

2000

2001

2002

INTERIM REPORT 2003

2003

401 Holdings Limited

(Incorporated in Bermuda with limited liability)



The board of directors (the "Board") of 401 Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2003 together with the comparative figures for the corresponding period in 2002 as follows:

Condensed Consolidated Income Statement

| | | (Unaudited) | |
|---|-------------|-------------------------|-----------------|
| | | Six months ended | |
| | | 30 September | 30 September |
| | | 2003 | 2002 |
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| | | | (Restated) |
| Turnover | 2 | 1,863 | 3,494 |
| Cost of sales | | (1,472) | (2,023) |
| Gross profit | | 391 | 1,471 |
| Other revenues | | — | 6 |
| Depreciation | | (174) | (461) |
| Staff costs including directors' emoluments | | (3,828) | (4,869) |
| Administrative expenses | | (2,133) | (7,674) |
| Operating loss | 3 | (5,744) | (11,527) |
| Finance costs | | (1,741) | (1,258) |
| Share of loss of associates | | (32) | (86) |
| Loss before taxation | | (7,517) | (12,871) |
| Taxation | 4 | — | (27) |
| Net loss for the period | | (7,517) | (12,898) |
| Basic loss per share | 6 | 1.96 cents | 4.07 cents |

Condensed Consolidated Balance Sheet

| | | (Unaudited) As at 30 September 2003 HK\$'000 | (Audited) As at 31 March 2003 HK\$'000 |
|--|---|--|--|
| Non-current assets | | | |
| Fixed assets | | 573 | 747 |
| Interests in associates | | (671) | (639) |
| Investment securities | | — | — |
| | | <u>(98)</u> | <u>108</u> |
| Current assets | | | |
| Properties for sale | | 42,071 | 42,071 |
| Accounts receivables | 7 | 499 | 752 |
| Prepayments, deposits and other receivables | | 1,318 | 1,560 |
| Other investment | | — | — |
| Cash and bank balances | | 196 | 165 |
| | | <u>44,084</u> | <u>44,548</u> |
| Current liabilities | | | |
| Accounts payables | 8 | 9,014 | 9,082 |
| Amounts due to related companies | | 975 | 734 |
| Amounts due to directors | | 1,142 | 1,018 |
| Other payable and accruals | | 72,569 | 65,883 |
| Tax payable | | 1,175 | 1,175 |
| Interest-bearing borrowings — due within one year | | 12,973 | 12,973 |
| Convertible debts — due within one year | | 32,690 | 32,690 |
| | | <u>130,538</u> | <u>123,555</u> |
| Net current liabilities | | <u>(86,454)</u> | <u>(79,007)</u> |
| Total assets less current liabilities | | <u>(86,552)</u> | <u>(78,899)</u> |
| Non-current liabilities | | | |
| Interest-bearing borrowings — due after one year | | 7,197 | 7,333 |
| Convertible debts — due after one year | | — | 6,600 |
| | | <u>7,197</u> | <u>13,933</u> |
| | | <u>(93,749)</u> | <u>(92,832)</u> |
| Represented by: | | | |
| Capital and reserves | | | |
| Share capital | 9 | 44,609 | 38,009 |
| Reserves | | (138,358) | (130,841) |
| Capital deficiency | | <u>(93,749)</u> | <u>(92,832)</u> |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2003

