

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Best Chance Holdings Limited, a company which is incorporated in the British Virgin Islands with limited liability.

The Company is an investment holding company. The activities of its principal subsidiaries, jointly controlled entity and associate are set out in notes 15, 16 and 17 respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing these financial statements, the directors have been unable to obtain sufficient information to satisfy themselves regarding the treatment of certain items in the financial statements as follows:

- (a) The following amounts are included based on unaudited management accounts in the consolidated financial statements in respect of a subsidiary of the Company, namely Tri-star Forwarders Inc. ("Tri-star") for the eight-month period ended 30th November, 2001, being the most up to date financial information the directors could obtain prior to the disposal of Tri-star on 5th March, 2002:

- Turnover of approximately HK\$13,258,000
- Cost of sales of approximately HK\$10,754,000
- Administrative expenses of approximately HK\$1,404,000

Against this background, the directors were unable to satisfy themselves regarding; the reliability of the above amounts, the results of Tri-star for the period from 1st December, 2001 to 5th March, 2002, the classification of the income statement as between loss from operations and gain on disposal/deemed disposal of interests in subsidiaries, which includes a loss of HK\$649,000 in respect of the disposal of Tri-star and the reliability of the segmental information in note 6 so far as it relates to Tri-star.

- (b) Included in the balance sheet of the Group as at 31st March, 2001 were net liabilities of HK\$1,838,000 in respect of certain subsidiaries; being the net liabilities of those subsidiaries as at the respective latest dates for which information could be obtained. Those subsidiaries have been disposed of by the Group during the year. Against this background, the directors were unable to satisfy themselves as to whether the gain on disposal of interests in these subsidiaries of HK\$3,008,000 was fairly stated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

During the year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs had no significant effect on the financial statements for the current or prior year. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

During the year, following the change in management, the Group has reviewed its investment strategy as well as the appropriateness of the accounting policy adopted. As a result, the directors of the Company determined that with effect from 1st April, 2001, accounting policy on investments in securities were changed from the "Alternative treatment" to the "Benchmark treatment" as set out in the SSAP 24 "Investment in Securities" issued by the Hong Kong Society of Accountants. The change in this accounting policy did not result in significant impact to the consolidated financial statements for the year.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment property and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries, jointly controlled entity and associate which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in a jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

Investment in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, investment in associate is stated at the Group's share of the net assets of the associate, less any identified impairment loss.

Revenue recognition

Income from provision of freight forwarding agency services is recognised when the services are rendered.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

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

Sales of investments in securities are recognised when the sales contract becomes unconditional.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation at the balance sheet date and any accumulated impairment losses.

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

Leasehold improvements	15% or over the term of the lease, whichever is shorter
Furniture and fixtures	10% — 20%
Office equipment	10% — 20%
Motor vehicles	16.67% — 30%

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

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

Investments other than held-to-maturity securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Retirement benefit scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are also charged to the income statement.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects developing 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs (Continued)

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.

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 or an asset will crystallise in the foreseeable future.

5. TURNOVER

	2002	2001
	HK\$'000	HK\$'000
International air and sea freight forwarding	49,291	106,155
Securities trading	33,881	—
General sales of international air cargo space (Note)	—	31,630
	83,172	137,785

Note: The operation was discontinued on 1st April, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's operations are principally located in the North and South America, Hong Kong, the People's Republic of China (the "PRC") and others. An analysis of the Group's revenue and contribution to operating results and segmental assets and liabilities is as follows:

Business segments

	International air and sea freight forwarding <i>HK\$'000</i>	Investment securities <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the year ended 31st March, 2002				
Revenue				
External sales	49,291	33,881	—	83,172
Results				
Segment results	(11,020)	(599)		(11,619)
Unallocated corporate expenses				(12,484)
Interest income				1,245
Finance costs				(29)
Gain on disposal of interests in subsidiaries				8,568
Share of results of an associate				(1,554)
Share of results of a jointly controlled entity				(1,494)
Loss before taxation				(17,367)
Taxation				(32)
Loss before minority interests				(17,399)
Minority interests				(427)
Net loss for the year				(17,826)
BALANCE SHEET				
ASSETS				
Segment assets	7,073	60,996	—	68,069
Investment securities				
Interest in an associate				25,647
Unallocated corporate assets				92,435
Consolidated total assets				186,151
LIABILITIES				
Segment liabilities	(5,689)	(16,610)	—	(22,299)
Unallocated corporate liabilities				(1,180)
Consolidated total liabilities				(23,479)
OTHER INFORMATION				
Additions to property, plant and equipment	1,145	—	—	1,145
Depreciation	350	—	—	350
Impairment loss recognised on investments in securities	—	360	—	360
Unrealised holding loss on investments in securities	—	1,115	—	1,115

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	International air and sea freight forwarding HK\$'000	Investment securities HK\$'000	General sales of international air cargo space (discontinued) HK\$'000 Note (a)	Development of biotechnological genetic products HK\$'000 Note (b)	Elimination HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2001						
Revenue						
External sales	106,155	—	31,630	—	—	137,785
Inter-segment sales	8,071	—	984	—	(9,055)	—
Results						
Segment results	(7,859)	—	1,839	(4,083)		(10,103)
Unallocated corporate expenses						(19,989)
Interest income						528
Finance costs						(671)
Gain on deemed disposal of interest in a subsidiary						6,218
Share of results of an associate						(320)
Share of results of a jointly controlled entity						(138)
Loss before taxation						(24,475)
Taxation						2,078
Loss before minority interests						(22,397)
Minority interests						1,615
Net loss for the year						(20,782)
BALANCE SHEET						
ASSETS						
Segment assets	22,943	477	4,161	—	—	27,581
Interest in an associate						27,201
Interest in a jointly controlled entity						1,494
Unallocated corporate assets						8,009
Consolidated total assets						64,285
LIABILITIES						
Segment liabilities	(23,626)	—	(3,018)	—	—	(26,644)
Unallocated corporate liabilities						(2,821)
Consolidated total liabilities						(29,465)
OTHER INFORMATION						
Additions to property, plant and equipment	1,359	—	—	—	—	1,359
Depreciation	1,406	—	—	—	—	1,406
Impairment loss recognised on assets of certain overseas subsidiaries	3,928	—	—	—	—	3,928
Impairment loss recognised on investments in securities	—	—	—	—	—	1,316

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Inter-segment sales are charged at terms determined and mutually agreed between group companies.

Notes:

- (a) 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 1st 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.
- (b) The business segment of development of biotechnological genetic products was ceased following the deemed disposal of the Group's 10.7% interest in Nanjing E-Life Gene Technology Company for the year ended 31st March, 2001. Nanjing E-Life Gene Technology Company became the associate of the Group thereafter.

Geographical Segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services.

	Contribution to Turnover		Loss from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
North and South America	30,381	99,964	(2,192)	(1,510)
Hong Kong	38,094	10,032	(4,967)	(2,156)
PRC	2,756	7,641	(751)	(4,554)
Others	11,941	20,148	(3,709)	(1,883)
	83,172	137,785	(11,619)	(10,103)
Unallocated corporate expenses			(12,484)	(19,989)
Interest income			1,245	528
Finance costs			(29)	(671)
Gain on disposal/deemed disposal of interests in subsidiaries			8,568	6,218
Share of results of an associate			(1,554)	(320)
Share of results of a jointly controlled entity			(1,494)	(138)
Loss before taxation			(17,367)	(24,475)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical Segments (Continued)

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
North and South America	3,161	14,061	—	508
Hong Kong	156,423	19,973	1,145	851
PRC	25,647	28,695	—	—
Others	920	1,556	—	—
	186,151	64,285	1,145	1,359

7. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Interest income	1,245	528
Recovery of allowances for bad and doubtful debts	1,091	—
Sundry income	1,511	169
Gain on disposal of investments in securities	—	1,707
Rental income	—	72
Unrealised holding gains on investments in securities	—	30
	3,847	2,506

