

# Notes to Financial Statements

31 March 2001

## 1. CORPORATE INFORMATION

The principal activity of the Company was investment holding.

The principal activities of the subsidiaries, associate and jointly-controlled entity of the Group are international air and sea freight forwarding (including the provision of related global logistics services), general sales of international air cargo space and the development of biotechnological genetic products. There were no changes in the nature of the Group's principal activities during the year.

Subsequent to the year end, on 1 April 2001, the Group discontinued its business of general sales of international air cargo space. Further details are included in note 5 to the financial statements.

## 2. BASIS OF PRESENTATION

### (a) Fundamental uncertainty relating to the going concern basis

As at 31 March 2001, the Group recorded net current assets of approximately HK\$531,000. Of this amount, net current assets of HK\$527,000 and HK\$4,798,000 were contributed by two overseas subsidiaries, Tri-star Forwarders Inc. ("Tri-star") and Jet Dispatch (USA) Corporation ("JD(USA)"), respectively. As further detailed in note 2(b) below, the books and records for the year ended 31 March 2001 of Tri-star and JD(USA) were incomplete. The Group would have recorded net current liabilities of HK\$4,794,000 should the amounts of net current assets attributable to these two overseas subsidiaries have been excluded. For the year ended 31 March 2001, the Group incurred a net loss from ordinary activities attributable to shareholders of approximately HK\$20,782,000 and reported a significant cash outflow from operating activities of HK\$26,219,000.

Currently, the Group has no banking facilities available to support its normal operational requirements and all operations are funded by the Group's internal resources. Based on a review of the existing and projected operations of the Group, the directors believe that the Group would require continual financial support from its banks, creditors and shareholders to sustain its operations.

To improve the Group's financial position, immediate liquidity, cash flows, profitability and otherwise to sustain the Group as a going concern, the Company, on 22 June 2001, entered into a conditional subscription agreement (the "Subscription Agreement") and a conditional placing agreement (the "Placing Agreement") with Best Chance Holdings Limited ("Best Chance") and KCG Securities Asia Limited (the "Placing Agent"), respectively. Both Best Chance and the Placing Agent are independent third parties to the Group.

Pursuant to the Subscription Agreement, the Company agreed to issue and allot, and Best Chance agreed to subscribe for 2,256,000,000 new shares in the Company at HK\$0.05 per share. Pursuant to the Placing Agreement, the Placing Agent agreed to place, on a fully underwritten basis, an aggregate of 744,000,000 new shares in the Company at HK\$0.05 per share to independent investors. The estimated proceeds before expenses expected to be raised from the subscription and placing of shares are HK\$112.8 million and HK\$37.2 million, respectively, which are intended to be used as the Group's general working capital.

**Notes to Financial Statements** *(continued)*

31 March 2001

**2. BASIS OF PRESENTATION** *(continued)***(a) Fundamental uncertainty relating to the going concern basis** *(continued)*

The completion of the Subscription Agreement and the Placing Agreement is subject to the fulfilment of a number of conditions precedent, which include but are not limited to the following:

- i) Best Chance being satisfied with the results of a special audit and/or due diligence review on the business, records and other relevant matters of the Group;
- ii) The proceedings and disputes involving JD(USA) (as further detailed in note 36(b)) are resolved or settled to the satisfaction of Best Chance;
- iii) The net assets value of the Group being not less than HK\$25 million and HK\$24 million as at 31 August 2001 and 30 September 2001 (excluding the proceeds from the subscription and placing of shares under the Subscription Agreement and the Placing Agreement), respectively;
- iv) Best Chance obtaining a satisfactory PRC legal opinion regarding 南京益來基因醫學有限公司 ("Nanjing E-Life Gene Technology Company"); and
- v) The relevant approvals obtained from (a) the shareholders of the Company approving the Whitewash Waiver (as defined below), the Subscription Agreement and the Placing Agreement; (b) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the listing of and permission to deal in the shares issued under the Subscription Agreement and the Placing Agreement; and (c) the Securities and Futures Commission (the "SFC") for the granting of a whitewash waiver under Rule 26 of the Code on Takeover and Merger (the "Whitewash Waiver").

In the opinion of the directors, continual financial support will be provided by the Group's banks, creditors and shareholders and with the expected proceeds to be raised from the subscription and placing of shares in the Company, the Group will have sufficient working capital for its current operational requirements, notwithstanding that no firm commitment has been given by the Group's banks, creditors and shareholders to provide the required financial support and the uncertainty that the subscription and placing of shares may not be successful.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

**Notes to Financial Statements** *(continued)*

31 March 2001

**2. BASIS OF PRESENTATION** *(continued)***(b) Non-available books and records**

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, the books and records in respect of certain overseas subsidiaries, due to the reasons as further detailed below, were not fully available. In particular:

- (i) Jet Dispatch (Canada) Limited ("JD(Canada)") and Jet Dispatch (Midwest) Limited ("JD(Midwest)")

Since the resignation of a former director and a controlling shareholder of the Company in July 1999, the directors have been unable to locate the relevant accounting information and documents of JD(Canada) and JD(Midwest), both of which are wholly-owned subsidiaries of the Group. A provision of HK\$766,000 for the estimated non-recoverability of the assets of these subsidiaries was made in the Company's consolidated profit and loss account for the year ended 31 March 2000, and net liabilities of HK\$529,000 relating to these subsidiaries were included in the Company's consolidated balance sheet as at that date. To the best knowledge of the directors, no transactions were carried out by and no claims were made against these subsidiaries in the current year and up to the date of approval of these financial statements. The net liabilities of HK\$529,000 in relation to these two overseas subsidiaries continue to be carried in the Company's consolidated balance sheet as at 31 March 2001. The directors are currently taking measures to liquidate or dispose of these subsidiaries.

