

## **BUSINESS REVIEW**

Hong Kong has shown little signs of economic recovery since the Asian economic crisis which occurred in 1997. Coupled with the adverse property market of Hong Kong over the past few years and the 911 tragedy happened in the USA in 2001, the property and freight forwarding businesses of the Group have inevitably been affected to a considerable extent. While the financial year 2001/2002 remained to be a challenging year for the Group, the Group was determined to remedy the situation and therefore made prudent management decisions to downsize, cease or dispose of those non-revenue generating or capital intensive operations such as IT investments and the shipping business. The damaging effects were further reduced by cautious cash flow management which gave great relief to the Group's financial pressure.

Changing the Company's name from 401.com Limited to 401 Holdings Limited with effect from 5 September 2001 reflects the Group's desire and effort to direct its manpower and resources from operating IT business to identifying a multitude of investment opportunities while continuing its existing businesses.

It has been a promising year for Total Logistics Services Limited ("TLS"), with the operating subsidiaries achieving important milestones during the year. The engagement of Urban Logistics Limited ("ULL") by ExxonMobile to provide local logistics and fulfillment services endorses our expertise in this field.

Chain Supplies Limited ("CSL") has been controlled and monitored more effectively after TLS increased its shareholding to 60%. CSL is engaged in the design and supply of fabrics for curtain and furniture for hotels in Hong Kong, and has increased its marketing efforts to secure a wider range of customers.

Two associated companies, Kinwood Company Limited ("Kinwood") and Active Water Technology Company Limited ("Active Water") have continued to expand their customer base. Kinwood, in its third year of exclusively licensing, manufacturing and distributing L.A. Gear products in Hong Kong, Macau, and the PRC, has achieved an impressive increase in outlet participants. Active Water has seen its installation of Cuno water filters grows by 10 folds, and is expanding its customer base both in the residential and industrial markets.

The freight forwarding business of the Group was affected by both a substantial downturn in our client's export business and slow collection of account receivables. The management therefore decided to downsize the operations and relocate the office in order to reduce operating overheads.

The Group has acquired a number of properties during the year to enhance the quality of the Group's investment properties portfolio which include short, medium and long term investments. Most of the existing properties owned by the Group are generating steady rental income. The Group has recently entered into an agreement to acquire a shop in Hunghom Commercial Centre which will also enhance the rental income and the intrinsic value of existing properties already held by the Group located at the same shopping centre.

iShowFlat Limited (“ISF”), a company in which the Group is currently interested in 5% of its equity, was appointed by a developer as its project consultant. ISF together with our property agency arm, Total Property Services Group (“TPS”), successfully marketed and sold a number of properties during the year. TPS has also established a business presence in Shanghai and was appointed as the sole agent in Hong Kong for the sale and marketing of certain residential properties; and the property manager and leasing agent for a residential property, all of which are located in Shanghai.

## FINANCIAL REVIEW

For the year ended 31 March 2002, the Group recorded a turnover of HK\$23 million, representing a 86% decrease from HK\$165 million in the previous 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 the shipping business that generated high turnover but required huge operating and investment costs. The gross loss of approximately HK\$5 million for the year was mainly due to a HK\$9 million loss from the disposal of the Group’s properties amid the sluggish property market in Hong Kong. During the year, the Group recorded a loss attributable to shareholders of HK\$101 million as compared to HK\$243 million (after a prior year adjustment of HK\$41 million on impairment loss of goodwill) in the last financial year. The decrease in loss was partly due to a reduction of HK\$47 million in administrative expenses achieved through tighter cost control, streamlining of operations, reduction in manpower, salary cut up to 50% and a reduction in rental expenses. The decrease in loss was also due to lower incremental provision of HK\$21 million made in fiscal year 2002 compared with a write down of HK\$91 million in the previous year against the Group’s investment in unlisted securities which are primarily engaged in IT related business.

During the year, the Group raised a total of HK\$15 million from banks, finance companies and other creditors from mortgages secured on the Group’s properties. HK\$13 million had been repaid to banks and other creditors out of sales proceeds from properties and from loans advanced by banks and finance companies. Another HK\$4 million was raised by an issue of convertible bond by the Company, the proceeds of which were mainly used to repay debts of the Group.

As at 31 March 2002, the Group recorded net liabilities of HK\$50 million. The Group maintains a number 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 HK\$35 million (2001: HK\$43 million) with HK\$30 million (2001: HK\$24 million) repayable within one year and HK\$5 million (2001: HK\$19 million) repayable after one year. The borrowings due within one year mainly comprise convertible bonds and other loans. The Group is negotiating with the bond holders and loan creditors to vary the terms of these bonds and loans, including an extension of the maturity. Around 28% (2001: 28%) of the Group’s total borrowings were at fixed interest rates. The Group’s gearing ratio, which is calculated based on the total borrowings and the Group’s shareholders’ funds, was 247% as at 31 March 2001. However, a calculation of gearing ratio as at 31 March 2002 would not be appropriate as the shareholders’ funds were negative as at the balance sheet date.

**FUTURE OUTLOOK AND PROSPECTS**

The Group is anticipating a restructuring of its current businesses, details of which are briefly described below. While the existing logistics, freight forwarding, property investment and property services businesses will be maintained, upon the completion of the restructuring, some of these existing businesses will be integrated. The Company will also be transformed into an investment holding venture mainly seeking strategic investment opportunities in the areas of distressed properties, undervalued companies and PRC domestic enterprises. The Group will capitalise on its experience to provide logistics and freight forwarding consultancy services and property services to its customers and corporate clients, as well as to render corporate financial management services to its strategic investee companies to ensure their success.