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

8. LOSS FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
— directors remuneration (note 9(a))	1,952	1,599
— other staff costs (Note 9(b))	7,599	14,189
— retirement benefits scheme contributions excluding directors and net of forfeited contributions of HK\$210,000 (2001: HK\$15,000)	312	274
— severance payment	1,819	—
Total staff costs	11,682	16,062
Auditors' remuneration	834	1,074
Allowance for bad and doubtful debts	3,041	6,105
Deficit arising on revaluation of investment property	150	23
Depreciation	350	1,406
Impairment loss recognised on assets of certain overseas subsidiaries (included in other operating expenses)	—	3,928
Impairment loss recognised on investments in securities (included in other operating expenses)	360	1,316
Loss on disposal of property, plant and equipment	2,953	516
Research and development cost	—	319
Unrealised holding loss on investments in securities	1,115	—
Write off of deferred development costs	—	1,492
and after crediting:		
Net rental income in respect of premises after negotiable outgoings	—	72

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

9. DIRECTORS AND EMPLOYEES' REMUNERATION

(a) Directors' Remuneration

	2002 HK\$'000	2001 HK\$'000
Fees:		
— Executive directors	—	—
— Non-executive director	—	—
— Independent non-executive directors	120	60
	<hr/> 120	<hr/> 60
Other emoluments:		
— Executive directors		
Salaries and other benefits	1,770	1,521
Retirement benefits scheme contributions	62	18
	<hr/> 1,832	<hr/> 1,539
Total directors' remuneration	<hr/> 1,952	<hr/> 1,599

The aggregate remuneration of each individual director fall within the HK\$1,000,000 band.

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group. The Group paid HK\$70,000 to (2001: Nil) one of the director as compensation for loss of office in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

9. DIRECTORS AND EMPLOYEES' REMUNERATION (Continued)

(b) Employees' Remuneration

The five highest paid individuals in the Group included two directors (2001: three directors) of the Company, details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2002 HK\$'000	2001 HK\$'000
Remuneration, salaries and other benefits	812	812
Retirement benefits scheme contributions	38	10
Severance payment	102	—
	<hr/> 952	<hr/> 822

10. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
— Bank overdrafts	29	668
— Obligations under hire purchase contracts	—	3
	<hr/> 29	<hr/> 671

11. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge (credit) comprises:		
Taxation in other jurisdictions	32	958
Overprovision in prior years	—	(3,036)
	<hr/> 32	<hr/> (2,078)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

11. TAXATION (Continued)

No provision for Hong Kong Profits Tax has been made during the year as there were available tax losses brought forward to offset the estimated assessable profits arising in Hong Kong.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 26.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$17,826,000 (2001: HK\$20,782,000) and on the weighted average of 2,212,737,030 (2001: 931,009,540) ordinary shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the share options and warrants as their exercise would result in a decrease in loss per share for both years.

13. INVESTMENT PROPERTY

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
VALUATION		
At 1st April	1,200	1,400
Deficit arising on revaluation	(150)	(200)
	<hr/>	
At 31st March	1,050	1,200
	<hr/> <hr/>	

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

The Group's investment property was revalued at 31st March, 2002 by Chesterton Petty Limited, an independent firm of professional property valuers, on an open market value basis. Deficit arising on the revaluation of HK\$150,000 has been charged to the consolidated income statement.

The Group's investment property is held for rental under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1st April, 2001	204	1,947	7,338	558	10,047
Exchange realignment	—	(39)	—	—	(39)
Additions	260	127	78	680	1,145
Disposals	(130)	(691)	(6,137)	(299)	(7,257)
Disposal of subsidiaries	—	(326)	(660)	(78)	(1,064)
At 31st March, 2002	334	1,018	619	861	2,832
DEPRECIATION					
At 1st April, 2001	165	1,171	4,346	448	6,130
Exchange realignment	—	(27)	—	—	(27)
Provided for the year	39	142	33	136	350
Eliminated on disposals	(91)	(293)	(3,671)	(236)	(4,291)
Eliminated on disposal of subsidiaries	—	(188)	(275)	(31)	(494)
At 31st March, 2002	113	805	433	317	1,668
NET BOOK VALUES					
At 31st March, 2002	221	213	186	544	1,164
At 31st March, 2001	39	776	2,992	110	3,917