- (ii) Tri-star Forwarders Inc. ("Tri-star")

Tri-star is a 60% owned subsidiary of the Group incorporated in the USA. The books and records of Tri-star are maintained by the minority shareholder, who is also the station manager. The directors are unable to procure the minority shareholder to make available complete books and records for the preparation of the Company's consolidated financial statements. The net assets, turnover and profit for the year of Tri-star included in the Company's consolidated financial statements as at 31 March 2001 and for the year then ended were HK\$623,000, HK\$22,884,000 and HK\$95,000, respectively.

## Notes to Financial Statements (continued)

31 March 2001

**2. BASIS OF PRESENTATION** (continued)**(b) Non-available books and records** (continued)

## (iii) Jet Dispatch (USA) Corporation ("JD(USA)")

As further detailed in note 36(b) to the financial statements, a complaint was filed by JD(USA) and Richard Tsiu against the Company and certain of its subsidiaries for a number of courses of actions.

Richard Tsiu is the station manager of JD(USA) who is responsible for maintaining the books and records of JD(USA). The directors are unable to procure Richard Tsiu to make available complete books and records of JD(USA) for the preparation of the Company's consolidated financial statements. The balances of JD(USA) as included in the Company's consolidated financial statements as at 31 March 2001 and for the year then ended were prepared based on the unaudited financial statements of JD(USA) for the six months ended 30 September 2000, being the latest financial statements made available to the directors. Details of such balances are as follows:

	HK\$'000
Non-current assets	487
Current assets	9,978
Current liabilities	<u>(5,180)</u>
	<u>5,285</u>
Turnover	<u>19,418</u>
Profit for the year	<u>1,573</u>

Currently, the Group is negotiating with Richard Tsiu to enter into an agreement (the "Proposed Settlement Agreement"). Pursuant to the terms of the Proposed Settlement Agreement, the Group agrees to dispose of the its entire interest in JD (USA), including the inter-company advance made to JD (USA), to Richard Tsiu at a total consideration of US\$208,000 (approximately HK\$ 1,557,000) and Richard Tsiu agrees to release all the claims whatsoever remaining outstanding against the Group. Based on the terms of the Proposed Settlement Agreement, a provision for non-recoverability of the assets of JD(USA) of HK\$3,928,000 being the difference between the estimated proceeds receivable, net of expenses, of HK\$ 1,357,000 and the carrying amount of HK\$5,285,000 of the net assets value of JD (USA) included in the Company's consolidated financial statements as at 31 March 2001, was made by the directors and charged to the Company's consolidated profit and loss account for the year ended 31 March 2001.

**Notes to Financial Statements** *(continued)*

31 March 2001

**2. BASIS OF PRESENTATION** *(continued)***(b) Non-available books and records** *(continued)***(iii) Jet Dispatch (USA) Corporation ("JD(USA)")** *(continued)*

In view of the foregoing, no representations as to the completeness of the books and records can be given by the directors although care has been taken in the preparation of the financial statements to mitigate the effect of the incomplete records. The directors are unable to represent that all transactions entered into in the name of the overseas subsidiaries mentioned above have been included in the financial statements. To the extent possible, the directors have, in the determination of the Group's assets and liabilities, taken such steps that they consider practicable to establish the assets and liabilities of these overseas subsidiaries based on the information of which they were aware, and have made provisions and adjustments as they considered appropriate in the preparation of these financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and equity investments, as further explained in the respective accounting policies below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year together with the Group's share of the results for the year and post-acquisition reserves of its associates and jointly-controlled entities as set out below. The results of subsidiaries, associates and jointly-controlled entities acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**Notes to Financial Statements** (continued)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 that asset.

Depreciation is calculated on the straight-line basis for technological equipment, and on the reducing balance basis for the other fixed assets, to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	3% to 15%
Furniture and fixtures	10% to 20%
Office equipment	10% to 20%
Technological equipment	20%
Motor vehicles	16.67% to 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On the disposal of a revalued asset during the year ended 31 March 2000, the attributable revaluation surplus not previously dealt with in the retained profits was transferred directly to the retained profits.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon the disposal of investment properties, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Notes to Financial Statements** *(continued)*

31 March 2001

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

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power, or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the directors, there have been diminutions in values, other than those considered to be temporary in nature, when they are written down to values determined by the directors.

**Jointly-controlled entities**

A jointly-controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of the post acquisition results and reserves of the jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets of the jointly-controlled entities under the equity method of accounting, less any provision for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

**Associate**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

**Goodwill and premium on acquisition**

The goodwill arising on consolidation of subsidiaries and the premium arising on the acquisition of associate or jointly-controlled entities represent the excess purchase consideration paid for the subsidiaries, associate or jointly-controlled entities over the fair values ascribed to the net underlying assets acquired at the date of acquisition. The premium or goodwill arising on the acquisition of other associate, jointly-controlled entities and subsidiaries is eliminated against reserves at the time of acquisition.

**Notes to Financial Statements** *(continued)*

31 March 2001

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**Marketable securities**

Marketable securities are short term investments in listed equity securities and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

**Long term investments**

Long term investments are investments in club memberships or other unlisted equity securities which are intended to be held on a continuing basis. Long term investments are stated as cost less provision for impairments in values, other than those considered to be temporary in nature, as determined by the directors.

**Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

**Hire purchase contracts**

At the inception of a hire purchase contract, the cost of the asset is capitalised at the present value of the minimum hire purchase payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under hire purchase contracts are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of hire purchase contracts are charged to the profit and loss account so as to produce a constant periodic rate of charge over the terms of the hire purchase contracts.



**Notes to Financial Statements** *(continued)*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the rendering of services, when the services are provided;
- (b) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) on the trading of securities, on the transaction dates when the relevant contract notes are exchanged.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund ("MPF") retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution pension scheme for its employees. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated.

