend	–	(2,050)
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Amounts due from subsidiaries	101,042	77,201
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Less: Accumulated impairment loss	101,043	268,200
	–	(260,200)
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	101,043	8,000

Particulars of the Company's principal subsidiaries at 31 December 2002 are set out in note 34.

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.

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## 15. INTERESTS IN ASSOCIATES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets at 31 December	29,582	–
Unamortized goodwill from acquisition	2,530	–
	32,112	–
Amounts due from an associate	509	–
	32,621	–

Particulars of the Group's principal associates at 31 December 2002 are set out in note 34. The amount due from an associate is unsecured, interest free and has no fixed repayment terms.

Goodwill arising from the acquisitions of associates of approximately HK\$ 2,811,000 (2001: Nil) is amortized to the consolidated income statement on the straight-line basis over 10 years. The amount of approximately HK\$ 281,000 (2001: Nil) is amortized to the consolidated income statement during the year.

## 16. INVESTMENT IN SECURITIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities in Hong Kong:		
Listed, at cost	12,564	–
Carrying amount analysed for reporting purposes as:		
Non-current	12,564	–
Market value of the listed securities at 31 December	11,260	–



# Notes to the Financial Statements

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## 17. TRADE AND OTHER RECEIVABLES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables	–	49,414
Other receivables	70,082	4,988
	70,082	54,402

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

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	–	41,043
31 – 60 days	–	6,473
Over 60 days	–	1,898
	–	49,414

## 18. TRADE AND OTHER PAYABLES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payable	–	40,763
Other payables	260	11,177
	260	51,940

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	–	39,470
31 – 60 days	–	761
Over 60 days	–	532
	–	40,763

# Notes to the Financial Statements

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## 19. BANK BORROWINGS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bank borrowings comprise:		
Bank overdrafts	–	27,565
Analysed as:		
Unsecured	–	27,565
Bank borrowings are repayable as follows:		
On demand or due within one year	–	27,565
Less: Amount due within one year shown under current liabilities	–	(27,565)
Amount due after one year	–	–

## 20. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
ordinary shares of HK\$0.02 each	10,000,000,000	200,000
Issued and fully paid:		
ordinary shares of HK\$0.02 each		
– Balance at 1 January 2001	3,807,825,580	76,157
– Reduction in capital	(3,427,043,022)	(68,541)
– Issue of new shares	3,600,000,000	72,000
– Balance at 31 December 2001	3,980,782,558	79,616
– Issue of new shares	350,000,000	7,000
– Balance at 31 December 2002	4,330,782,558	86,616

Pursuant to a placing agreement entered into between the Company and an independent placing agent on 24 May 2002 (the "Placement"), the Company issued 350,000,000 new shares of HK\$0.02 each at a placing price of HK\$0.32 per new share to certain independent third parties. The net proceeds from the Placement of approximately HK\$111 million will be utilized partly for the Group's working capital and partly for potential investments.

The new shares issued under the Placement rank pari passu in all respects with the existing issued shares.

### Warrants

There were no outstanding warrants at 31 December 2001 and at 31 December 2002.

### Shares options

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

# Notes to the Financial Statements

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## 21. RESERVES

- (a) 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.
- (b) 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 recognition in the previous year.

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

- (1) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (2) 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.

All the contributed surplus has been transferred to the accumulated losses as a result of disposal of subsidiaries during the year.

At 31 December 2002, the Company has no reserve available for distribution (2001: Nil).

## 22. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO NET CASH USED IN OPERATION

	2002 HK\$'000	2001 HK\$'000
Profit/(loss) before taxation	22,759	(61,177)
Adjustment for:		
Interest income	(596)	(329)
Interest paid	1,195	11,777
Depreciation of property, plant and equipment	1,427	2,940
Loss on disposal of property, plant and equipment	183	229
Deficit arising on revaluation of properties	–	84,041
Share of results of associates	(18,362)	–
Gain on disposal of subsidiaries	(11,755)	(29,075)
Write back of provision for a guarantee in respect of former associate	–	(4,445)
Operating (loss)/profit before working capital changes	(5,149)	3,961
Decrease in inventories	–	324
Increase in investment in securities	(12,564)	–
Increase in trade and other receivables	(75,505)	(19,493)
Decrease in trade and other payables	(2,504)	(13,176)
Increase in amount due to related companies	7,500	–
Net cash used in operation	(88,222)	(28,384)
Interest paid	(1,195)	(11,777)
Interest received	596	329
Hong Kong profits tax refunded	317	1,091
Net cash used in operating activities	(88,504)	(38,741)