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

15. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	51,059	51,059
Less: Impairment loss recognised	(51,059)	(25,153)
	—	25,906
Amounts due from subsidiaries	247,144	146,821
Less: Impairment loss recognised	(128,283)	(137,930)
	118,861	8,891
	118,861	34,797
Amounts due to subsidiaries	—	(49)

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries will not be repayable in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

The directors of the Company consider that in the light of the recurring operating losses of these subsidiaries and unfavourable market conditions, the recoverable amount of its subsidiaries has been reduced to the estimated net recoverable value of their identifiable net assets. Accordingly, the total impairment losses of approximately HK\$16,259,000 in respect of the Company's interests in subsidiaries and advances due from subsidiaries have been recognised in the income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

15. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31st March, 2002 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly %	Indirectly %	
Jet Dispatch Limited	United States of America	US\$3,000	—	100	Freight forwarding agent
Jet Air (Singapore) Private Limited	Singapore	S\$500,000	—	93	Air freight forwarding and brokers for airline and shipping companies
Square Profits Group Inc.	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Dragon Air Investments Limited	Niue/ Hong Kong	US\$50,000	—	100	Investment holding
Heatwave Industries Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Securities investment

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

The above table lists the subsidiaries of the Company 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 THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	—	1,494

The interest in a jointly controlled entity represents the Group's 45% interests in Shenzhen Merchant Jet-Air Transport Company Limited ("Shenzhen Merchant"), a joint venture established in the PRC and engaged in the provision of freight forwarding agency services.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	25,647	27,201

Particulars of the associate at 31st March, 2002 are as follows:

Name of associate	Place of registration and operation	Proportion of nominal value of registered capital held indirectly by the Company %	Principal activity
南京益來基因醫學有限公司 Nanjing E-Life Gene Technology Company ("E-Life Gene")	The PRC	51	Development of biotechnological genetic products

Following the disposal of 10.7% interests in E-Life Gene for the year ended 31st March, 2001, the Group held 51% interests in E-Life Gene and cannot exercise control over the composition of the board of directors. Accordingly, E-Life Gene was classified as an associate of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

17. INTEREST IN AN ASSOCIATE (Continued)

The following details have been extracted from the financial statements of E-Life Gene:

Results for the year ended 31st March, 2002

	2002	2001
	HK\$'000	HK\$'000
Turnover	6	—
Loss before taxation	(3,049)	(627)
The Group's share of post-acquisition results	(1,554)	(320)

Financial position

Non-current assets	6,598	8,167
Current assets	44,545	55,298
Current liabilities	(856)	(10,129)
Net assets	50,287	53,336

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

18. INVESTMENTS IN SECURITIES

	THE GROUP					
	Investment securities		Other investments		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:						
Listed — Hong Kong	—	—	22,746	—	22,746	—
Unlisted	38,250	—	—	—	38,250	—
	38,250	—	22,746	—	60,996	—
Club debenture	—	—	—	477	—	477
Classified under:						
Current	—	—	22,746	—	22,746	—
Non-current	38,250	—	—	477	38,250	477
	38,250	—	22,746	477	60,996	477
Market value of listed securities	—	—	22,746	—	22,746	—

The carrying value of listed securities in Hong Kong at 31st March, 2002 represents 1.53% interests in Beijing Beida Jade Bird Universal Sci-Technology Company Limited (“BBJB”), a joint stock company with limited liability incorporated in the PRC with its H shares listed on the Growth Enterprises Market on The Stock Exchange of Hong Kong Limited (the “GEM Board”).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

18. INVESTMENTS IN SECURITIES (Continued)

During the year, the Group through an acquisition of a wholly owned subsidiary, acquired 30,000,000 promoters' shares in BBJB ("Promoters' Shares") of RMB0.01 each at a consideration of HK\$38,250,000, which is equivalent to 3.11% of total issued share capital (including H shares and Promoters' Shares) of BBJB. Promoters' Shares were unlisted share capital issued by BBJB when it was initially listed on the GEM Board in 2000. According to the Company Law in the PRC, Promoters' Shares should not be transferable within three years from the date of incorporation of BBJB on 29th March, 2000. Upon its maturity date on 28th March, 2003, those Promoters' Shares could be applied for listing on the GEM Board. In the opinion of the directors, this investment will further enhance the strategic relationship between the Group and BBJB. The Group identified its investment in the Promoters' Shares as for long-term strategic purpose. During the year, the directors of the Company reviewed the carrying value of the Promoters' Shares in light of the current market condition and no indication of impairment loss was identified.