**Notes to Financial Statements** *(continued)*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**4. TURNOVER**

Turnover represents the net invoiced value of freight income, commission income, handling and storage charges.

**5. DISCONTINUED OPERATIONS**

Superjet International Limited ("Superjet"), a wholly-owned subsidiary of the Group, was appointed by an airline company to act as its sole general sales agent in certain regions for the sales of international air cargo space. On 1 April 2001, the general sales agency agreement was terminated and not renewed thereafter. As a result, the Group ceased to engage in the business of general sales of international cargo space from that date. Since no material assets or staff were employed in running this business segment, no material loss was incurred by the Group upon its discontinuance.

## Notes to Financial Statements (continued)

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**6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Depreciation:		
Owned fixed assets	<b>1,406</b>	1,932
Fixed assets held under hire purchase contracts	<b>—</b>	73
	<b>1,406</b>	2,005
Fixed assets written off	<b>411</b>	—
Operating lease rentals in respect of land and buildings	<b>4,352</b>	4,923
Auditors' remuneration	<b>1,074</b>	773
Staff costs (excluding directors' remuneration — note 7):		
Wages and salaries	<b>14,189</b>	20,279
MPF scheme contribution	<b>128</b>	—
Pension scheme contributions	<b>161</b>	100
Less: pension scheme forfeited contributions	<b>(15)</b>	(135)
	<b>14,463</b>	20,244
Provision for non-recoverability of assets of certain overseas subsidiaries	<b>3,928</b>	766
Loss on disposal of fixed assets	<b>105</b>	2,793
Loss on disposal of an investment property	<b>—</b>	4,477
Deficit on revaluation of an investment property	<b>23</b>	—
Provision for diminution in value of a property held for sale	<b>—</b>	17,896
Provision for doubtful debts	<b>6,105</b>	35,695
Provision for impairment in values of long term investments	<b>1,316</b>	2,028
Write off of interests in associates	<b>—</b>	443
Write off of deferred development costs	<b>1,492</b>	—
Non-capitalised development costs	<b>319</b>	—
Gross and net rental income	<b>(72)</b>	(961)
Gain on deemed disposal of an interest in a subsidiary	<b>(6,218)</b>	—
Interest income	<b>(528)</b>	(392)
Gain on disposal of interest in a jointly-controlled entity	<b>—</b>	(246)
Exchange (gains)/losses, net	<b>(19)</b>	91
Unrealised holding gain on marketable securities	<b>(30)</b>	—
Gain on disposal of marketable securities	<b>(1,707)</b>	(755)

## Notes to Financial Statements (continued)

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**7. DIRECTORS' REMUNERATION**

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Fees	<b>60</b>	—
Salaries, allowances and benefits in kind	<b>1,521</b>	3,788
Pension scheme contributions	<b>18</b>	—
Total	<b>1,599</b>	3,788

Fees include HK\$60,000 (2000: Nil) paid to an independent non-executive director. There were no other emoluments paid to the independent non-executive directors during the year (2000: Nil).

The number of directors whose remuneration fell within the designated bands is set out below:

	<b>2001</b> <b>Number of</b> <b>directors</b>	2000 Number of directors
HK\$Nil — HK\$1,000,000	<b>9</b>	9
HK\$2,000,001 — HK\$2,500,000	<b>—</b>	1
	<b>9</b>	10

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

In the prior year and the current year, certain directors of the Company were granted certain share option benefits. The benefits of such options have not been included in the remuneration disclosed above since in the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of these options.

## Notes to Financial Statements (continued)

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**8. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out above. The details of the remuneration and designated band of the remaining two (2000: two) non-director, highest paid employees are set out below.

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Salaries, allowances and benefits in kind	<b>812</b>	855
Pension scheme contributions	<b>10</b>	22
	<b>822</b>	877
	<b>2001</b> <b>Number of employees</b>	2000 Number of employees
Nil — HK\$1,000,000	<b>2</b>	2

In the prior year and the current year, certain employees of the Company were granted certain share option benefits. The benefits of such options have not been included in the remuneration disclosed above since in the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of these options.

**9. FINANCE COSTS**

	<b>Group</b>	
	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	<b>668</b>	3,977
Interest on hire purchase contracts	<b>3</b>	132
	<b>671</b>	4,109

## Notes to Financial Statements (continued)

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**10. TAX**

	Group	
	2001 HK\$'000	2000 HK\$'000
Current year provision for profits tax:		
The People's Republic of China		
Hong Kong	—	276
Elsewhere	<b>289</b>	520
Overseas	<b>669</b>	417
	<b>958</b>	1,213
Prior year overprovision for profits tax:		
The People's Republic of China		
Hong Kong	<b>(310)</b>	—
Elsewhere	<b>(2,726)</b>	—
Overseas	—	(105)
	<b>(2,078)</b>	1,108

No provision for Hong Kong profits tax has been made during the year as there were available tax losses carried forward to offset the estimated assessable profits arising in Hong Kong. Hong Kong profits tax was provided for at the rate of 16% on the estimated assessable profits which were earned in or arising from Hong Kong in the prior year.

Tax on profits assessable elsewhere has been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders includes a loss of HK\$20,993,000 (2000: HK\$102,702,000) dealt with in the financial statements of the Company.

The Group's share of the loss retained by its jointly-controlled entity for the year amounted to HK\$138,000 (2000: Profit of HK\$44,000). The Group's share of the loss retained by its associate for the year amounted to HK\$320,000 (2000: Nil)

## Notes to Financial Statements (continued)

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## 12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$20,782,000 (2000: HK\$86,006,000) and the weighted average of 931,009,540 (2000: 594,599,000) shares in issue during the year.