# Notes to the Financial Statements

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## 23. DISPOSAL OF SUBSIDIARIES

As referred to note 29(b), on 13 December 2002 the Group disposed the subsidiaries which engaged in the Travel Business. The net assets of the subsidiaries at the date of disposal were as follows:

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	2,444	20,279
Investment properties	2,100	80,100
Properties held for resale	–	20,943
Inventories	–	978
Trade and other receivables	59,825	5,192
Bank balances and cash	16,932	103
Trade and other payables	(49,176)	(7,661)
Bank borrowings	(29,147)	(99,991)
Minority interest	(1,238)	–
Net Assets	1,740	19,943
Capital reserve released	–	(16,042)
Property revaluation reserve released	(5,495)	(17,976)
Gain on disposal	11,755	29,075
	8,000	15,000
Total consideration		
Cash	500	1,000
Amounts due to related companies	7,500	14,000
	8,000	15,000
Net cash inflow arising on disposal:		
Cash consideration	500	1,000
Bank balances and cash disposed of	(16,932)	(103)
Bank borrowings disposed of	29,147	–
	12,715	897

The impact of the disposed subsidiaries on the Group's results in the current and prior year is disclosed under the heading of "discontinued operation" in the consolidated income statements.

# Notes to the Financial Statements

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## 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	Minority interests HK\$'000
At 1 January 2001	116,982	51,807	102,333	–
Disposal of subsidiaries	–	–	(99,991)	–
Proceeds from issue of shares	102,000	–	–	–
Shares 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 ( <i>Note</i> )	–	–	–	(4,513)
At 31 December 2001	147,868	–	–	(4,513)
Proceeds from issue of shares	112,000	–	–	–
Shares issue expenses incurred	(1,223)	–	–	–
Profit shared by a minority shareholder	–	–	–	5,751
Disposal of subsidiaries	–	–	–	(1,238)
At 31 December 2002	258,645	–	–	–

*Note:*

Pursuant to an agreement entered into between the Group and the minority shareholder during the year ended 31 December 2001, 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.

## 25. MAJOR NON-CASH TRANSACTIONS

During the year, the Group disposed of certain subsidiaries for a consideration of HK\$8,000,000, of which HK\$7,500,000 was satisfied by reducing the amounts due to related companies.

# Notes to the Financial Statements

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## 26. DEFERRED TAXATION

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	–	(564)	–	(34)
Tax losses	–	20,265	–	1,992
	–	19,701	–	1,958

No provision for deferred taxation has been made in the financial statements since there is no material timing differences.

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
(Shortfall)/excess of tax allowances over depreciation	–	(1,452)	–	33
Tax losses	–	(3,353)	–	(423)
	–	(4,805)	–	(390)

## 27. RETIREMENT BENEFITS SCHEMES

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\$849,000 (2001: HK\$700,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.



# Notes to the Financial Statements

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## 28. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Premises	2,957	1,295
Other assets	174	154
	3,131	1,449

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

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
Within one year	1,101	1,251	1,101	1,156
In the second to fifth year inclusive	63	893	63	893
	1,164	2,144	1,164	2,049

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.

# Notes to the Financial Statements

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## 29. CONNECTED AND RELATED PARTIES TRANSACTIONS AND BALANCES

- (a) The Group entered into a disposal agreement (the “Disposal Agreement”) a subscription agreement (“Subscription Agreement”) and a management agreement (the “Management Agreement”) with South China Information and Technology Limited (now known as Guorun Holdings Limited “Guorun”) on 18 June 2001 in respect of the financial restructuring of the Group. Since Guorun was the then controlling shareholder of the Company, and Mr. He Xuechu, an executive Director, has a deemed interest in approximately 74.8% of the entire issued share capital of Guorun by virtue of his 32% interest in the share capital of the controlling shareholder of Guorun since June 2002. These transactions constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange.
- (i) In accordance with the Subscription Agreement, Guorun granted an option to the Group, at an exercise price of HK\$8,000,000, which can exercise the option to require Guorun to acquire the remaining 51% equity interest held by the Group in those subsidiaries engaged in Travel Business (“Put Option”). The Put Option was transferred to Full Sino Profits Limited from Guorun and lapsed during the year.
- (ii) Pursuant to the Management Agreement, (which was subsequently novated to South China Strategic Limited) Guorun 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 Guorun.

During the year, the Group paid a management fee of HK\$2,000,000 (2001: HK\$2,000,000) to Guorun which was based on actual level of services provided to the Group.

