

Independent Auditors' Report

To the Board of Directors and Stockholders of
Pacific CMA, Inc.

We have audited the accompanying consolidated balance sheets of Pacific CMA, Inc. and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2001 and 2000 and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong

Date: March 28, 2002

Pacific CMA, Inc.**Consolidated Statements of Operations**

For the years ended December 31, 2001, 2000 and 1999

	2001 US\$	2000 US\$	1999 US\$
Freight forwarding income	<u>13,788,479</u>	<u>14,169,226</u>	<u>9,191,572</u>
Operating expenses			
Cost of forwarding	(11,054,263)	(11,290,129)	(7,747,019)
Selling and administrative expenses	(2,313,228)	(1,822,369)	(964,668)
Depreciation	<u>(199,352)</u>	<u>(105,759)</u>	<u>(47,009)</u>
Total operating expenses	<u>(13,566,843)</u>	<u>(13,218,257)</u>	<u>(8,758,696)</u>
Income from operations	<u>221,636</u>	<u>950,969</u>	<u>432,876</u>
Non-operating income (expense)			
Interest and other income	68,699	64,725	4,682
Interest expense	(24,123)	(5,304)	(754)
Amortisation of goodwill	(1,535)	(1,537)	-
Gain on disposal of a subsidiary	19,729	-	-
Deferred offering cost written off	<u>(40,545)</u>	<u>-</u>	<u>-</u>
Net non-operating income	<u>22,225</u>	<u>57,884</u>	<u>3,928</u>
Income before income taxes	<u>243,861</u>	<u>1,008,853</u>	<u>436,804</u>
Provision for income taxes (note 6)	<u>(68,911)</u>	<u>(167,655)</u>	<u>(73,521)</u>
Net income	<u>174,950</u>	<u>841,198</u>	<u>363,283</u>
Other comprehensive loss			
Foreign currency translation adjustments	<u>(5,413)</u>	<u>(695)</u>	<u>(2,217)</u>
Comprehensive income	<u>169,537</u>	<u>840,503</u>	<u>361,066</u>
Net income per share			
Weighted average number of shares outstanding (Note 3)			
Basic	<u>20,884,975</u>	<u>18,166,120</u>	<u>17,000,000</u>
Diluted	<u>20,999,828</u>	<u>18,232,787</u>	<u>17,000,000</u>
Net income per share of common stock - Basic and Diluted (Note 3)	<u>US\$0.01</u>	<u>US\$0.05</u>	<u>US\$0.02</u>

The financial statements should be read in conjunction with the accompanying notes.

Pacific CMA, Inc.

Consolidated Balance Sheet

For the years ended December 31, 2001 and 2000

	2001 US\$	2000 US\$
ASSETS		
Current assets		
Cash and cash equivalents	2,263,507	2,345,816
Fixed deposits	28,861	27,708
Trade receivables	3,217,839	2,753,215
Deposits, prepayments and other	414,476	168,870
Loan receivable (note 4)	435,385	-
Tax refundable	24,453	755
	<u>6,384,521</u>	<u>5,296,364</u>
Total current assets	6,384,521	5,296,364
Property, plant and equipment, net (note 5)	305,679	360,881
Goodwill	4,605	6,149
Deferred taxes	12,815	-
Deferred offering costs	-	225,364
	<u>-</u>	<u>225,364</u>
Total assets	<u>6,707,620</u>	<u>5,888,758</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade payables	2,683,250	1,984,381
Accrued charges and other creditors	182,880	193,004
Deposit received	-	12,382
Due to a director (note 10)	3,675	1,913
Obligations under hire purchase contracts		
- current portion (note 7)	33,548	49,222
Debt maturing within one year (note 8)	232,667	-
Income tax payable	-	89,577
	<u>-</u>	<u>89,577</u>
Total current liabilities	3,136,020	2,330,479
Obligations under hire purchase contracts		
- non-current portion (note 7)	19,961	28,767
Deferred taxes	-	14,495
	<u>-</u>	<u>14,495</u>
Total liabilities	<u>3,155,981</u>	<u>2,373,741</u>
Commitments and Contingencies (note 9)		
Stockholders' equity		
Common stock with no par value (note 1)	51,165	4,080
Treasury stock	(180,000)	-
Additional paid-in capital	1,966,718	1,966,718
Other comprehensive loss	(8,325)	(2,912)
Retained earnings	1,722,081	1,547,131
	<u>1,722,081</u>	<u>1,547,131</u>
Total stockholders' equity	<u>3,551,639</u>	<u>3,515,017</u>
Total liabilities and stockholders' equity	<u>6,707,620</u>	<u>5,888,758</u>

Approved by the Board of Directors on March 28, 2002

Alfred Lam
Director

Louisa Chan
Director

The financial statements should be read in conjunction with the accompanying notes.