The directors of the Company also reviewed the carrying value of the club debenture with reference to its net realisable value and an impairment loss of HK\$360,000 was identified and charged to the consolidated income statement.

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows its trade customers with credit period normally ranging from 30 days to 60 days. Included in debtors, deposits and prepayments are trade debtors with the following aged analysis:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
0-30 days	1,275	4,469
31-60 days	159	3,082
61-90 days	125	619
Over 90 days	1,458	8,851
	<hr/>	<hr/>
	3,017	17,021
Add: Deposits and prepayments	14,723	3,355
	<hr/>	<hr/>
	17,740	20,376
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

19. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

At 31st March, 2001, included in the trade debtors balance were trading balances of HK\$1,716,000 due from the jointly controlled entity of the Group, which were unsecured, interest-free and were repayable within credit period normally ranging from 30 days to 60 days.

20. SHORT TERM RECEIVABLES

The amount is unsecured, carries interest at 8% per annum and was settled subsequent to the balance sheet date.

21. CREDITORS, ACCRUED CHARGES AND OTHER PAYABLES

Included in creditors, accrued charges and other payables are trade creditors with the following aged analysis:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
0-30 days	1,112	3,942
31-60 days	74	1,664
61-90 days	54	1,160
Over 90 days	1,610	11,274
	2,850	18,040
Add: Accrued charges and other payables	20,585	9,519
	23,435	27,559

At 31st March, 2001, included in creditors, accrued charges and other payables are trading balances of HK\$2,145,000 due to the jointly controlled entity of the Group, which were unsecured, interest-free and were repayable within credit period normally ranging from 30 days to 60 days.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

22. SHARE CAPITAL

	Notes	Number of shares '000	Value HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 each			
1st April, 2000 and at 31st March, 2001		1,500,000	150,000
Adjustment of nominal value	(a)	—	(75,000)
Cancellation of unissued authorised share capital of HK\$0.10 each	(a)	(480,625)	(24,031)
<hr/>			
Ordinary shares of HK\$0.05 each		1,019,375	50,969
Additions	(a) & (c)	10,980,625	549,031
<hr/>			
Ordinary shares of HK\$0.05 each at 31st March, 2002		12,000,000	600,000
<hr/>			
		Number of shares '000	Value HK\$'000
Issued and fully paid:			
Ordinary shares of HK\$0.10 each			
at 1st April, 2000		687,793	68,779
Exercise of share warrants		31,082	3,108
Exercise of share options		500	50
Convertible notes converted into shares		210,000	21,000
Subscription of shares		90,000	9,000
<hr/>			
Ordinary shares of HK\$0.10 each			
at 1st April, 2001		1,019,375	101,937
Adjustment of nominal value	(a)	—	(50,968)
<hr/>			
Ordinary shares of HK\$0.05 each		1,019,375	50,969
Exercise of share options	(b)	13,000	650
Issue of shares	(c)	3,000,000	150,000
<hr/>			
Ordinary shares of HK\$0.05 each at 31st March, 2002		4,032,375	201,619
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

22. SHARE CAPITAL (Continued)

Notes:

- (a) Pursuant to resolutions passed by the shareholders of the Company in the special general meeting held on 21st May, 2001, the Company carried out a capital reduction ("Capital Reduction") as follows:
- The nominal value of each issued share was reduced from HK\$0.10 to HK\$0.05 each;
 - The credit of approximately HK\$50,968,000 arisen as a result of the Capital Reduction was credited to the deficit of the Company;
 - The authorised but unissued share capital of the Company of approximately HK\$24,031,000 was cancelled and increased to HK\$150,000,000 by the creation of 1,980,624,340 ordinary shares of HK\$0.05 each.
- (b) The Company issued and allotted 13,000,000 shares of HK\$0.05 each in the Company for cash at HK\$0.144 per share as a result of the exercise of share options. The shares issued rank *pari passu* with the then existing shares in issue in all respects.
- (c) Pursuant to a special resolution passed at the special general meeting held on 10th September, 2001:
- The authorised share capital was further increased from HK\$150,000,000 to HK\$600,000,000 by the creation of 9,000,000,000 ordinary shares of HK\$0.05 each.
 - 2,256,000,000 new shares of HK\$0.05 each were issued and allotted to Best Chance Holdings Limited for cash at HK\$0.05 per share.
 - 744,000,000 shares at HK\$0.05 each were issued and allotted to institutional investors for cash at HK\$0.05 per share.

The above transactions were completed on 5th November, 2001. The shares issued rank *pari passu* with the then existing shares in all respects.

23. SHARE WARRANTS

At 31st March, 2002, the Company had outstanding warrants with a total subscription value of HK\$12,431,051 at the subscription price of HK\$0.14 per share, subject to adjustment, from the date of issue up to 9th January, 2003. At 31st March, 2002, the exercise in full of such warrants would result in the issue of approximately 88,793,000 additional ordinary shares of HK\$0.05 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

24. SHARE OPTIONS

At 31st March, 2002, the options to subscribe for shares outstanding under the Company's two share option schemes which were adopted on 5th March, 1996 and 18th March, 2002, respectively, are as follows:

Exercisable period	Exercise price	Outstanding at 31.3.2002
		<i>HK\$</i>
7.9.2000 to 7.3.2005	0.250	1,500,000
11.10.2000 to 11.4.2005	0.295	3,898,000
17.5.2001 to 17.11.2005	0.144	5,800,000
		<hr/>
		11,198,000
		<hr/> <hr/>

During the year, no share options were granted and 13,000,000 share options were exercised at HK\$0.144 each. No significant consideration was received by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

25. RESERVES

	Share premium	Contributed surplus	Investment property revaluation reserve	Exchange reserve	Retained profits (deficit)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
At 1st April, 2000	33,635	1,996	177	(254)	(104,032)	(68,478)
Exchange adjustment	—	—	—	56	—	56
Arising on exercise of warrants	1,243	—	—	—	—	1,243
Arising on conversion of convertible notes	10,800	—	—	—	—	10,800
Premium on issue of shares	9,900	—	—	—	—	9,900
Deficit arising on revaluation	—	—	(177)	—	—	(177)
Net loss for the year	—	—	—	—	(20,782)	(20,782)
At 1st April, 2001	55,578	1,996	—	(198)	(124,814)	(67,438)
Exchange adjustment	—	—	—	(112)	—	(112)
Arising from Capital Reduction (note 22(a))	—	—	—	—	50,968	50,968
Premium on issue of shares	1,222	—	—	—	—	1,222
Share issue expenses	(5,442)	—	—	—	—	(5,442)
Realised on disposal of interests in subsidiaries	—	—	—	(319)	—	(319)
Net loss for the year	—	—	—	—	(17,826)	(17,826)
At 31st March, 2002	51,358	1,996	—	(629)	(91,672)	(38,947)
Attributable to:						
The Company and its subsidiaries	51,358	1,996	—	(637)	(87,709)	(34,992)
Jointly controlled entity	—	—	—	8	(2,112)	(2,104)
Associates	—	—	—	—	(1,851)	(1,851)
	51,358	1,996	—	(629)	(91,672)	(38,947)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

25. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st April, 2000	33,635	48,311	(150,574)	(68,628)
Arising on exercise of warrants	1,243	—	—	1,243
Arising on conversion of convertible notes	10,800	—	—	10,800
Premium on issue of shares	9,900	—	—	9,900
Net loss for the year	—	—	(20,993)	(20,993)
<hr/>				
At 1st April, 2001	55,578	48,311	(171,567)	(67,678)
Arising from Capital Reduction (Note 22(a))	—	—	50,968	50,968
Premium on issue of shares	1,222	—	—	1,222
Share issue expenses	(5,442)	—	—	(5,442)
Net loss for the year	—	—	(18,266)	(18,266)
<hr/>				
At 31st March, 2002	51,358	48,311	(138,865)	(39,196)