Under the Management Agreement, Guorun 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 proportion to its equity interest in those subsidiaries.

During the year, the Group paid interest expense of HK\$1,114,000 (2001: HK\$5,711,000) on advances made by Guorun. Pursuant to the Management Agreement, the advances made by Guorun carry interest at rate 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	2002	2001
			HK\$'000	HK\$'000
Guorun Group	Sale of air tickets	(i)	2,619	3,031
	Rental expenses	(ii)	1,220	111
	Rental income received	(ii)	15	–
	Trade receivables	(iii)	–	3,051

# Notes to the Financial Statements

31 December 2002

## 29. CONNECTED AND RELATED PARTIES TRANSACTIONS AND BALANCES *(continued)*

*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.
- (b) On 13 December 2002, the Company entered into a sale and purchase agreement for the disposal of the entire issued share capital of Four Seas Travel Investments Limited ("Four Seas Travel") for a consideration of HK\$8 million to Full Sino Profits Limited ("Full Sino"). Completion of the agreement took place simultaneously upon the signing of the agreement.

Four Seas Travel was an intermediate investment company of the Company and was holding 51% of the issued share capital in each of Four Seas Travel (BVI) Limited, Four Seas (BVI) Limited, Four Seas Corporate Management Limited, Hong Kong Four Seas Tours Limited, Gainfield Holdings Limited and Four Seas Corporate Services Limited (collectively "Travel Business Companies"). The Travel Business Companies were principally engaged in the business of sale of air tickets and provision of other travel related services. The Board considers the disposal would consolidate its asset and financial structure.

Full Sino is a wholly-owned subsidiary of South China Industries Limited and also a substantial shareholder of the Travel Business Companies prior to completion of the agreement. Accordingly, Full Sino is a connected person of the Company under the Listing Rules and the transaction constitute a connected transaction for the Company under Rule 14.25(1) of the Listing Rules. Details of the transaction were set out in the Company's announcement dated 13 December 2002.

- (c) On 25 March 2002, the Group entered into an agreement ("Capital Injection Agreement") with a brother of Mr Dai Zhi Kang and 上海証大置業有限公司 ("Shanghai Zendai Land") in which Mr Dai Zhi Kang has a beneficial interest. Mr Dai Zhi Kang is a director of the Company and has a beneficial interest in the Company.

Pursuant to the Capital Injection Agreement, the Group has conditionally agreed to inject RMB20,000,000 (equivalent to approximately HK\$18,692,000 as additional capital into 上海証大三角洲置業有限公司 formerly known as 上海新世紀水清木華房地產開發有限公司 "水清木華", in which the brother of Mr Dai Zhi Kang and "Shanghai Zendai Land" owned 75% and 25% of its registered capital respectively.

水清木華 is a limited liability company established in the People's Republic of China (the "PRC") and it is principally engaged in property development and property management services in the PRC. The transaction was completed in August 2002 and the registered capital of 水清木華 is owned as to 25% by the Group.

- (d) On 29 September 2002, the Group entered into an agreement ("Share Purchase Agreement") to purchase 65% interest in Shanghai Zendai Land. The agreement was made between the Group, the shareholders of Shanghai Zendai Land and 上海証大投資發展有限公司 ("the Vendors") of which Mr Dai Zhi Kang has a beneficial interest in the Company. Shanghai Zendai Land will be converted from a PRC domestic company into a sino-foreign equity joint venture with registered capital of RMB100,000,000 (equivalent to approximately HK\$93,460,000).

Pursuant to the Share Purchase Agreement, the Group has conditionally agreed to purchase 65% interest in Shanghai Zendai Land for a total consideration of RMB70,000,000 (equivalent to approximately HK\$65,422,000) from the Vendors. In addition, the advances of approximately RMB58,339,000 (equivalent to approximately HK\$54,524,000) made by Shanghai Zendai Land to 水清木華 will also constitute a connected transaction for the Group upon the completion of Share Purchase Agreement. The transaction was completed in February 2003 and the registered capital of Shanghai Zendai Land is owned as to 65% by the Group.

# Notes to the Financial Statements

31 December 2002

## 30. PLEDGE OF ASSETS

At 31 December 2002, the Group pledged its bank deposits of HK\$Nil (2001: HK\$8,715,000) to a bank to secure certain credit facilities granted to the Group.

## 31. OTHER COMMITMENTS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for in the financial statements	17,010	–

The amount represents the joint venture agreement entered into by the Group with an independent third party to establish a joint venture in the PRC. The joint venture will be principally engaged in travel related business in the PRC.