Pacific CMA, Inc.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2001, 2000 and 1999

	<u>Ordinary stock</u>		<u>Treasury stock</u>		<u>Additional paid-in capital</u>	<u>Other comprehensive loss</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>Number</i>	<i>US\$</i>	<i>Number</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Balance as of January 1, 1999	17,000,000	3,400	-	-	641,918	-	342,650	987,968
Stockholders' contributions	-	-	-	-	5,275	-	-	5,275
Net income	-	-	-	-	-	-	363,283	363,283
Translation adjustments	-	-	-	-	-	(2,217)	-	(2,217)
Balance as of December 31, 1999	17,000,000	3,400	-	-	647,193	(2,217)	705,933	1,354,309
Stockholders' contributions	-	-	-	-	1,280,405	-	-	1,280,405
Issue of common stock	3,000,000	600	-	-	-	-	-	600
Issue of common stock	400,000	80	-	-	39,120	-	-	39,200
Net income	-	-	-	-	-	-	841,198	841,198
Translation adjustments	-	-	-	-	-	(695)	-	(695)
Balance as of December 31, 2000	20,400,000	4,080	-	-	1,966,718	(2,912)	1,547,131	3,515,017
Issue of common stock	533,300	8,250	-	-	-	-	-	8,250
Stock grant	215,750	38,835	-	-	-	-	-	38,835
Return to treasury	(1,000,000)	-	1,000,000	(180,000)	-	-	-	(180,000)
Net income	-	-	-	-	-	-	174,950	174,950
Translation adjustments	-	-	-	-	-	(5,413)	-	(5,413)
Balance as of December 31, 2001	<u>20,149,050</u>	<u>51,165</u>	<u>1,000,000</u>	<u>(180,000)</u>	<u>1,966,718</u>	<u>(8,325)</u>	<u>1,722,081</u>	<u>3,551,639</u>

The financial statements should be read in conjunction with the accompanying notes.

Pacific CMA, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001, 2000 and 1999

	2001 US\$	2000 US\$	1999 US\$
Cash flows from operating activities:			
Net income	174,950	841,198	363,283
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	199,352	105,759	47,009
Loss on disposal of property, plant and equipment	15,040	4,114	1,879
Amortisation of goodwill	1,535	1,537	-
Net gain on disposal of a subsidiary	(19,728)	-	-
Compensation cost	38,835	-	-
Deferred offering costs written off	40,545	-	-
Amortisation of organization costs	-	-	40
Changes in working capital:			
Tax refundable	(23,699)	(1,510)	-
Deposit received	(12,363)	12,382	-
Trade receivables	(470,033)	(561,423)	(158,145)
Deposits, prepayments and other	(381,174)	39,336	(166,080)
Trade payables	702,498	568,849	(68,512)
Accrued charges and other creditors	386	66,519	107,270
Income tax payable	(89,439)	(42,359)	69,123
Deferred taxes	(27,288)	7,876	4,398
Net cash provided by operating activities	<u>149,417</u>	<u>1,042,278</u>	<u>200,265</u>
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(174,412)	(221,389)	(180,149)
Loan receivables	(435,385)	-	-
Sales proceeds from disposal of a subsidiary	149,888	-	-
Sales proceeds from disposal of property, plant and equipment	14,668	7,447	1,156
Due from other related parties	-	368,436	(346,533)
Acquisition of subsidiaries	-	(69,055)	-
Net cash (used in) provided by investing activities	<u>(445,241)</u>	<u>85,439</u>	<u>(525,526)</u>
Cash flows from financing activities:			
Capital element of hire purchase payments	(106,155)	(22,471)	(2,052)
Advances from / to a director	1,765	54,023	(1,189)
Fixed deposits	(1,196)	(1,299)	-
Inception of other loans	232,667	-	-
Inception of new hire purchase contracts	81,795	-	-
Additional paid-in capital	-	1,319,525	5,275
Deferred offering costs	-	(225,364)	-
Issue of common stock	8,250	680	-
Net cash provided by financing activities	<u>217,126</u>	<u>1,125,094</u>	<u>2,034</u>
Net increase (decrease) in cash and cash equivalents	<u>(78,698)</u>	<u>2,252,811</u>	<u>(323,227)</u>
Exchange differences	<u>(3,611)</u>	<u>(45)</u>	<u>-</u>
Cash and cash equivalents at beginning of year	<u>2,345,816</u>	<u>93,050</u>	<u>416,277</u>
Cash and cash equivalents at end of year	<u><u>2,263,507</u></u>	<u><u>2,345,816</u></u>	<u><u>93,050</u></u>

The financial statements should be read in conjunction with the accompanying notes.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

1. ORGANISATION AND PRINCIPAL ACTIVITIES

The Company was initially incorporated under the laws of the State of Colorado on December 29, 1994. After engaging in minimal activity related to its business plan, the Company's activities ceased in early 1995, and the Company became inactive until its reinstatement by the Colorado Secretary of State on September 25, 1998.