| | Share capital HK\$'000 | Share premium account HK\$'000 | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|---|--|-----------------------------------|-------------------|
| As at 1 April 2002 | | | | | |
| — as previously reported | 168,786 | 757,210 | 359 | (976,353) | (49,998) |
| Effect on adopting SSAP 34 | — | — | — | (285) | (285) |
| — as restated | 168,786 | 757,210 | 359 | (976,638) | (50,283) |
| Issue of shares for the acquisition of properties for sale | 6,000 | — | — | — | 6,000 |
| Loss for the six months ended 30 September 2002 | — | — | — | (12,898) | (12,898) |
| As at 30 September 2002 | 174,786 | 757,210 | 359 | (989,536) | (57,181) |
| As at 30 September 2002 | | | | | |
| — as previously reported | 174,786 | 757,210 | 359 | (989,261) | (56,906) |
| Effect on adopting SSAP 34 | — | — | — | (275) | (275) |
| — as restated | 174,786 | 757,210 | 359 | (989,536) | (57,181) |
| Capital reduction | (139,829) | 139,829 | — | — | — |
| Redemption of preference shares | (1,418) | — | — | — | (1,418) |
| Capital reorganisation | — | (896,601) | — | 896,601 | — |
| Expenses for capital reorganisation | — | (438) | — | — | (438) |
| Issue of consolidated ordinary shares, net of expenses for cash | 3,150 | 1,265 | — | — | 4,415 |
| Issue of consolidated ordinary shares for acquisition of investment securities, net of expenses | 1,320 | 5,020 | — | — | 6,340 |
| Loss for the six months ended 31 March 2003 | — | — | — | (44,550) | (44,550) |
| As at 31 March 2003 (audited) | 38,009 | 6,285 | 359 | (137,485) | (92,832) |
| Issue of consolidated ordinary shares on conversion of convertible bond | 6,600 | — | — | — | 6,600 |
| Loss for the six months ended 30 September 2003 | — | — | — | (7,517) | (7,517) |
| At at 30 September 2003 (unaudited) | <u>44,609</u> | <u>6,285</u> | <u>359</u> | <u>(145,002)</u> | <u>(93,749)</u> |

Condensed Consolidated Cash Flow Statement

| | (Unaudited) | |
|---|---|---|
| | Six months ended | |
| | 30 September 2003 <i>HK\$'000</i> | 30 September 2002 <i>HK\$'000</i> |
| Net cash from/(used in) operating activities | 1,908 | (13,541) |
| Net cash from investing activities | — | 8 |
| Net cash (used in)/from financing activities | (1,877) | 13,095 |
| Net increase/(decrease) in cash and cash equivalents | 31 | (438) |
| Cash and cash equivalents at beginning of the period | 165 | 809 |
| Cash and cash equivalents at end of the period | 196 | 371 |
| Analysis of the balance of cash and cash equivalents | | |
| Cash and bank balance | 196 | 371 |

1. **Basis of Preparation and Principal Accounting Policies**

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, (as applicable to condensed interim financial statements) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies adopted are consistent with those used in the preparation of the Group's consolidated financial statements for the year ended 31 March 2003, except for the adoption of the SSAP 12 (Revised) "Income Taxes", which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods.

2. Segmental Information

(i) Business segments

An analysis of the Group's turnover and results for the six months ended 30 September 2003 by business segments is as follows:

| | (Unaudited) | | (Unaudited) | |
|---|-------------------------|---------------------|-------------------------|------------------------|
| | Turnover | | Segment result | |
| | Six months ended | | Six months ended | |
| | 30 September | 30 September | 30 September | 30 September |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | (As restated) |
| By principal activities: | | | | |
| Sales and leasing of properties | 888 | 1,295 | 129 | (478) |
| Logistics and freight forwarding services | 481 | 367 | (882) | (2,742) |
| Property and household services | 4 | 17 | (402) | (631) |
| Sales of goods | 291 | 1,097 | 2 | 469 |
| Consultancy, marketing and other services | 199 | 718 | 36 | 353 |
| Others | — | — | (1) | (15) |
| | <u>1,863</u> | <u>3,494</u> | <u>(1,118)</u> | <u>(3,044)</u> |
| Unallocated corporate expenses | | | <u>(4,626)</u> | <u>(8,483)</u> |
| Loss from operations | | | <u>(5,744)</u> | <u>(11,527)</u> |
| Finance costs | | | <u>(1,741)</u> | <u>(1,258)</u> |
| Share of loss of associates | | | <u>(32)</u> | <u>(86)</u> |
| Loss before taxation | | | <u>(7,517)</u> | <u>(12,871)</u> |
| Taxation | | | <u>—</u> | <u>(27)</u> |
| Loss before minority interests | | | <u>(7,517)</u> | <u>(12,898)</u> |

(ii) Geographical segments

Over 90% of the Group's revenue and assets were derived from operations carried out in the People's Republic of China including the Hong Kong Special Administrative Region ("Hong Kong"). No geographical analysis is presented accordingly.

3. Operating Loss

The operating loss is stated after charging/(crediting) the following:

| | Unaudited | |
|--|-------------------------|-----------------|
| | Six months ended | |
| | 30 September | 30 September |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Depreciation of fixed assets | 174 | 461 |
| (Bad debt recovery)/Provision for bad debt | (78) | 469 |

4. Taxation

| | Unaudited | |
|-------------------|-------------------------|-----------------|
| | Six months ended | |
| | 30 September | 30 September |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| Overseas taxation | — | 27 |

No Hong Kong profits tax have been provided as the Group had no assessable profits during the current and prior periods.