The diluted loss per share for the years ended 31 March 2001 and 2000 has not been shown as the warrants, options and convertible notes outstanding during these years had an anti-dilutive effect on the basic loss per share.

## 13. FIXED ASSETS

Group	Leasehold	Furniture	Office Technological		Motor	Total
	improve- ments	and fixtures	equipment	equipment	vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost:						
At beginning of year	765	1,621	7,311	1,980	1,621	13,298
Additions	—	352	1,007	—	—	1,359
Disposals	—	—	—	(53)	(867)	(920)
Write off	(561)	(26)	—	—	—	(587)
Arising from deemed disposal of interest in a subsidiary	—	—	(980)	(1,927)	(196)	(3,103)
<b>At 31 March 2001</b>	<b>204</b>	<b>1,947</b>	<b>7,338</b>	<b>—</b>	<b>558</b>	<b>10,047</b>
Accumulated depreciation:						
At beginning of year	186	935	3,735	—	910	5,766
Provided during the year	129	262	686	289	40	1,406
Disposals	—	—	—	—	(489)	(489)
Write off	(150)	(26)	—	—	—	(176)
Arising from deemed disposal of interest in a subsidiary	—	—	(75)	(289)	(13)	(377)
<b>At 31 March 2001</b>	<b>165</b>	<b>1,171</b>	<b>4,346</b>	<b>—</b>	<b>448</b>	<b>6,130</b>
Net book value						
<b>At 31 March 2001</b>	<b>39</b>	<b>776</b>	<b>2,992</b>	<b>—</b>	<b>110</b>	<b>3,917</b>
At 31 March 2000	579	686	3,576	1,980	711	7,532

There were no fixed assets held under hire purchase contracts at 31 March 2001. The net book value of fixed assets at 31 March 2000 included an amount of HK\$72,909 in respect of assets held under hire purchase contracts.

## Notes to Financial Statements (continued)

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**14. INVESTMENT PROPERTY**

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	1,400	10,400
Disposals	—	(9,000)
Revaluation deficit - notes 6 and 30	(200)	—
At end of year	<u>1,200</u>	<u>1,400</u>

This investment property was held under medium term lease and situated in Hong Kong.

The valuation of the investment property was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market/existing use basis at 31 March 2001.

**15. INTERESTS IN SUBSIDIARIES**

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	51,059	51,059
Less: Provisions for diminutions in values	(25,153)	(25,153)
	<u>25,906</u>	<u>25,906</u>
Amounts due from subsidiaries	146,821	127,791
Less: Provisions against amounts due from subsidiaries	(137,930)	(121,391)
	<u>8,891</u>	<u>6,400</u>
Amount due to subsidiaries	(49)	—
	<u>34,748</u>	<u>32,306</u>



## Notes to Financial Statements (continued)

31 March 2001

## 15. INTERESTS IN SUBSIDIARIES (continued)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Total issued/ registered and paid-up capital	Equity interest attributable to the Company		Principal activities
			Indirect	Direct	
Jet-Air (H.K.) Limited	Hong Kong	HK\$200 ordinary HK\$2,000,000 Non-voting deferred*	100%	—	Air freight forwarding
Jet Dispatch (H.K.) Limited	Hong Kong	HK\$500,000 Ordinary	100%	—	Sea freight forwarding
Jet Dispatch Limited	United States of America	US\$3,000 Ordinary	100%	—	Freight forwarding agent
Superjet International Limited#	Hong Kong	HK\$2 Ordinary	100%	—	General sales of international air cargo space
Prosperous World International Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary	—	100%	Investment holding
Starglow International Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary	100%	—	Investment holding
Jet Air (Singapore) Private Limited	Singapore	S\$500,000 Ordinary	93%	—	Air freight forwarding and brokers for airline and shipping companies
Jet Dispatch (USA) Corporation**	United States of America	US\$50,000 Ordinary	70%	—	Freight forwarding agent

## Notes to Financial Statements (continued)

31 March 2001

**15. INTERESTS IN SUBSIDIARIES** (continued)

Name	Place of incorporation/ registration and operations	Total issued/ registered and paid-up capital	Equity interest attributable to the Company		Principal activities
			Indirect	Direct	
Tri-star Forwarders Inc.**	United States of America	US\$2,000 Ordinary	60%	—	Freight forwarding agent
Ramleet Services Limited	British Virgin Island	US\$1 Ordinary	100%	—	Dormant

\* The non-voting deferred shares practically carry no rights to dividends, to receive notice of, to attend or to vote at any general meeting of the Company, or to participate in any distribution on winding-up.

\*\* As further mentioned in note 2(b) to the financial statements, the books and records of these subsidiaries for the year are incompleted and the financial statements for the year of which are unaudited.

# As further detailed in note 5 to the financial statements, this subsidiary ceased operation since 1 April 2001.

Nanjing E-Life Gene Technology Company, a previous 61.7% owned subsidiary of the Group, has been accounted for as an associate following the deemed disposal of 10.7% interest by the Group during the year, after which the Group ceased to have control over the composition of the board of directors or the financial and operating activities of this company.

