

BUSINESS AND FINANCIAL REVIEW

Business activities

The noticeable downturn of the global economy has inevitably affected the logistics and freight forwarding businesses of the Group. With the aim to enhance the competitiveness of the Group and to increase its marginal profit, the Group has streamlined its operations and reduced its manpower, coupled with a considerable downward adjustment of staff salary to a maximum extent of 50% in order to reduce the operating cost of the Group.

Capitalizing over thirty years of solid experiences in freight forwarding together with a well established global network with overseas offices and representative agents worldwide, the Group has extended its freight forwarding business into logistics services. Total Logistics Services Limited (“TLS”) provides computerized total logistics solutions to clients by offering a full range of integrated services including sourcing and procurement, computerized warehousing and inventory management, and local and international distribution system. In addition, TLS has made investment in three companies that market various products. These companies include (1) Kinwood Company Limited, which holds an exclusive licence to manufacture and distribute LA Gear’s products in Hong Kong, Macau and the PRC; (2) Chain Supplies Limited, which is engaged in the design and supply of fabrics for curtain and furniture in Hong Kong; and (3) Active Water Technology Company Limited, the exclusive distributor of water purifiers manufactured by Cuno Filtration Asia Pte. Limited.

In order to improve the assets quality and maximize the medium and long term investment returns, the Group has purchased several properties, including part of the Ginza shopping arcade in Causeway Bay, a warehouse in Kwun Tong Industrial Centre, an office in Enterprise Square, a factory in Chung Mei Centre and a shop in City Garden, which generate favourable rental returns. The Group will seek more property investment opportunities to take the advantage of the resurgence trend of the real estate market in Hong Kong and the booming market in the PRC.

The Group has taken an active role to organize and consolidate its Internet investment portfolio, and has employed prudent measures to reduce losses. As a result, Cyberoffice Limited, a subsidiary of the Company, applied for creditors’ voluntary liquidation on 6 July 2001.

Change of the name of the Company

The name of the Company has been changed from 401.com Limited to 401 Holdings Limited with effect from 5 September 2001.

Financial review

For the six months ended 30 September 2001, the Group recorded a turnover of approximately HK\$12 million, representing a 74% decrease comparing to the same period in last year. The decrease in turnover was mainly due to the disposal of a subsidiary in March 2001, namely AWT Shipping Limited, which is engaged in shipping business that generated a high turnover but required huge operating and investment costs. With the same reason, the gross profit margin of the Group was increased from 9% in last period to 39% in this period.

As a result of the prudent cost control, the administrative expenses of the Group has been reduced by 38% as compared to the same period in last year.

As at 30 September 2001, the Group had net asset value of approximately HK\$19.7 million. The Group currently has been maintaining a variety of credit facilities to meet its working capital requirements. As at the balance sheet date, the Group's total borrowings which were all denominated in Hong Kong dollars amounted to about HK\$45 million with some HK\$20 million repayable within one year and some HK\$25 million repayable after one year. Around 29% of the Group's total borrowings, including convertible bonds and other loans, were at fixed interest rates. The Group's gearing ratio as at 30 September 2001 was 228% (as at 31 March 2001: 247%) which is calculated based on the total borrowings of approximately HK\$45 million and the Group's shareholders' funds of approximately HK\$19.7 million.

FUTURE OUTLOOK AND PROSPECTS

Comprehensive property services and Special asset management

The Group has developed an integrated property service concept named Total Property Services which includes realty consultancy and household services. Leveraging its extensive experience in the property market and long-term relationship with property developers and landlords in Hong Kong and the PRC, the Group intends to offer different categories of properties a wide range of integrated property consultancy including property development consultancy, project management consultancy, construction management consultancy, facilities management consultancy and sales & marketing consultancy. Being a value added support to the realty business, the Group's total household services aim at providing the general households with movers & warehouse storage service, housekeeping service, interior decoration and contracting service, property management & security service, insurance agency and other related services.

To procure the development of Total Property Services, the Group will focus on the business of Special Asset Management which provides specialized assistance and services to distressed properties and assets and may generate a high return on investment after the distressed properties and assets are restructured.

PRC development

As the PRC has become a member of the World Trade Organization, the Group intends to enlarge its PRC business presences to procure new business opportunities. The Group can offer its profound experiences in the real estate market and its Total Property Services to local developers in Beijing, Shanghai, Guangzhou and Wuhan etc. in order to increase the value and the return of these PRC properties.

The Group strongly believes, with the international management team, and its extensive experiences in all aspects in the property market, the Group will face prosperous future in the Greater China region.

Other investment

iShowFlat Limited (“ISF”) whose principal business is the provision of high-tech integrated property services through ishowflat.com has extended its business presences and has established branch offices in Guangzhou and Singapore to procure further business opportunities. The Group foresees that this investment can enhance Total Property Services to be provided by the Group, and in particular, in the area of sales and marketing of the property markets in the PRC and South East Asia.

PARTICULARS OF SHARES HELD BY DIRECTORS AND CHIEF EXECUTIVES AND ASSOCIATES

As at 30 September 2001, the directors, chief executives and their associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

(a) The Company

Director	Number of ordinary shares beneficially held		
	Personal interest	Corporate interest	Family interest
Leung Tze Hang, David	63,386,435	—	—
Law Chuen Lam, Edward	22,108,065	—	—
Au-Yeung Yok Cho	10,173,125	—	—
Po Kam Hi, John	12,335,000	—	—
Chan Sing Fai (Note 1)	165,275,000	566,666,667 (Note 2)	—
Fong Chun Fat (Note 1)	40,452,000	8,586,150 (Note 3)	—
Lee Ying Wah, Alfred Augustine	6,031,505	—	8,000,000 (Note 4)