Overseas taxation was provided on the income of the overseas subsidiaries and branches in accordance with the tax laws of the countries in which these subsidiaries and branches operate.

5. Dividend

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2003 (2002: nil).

6. Loss Per Share

The calculation of basic loss per share is based on the following data:

| | Unaudited | |
|--|--------------------------|-------------------|
| | Six months ended | |
| | 30 September | 30 September |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | | (As restated) |
| Loss | | |
| Net loss for the period | 7,517 | 12,898 |
| Dividend for preference shares | <u>—</u> | <u>319</u> |
| Loss for the purpose of basic loss per share | 7,517 | 13,217 |
| Number of shares (<i>note</i>) | | |
| Weighted average number of shares for the purpose of basic loss per share | 383,339,768 | 324,836,489 |
| Basic loss per share | | |
| As previously reported | <u>1.96 cents</u> | <u>0.08 cents</u> |
| As retrospectively restated | <u>1.96 cents</u> | <u>4.07 cents</u> |

Diluted loss per share for the current and prior periods are not presented as the effect of any dilution is anti-dilutive.

Note: For comparative purpose, the weighted average number of shares for 2002 has been adjusted to take into account of the capital reorganisation as referred to in note 25 of the Group's consolidated financial statements for the year ended 31 March 2003.

7. Accounts Receivables

The Group normally grants credit period ranging from 30 days to 90 days to its trade debtors. As at the balance sheet date, the aging analysis of trade receivable was as follows:

| | (Unaudited) 30 September 2003 <i>HK\$'000</i> | (Audited) 31 March 2003 <i>HK\$'000</i> |
|---------------|---|--|
| 0 — 3 months | 90 | 295 |
| 4 — 6 months | 183 | 369 |
| 7 — 9 months | 188 | — |
| Over 9 months | 38 | 88 |
| | 499 | 752 |

8. Accounts Payables

The following is an aged analysis of trade payables as at the balance sheet date:

| | (Unaudited) 30 September 2003 <i>HK\$'000</i> | (Audited) 31 March 2003 <i>HK\$'000</i> |
|---------------|---|--|
| 0 — 3 months | 38 | 86 |
| 4 — 6 months | 18 | 24 |
| 7 — 9 months | 1 | 23 |
| Over 9 months | 8,957 | 8,949 |
| | 9,014 | 9,082 |

9. Share Capital

| | Number of shares | Amount <i>HK\$ '000</i> |
|--|-----------------------------|----------------------------|
| Authorised: | | |
| Ordinary shares | | |
| As at 1 April 2002 and 30 September 2002, of HK\$0.01 each | 28,500,000,000 | 285,000 |
| Capital reorganisation | <u>(25,650,000,000)</u> | <u>—</u> |
| As at 31 March 2003 and 30 September 2003, of HK\$0.10 each | <u>2,850,000,000</u> | <u>285,000</u> |
| Convertible preference shares | | |
| As at 1 April 2002 and 30 September 2002, of HK\$0.01 each | 1,500,000,000 | 15,000 |
| Capital reorganisation | <u>(1,350,000,000)</u> | <u>—</u> |
| As at 31 March 2003 and 30 September 2003, of HK\$0.10 each | <u>150,000,000</u> | <u>15,000</u> |
| Total | <u><u>3,000,000,000</u></u> | <u><u>300,000</u></u> |