The final stage of the restructuring will include a capital and a debt restructuring. The capital restructuring involves a consolidation of the Company's shares and a reduction of the Company's share capital. The debt restructuring may involve settlement of outstanding debts by way of issue of the Company's shares and variation of the terms relating to certain convertible bonds, secured loans and convertible preference shares. These proposals will be put forward to the shareholders of the Company for approval.

**New personnel of the Group**

Once the restructuring is completed, the business focus of the Group will be investment holding and performance management will be the key to our future success. The Group, therefore, has appointed Mr. Koo Fook Sun, Louis and Mr. Choi Koon Ming as executive director and non-executive director of the Company respectively. Mr. Koo, a qualified accountant graduated from University of California at Berkeley, had held senior positions for many years in major international investment banks and is highly experienced in equity capital markets, mergers and acquisitions, and investment management. Prior to joining the Group, Mr. Koo was a director and chief executive officer of another Hong Kong publicly listed company. Mr. Choi is an executive director of S W Kingsway Capital Group Limited. Mr. Choi has extensive experience in financing activities of corporate and property mortgage, real estate development and property investment. The Group is confident that the extensive corporate finance experience of Mr. Koo and Mr. Choi will strengthen the Group's corporate and finance department and bring valuable investment opportunities to the Group.

**New investment and businesses acquired by the Group**

On 22 July 2002, a wholly-owned subsidiary of the Company entered into an agreement to eventually acquire 46.67% interest in Shanghai Liantongshihua Mobile Information and Network Co. Ltd. (“Shanghai Liantong”). Shanghai Liantong is a key player in the Shanghai public transportation infrastructure as it has already been contracted to deploy its Global Positioning System to major public transport providers in Shanghai. The established technology and track record of Shanghai Liantong will inevitably enhance the business of our existing logistics and freight forwarding division by increasing its efficiency and offering further value-added services to its customers.

Furthermore, the Group is in the process of evaluating a number of distressed companies for strategic investment purpose. These distressed companies are potentially attractive investments given their deeply discounted acquisition prices. The Group believes that its management team, which has extensive expertise in property market as well as corporate finance and corporate restructuring, can offer unique services to these distressed companies. Such strategic investments will bring attractive returns once they are successfully turned-around.

**Logistics, freight forwarding and other businesses**

While this division will continue to focus on effective cost control, the new objective is to integrate the advanced technology of Shanghai Liantong and its business network in Shanghai with the Group’s extensive management experience in the field of the logistics business to offer logistics consultancy services. These services include logistics management and advisory and customer services management for both overseas and local small and medium private enterprises. This division will also extend its logistics business into the area of transport logistics in the PRC. Together with Shanghai Liantong, TLS will engage in supply chain management which will become a new source of revenue to reinforce the logistics business of the Group.

On the other hand, ULL will continue to expand its local distribution and fulfillment services business. CSL has new suppliers from China and Korea and will increase its presence in both commercial and residential markets. Kinwood will broaden its product lines into accessories and sporting apparels bearing the L.A. Gear brand in the next two years. For Active Water, the installation of Cuno water filters will increase when more strategic partnerships are formed with residential management companies in both Hong Kong and China. Active Water also foresees that the replacement orders from existing customers will generate promising recurrent income in the near future.

The major tasks for the freight forwarding division are to establish and strengthen its global network of overseas agents and business partners and to provide advice on freight forwarding route selection. With the weakening US currency, we expect the USA export business will increase and ultimately benefit our freight forwarding business. China’s admission into the World Trade Organisation will also strengthen the business relationship among the PRC, Hong Kong, the USA and Europe which is expected to revive the freight forwarding business in Hong Kong.

### **Property investment and property services**

The Group will continue to further seek medium and long term property investment opportunities in both China and Hong Kong. The Group will also offer property and corporate advisory services to clients holding distressed property assets aiming to provide them with solutions that may enhance and maximise the value of these distressed assets.

The Group intends to increase its equity interest in ISF and consolidate the business of TPS with ISF. It will form an integrated property services platform of the Group to serve its clients from China and South East Asia region. ISF will continue to form alliances with major property developers in China, particularly, in Guangzhou, Beijing and Shanghai, and through TPS, provide value added property services to its clients. We believe this combination will be a new source of revenue for the Group. Based upon the successful track records set by both ISF and TPS in 2001, they will continue to market themselves as professional project consultants for the sale and marketing for property projects in both Hong Kong and China.

### **Looking into the future**

To conclude with an optimistic and encouraging note, I believe that the Group will soon embark on the track to full recovery. The Group is well equipped to meet any challenges ahead and is well positioned to take advantage of any suitable investment opportunities when the economy recovers. I wish to thank every colleague in the Group, who has never given up and has provided tremendous support notwithstanding that the Group has been riding at its lows in the past. Their professionalism and competency are highly appreciated. Special thanks also go to the shareholders, creditors and suppliers for their supports and tolerance which we are truly grateful. We have identified and mapped out our critical path to success and are envisaging a prosperous and profitable future.

**Leung Tze Hang, David**

*Managing Director*

Hong Kong, 26 July 2002