The contributed surplus of the Group represents the difference between the nominal value of the share of the subsidiaries acquired pursuant to the Reorganisation prior to the listing of the Company's shares in the Main Board of the Stock Exchange in 1996 ("Reorganisation") and 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 contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

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

At 31st March, 2002 and 2001, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

26. DEFERRED TAXATION

The major components of the deferred taxation (credit) charge not recognised for the year are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	(27)	322
Tax loss arising	583	(1,385)
	556	(1,063)

At the balance sheet date, the major components of the deferred taxation asset (liability) not recognised in the financial statements, are 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:				
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	43	16	—	—
Unutilised tax losses	17,536	18,119	2,412	1,936
	17,579	18,135	2,412	1,936

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

27. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss before taxation	(17,367)	(24,475)
Share of results of an associate	1,554	320
Share of results of a jointly controlled entity	1,494	138
Interest income	(1,245)	(528)
Interest expenses	29	671
Depreciation	350	1,406
Loss on disposal of property, plant and equipment	2,953	516
Impairment loss recognised on investments in securities	360	1,316
Write off of development costs	—	1,492
Unrealised holding loss on investments in securities	1,115	—
Impairment loss recognised on assets of certain overseas subsidiaries	—	3,928
Deficit arising on revaluation of an investment property	150	23
Gain on disposal/deemed disposal of interests in subsidiaries	(8,568)	(6,218)
(Increase) decrease in debtors, deposits and prepayments	(16,015)	4,037
Increase in investments in securities	(23,861)	(3,631)
Increase (decrease) in creditors, accrued charges and other payables	7,801	(5,214)
Net cash outflow from operating activities	(51,250)	(26,219)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

28. DISPOSAL/DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	570	2,726
Investments in securities	—	8,957
Debtors, deposits and prepayments	19,681	6,540
Pledged bank deposits	—	16,053
Bank balances and cash	3,732	33,821
Creditors, accrued charges, and other payables	(28,535)	(115)
Income and other taxes payable	(1,586)	—
Bank loans	—	(14,019)
Minority interests	(746)	(32,660)
	(6,884)	21,303
Exchange reserves released	(319)	—
	(7,203)	—
Gain on disposal/deemed disposal of interests in subsidiaries	8,568	6,218
	1,365	27,521
Satisfied by:		
Cash	335	—
Other receivables	1,030	—
Interest in an associate	—	27,521
	1,365	27,521
Analysis of the net outflow of cash and cash equivalents in connection with the disposal/deemed disposal of interests in subsidiaries:		
Cash consideration received	335	—
Bank balances and cash disposed of	(3,732)	(33,821)
Bank loans disposed of	—	14,019
	(3,397)	(19,802)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

28. DISPOSAL/DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES (Continued)

The subsidiaries disposed of during the year contributed cash outflow of HK\$12,793,000 (2001: cash outflow of HK\$9,300,000) to the Group's net operating cash outflow, paid HK\$282,000 (2001: paid HK\$5,699,000) in respect of investing activities, received Nil (2001: HK\$13,609,000) in respect of financing activities and paid tax of HK\$2,862,000 (2001: Nil), but had no significant impact in respect of the cash flow from returns on investments and servicing of finance.

The subsidiaries disposed of during the year contributed HK\$13,258,000 (2001: Nil) to the Group's turnover, and HK\$1,261,000 (2001: HK\$4,112,000) to the Group's loss from operations.