9. Share Capital (Continued)

| | Number of shares | Amount HK\$'000 |
|---|---------------------------|----------------------|
| Issued and fully paid: | | |
| Ordinary shares | | |
| As at 1 April 2002 | 16,169,693,317 | 161,697 |
| Issue of shares | <u>600,000,000</u> | <u>6,000</u> |
| As at 30 September 2002 | 16,769,693,317 | 167,697 |
| Capital reorganisation | <u>(16,434,299,451)</u> | <u>(134,158)</u> |
| After capital reorganisation | 335,393,866 | 33,539 |
| Issue of consolidated shares | <u>44,700,000</u> | <u>4,470</u> |
| As at 31 March 2003 and 1 April 2003 | 380,093,866 | 38,009 |
| Issue of consolidated shares (note) | <u>66,000,000</u> | <u>6,600</u> |
| As at 30 September 2003 | <u>446,093,866</u> | <u>44,609</u> |
| Convertible preference shares | | |
| As at 1 April 2002 and 30 September 2002 | 708,908,975 | 7,089 |
| Capital reorganisation | <u>(694,730,796)</u> | <u>(5,671)</u> |
| | 14,178,179 | 1,418 |
| Redeemed | <u>(14,178,179)</u> | <u>(1,418)</u> |
| As at 31 March 2003 and 30 September 2003 | <u>—</u> | <u>—</u> |
| Total | <u><u>446,093,866</u></u> | <u><u>44,609</u></u> |

Note: On 23 September 2003, a total of 66,000,000 shares of HK\$0.10 each were issued to Precise Global Investments Limited, a convertible bondholder upon the full conversion of the convertible bond with the principal amount of HK\$6,600,000 at a conversion price of HK\$0.10 each.

10. Pledge of Assets

As at 30 September 2003, the properties for sales of the Group of HK\$41,471,000 (as at 31 March 2003: HK\$41,471,000) were pledged to secure bank and other loans granted to the Group.

11. Related Party Transactions

During the period, the Group entered into the following transactions with related parties in the ordinary course of business:

| | <i>Note</i> | Unaudited | |
|--|-------------|--------------------------|--------------------------|
| | | 30 September 2003 | 30 September 2002 |
| | | HK\$'000 | HK\$'000 |
| THL Engineering Company Limited | | | |
| Maintenance service charges payable to | <i>a</i> | — | 2 |
| Finnex Development Limited | | | |
| Consultancy fee payable to | <i>b</i> | — | 400 |
| Prosper Sea (Shanghai) Real Estate Company Limited | | | |
| Rental income receivable from | <i>c</i> | 8 | — |

Notes:

- (a) The companies in which Mr. Leung Tze Hang, David, the managing director of the Company, has a beneficial interest.
- (b) The company in which Mr. Chan Sing Fai, the former chairman of the Company, has a beneficial interest.
- (c) The company in which Mr. Leung Tze Hang, David, the managing director of the Company and Mr. Law Chuen Lam, Edward, the executive director of the Company, are directors.

Except for the transactions disclosed above, the directors of the Company (the "Directors") confirm that there were no other related party transactions entered into by the Group for the six months ended 30 September 2003.

12. Capital Commitment

On 25 July 2002, AWT Cyber Investment Group Limited ("AWT Cyber"), a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "Agreement") with iShowFlat Limited ("ISF"). Pursuant to the Agreement, AWT Cyber agreed to subscribe 2,300,000 ordinary shares of HK\$1.00 each in ISF, representing approximately 53.03% of the enlarged issued share capital of ISF, at a consideration of HK\$2,300,000 payable in cash. As at 30 September 2003, total deposits of HK\$500,000 were paid to ISF. Pursuant to the two supplemental agreements signed between AWT Cyber and ISF on 16 December 2002 and 31 March 2003, the Agreement has been further extended to 31 December 2003.

13. Contingent Liabilities

The contingent liabilities of the Group have not changed materially from the information disclosed in the published annual report of the Company for the year ended 31 March 2003, which was despatched to shareholders of the Company on 29 December 2003.

14. Litigations

- (1) On 28 September 2002, the Stock Exchange of Hong Kong Limited (the "Stock Exchange") issued a writ against the Company, for the outstanding annual listing fee of approximately HK\$1,800,000 together with interest and cost. Judgment was made against the Company on 2 December 2002. Full provision for the outstanding fee had been made in the accounts.
- (2) On 21 March 2003, Merchant Partners Limited ("Merchant Partners") issued a writ against the Company for alleged failure to pay the sum of HK\$3,108,051.38, being the principal amount of HK\$3,000,000 and outstanding interest thereon of HK\$108,051.38 for the period from 30 July 2002 to 31 January 2003, under a convertible bond issued by the Company to Merchant Partners on 30 July 2002 ("Merchant Partners Bond"). On 10 October 2003, Merchant Partners issued another writ against the Company for alleged failure to pay the sum of HK\$3,250,037.69, being the same principal amount of HK\$3,000,000 under Merchant Partners Bond and outstanding interest thereon of HK\$250,037.69 for the period from 30 July 2002 to 10 October 2003. The relevant principal and interests up to 30 September 2003 of Merchant Partners Bond had been recorded in the accounts.