The above table lists the subsidiaries of the Company as at 31 March 2001 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## Notes to Financial Statements (continued)

31 March 2001

**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY**

	<b>2001</b>	<b>Group</b>
	<b>HK\$'000</b>	2000 HK\$'000
Share of net assets	<b>1,494</b>	1,630
Amount due from a former jointly-controlled entity	—	20,000
Less: Provision	—	(20,000)
	—	—
	<b>1,494</b>	<b>1,630</b>

Particulars of the jointly-controlled entity at the balance sheet date are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of registration and operation</b>	<b>Percentage of Equity interest</b>	<b>Profit sharing</b>	<b>Principal activities</b>
Shenzhen Merchant Jet-Air Transport Company Limited	Corporate	People's Republic of China	45%	45%	Freight forwarding agent

**17. INTEREST IN AN ASSOCIATE**

	<b>2001</b>	<b>Group</b>
	<b>HK\$'000</b>	2000 HK\$'000
Share of net assets	<b>27,201</b>	—

## Notes to Financial Statements (continued)

31 March 2001

**17. INTEREST IN AN ASSOCIATE** (continued)

Particulars of the associate at the balance sheet date are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of registration and operation</b>	<b>Percentage of Equity interest</b>	<b>Voting power</b>	<b>Principal activities</b>
南京益來基因醫學有限公司 (“Nanjing E-Life Gene Technology Company”)	Corporate	People’s Republic of China	51%	44%	Development of biotechnological genetic products

This associate was previously a subsidiary of the Company, but became an associate during the year, as detailed in note 15 to the financial statements.

Further details of Nanjing E-Life Gene Technology Company, being a material associate of the Group, are set out as follows:

	<b>At 31 March 2001</b> <b>HK\$’000</b>
Non-current assets	<b>8,167</b>
Current assets	<b>55,298</b>
Current liabilities	<b>(10,129)</b>
	<b><u>53,336</u></b>
	<b>For the 3 months ended 31 March 2001</b> <b>(period in which it was an associate)</b>
Turnover	—
Loss before tax	<b>(627)</b>

**18. LONG TERM INVESTMENTS**

	<b>Group</b>	
	<b>2001</b> <b>HK\$’000</b>	<b>2000</b> <b>HK\$’000</b>
Unlisted investment, at cost	<b>2,700</b>	2,700
Less: Provisions for impairments in values	<b>(2,223)</b>	(2,028)
	<b><u>477</u></b>	<u>672</u>

## Notes to Financial Statements (continued)

31 March 2001

## 19. DEFERRED DEVELOPMENT COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	1,492	—
Additions	—	1,492
Write-off	(1,492)	—
At end of year	<u>—</u>	<u>1,492</u>

## 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	5,191	12,413	47	2,063
Time deposits, unpledged	—	9,312	—	—
Cash and cash equivalents	<u>5,191</u>	<u>21,725</u>	<u>47</u>	<u>2,063</u>

## 21. PROPERTY HELD FOR SALE

	Group	
	2001 HK\$'000	2000 HK\$'000
Transfer from leasehold land and buildings	—	32,126
Provision for diminution in value	—	(17,896)
	<u>—</u>	<u>14,230</u>

## Notes to Financial Statements (continued)

31 March 2001

**22. MARKETABLE SECURITIES**

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed equity investments, at market value listed elsewhere other than in Hong Kong	—	1,214

**23. ACCOUNTS RECEIVABLE**

Included in accounts receivable are trading balances of HK\$1,716,000 (2000:HK\$1,370,000 after a provision for doubtful debts of HK\$10,861,000) due from a jointly-controlled entity, which are unsecured, interest-free and repayable with normal trading terms.

The aging analysis of accounts receivables at the balance sheet date was as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0-30 days	4,469	9,118
31-60 days	3,082	2,658
61-90 days	619	1,306
Over 90 days*	8,851	12,409
Total	17,021	25,491

The Group allows an average credit period of 30 days to 60 days to its trade customers.

\* Included in the accounts receivable balance with aged over three months is an amount of HK\$8,342,000 (2000: HK\$1,053,000) attributable to JD(USA), the books and records of which for the year are incomplete, as is further detailed in note 2(b)(iii) to the financial statements.

## Notes to Financial Statements (continued)

31 March 2001

**24. BANK OVERDRAFTS**

	Group	
	2001 HK\$'000	2000 HK\$'000
Secured bank overdrafts	—	11,098
Unsecured bank overdrafts	<b>104</b>	692
Total	<b>104</b>	11,790

**25. ACCOUNTS PAYABLE**

Included in accounts payable are trading balances of HK\$2,145,000 (2000: HK\$2,869,000) due to a jointly-controlled entity, which are unsecured, interest-free and are repayable with normal trading terms.

The aging analysis of accounts payable at the balance sheet date was as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0-30 days	<b>3,942</b>	6,762
31-60 days	<b>1,664</b>	4,530
61-90 days	<b>1,160</b>	143
Over 90 days*	<b>11,274</b>	11,100
Total	<b>18,040</b>	22,535

\* Included in the accounts payable balance aged over three months is an amount of HK\$4,928,000 (2000: HK\$1,096,000) attributable to JD(USA), the books and records of which for the year are incomplete, as is further detailed in note 2(b)(iii) to the financial statements.

## Notes to Financial Statements (continued)

31 March 2001

**26. HIRE PURCHASE CREDITORS**

	Group	
	2001 HK\$'000	2000 HK\$'000
Total minimum payments due within one year	—	19
Future finance charges	—	(3)
Total net amount payables	<u>—</u>	<u>16</u>

**27. CONVERTIBLE NOTES**

The convertible notes (the "Notes") were issued in the prior year between 9 November 1999 and 18 January 2000, with an aggregate sum of HK\$31,800,000 to certain independent third parties. Unless previously converted, the Notes would have matured and been redeemed by the Company, at par, on the second anniversary of the date of issue of the Notes. The Notes bore interest from their date of issue at the rate of 8% per annum, which was payable quarterly in arrear.

During the year, all the Notes were converted into shares of HK\$0.10 each in the Company, resulting in the issue of 210,000,000 shares, ranking *pari passu* with all existing shares in the Company. The holders of the Notes at the time of conversion of the Notes into shares in the Company, waived their entitlement to interest under the terms of the Notes.