The Company's articles of incorporation authorize up to 100,000,000 shares of common stock, no par value per share. From the Company's date of inception to August 28, 2000, the Company had issued an aggregate of 12,000,000 shares of common stock.

On August 28, 2000, the Company acquired AGI Logistics (Hong Kong) Limited, a Hong Kong corporation ("AGI"). The acquisition was brought about by transactions that are memorialized in two agreements: (1) Stock Purchase Agreement, by Lam King Ko, Alfred ("Mr. Lam") and by the Selling Stockholders. Pursuant to the terms of the Stock Purchase Agreement, Mr. Lam purchased 9,000,000 shares of the Company's common stock from the selling stockholders. (2) Stock Exchange Agreement, by and between the Company's then-current management and an authorized representative of Buller Services Corporation, a British Virgin Islands International Business Company ("Buller"). Mr. Lam is the sole beneficial owner of Buller, which, prior to the Stock Exchange Agreement becoming effective, was the sole shareholder of AGI. Pursuant to the terms of the Stock Exchange Agreement, the Company acquired 15,000,000 shares of AGI's common stock from Buller, and, in exchange, the Company issued 8,000,000 shares of its common stock to Buller. AGI became a wholly owned subsidiary of the Company.

The acquisition of AGI, for accounting purposes, has been treated as the acquisition of the Company by AGI with AGI as the accounting acquirer ("reverse acquisition"). On this basis, the historical ordinary stock and stockholders' equity amounts have been retroactively restated to reflect the 17,000,000 shares issued to Mr. Lam as outstanding for all periods presented with the remaining shares owned by the former shareholders of the Company reflected as if issued in a capital transaction on the date of the acquisition. The difference between par value of the Company's and AGI's common stock has been reported in additional paid-in capital.

On September 1, 2000, the Company issued 400,000 shares of its common stock to certain consultants for professional services rendered and to be rendered to the Company valued at \$39,200, which is the fair value of the stock issued. The unit share price and thus the fair value of stock was determined by management by reference to the Company's future earning potential. Management believes that this value is comparable to the values of similar services offered by other services providers in the market. The initial terms of services in the agreement will last for two to three years until December 31, 2003. The amount of \$39,200 was expensed during 2000.

Immediately prior to the effectiveness of the agreements, the Company's issued and outstanding capitalization consisted of 12,000,000 shares of common stock and no shares of preferred stock. Immediately thereafter, it consisted of no shares of preferred stock and 20,400,000 shares of common stock of which 83% was owned by Mr. Lam.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

During the period from February, 20, 2001 to June 30, 2001, an aggregate of 533,300 shares of common stock has been issued at a price of \$0.25 per share pursuant to a private placement. The proceeds from this issue, net of issuing expenses of \$125,075, was credited to additional paid-in-capital.

Details of the private placement are documented in the private placement memorandum dated March 31, 2001. The aggregate number of 533,300 shares of common stock issued pursuant to the private placement have been registered for resale under a prospectus filed on August 21, 2001.

On September 1, 2001 and November 14, 2001, an aggregate of 215,750 shares of common stock was issued pursuant to the Company's 2000 Stock Plan (note 3). These shares are valued at approximately \$38,835.

On November 27, 2001, 1,000,000 shares of common stock have been cancelled and debited as treasury stock. The fair value of shares cancelled was \$180,000.

Pursuant to an agreement (the "Stock Purchase Agreement") dated December 4, 2001 entered into between InfinityVentures Net, Inc. (the "Selling Shareholder") and the Company, 1,100,000 shares of common stock were issued to the Selling Shareholder at an initial purchase price of \$0.0001 per share on December 19, 2001. These 1,100,000 shares were issued in a stock purchase transaction which was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 or Rule 505 or 506 promulgated thereunder. The Stock Purchase Agreement contained several rights and obligations between the parties which have the effect of changing the actual purchase price for the shares. These included a "Call Right" which allowed the Company to repurchase the shares unless the Selling Shareholder contributed additional capital to the Company, a "Release Right" which allowed the Selling Shareholder to cancel the Company's call right by contributing additional capital, and a "Put Right" which required the Company to repurchase a portion of the shares in certain circumstances.