14. Litigations (Continued)

- (3) On 21 March 2003, China Units Enterprises Limited ("China Units") issued a writ against the Company for alleged failure to pay the sum of HK\$3,053,003.42, being the principal amount of HK\$3,000,000 and outstanding interest thereon of HK\$53,003.42 for the period from 1 November 2002 to 31 January 2003, under a convertible bond issued by the Company to China Units on 30 July 2002 ("China Units Bond"). On 10 October 2003, China Units issued another writ against the Company for alleged failure to pay the sum of HK\$3,197,989.74, being the same principal amount of HK\$3,000,000 under China Units Bond and outstanding interest thereon of HK\$197,989.74 for the period from 1 November 2002 to 10 October 2003. The relevant principal and interests up to 30 September 2003 of China Units Bond had been recorded in the accounts.
- (4) On 16 May 2003, Guardian Property Management Limited issued a writ against Hyper Motion Investments Limited ("Hyper Motion"), a wholly-owned subsidiary of the Company, for alleged failure to pay (a) HK\$531,335.90 being outstanding management fees and building fund together with interest thereon up to March 2003 in respect of the property owned by Hyper Motion and (b) the current management fees and building fund in the sum of HK\$31,333 from April 2003 up to the date of payment together with interest thereon. After the issuance of the writ, the current management fees and building fund have been reduced to HK\$22,982 per month with effect from June 2003. Provision of management fees and building fund up to 30 September 2003 had been made in the accounts.
- (5) On 30 June 2003, SIIC Finance (Nominee) Company Limited ("SIIC Finance") issued a writ against the Company for alleged failure to pay the sum of approximately HK\$5 million, being the principal amount of HK\$5,000,000 and outstanding interest thereon commencing from 10 December 2002, under a convertible bond issued by the Company to SIIC Finance on 9 September 2002 ("SIIC Bond"). The relevant principal and interests up to 30 September 2003 of SIIC Bond had been recorded in the accounts.
- (6) On 8 October 2003, GE Capital (Hong Kong) Limited issued a writ against Lucky Regent International Limited, a wholly-owned subsidiary of the Company, for an outstanding loan amount of approximately HK\$3,528,000 together with interests and legal costs. The relevant principal and interests up to 30 September 2003 had been recorded in the accounts.

14. Litigations *(Continued)*

- (7) At the report date, certain landlords issued writs and some also obtained judgments against the Group to claim for the damages due to the early termination of tenancy agreements and the outstanding rental and management fee in arrears for a total amount of approximately HK\$4,304,000. Full provisions for these claims had been made in the accounts.
- (8) Certain employees of the Group have obtained Labour Tribunal's orders against the Group for outstanding salaries and compensations due to them. At the report date, the outstanding amount under Labour Tribunal's order was approximately HK\$871,000. Adequate provision with respect to these outstanding salaries had been made in the accounts.
- (9) At the report date, other sundry creditors issued writs and some also obtained judgments against the Group for total outstanding debts of HK\$1,387,000 in respect of miscellaneous services rendered. Full provisions had been made in the accounts.

15. Post Balance Sheet Date Events

The following events were occurred subsequent to the balance sheet date:

- (1) On 10 June 2003, the Company entered into a subscription agreement with a potential investor (the "Subscriber") for the subscription of shares of the Company. The subscription agreement was further amended by supplemental agreements signed on 27 August 2003, 30 September 2003 and 19 December 2003 respectively (the "Subscription Agreement"). The Subscription Agreement includes the subscription of the Company's ordinary shares by the Subscriber, the issue of bonus shares by the Company to the Subscriber and granting of an option to the Subscriber for further subscription of ordinary shares of the Company. The Subscription is conditional upon, among other things, the approval of the shareholders of the Company. Details of the Subscription Agreement and the Subscriber are pending to be announced upon clearance from the Stock Exchange.
- (2) On 22 October 2003, AWT Investment Company Limited, a wholly-owned subsidiary of the Company, sold certain properties for sale at an aggregate consideration of HK\$4,700,000 (the "Disposal"). The Disposal constitutes a major transaction of the Company for the purpose of the Listing Rules and the approval of the shareholders of the Company was obtained on 21 October 2003. The proceeds were used to settle the outstanding mortgage loan of the properties and the balance was used as general working capital of the Group.