**28. DEFERRED TAX**

The principal components of the Group's deferred tax are as follows:

	Provided		Not Provided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital allowances	—	—	16	338
Tax losses	—	—	16,183	15,057
Total	<u>—</u>	<u>—</u>	<u>16,199</u>	<u>15,395</u>

The revaluation of the Group's investment properties do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

There are no material provided or unprovided deferred tax in respect of the Company (2000: Nil).



## Notes to Financial Statements (continued)

31 March 2001

## 29. SHARE CAPITAL

	Company	
	2001 HK\$'000	2000 HK\$'000
<b>Shares</b>		
<i>Authorised:</i>		
1,500,000,000 ordinary shares of HK\$0.10 each	<u>150,000</u>	<u>150,000</u>
<i>Issued and fully paid:</i>		
1,019,375,660 (2000: 687,793,600) ordinary shares of HK\$0.10 each	<u>101,937</u>	<u>68,779</u>

During the year, the following movements in the share capital were recorded:

- (a) 31,082,060 shares were issued for cash at a subscription price of HK\$0.14 per share pursuant to the exercise of the Company's share warrants for a total cash consideration, before expenses, of HK\$4,351,488.
- (b) The subscription rights attaching to 500,000 share options were exercised at the subscription price of HK\$0.10 per share, resulting in the issue of 500,000 shares for a total cash consideration, before expenses, of HK\$50,000.
- (c) In June 2000, the Notes holders with an aggregate sum of HK\$31,800,000 converted all the Notes into shares in the Company, resulting in the issue of 210 million of shares (note 27).
- (d) In September 2000, an independent third party subscribed for 90 million new shares in the Company at a price of HK\$0.21 per share for a total consideration, before expenses, of HK\$18,900,000.

## Notes to Financial Statements (continued)

31 March 2001

**29. SHARE CAPITAL** (continued)

A summary of the transactions during the year with reference to the above movements in the Company's ordinary share capital is as follows:

	<b>Carrying amount</b>	<b>Share issued</b>
	HK\$'000	'000
At beginning of year	68,779	687,793
Share warrants exercised (a)	3,108	31,082
Share options exercised (b)	50	500
Notes converted into shares (c)	21,000	210,000
Share subscription (d)	9,000	90,000
	<u>101,937</u>	<u>1,019,375</u>
Total	<u>101,937</u>	<u>1,019,375</u>

**Share options**

On 5 March 1996, the Company adopted a share options scheme under which the directors may, at their discretion, invite any employee or executive director of the Group to take up options at nil consideration to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which share options may be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time.

Details of the movement of share options during the year were as follows:

<b>Subscription price</b>	<b>Number of share options</b>				
	<b>As at 1 April 2000</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Cancelled during the year</b>	<b>As at 31 March 2001</b>
HK\$					
0.1000	500,000	—	(500,000)	—	—
0.2500	1,700,000	—	—	—	1,700,000
0.1440	—	18,800,000	—	—	18,800,000
0.2400	—	13,894,000	—	(13,894,000)	—
0.2950	—	3,898,000	—	—	3,898,000
	<u>2,200,000</u>	<u>36,592,000</u>	<u>(500,000)</u>	<u>(13,894,000)</u>	<u>24,398,000</u>
Total	<u>2,200,000</u>	<u>36,592,000</u>	<u>(500,000)</u>	<u>(13,894,000)</u>	<u>24,398,000</u>

**Notes to Financial Statements** (continued)

31 March 2001

**29. SHARE CAPITAL** (continued)

The exercise in full of all outstanding options at the balance sheet date would, under the current capital structure of the Company, result in the issue of 24,398,000 shares with cash proceeds of HK\$4,282,110, before expenses.

Subsequent to the year end on 22 May 2001 and 14 June 2001, respectively, 8,000,000 and 300,000 share options with a subscription price of HK\$0.1440 per share outstanding at the year end date were exercised which resulted in the issue of 8,300,000 shares at a total cash consideration of HK\$1,195,200, before expenses.

On 4 April 2001, 200,000 share options with a subscription price of HK\$0.25 per share were lapsed.

**Share warrants**

During the year, warrants with an aggregate amount of subscription value of HK\$4,351,488 were exercised for 31,082,060 shares at HK\$0.14 per share. At the balance sheet date, the Company had warrants with a total subscription value of HK\$12,431,051 outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 88,793,220 new shares.

## Notes to Financial Statements (continued)

31 March 2001

## 30. RESERVES

## Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed assets revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 1999	24,689	1,996	12,729	—	(284)	(30,755)	8,375
Arising on exercise of warrants	440	—	—	—	—	—	440
Arising on share subscriptions	9,710	—	—	—	—	—	9,710
Share issue expenses	(1,204)	—	—	—	—	—	(1,204)
Release upon disposal of property	—	—	(12,729)	—	—	12,729	—
Provision for diminution in value upon transfer of land and buildings to property held for sale	—	—	—	(1,200)	—	—	(1,200)
Release of deficit upon disposal of an investment property	—	—	—	1,377	—	—	1,377
Exchange realignments	—	—	—	—	30	—	30
Loss for the year	—	—	—	—	—	(86,006)	(86,006)
<b>At 31 March 2000 and 1 April 2000</b>	<b>33,635</b>	<b>1,996</b>	<b>—</b>	<b>177</b>	<b>(254)</b>	<b>(104,032)</b>	<b>(68,478)</b>
Arising on exercise of warrants	1,243	—	—	—	—	—	1,243
Arising on conversion of Notes	10,800	—	—	—	—	—	10,800
Arising on share placement	9,900	—	—	—	—	—	9,900
Deficit on revaluation of investment property	—	—	—	(177)	—	—	(177)
Exchange realignments	—	—	—	—	56	—	56
Loss for the year	—	—	—	—	—	(20,782)	(20,782)
<b>At 31 March 2001</b>	<b>55,578</b>	<b>1,996</b>	<b>—</b>	<b>—</b>	<b>(198)</b>	<b>(124,814)</b>	<b>(67,438)</b>
Reserves retained by:							
Company and subsidiaries	55,578	1,996	—	—	(206)	(123,899)	(66,531)
Associate	—	—	—	—	—	(297)	(297)
Jointly-controlled entity	—	—	—	—	8	(618)	(610)
<b>At 31 March 2001</b>	<b>55,578</b>	<b>1,996</b>	<b>—</b>	<b>—</b>	<b>(198)</b>	<b>(124,814)</b>	<b>(67,438)</b>
Company and subsidiaries	33,635	1,996	—	177	(115)	(103,575)	(67,882)
Associates	—	—	—	—	(147)	23	(124)
Jointly-controlled entity	—	—	—	—	8	(480)	(472)
At 31 March 2000	33,635	1,996	—	177	(254)	(104,032)	(68,478)