In conjunction with the Stock Purchase Agreement, pursuant to a private placement prospectus filed on December 26, 2001, the Selling Shareholder intended to offer these 1,100,000 shares of common stock at market price. However, there was a dispute with the Selling Shareholder concerning the issue of whether the shares, with the understanding that they would be subject to the Company's call right, remained valid even though it was not possible to get the registration statement for the shares approved by the SEC. The SEC would not accept the structure of the transaction unless the Selling Shareholder was legally obligated to pay the additional consideration. The Selling Shareholder refused to agree to an unconditional obligation to pay for the shares so it was not possible to get the registration statement approved to the transaction. For this reason, a "Request for Withdrawal" for the private placement was filed on February 8, 2002. These 1,100,000 shares of common stock were then cancelled and the initial purchase price of \$110 was returned to the Selling Shareholder.

For accounting purposes, these 1,100,000 shares of common stock were excluded from the outstanding capital stock of the Company to reflect the substance of the whole transaction.

As of December 31, 2001, the Company's issued and outstanding capital stock comprised of 20,149,050 shares of common stock, 1,000,000 shares of treasury stock and no shares of preferred stock.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

From time to time, the Company may issue stock options pursuant to various agreements with other compensatory arrangements. Under the terms of various employment agreements with employees, the Company issued options to purchase 200,000 shares of the Company's common stock at an exercise price of \$0.098 (the estimated fair market value on the date of grant was \$0.098). The options vest over an 18-month period from the date of grant and expire on August 31, 2005.

The details of the subsidiaries of the Company and their principal activities as of the date of this report are summarized below:

Name of company	Date of formation	Place of incorporation	Equity interest owned by the Company		Principal activities
			Directly	Indirectly	
AGI Logistics (Hong Kong) Limited	August 12, 1998	Hong Kong	100%	-	Freight forwarding
Sparkle Shipping, Godown, Wharf & Transp. Co., Limited	June 2, 1999	Hong Kong	-	100%	Freight forwarding
Guangzhou Huasheng International Forwarding Limited	December 2, 1998	Hong Kong	-	100%	Freight forwarding

The acquisition of Sparkle Shipping, Godown, Wharf & Transp. Co., Limited was a reorganisation of companies under common control and has been accounted for effectively as a pooling of interests and the consolidated financial statements of the Company have been presented as if this subsidiary had been owned by the Company since its date of incorporation.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

2. STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” requires that an entity account for employee stock compensation under a fair value based method. However, SFAS 123 also allows an entity to continue to measure compensation cost for employee stock-based compensation using the intrinsic value based method of accounting prescribed by APB Opinion No.25, “Accounting for Stock Issued to Employees”. The pro forma effect of applying the SFAS 123 fair value method of measuring compensation costs to the Company’s stock-based awards was not significant to reported net income and earnings per share. All of the Company’s share options are granted at not less than market value.

Changes in outstanding options under the employee stock options are as follows:-

	<u>2001</u>		<u>2000</u>	
	Options	Weighted-Average Exercise Price US\$	Options	Weighted-Average Exercise Price US\$
Granted during 2000 and outstanding (exercisable) at end of year	<u>200,000</u>	<u>0.098</u>	<u>200,000</u>	<u>0.098</u>

As of December 31, 2001, the weighted-average exercise price of all outstanding options was \$0.098 and the weighted-average remaining contractual life was 2.17 years.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Principles of consolidation**

The consolidated financial statements include the financial information of the Company, its majority-owned and controlled subsidiaries (collectively known as “the Group”). All material intercompany balances and transactions have been eliminated in consolidation.

(b) **Statement of cash flows**

For the purposes of the statement of cash flows, the Group considers all highly liquid debt instruments with an original maturity within three months to be cash equivalents.

(c) **Comprehensive income**

The Group adopted SFAS No. 130, “Reporting Comprehensive Income” which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements.

(d) **Property, plant and equipment and depreciation**

Property, plant and equipment is 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 present working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally recognized as expenses in the period in which they are 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 assets, the expenditure is capitalized.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of operations.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rate per annum:

Furniture and fixtures	3 years
Office equipment	3 years
Motor vehicles	3 years

The Group recognizes an impairment loss on property, plant and equipment when evidence, such as the sum of expected future cash flows (undiscounted and without interest charges), indicates that future operations will not produce sufficient revenue to cover the related future costs, including depreciation, and when the carrying amount of asset cannot be realized through sale. Measurement of the impairment loss is based on the fair value of the assets.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) **Revenue recognition**

Revenue represents income arising from freight forwarding services which is recognized when freight is received from the shipper (for import freight) or when freight leaves the carrier's terminal (for export freight) with accrual of the estimated direct costs to complete delivery of freight-in-transit.