15. Post Balance Sheet Date Events *(Continued)*

- (3) On 16 December 2003, Onelink Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent party for the sales of certain properties for sale at an aggregate consideration of HK\$12,800,000 (the "Disposal"). The Disposal constitutes a major transaction of the Company for the purpose of the Listing Rules and is subject to the approval of the shareholders of the Company. The Disposal is expected to complete on or before 31 March 2004. The proceeds will be used to repay the outstanding mortgage loan of the properties and part of the outstanding indebtedness of the Group while the balance will be used as the general working capital of the Group.

16. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

Business Review

The Group is mainly engaged in freight forwarding and logistics business, property investment, trading and the provision of consultancy services.

Turnover of the Group for the six months ended 30 September 2003 was approximately HK\$1.9 million, representing a 47% decrease as compared to that of the corresponding period of 2002. The Group's turnover was mainly attributable to the rental income generated from investment properties and revenue from freight forwarding and logistics services.

The outbreak of severe acute respiratory syndrome (SARS) and the war in Iraq have severely impacted the economy of Hong Kong and China as well as the businesses of the Group. The Group recorded a significant drop in rental income in current period after the termination of the Group's tenancy of a property that was subleased to clients of the Group in the past year. The revenue from sale of goods also plunged significantly due to the downturn of the global economy.

Business Review *(Continued)*

Although there was a substantial decrease in turnover, the net loss attributable to shareholders for the six months ended 30 September 2003 reduced significantly to approximately HK\$7.5 million from approximately HK\$12.9 million in 2002, which represents a reduction of loss of approximately 42%. The improvement in the results of the Group was mainly attributable to the implementation of effective cost control measures throughout the Group and the restructuring of the logistics and freight forwarding business.

Prospects

The Group has been taking active measures in expediting the capital and debt restructuring process in an attempt to relieve the liabilities of the Group and to build a solid foundation for ongoing future developments. The capital and debt restructuring, if implemented, will provide the Group with the necessary working capital and financial resources to revitalise its business operations. The Directors intend to keep logistics and property agency as the core businesses of the Group after the completion of the restructuring. In November 2003, the Group has started the cross-border trading of consumer goods between China and Thailand. The Directors are confident that the Group's trading business can be further improved with the recovery of the global economy.

Financing, Liquidity and Financial Resources

As at 30 September 2003, the net current liabilities and net liabilities of the Group were approximately HK\$86.5 million (31 March 2003: HK\$79.0 million) and HK\$93.7 million (31 March 2003: HK\$92.8 million) respectively. The secured bank and other loans and convertible bonds amounted to approximately HK\$20.2 million (31 March 2003: HK\$20.3 million) and HK\$32.7 million (31 March 2003: HK\$39.3 million) respectively. Approximately HK\$45.7 million (31 March 2003: HK\$45.7 million) of debt was repayable within one year while the balance of the debt had maturity exceeding one year. As at 30 September 2003, approximately HK\$14.7 million (31 March 2003: HK\$14.7 million) of the borrowings of the Group were charged with fixed interest rate. The interests of the remaining borrowings were calculated on prevailing prime rates plus basis. No gearing ratio were provided as the Group had no positive shareholders' funds as at 30 September 2003 and 31 March 2003.

During the period under review, the Group's bank balances and borrowings and their respective interests were mainly denominated in Hong Kong dollars. The Group did not hold any financial instrument or foreign currency net investment for hedging purposes. The Group's exposure to exchange fluctuation is considered minimal.

Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 13 August 1998 (the "Old Option Scheme"), the Directors might grant options to any employee or Director of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein.

The Old Option Scheme expired on 13 August 2001. Since then, no further share options were granted thereunder but all the outstanding share options granted prior to the expiry date continue to be valid and exercisable in accordance therewith, and only those provisions of the Old Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. No share options were exercised pursuant to the Old Option Scheme during the six months ended 30 September 2003.