29. PURCHASE OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Investments in securities	38,250	—
Satisfied by:		
Cash	21,640	—
Other payables	16,610	—
	38,250	—

Analysis of the cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration paid and net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	21,640	—

The subsidiaries acquired during the year does not have significant contributions to the Group's turnover, loss from operation and cashflows.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including share premium) <i>HK\$'000</i>	Obligations under purchase contracts <i>HK\$'000</i>	Minority shareholders <i>HK\$'000</i>	Convertible notes <i>HK\$'000</i>
Balance at 1st April, 2000	102,414	16	4,972	31,800
Proceeds on issue of new shares	18,900	—	—	—
Exercise of share options	50	—	—	—
Exercise of share warrants	4,351	—	—	—
Contribution from minority shareholders	—	—	29,624	—
Conversion of convertible notes to ordinary shares of the Company	31,800	—	—	(31,800)
Repayments	—	(16)	—	—
Released on deemed disposal of a subsidiary	—	—	(32,660)	—
Loss attributable to minority shareholders	—	—	(1,615)	—
<hr/>				
Balance at 31st March, 2001 and 1st April, 2001	157,515	—	321	—
Arising on Capital Reduction	(50,968)	—	—	—
Proceeds from issue of new shares	150,000	—	—	—
Exercise of share options	1,872	—	—	—
Share issue expenses	(5,442)	—	—	—
Exchange realignment	—	—	(2)	—
Released on disposal of subsidiaries	—	—	(746)	—
Profit attributable to minority shareholders	—	—	427	—
<hr/>				
Balance at 31st March, 2002	252,977	—	—	—

31. MAJOR NON-CASH TRANSACTION

During the year ended 31st March, 2001, the major non-cash transaction was the conversion of convertible notes of HK\$31,800,000 into 210,000,000 shares of HK\$0.01 each in the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

32. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments at 31st March, 2002.

As at 31st March, 2001, the Group had capital commitment of HK\$3,822,000 in respect of the acquisition of 49% interest in an associate.

33. OPERATING LEASE ARRANGEMENT

The Group has made approximately HK\$4,352,000 (2001: HK\$4,923,000) minimum lease payments under operating leases during the year in respect of office premises.

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	1,697	2,408
In the second to fifth years inclusive	1,971	414
	3,668	2,822

Leases are negotiated for an average term of one to two years and rentals are fixed for an average of one to two years.

As at 31st March, 2002, the Company had no operating lease commitment.

34. CONTINGENT LIABILITIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Corporate guarantee given by the Company for banking facilities granted to subsidiaries	—	22,087

At the balance sheet date, guarantees of approximately HK\$477,000 (2001: HK\$4,000,000) 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 THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

35. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank deposits of HK\$447,000 (2001: HK\$4,429,000) were pledged to banks to secure general banking facilities granted to the Group.

36. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related companies as follows:

Name of company	Nature of transactions	Notes	2002	2001
			HK\$'000	HK\$'000
Shenzhen Merchant	Freight income received by the Group	(a)	1,037	88
	Freight expenses paid by the Group	(a)	86	123
Henco Capital Limited	Consultancy fee paid	(b)	—	330
Triwayear Limited	Motor vehicle purchased by the Group	(c)	680	—

Notes:

- (a) Shenzhen Merchant is a jointly controlled entity of the Group.
- (b) Henco Capital Limited is a company of which Mr. Kwok Kwan Hung, a former director of the Company, is a beneficial shareholder.
- (c) Triwayear Limited is a company in which a director of the Company had a beneficial interest.

In the opinion of the directors, the above transactions were undertaken in the ordinary business transactions and the terms were mutually determined and agreed between the Group and the related parties.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

37. RETIREMENT BENEFIT SCHEME

The Company and its subsidiaries in Hong Kong operate a defined contribution scheme (the "Old Scheme") covering their local permanent employees before 1st December, 2000. With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payables in the future years.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

Contributions to the Old Scheme of approximately HK\$210,000 (2001: HK\$15,000) were forfeited during the year ended 31st March, 2002. There were no significant forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years at 31st March, 2002.

38. POST BALANCE SHEET EVENTS

On 23rd April, 2002, the Company entered into a placing agreement with an institutional investor for the placement of 370,000,000 new ordinary shares of the Company at HK\$0.05 per share. The proceeds of the placement of shares amounting to approximately HK\$18.5 million, before share issue expenses, will be used for general working capital of the Group.