(f) **Leased assets**

A hire purchase contract is a contract for hire of an asset which contains provision giving the hirer an option to acquire legal title to the asset upon the fulfilment of certain conditions stated in the contract. Property, plant and equipment held under hire purchase contracts are capitalized at their fair values at the date of acquisition. The corresponding liabilities to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation and categorized under current or non-current liabilities.

Depreciation is provided on the cost of the assets on a straight-line basis over their estimated useful lives as set out in note 3(d) above. Finance charges implicit in the purchase payments are charged to the statement of operations over the periods of the contracts so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

(g) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognized as an expense on the straight-line basis over the lease terms.

(h) **Income taxes**

Provision for income and other related taxes have been provided in accordance with the tax rates and laws in effect in Hong Kong.

The Company and its subsidiaries did not carry on any business in the United States of America. No provision for withholding or U.S. federal income taxes or tax benefits on the undistributed earnings and / or losses of the Company and its subsidiaries has been provided as the earnings of the subsidiaries, in the opinion of the management, will be reinvested indefinitely.

The Group provides for deferred income taxes using the liability method, by which deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities. The tax consequences of those differences are classified as current or non-current based upon the classification of the related assets or liabilities in the financial statements.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (i) **Foreign currency translation**

The Company and its subsidiaries maintain their accounting books and records in Hong Kong Dollars ("HK\$") and transactions involving foreign currencies are translated at the approximate rates of exchange existing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year end are retranslated at the approximate rates of exchange existing at that date. Translation differences are included in the statement of operations.
- (j) **Uses of estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the Group's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual amounts could differ from those estimates.
- (k) **Related party**

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.
- (l) **Fair value of financial instruments**

The estimated fair values for financial instruments under Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures about Fair Value of Financial Instruments", are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair values of the Group's financial instruments, which include cash trade receivables, trade payables and advances due from / to a director and related parties approximate their carrying value in the financial statements.
- (m) **Bad debts**

The Group routinely assesses the financial strength of its customers. Credit losses are provided for in the financial statements in the form of an allowance for doubtful accounts, based upon past experiences and current market conditions.
- (n) **Segment reporting**

The Group adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". The Group's results of operations and financial position were affected by the implementation of SFAS No. 131 as it operates in more than one line of business. Segment information is disclosed in note 16 to the financial statements.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) **Net income per share**

According to the requirements of SFAS No. 128, "Earnings Per Share" ("EPS"), basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the weighted-average number of shares outstanding is adjusted to include estimates of additional shares that would be issued if potentially dilutive common shares had been issued. In addition, income available to common stockholders is adjusted to include any changes in income or loss that would result from the assumed issuance of the dilutive common shares.

The following is a reconciliation of the numerator and denominator of basic and diluted earnings per share

	2001			2000			1999		
	<u>Income</u> US\$	<u>Shares</u>	<u>Per-Share Amount</u> US\$	<u>Income</u> US\$	<u>Shares</u>	<u>Per-Share Amount</u> US\$	<u>Income</u> US\$	<u>Shares</u>	<u>Per-Share Amount</u> US\$
Net Income (Loss)	<u>174,950</u>			<u>841,198</u>			<u>363,283</u>		
Basic EPS									
Income (loss) available to common stockholders	174,950	20,884,975	<u>0.01</u>	841,198	18,166,120	<u>0.05</u>	363,283	17,000,000	<u>0.02</u>
Effect of dilutive securities									
Stock options	-	114,853		-	66,667		-	-	
Diluted EPS									
Income (loss) available to common stockholders and assumed conversions	<u>174,950</u>	<u>20,999,828</u>	<u>0.01</u>	<u>841,198</u>	<u>18,232,787</u>	<u>0.05</u>	<u>363,283</u>	<u>17,000,000</u>	<u>0.02</u>

- (i) Stock options were granted to purchase 200,000 shares of common stock at an exercise price of \$0.098 on September 1, 2000. These options are still outstanding at the end of December 31, 2001 and will expire on August 31, 2005.
- (ii) On September 1, 2001, certain stock grants to purchase 176,000 shares of common stock were granted and exercised at an aggregate exercise price of \$10 pursuant to the terms stipulated in the Company's 2000 Stock Plan. Another 39,750 shares of common stock were granted and exercised on November 14, 2001 at an exercise price of \$nil.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) **Goodwill**

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at dates of acquisition and is amortised on a straight-line method over 5 years.