Share Option Scheme *(Continued)*

Details of the movements of the options granted to the Directors and employees of the Group pursuant to the Old Option Scheme during the six months ended 30 September 2003 are set out below:—

| Name | Date of grant | Exercise period | Exercise price | Number of ordinary shares to be issued upon exercise of the share options | | |
|-------------------------|----------------|------------------------------------|----------------|---|----------------------------------|---------------------------------|
| | | | | Balance as at 1 April 2003 | Lapsed/Expired during the period | Balance as at 30 September 2003 |
| <i>Directors</i> | | | | | | |
| Leung Tze Hang, David | 5 June 2000 | 6 September 2000 to 4 June 2003 | HK\$2.30 | 2,600,000 | (2,600,000) | — |
| | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 700,000 | — | 700,000 |
| Law Chuen Lam, Edward | 5 June 2000 | 6 September 2000 to 4 June 2003 | HK\$2.30 | 1,800,000 | (1,800,000) | — |
| | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 500,000 | — | 500,000 |
| Au-Yeung Yok Cho | 5 June 2000 | 6 September 2000 to 4 June 2003 | HK\$2.30 | 1,000,000 | (1,000,000) | — |
| | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 500,000 | — | 500,000 |
| Po Kam Hi, John | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 500,000 | — | 500,000 |
| Lau Cheuk Hung, Terence | 17 August 2000 | 18 November 2000 to 16 August 2003 | HK\$1.55 | 120,000 | (120,000) | — |
| | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 300,000 | — | 300,000 |
| | | | | 8,020,000 | (5,520,000) | 2,500,000 |

Share Option Scheme *(Continued)*

| Name | Date of grant | Exercise period | Exercise price | Number of ordinary shares to be issued upon exercise of the share options | | |
|-----------|---------------|---------------------------------|----------------|---|----------------------------------|---------------------------------|
| | | | | Balance as at 1 April 2003 | Lapsed/Expired during the period | Balance as at 30 September 2003 |
| Employees | 27 April 2000 | 28 July 2000 to 26 April 2003 | HK\$2.70 | 1,000,000 | (1,000,000) | — |
| | 8 June 2001 | 9 September 2001 to 7 June 2004 | HK\$0.50 | 900,000 | (500,000) | 400,000 |
| | | | | <u>1,900,000</u> | <u>(1,500,000)</u> | <u>400,000</u> |
| Total | | | | <u>9,920,000</u> | <u>(7,020,000)</u> | <u>2,900,000</u> |

Share Option Scheme *(Continued)*

On 12 August 2002, a new share option scheme ("New Option Scheme") was adopted to provide employees and Directors of the Group with the opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Pursuant to the New Option Scheme, the Directors are authorized to grant options to any employee or Director of the Group to subscribe for ordinary shares in the Company at any price per ordinary share which is at least the highest of (i) the closing price of the shares of the Company on the Stock Exchange on the date of granting the options; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five business days immediately preceding the date of the grant of the options; and (iii) the nominal value of the shares of the Company. The maximum number of shares in respect of which options may be granted under the New Option Scheme (when aggregated with any shares subject to any other share option schemes of the Company) shall not exceed 10% of the shares in issue as at the date of approval of the New Option Scheme or the date of approval by the shareholders in general meeting where the limit is refreshed. As at the date of this report, the maximum number of shares available for issue under the New Option Scheme is 32,339,386, representing approximately 7.25% of the issued share capital of the Company. The maximum number of shares in respect of the options granted to each eligible person under the New Option Scheme (when aggregated with any shares subject to any other share option schemes of the Company) in any twelve months period must not exceed 1% of the shares in issue unless approved by the shareholders in general meeting. In respect of any particular option, the Directors may in their absolute discretion determine the period within which an option may be exercised provided that such period must expire no later than 10 years from the date on which the grant of an option is offered to the participant. The cash consideration to be paid for each grant of option is HK\$1, with full payment of the exercise price to be made upon exercise of an option. The New Option Scheme shall be valid and effective for a period of 10 years from 12 August 2002, the date on which it was approved by resolution of the Company in general meeting. No such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

Particulars of Shares Held by Directors, Chief Executive and Associates

As at 30 September 2003, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

(a) The Company

Long positions in the shares

| Name of Director | No. of ordinary shares personally held | % of issued share capital | No. of share options held |
|-------------------------|---|----------------------------------|----------------------------------|
| Leung Tze Hang, David | 6,167,728 | 1.38% | 700,000 |
| Law Chuen Lam, Edward | 1,228,757 | 0.28% | 500,000 |
| Au-Yeung Yok Cho | 231,462 | 0.05% | 500,000 |
| Po Kam Hi, John | 3,238,700 | 0.73% | 500,000 |
| Lau Cheuk Hung, Terence | 1,773 | 0.00% | 300,000 |