## Notes to Financial Statements (continued)

31 March 2001

**30. RESERVES** (continued)**Company**

	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 1999	24,689	48,311	(47,872)	25,128
Arising on exercise of warrants	440	—	—	440
Arising on share subscriptions	9,710	—	—	9,710
Share issue expenses	(1,204)	—	—	(1,204)
Loss for the year	—	—	(102,702)	(102,702)
At 31 March 2000 and 1 April 2000	33,635	48,311	(150,574)	(68,628)
Arising on exercise of warrants	1,243	—	—	1,243
Arising on conversion of Notes	10,800	—	—	10,800
Arising on share placement	9,900	—	—	9,900
Loss for the year	—	—	(20,993)	(20,993)
<b>At 31 March 2001</b>	<b>55,578</b>	<b>48,311</b>	<b>(171,567)</b>	<b>(67,678)</b>

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation prior to the listing of the Company's shares in 1996 over the nominal value of the Company's shares issued in exchange thereof.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act (1981) of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances but does not presently qualify to do so.

## Notes to Financial Statements (continued)

31 March 2001

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	Group	
	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	(23,346)	(80,853)
Interest income	(528)	(392)
Depreciation	1,406	2,005
Fixed assets written off	411	—
Deficit on revaluation of an investment property	23	—
Provision for diminution in value of property held for sale	—	17,896
Loss on disposal of fixed assets	105	2,793
Provision for doubtful debts	6,105	35,695
Write off of interests in associates	—	443
Provision for impairment in values of long term investments	1,316	2,028
Write off of deferred development costs	1,492	—
Provision for non-recoverability of assets of an oversea subsidiary	3,928	—
Gain on disposal of a jointly-controlled entity	—	(246)
Loss on disposal of an investment property	—	4,477
Gain on deemed disposal of an interest in a subsidiary	(6,218)	—
Decrease in accounts receivable	2,365	1,268
Decrease/(increase) in prepayments, deposits and other receivables	(4,433)	125
Increase in marketable securities	(3,631)	(987)
Decrease in accounts payable and accrued liabilities	(5,214)	(2,410)
Net cash outflow from operating activities	<u>(26,219)</u>	<u>(18,158)</u>

## Notes to Financial Statements (continued)

31 March 2001

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Loans, fixed deposits pledged and hire purchase creditors HK\$'000	Convertible notes HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	67,571	27,696	—	225
Net cash inflow/(outflow) from financing	34,843	(28,880)	31,800	4,767
Share of loss for the year	—	—	—	(20)
Balance at 31 March 2000 and 1 April 2000	102,414	(1,184)	31,800	4,972
Net cash inflow/(outflow) from financing	23,301	(19,298)	—	29,624
Conversion of Notes to ordinary shares of the Company	31,800	—	(31,800)	—
Release on deemed disposal of interest in subsidiary	—	16,053	—	(32,660)
Share of loss for the year	—	—	—	(1,615)
<b>Balance at 31 March 2001</b>	<b>157,515</b>	<b>(4,429)</b>	<b>—</b>	<b>321</b>

## Notes to Financial Statements (continued)

31 March 2001

**31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (continued)**(c) Deemed disposal of an interest in a subsidiary**

	<b>2001</b>
	HK\$'000
Net assets excluded from consolidation:	
Fixed assets	2,726
Long term investments	4,112
Cash and bank balances	33,821
Pledged fixed deposits	16,053
Marketable securities	4,845
Prepayments, deposits and other receivables	6,540
Bank loans repayable within three months from date of advance	(14,019)
Accrued liabilities	(115)
Minority interests	(32,660)
Gain on deemed disposal of an interest in a subsidiary	6,218
	<u>27,521</u>
Satisfied by:	
Reclassification to interest in an associate	<u>27,521</u>
Analysis of the net cash outflow in respect of the deemed disposal of an interest in a subsidiary:	
Cash and bank balances disposed of	(33,821)
Bank loans (repayable within three months from date of advance) disposal of	<u>14,019</u>
Net outflow of cash and cash equivalents in respect of the deemed disposal of an interest in a subsidiary	<u>(19,802)</u>

The subsidiary disposed of by way of deemed disposal during the year contributed HK\$9,300,000 to the Group's net operating cash outflows, paid HK\$5,699,000 in respect of investing activities, and received HK\$13,609,000 in respect of financing activities, but had no impact in respect of the cash flow from returns on investments and servicing of finance and tax paid or received.

The subsidiary had no material contribution to the Group's turnover but contributed HK\$4,212,000 to the consolidated loss after tax and before minority interests for the year ended 31 March 2001. This excluded the contribution to results after it ceased to be a subsidiary of the Group.