(q) **Accounting pronouncements**

There are no new accounting pronouncements for which adoption is expected to have a material effect on the Group's financial statements.

4. LOAN RECEIVABLE

Loan receivable amounting to \$320,000 is due from a business partner. The amount is secured by personal guarantee of a director of the borrower, bearing interest at 8.5% per annum and repayable on or before May 30, 2002.

The remaining amount of \$115,385 is due from a company controlled by directors of the Company, which is unsecured, bearing interest at 6% per annum and has no fixed repayment term.

5. PROPERTY, PLANT AND EQUIPMENT

	2001 US\$	2000 US\$
Office equipment	180,390	142,579
Furniture and fixture	255,181	219,076
Motor vehicles	204,804	154,015
Container	-	769
Less: Accumulated depreciation	(334,696)	(155,558)
Net book value	<u>305,679</u>	<u>360,881</u>

As of December 31, 2000, the cost and accumulated depreciation of property, plant and equipment held under hire purchase contracts amounted to \$93,523 and \$22,757 respectively. As of December 31, 2001, the corresponding amounts are \$114,917 and \$47,666 respectively.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

6. INCOME TAXES

Income tax expense is comprised of the followings:

	2001 US\$	2000 US\$	1999 US\$
Current taxes	96,199	159,780	69,123
Deferred taxes	<u>(27,288)</u>	<u>7,875</u>	<u>4,398</u>
Income tax expense	<u><u>68,911</u></u>	<u><u>167,655</u></u>	<u><u>73,521</u></u>

The Group is subject to income taxes on income arising in or derived from the tax jurisdiction in which it is domiciled and operates and accordingly, it is subject to Hong Kong profits tax at a current rate of 16% (2000: 16%, 1999:16%).

A reconciliation of the income tax provision to income taxes computed using the Hong Kong statutory income tax rate is summarized below:

	2001 US\$	2000 US\$	1999 US\$
Income before income taxes	243,861	1,008,853	436,804
Hong Kong statutory tax rate	<u>16%</u>	<u>16%</u>	<u>16%</u>
Tax at Hong Kong statutory rate	39,017	161,416	69,889
Permanent differences on tax computation			
- tax losses unlikely to be relieved in the foreseeable future	30,382	6,272	4,154
- non-deductible expenses	3,248	6,838	118
- non-taxable income	<u>(3,736)</u>	<u>(6,871)</u>	<u>(640)</u>
Income tax provision	<u><u>68,911</u></u>	<u><u>167,655</u></u>	<u><u>73,521</u></u>

The Group's deferred income taxes assets and liabilities at December 31, 2001 and 2000 comprise mainly the tax effect on temporary differences in respect of the excess of tax allowances over depreciation provided on the Group's property, plant and equipment, net of unutilised tax losses carried forward.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

7. OBLIGATIONS UNDER HIRE PURCHASE CONTRACT

The Group hires motor vehicles under hire purchase contracts. The scheduled future minimum lease payments are as follows:

	2001 US\$	2000 US\$
Payable during the following period:		
Within one year	39,045	57,407
Over one year but not exceeding two years	18,376	30,585
Over two years but not exceeding three years	<u>4,818</u>	<u>3,927</u>
Total minimum lease payments	62,239	91,919
Less: amount representing interest	<u>(8,730)</u>	<u>(13,930)</u>
Present value of net minimum lease payments	<u><u>53,509</u></u>	<u><u>77,989</u></u>

8. DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year represents short-term bank loans and is summarized as follows:

	Weighted-average interest rates	Outstanding debts maturing within one year
	%	US\$
As at December 31, 2001	5.97	232,667

The interest on amounts borrowed under the various loan agreements is at money market rates. The short term loans are collateralized by guarantees of directors (note 10a).

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

9. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases:

The Group had outstanding commitments not provided for under non-cancellable operating leases in respect of land and buildings, the portion of these commitments which are payable in the following years is as follows:

	2001 <i>US\$</i>
2002	236,667
2003	190,598
2004	28,996
Total operating lease commitments	<u>456,261</u>

Contingencies

The Group has pledged cash and cash equivalents and fixed deposits of \$1,450,896 (2000: \$27,708) to secure general banking facilities and guarantees given by a bank to third parties.