## 32. CONTINGENT LIABILITIES

In the opinion of the directors, the Group and the Company had no significant contingent liabilities or outstanding litigation as at 31 December 2002.

## 33. POST BALANCE SHEET EVENT

On 20 February 2003, Mr Dai Zhi Kang, the directors of Giant Glory Assets Limited ("Giant Glory") and the board of directors of the Company jointly announced that on 17 February 2003:

- Mr Dai Zhi Kang entered into the agreement with Mr He Xuechu, pursuant to which Mr He Xuechu agreed to dispose of and Mr Dai Zhi Kang agreed to acquire 50% of the issued share capital of Giant Glory; immediately after completion of such acquisition, Mr Dai Zhi Kang has become the sole owner of the entire issued share capital of Giant Glory; and
- Giant Glory entered into the agreement with Peak Smart Holdings Limited ("Peak Smart"), pursuant to which Giant Glory agreed to purchase and the Peak Smart agreed to sell 500,000,000 shares of the Company for a consideration of HK\$25 million (equivalent to HK\$0.05 per share). The aggregate of 500,000,000 shares represent approximately 11.55% of the entire issued share capital of the Company as at the 24 March 2003.

Immediately prior to completion, Giant Glory owned 1,600,000,000 Shares, representing approximately 36.95% of the entire issued share capital of the Company. Save for the 1,600,000,000 Shares and 10,000,000 Shares (approximately 0.23% of the entire issued share capital of the Company) held by Giant Glory and Mr He Xuechu as his personal interests respectively, Giant Glory, Mr Dai Zhi Kang, Mr He Xuechu and parties acting in concert with any of them do not have any shareholding interest in the Company prior to Completion.

Upon completion, Giant Glory, Mr Dai Zhi Kang and parties acting in concert with any of them, owned an aggregate of 2,110,000,000 Shares, representing approximately 48.72% of the entire issued share capital of the Company as at 24 March 2003. As at 24 March 2003, there were 4,330,782,558 shares in issue.

Under Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Giant Glory and Mr Dai Zhi Kang are required to make a mandatory conditional general offer ("the Offer") for all the issued shares not already owned by them or parties acting in concert with them, which were equivalent to 2,220,782,558 shares. The Offer opened on 28 March 2003 and closed on 22 April 2003.

# Notes to the Financial Statements

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## 34. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Name of company	Class of shares held	Paid up issued share capital/registered capital	Proportion of nominal value of issued capital held by the Group		Principal activities
			Directly	Indirectly	
<b>Incorporated and operating in Hong Kong:</b>					
Four Seas Corporate Management Limited (Note 1)	Ordinary	HK\$100	–	51%	Provision of corporate management services
Four Seas Tours Limited (Note 1)	Ordinary	HK\$3,000,000	–	51%	Sale of air tickets and provision of other travel related services
Four Seas Travel Investment Limited (Note 1)	Ordinary	HK\$21	100%	–	Investment holding
Hong Kong Four Seas Tours Limited (Note 1)	Ordinary	1,800,000 Deferred HK\$1,200,000 (Note 2)	–	51%	Sale of air tickets and provision of other travel related services
Gainfield Holdings Limited (Note 1)	Ordinary	HK\$8,000,000	–	51%	Investment holding

*Note 1:* The subsidiaries have been disposed of to Full Sino on 13 December 2002, details of which are set out in note 29(b).

*Note 2:* 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.

# Notes to the Financial Statements

31 December 2002

## 34. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Class of shares held	Paid up issued share capital/registered capital	Proportion of nominal value of issued capital held by the Group		Principal activities
			Directly	Indirectly	
<b>Incorporated and operating in the People's Republic of China:</b>					
上海証大三角洲置業有限公司 (formerly known as 上海新世紀水清木華房地產開發有限公司)	N/A	RMB80,000,000	–	25%	Property management and development
浙江証大房地產開發有限公司 (Note 3)	N/A	RMB30,000,000	–	17.5%	Property management and development
<b>Incorporated in British Virgin Islands:</b>					
Best East Developments Limited	Ordinary	US\$1	100%	–	Investment holding
Ample Century Limited	Ordinary	US\$1	100%	–	Investment holding
Victory Gateway Limited	Ordinary	US\$1	100%	–	Investment holding

Note 3: 浙江証大房地產開發有限公司 is a 70% subsidiary of 上海証大三角洲置業有限公司.

The above list of principal subsidiaries and associates which, in the opinion of the directors, materially affect the results or assets of the Group. To give details of other associates 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.