(b) Associated corporation

Long position

| Name of associated corporation | Name of Director | Nature of interest | No. of ordinary shares |
|--|-------------------------|---------------------------|-------------------------------|
| Total Logistics Services Limited (<i>Note</i>) | Po Kam Hi, John | Ordinary shares | 4,004,800 |

Note: Total Logistics Services Limited was an associated corporation, within the meaning of the SFO, of the Company. These shares are registered in the name of New Mileage Limited, which is wholly owned by Mr. Po Kam Hi, John.

Particulars of Shares Held by Directors, Chief Executive and Associates *(Continued)*

Save as disclosed above, as at 30 September 2003, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

Directors' and Chief Executive's Benefits from Rights to Acquire Shares or Debentures

Details of Directors' and chief executive's interest in options to acquire shares of the Company are set out under the heading "Share Option Scheme".

Save as disclosed under the heading "Share Option Scheme", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests in the Share Capital of the Company

As at 30 September 2003, according to the register of interests in long positions and short positions kept by the Company pursuant to Divisions 2 and 3 of Part XV and section 336 of the SFO and so far as the Directors were aware, the following persons had a long position or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in the shares of the Company

| Name of Substantial Shareholders | No. of shares interested | % of issued share capital |
|--|-------------------------------------|--------------------------------------|
| China Units Enterprises Limited (<i>Note 1</i>) | 30,000,000 | 6.73% |
| Merchant Partners Limited (<i>Note 2</i>) | 30,000,000 | 6.73% |
| Heng Fung Holdings Limited (<i>Note 3</i>) | 60,000,000 | 13.45% |
| Topsmart Investment Limited (<i>Note 4</i>) | 40,000,000 | 8.97% |
| Capital Strategic Investment Limited (<i>Note 5</i>) | 40,000,000 | 8.97% |
| Zhang Xiao Feng | 31,500,000 | 7.06% |

Note 1: China Units Enterprises Limited is deemed to hold 30,000,000 shares by virtue of its ownership of a convertible bond, upon exercise of which will entitle it to hold 30,000,000 shares.

Note 2: Merchant Partners Limited is deemed to hold 30,000,000 shares by virtue of its ownership of a convertible bond, upon exercise of which will entitle it to hold 30,000,000 shares.

Note 3: The shareholding interest of Heng Fung Holdings Limited in the Company is indirect by virtue of its 98.6% ownership of China Units Enterprises Limited and Merchant Partners Limited.

Note 4: Topsmart Investment Limited is deemed to hold 40,000,000 shares by virtue of its ownership of a convertible bond, upon exercise of which will entitle it to hold 40,000,000 shares.

Note 5: The shareholding interest of Capital Strategic Investment Limited in the Company is indirect by virtue of its 100% ownership of Topsmart Investment Limited.

Substantial Shareholders' Interests in the Share Capital of the Company *(Continued)*

Save as disclosed above, the Directors were not aware of any person, as at 30 September 2003, who had a long position or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Significant Investments Held

There had been no material change in significant investments held by the Group during the six months ended 30 September 2003.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There had been no material acquisitions or disposals of subsidiaries and associated companies during the six months ended 30 September 2003.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Number of Employees and Remuneration Policies

Including the Directors, as at 30 September 2003, the Group employed a total of 16 full-time employees. Remuneration policies of the Group have not changed materially from the information disclosed in the published annual report of the Company for the year ended 31 March 2003, which was despatched to shareholders of the Company on 29 December 2003.

Compliance with the Code of Best Practice of the Listing Rules

During the six months ended 30 September 2003, the Code of Best Practice of the Listing Rules has been complied with by the Company except that non-executive Directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules.

Audit Committee

The audit committee of the Company presently comprises two independent non-executive Directors and one non-executive Director.

The Audit Committee has reviewed the unaudited interim results for the six months ended 30 September 2003 and discussed with the Board significant matters relating to the financial reporting of the Group.

By Order of the Board

Wong Chong Kwong, Derek

Chairman

Ha Kee Choy, Eugene

Executive Director

Hong Kong, 29 December 2003