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2001, 2000 and 1999, the Group had the following transactions with related parties in which the Company's directors have beneficial interests:

	2001 <i>US\$</i>	2000 <i>US\$</i>	1999 <i>US\$</i>
Loan advanced to a company controlled by directors of the Company	115,385	-	-
Proceeds from disposal of a subsidiary to a company controlled by directors of the Company	150,000	-	-
Acquisition of a subsidiary from directors of the Company	-	(12,840)	-
Payment of freight cost to companies controlled by directors of the Company	(62,295)	(18,476)	(26,396)
Received freight income from companies controlled by directors of the Company	109,058	26,956	8,679
Received interest income from a company controlled by directors of the Company	<u>6,508</u>	<u>10,700</u>	<u>-</u>

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

10. RELATED PARTY TRANSACTIONS (COND'T)

- (a) As of December 31, 2001, general banking and loan facilities granted by various bankers to the Group were secured by directors' personal guarantees amounting to \$2,990,763.
- (b) As of December 31, 2000 and 2001, the balance due from the Group to a director amounting to \$1,913 and \$3,675 respectively were unsecured, interest-free and had no fixed repayment terms.

11. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2001 US\$	2000 US\$	1999 US\$
Cash paid for:			
Income taxes	210,091	203,648	-
Interest expense	14,856	5,304	754

12. OTHER SUPPLEMENTAL INFORMATION

The following items are included in the consolidated statements of operations.

	2001 US\$	2000 US\$	1999 US\$
Executive compensation			
Directors' emoluments - salaries	50,000	50,000	46,154
Interest income	60,287	53,774	5,187
Rental expenses under operating leases	243,314	188,552	89,794
Hire of other assets under operating leases	5,062	2,157	1,990

13. DISTRIBUTION OF PROFIT

In the opinion of management, any undistributed earnings of the Company and its subsidiaries will be reinvested indefinitely.

14. RETIREMENT PLAN

The Group did not operate any retirement plan before December 2000. Following the implementation of the Mandatory Provident Fund ("MPF") in Hong Kong with effect from December 2000, the Group operates a MPF plan for its Hong Kong employees. The assets of the MPF are held separately from those of the Group in a provident fund managed by an independent trustee. The Group commenced to make contributions to the MPF in January 2001 and accordingly, pension expenses of \$44,329 have been incurred by the Group during the year ended December 31, 2001.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

15. OPERATING RISKS

a) Concentration of credit risk

The Group provided forwarding services to a number of customers. Details of individual customers accounting for more than 5% of the Group's sales appear in note 16(b).

Concentration of accounts receivable as of December 31, 2001, 2000 and 1999 are as follows:

	2001	2000	1999
	%	%	%
Customer A	12	8	20
Customer B	8	-	8
Customer C	7	-	-
Customer D	6	-	-
Customer E	-	9	-
Customer F	-	7	-
Customer G	-	5	-
Customer H	-	-	8
	<u>33</u>	<u>29</u>	<u>36</u>

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentration of credit risk (whether on or off balance sheet) arose from the Group's major customers and related companies but the directors, in their opinion, consider that the risk of recoverability of the unreserved receivable is minimal.

b) Concentration of suppliers

The Group sourced forwarding services from a number of suppliers. Details of individual suppliers accounting for more than 5% of the Group's cost of sales appear in note 16(c).

Concentration of account payable as of December 31, 2001, 2000 and 1999 are as follows:

	2001	2000	1999
	%	%	%
Supplier I	15	-	-
Supplier J	13	23	15
Supplier K	-	11	6
Supplier L	-	-	9
Supplier M	-	-	7
Supplier N	-	-	6
Supplier O	-	-	6
	<u>28</u>	<u>34</u>	<u>49</u>

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

16. SEGMENTS OF THE BUSINESS

(a) Business segments

The Group operates mainly in three business segments, being the provision of (i) air forwarding, (ii) sea forwarding and (iii) land forwarding services.

The following table summarized the Group's operations during the years ended December 31, 2001, 2000 and 1999 analyzed into air, sea and land forwarding services.:

	Air forwarding			Sea forwarding			Land forwarding			Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Turnover	9,870,536	9,464,981	7,516,402	3,814,375	4,616,022	1,655,210	103,568	88,223	19,960	13,788,479	14,169,226	9,191,572
Cost of sales	(7,938,785)	(8,031,760)	(6,520,466)	(3,020,131)	(3,185,126)	(1,210,142)	(95,347)	(73,243)	(16,411)	(11,054,263)	(11,290,129)	(7,747,019)
	1,931,751	1,433,221	995,936	794,244	1,430,896	445,068	8,221	14,980	3,549	2,734,216	2,879,097	1,444,553
Depreciation	(49,367)	(26,236)	(13,803)	(6,445)	(57,604)	(33,206)	(17,030)	(14,053)	-	(72,842)	(97,893)	(47,009)
Interest income	-	26,727	3,557	1	26,108	1,630	-	939	-	1	53,774	5,187
Interest expenses	(9,603)	-	-	-	-	-	(5,742)	(3,495)	-	(15,345)	(3,495)	-
Other segment expenses attributable to segment	(750,266)	(698,958)	(399,572)	(347,696)	(301,049)	(199,303)	(72,669)	(58,959)	-	(1,170,631)	(1,058,966)	(598,875)
Taxation	(59,460)	(83,895)	(50,730)	(11,129)	(83,760)	(22,791)	1,678	-	-	(68,911)	(167,655)	(73,521)
Segment income	<u>1,063,055</u>	<u>650,859</u>	<u>535,388</u>	<u>428,975</u>	<u>1,014,591</u>	<u>191,398</u>	<u>(85,542)</u>	<u>(60,588)</u>	<u>3,549</u>	1,406,488	1,604,862	730,335
Net other unallocated expenses *										(1,231,538)	(763,664)	(367,052)
Net income										<u>174,950</u>	<u>841,198</u>	<u>363,283</u>
Total assets	<u>5,044,008</u>	<u>4,377,698</u>	<u>2,373,283</u>	<u>1,582,763</u>	<u>1,418,986</u>	<u>342,722</u>	<u>80,849</u>	<u>92,074</u>	<u>4,489</u>	<u>6,707,620</u>	<u>5,888,758</u>	<u>2,720,494</u>

* The amounts comprised general administration expenses such as office overhead for which it was impracticable to make an allocation into each reportable segment.

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

16. SEGMENTS OF THE BUSINESS (COND'T)

(b) Details of individual customer accounting for more than 5% of the Group's sales are as follows:

	2001 %	2000 %	1999 %
Major customer			
C	6	-	-
P	-	5	-
	<u>6</u>	<u>5</u>	<u>-</u>

(c) Details of individual suppliers accounting for more than 5% of the Group's cost of sales are as follows:

	2001 %	2000 %	1999 %
Major suppliers			
I	20	-	-
J	16	13	-
K	-	8	-
O	-	7	-
Q	-	-	19
R	-	-	12
S	-	-	5
	<u>36</u>	<u>28</u>	<u>36</u>

(d) Geographical segments

The table below summarized the Group's turnover during the year ended December 31, 2001, 2000 and 1999 and total assets as of that dates analyzed into geographical locations:

	2001 US\$	2000 US\$	1999 US\$
Turnover			
*IATA Area 1	9,800,637	5,377,669	4,443,006
*IATA Area 2	1,307,388	35,800	160,628
*IATA Area 3	2,680,454	8,755,757	4,587,938
TOTAL	<u>13,788,479</u>	<u>14,169,226</u>	<u>9,191,572</u>

Pacific CMA, Inc.

Notes to the Financial Statements

For the years ended December 31, 2001, 2000 and 1999

16. SEGMENTS OF THE BUSINESS (COND'T)

(d) Geographical segments (Cont'd)

	2001			2000			1999		
	Trade receivables	Other assets	Total assets	Trade receivables	Other assets	Total assets	Trade receivables	Other assets	Total assets
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Assets									
*IATA Area 1	2,051,128	-	2,051,128	1,709,667	-	1,709,667	1,399,245	4,668	1,403,913
*IATA Area 2	25,905	-	25,905	4,019	-	4,019	1,668	93	1,761
*IATA Area 3	1,140,806	3,489,781	4,630,587	1,039,529	3,135,543	4,175,072	433,782	881,038	1,314,820
TOTAL	3,217,839	3,489,781	6,707,620	2,753,215	3,135,543	5,888,758	1,834,695	885,799	2,720,494

* IATA Area 1 comprises all of the North and South American Continent and the adjacent islands, Greenland, Bermuda, the West Indies and the islands of the Caribbean Sea, the Hawaiian Islands (including Midway and Palmyra).

IATA Area 2 comprises all of Europe (including the European part of the Russian Federation) and the adjacent islands, Iceland, the Azores, all of Africa and the adjacent islands, Ascension Island, that part of Asia lying west of and including Iran (Islamic Rep. 6f).

IATA Area 3 comprises all of Asia and the adjacent islands, except that portion included in IATA Area 2, all of the East Indies, Australia, New Zealand and the adjacent islands, the islands of the Pacific Ocean, except those included in IATA Area 1

Independent Auditors' Report
Audited Financial Statements
Pacific CMA, Inc.
December 31, 2001