**(d) Major non-cash transactions**

- (i) As further detailed in note 27 the financial statements, the convertible notes of HK\$31,800,000 were fully converted into shares of the Company during the year and 210,000,000 shares of HK\$0.01 each were issued accordingly.
- (ii) During the year, the Group recorded a gain of HK\$6,218,000 on the deemed disposal of an interest in a subsidiary, such gain had no impact on the Group's cash flows.



## Notes to Financial Statements (continued)

31 March 2001

**32. RELATED PARTY TRANSACTIONS**

Set out below are the material transactions with related parties entered into by the Group during the year. The transactions referred to in item (ii) also constitute connected transactions as defined under the Listing Rules:

		<b>Group</b>	
	Notes	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Freight income from a jointly-controlled entity	(i)	<b>88</b>	554
Freight expenses paid to a jointly-controlled entity	(i)	<b>123</b>	593
Consultancy fees paid to a related company	(ii)	<b>330</b>	550

(i) In the opinion of the directors, the freight income and expenses with respect to the jointly-controlled entity were made under similar terms offered to other independent customers or suppliers of the Group.

(ii) The consultancy fees were paid in respect of advisory services provided to the Company on corporate finance matters, to a related company of which Kwok Kwan Hung and Henry Chien Hoe Yong, former directors of the Company, are the beneficial shareholders.

**33. PLEDGE OF ASSETS**

At the balance sheet date, the Group's bank deposits of HK\$4,429,000 (2000: bank deposits of HK\$1,200,000 and the Group's property held for sale with a carrying value of HK\$14,230,000) were pledged to banks to secure general banking facilities granted to the Group.

**34. CONTINGENT LIABILITIES**

	<b>Company</b>	
	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Guarantee of bank facilities granted to subsidiaries	<b>22,087</b>	37,000

At the balance sheet date, guarantees of approximately HK\$4 million (2000: HK\$3 million) were issued by certain banks on behalf of the Group. Such bank guarantees were secured by various counter indemnities provided by the Group and the fixed deposits of the Group.

## Notes to Financial Statements (continued)

31 March 2001

## 35. COMMITMENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital commitments contracted, but not provided for	<b>3,822</b>	3,822	—	—
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	<b>2,137</b>	141	<b>180</b>	—
In the second to fifth years, inclusive	<b>413</b>	3,943	—	821
	<b>2,550</b>	4,084	<b>180</b>	821

## 36. LITIGATION

- (a) On 24 November 1999, a subsidiary of the Company received a claim from a customer for a sum of US\$133,790 (approximately HK\$1,036,873) in respect of an alleged loss of goods which were handled by the Group. The case has been heard in the court in Guangzhou, the PRC and judgement is currently awaited. The directors, after discussion with the legal advisor, considered that the Group has a case to defend and no provision in respect of the claim was necessary at this stage.
- (b) On 16 April 2001, a complaint was filed by Jet Dispatch (USA) Corporation, a 70% owned subsidiary of the Company, and Richard Tsiu in Los Angeles, California, the United States of America against the Company, Jet-Air (H.K.) Limited, Jet Air (USA) Limited, Jet Dispatch (H.K.) Limited and Jet Dispatch Limited, all of which are wholly-owned subsidiaries of the Group, in respect of a number of courses of actions regarding declaration, accounting, damages and injunction in respect of certain shares in Jet Dispatch (USA) Corporation. Currently, the Group is negotiating with Richard Tsiu to enter into an agreement (the "Proposal Settlement Agreement") pursuant to terms of which the Group agrees to dispose of its entire interest, including the inter-company advance made to Jet Dispatch (USA) Corporation, to Richard Tsiu at a total consideration of US\$208,000 and Richard Tsiu agrees to release all of the claims whatsoever remaining outstanding against the Group.

**Notes to Financial Statements** (continued)

31 March 2001

**37. POST BALANCE SHEET EVENTS**

- (a) By virtue of an ordinary resolution passed at the Company's special general meeting held on 21 May 2001:
- (i) the issued share capital of the Company was reduced from an amount of HK\$101,937,566 to HK\$50,968,783 (the "Reduction of Capital") by the cancellation of HK\$0.05 paid up capital on each issued share with an original nominal value of HK\$0.10. The shareholders of the Company further approved that the credit resulting from the Reduction of Capital of HK\$50,968,783 be applied to eliminate the amount of accumulated losses of the Company; and
  - (ii) all of the authorised but unissued share capital of the Company was cancelled and subsequently increased to the original authorised share capital of HK\$150,000,000 by the creation of 1,980,624,340 shares of HK\$0.05 each in issue upon completion of the Reduction of Capital.
- (b) On 22 June 2001, the Company and Best Chance Holdings Limited ("Best Chance") entered into a conditional subscription agreement (the "Subscription Agreement") pursuant to which the Company conditionally agreed to issue and allot, and Best Chance conditionally agreed to subscribe for 2,256,000,000 new shares in the Company, at HK\$0.05 per share. On the same date, the Company entered into a placing agreement with KCG Securities Asia Limited (the "Placing Agreement"), pursuant to which the Placing Agent conditionally agreed to place, on a fully underwritten basis, an aggregate of 744,000,000 shares in the Company to independent investors. The subscription and placing of shares are expected to be completed by no later than 5 October 2001, or such later date as may be agreed in writing between the parties.

The proceeds of the subscription and placing of shares before expenses are expected to amount to approximately HK\$112.8 million and HK\$37.2 million, respectively, which will be used to provide general working capital for the Group.

Upon the completion of the Subscription Agreement and the Placing Agreement, Best Chance will become the largest and the controlling shareholder of the Company. The completion of the subscription and placing of shares is subject to the fulfillment of a number of conditions precedent which include, but are not limited to, obtaining the relevant approvals from the independent shareholders of the Company, The Stock Exchange of Hong Kong Limited and the SFC.

**38. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 9 August 2001.