



401 HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Provisional Liquidators Appointed)

(Stock Code: 0401)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

RESULTS

The joint and several provisional liquidators (the “Provisional Liquidators”) of 401 Holdings Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2004 have been reviewed by the Company’s independent accountants.

		(Unaudited)	
		Six months ended	
		30 September	30 September
		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	38,946	1,863
Cost of sales		(37,565)	(1,472)
Gross profit		1,381	391
Other revenues		20	—
Depreciation		—	(174)
Staff costs including directors’ emoluments		(2,281)	(3,828)
Administrative expenses		(1,539)	(2,133)
Other charges		(124)	—
Gain on disposal of subsidiaries		5,663	—
Operating profit/(loss)	4	3,120	(5,744)
Finance costs		(2,131)	(1,741)
Shares of loss of associates		—	(32)
Profit /(loss) before taxation		989	(7,517)
Taxation	5	(230)	—
Net profit/(loss) attributable to shareholders		759	(7,517)
Basic earnings/(loss) per share	7	0.17 cent	(1.96 cents)

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), (as applicable to condensed interim financial statements) and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

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 2004.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Provisional Liquidators were appointed on 3 August 2004 and do not have the same detailed knowledge of the financial affairs of the Company and the Group, as would have the directors of the Company (“Directors”). The accounting staff responsible for maintaining the books and records of the Company and preparing its accounts left the Company prior to the appointment of the Provisional Liquidators. The Provisional Liquidators have made enquiries of the Directors and have reviewed the available books and records of the Group.

The Provisional Liquidators found that the Group’s accounting records and supporting vouchers for the period up to 3 August 2004, the date when the Provisional Liquidators of the Company were appointed, were incomplete. Accordingly, the accounts of the Company and the Group for the six months ended 30 September 2004 have been prepared on the following basis:

- (A) The accounts have been prepared on the basis of management accounts prepared by the Provisional Liquidators. The Provisional Liquidators prepared the management accounts on the basis of the information available to them, vouchers prepared by the Group’s former employees, the Provisional Liquidators’ enquiries, as well as the Group’s books and records that are available to the Provisional Liquidators.
- (B) The disclosure in respect of contingent liabilities and litigation has been based on the annual report of the Company for the year ended 31 March 2003 which was published in January 2004, press announcements made and circulars issued by the Company prior to the appointment of the Provisional Liquidators, those books and records made available to them following their appointment and on the basis of requests made of and information provided by the Group’s former legal advisers.
- (C) The disclosure of related party transactions is based on the information available to the Provisional Liquidators following their appointment.
- (D) The Company is currently proposing to restructure its affairs through a self-restructuring proposal (the “Proposed Self-Restructuring”). As the Proposed Self-Restructuring remains subject to, amongst other things, the approval of the Stock Exchange, the accounts for the six months ended 30 September 2004 were not prepared on a full going concern basis, and in particular:
 - a. Fixed assets are stated at the Provisional Liquidators’ best estimate of their net realisable value. For presentation purposes they are shown as non-current assets.
 - b. Current assets are stated at the Provisional Liquidators’ best estimate of their respective net realizable values.

- c. Current liabilities are based on the records of the Company and the Provisional Liquidators' investigations to date. The Provisional Liquidators have not yet adjudicated any notices of claim from the creditors of the Company. This will need to be completed to establish the creditors of the Company with certainty. In any event, if the Proposed Self-Restructuring can be implemented successfully, all the debts of the Company will be compromised and discharged in full through the schemes of arrangement ("Schemes") being proposed between the Company and its creditors.
- d. Should the listing of the Company's shares finally be cancelled and the Company be wound up, further adjustments may be required to reduce the value of properties for sale to their forced sale value.

3. SEGMENTAL INFORMATION

Business Segments

An analysis of the Group's turnover and results for the six months ended 30 September 2004 by business segments is as follows:

	(Unaudited) Turnover		(Unaudited) Segment result	
	Six months ended		Six months ended	
	30 September 2004	30 September 2003	30 September 2004	30 September 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activities:				
Sales and leasing of properties	—	888	(513)	129
Trading, logistics and freight forwarding services	38,853	481	1,300	(882)
Property and household services	—	4	(41)	(402)
Sales of goods	93	291	(13)	2
Consultancy, marketing and other services	—	199	—	36
Others	—	—	(8)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>38,946</u>	<u>1,863</u>	725	(1,118)
Unallocated corporate expenses			(3,268)	(4,626)
Gain on disposal of subsidiaries			5,663	—
			<u> </u>	<u> </u>
			3,120	(5,744)
Finance costs			(2,131)	(1,741)
Share of loss of associates			—	(32)
			<u> </u>	<u> </u>
Profit/(loss) before taxation			989	(7,517)
Taxation			(230)	—
			<u> </u>	<u> </u>
Profit/(loss) attributable to shareholders			<u>759</u>	<u>(7,517)</u>

Geographical Segments

Over 90% of the Group's revenue and assets are derived from operations carried out in the Peoples' Republic of China including the Hong Kong Special Administrative Region ("Hong Kong"). Accordingly, no geographical analysis has been presented herein.

4. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is stated after charging/(crediting) the following and other charges:—

	Unaudited	
	Six months ended	
	30 September	30 September
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of fixed assets	—	174
Provision for bad debt/(bad debt recovery)	<u>7</u>	<u>(78)</u>

5. TAXATION

	Unaudited	
	Six months ended	
	30 September	30 September
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	<u>230</u>	<u>—</u>

Hong Kong profits tax has been provided for at the rate of 17.5% of the estimated assessable profits for the period. No Hong Kong profits tax had been provided for the prior period as the Group had no assessable profits.

No overseas taxation has been provided as the Group's overseas subsidiaries and branches did not have any taxable profit for the current and prior periods.

The Group had no material unrecognized deferred tax liability as at 30 September 2004 and 30 September 2003.

6. DIVIDENDS

No dividend was declared and paid during either period.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the period of HK\$759,000 (for the six months ended 30 September 2003: loss of HK\$7,517,000), and the weighted average number of 446,093,866 ordinary shares (for the six months ended 30 September 2003: 383,339,768) in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 September 2003 and 2004 has not been presented as the effect of any dilution is anti-dilutive.

8. THE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The interim financial report has been reviewed by the Company's independent accountants, Graham H. Y. Chan & Co (the "Independent Accountants") in accordance with Statement of Auditing Standards No. 700 "Engagements to review interim financial reports" issued by the HKICPA, except that the scope of their review was limited as explained below.

A review consists principally of making enquiries of the Directors and the Provisional Liquidators and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly the Independent Accountants do not express an audit opinion on the interim financial report.

The scope of the Independent Accountants' review was limited because as stated in Note 2 above, the accounts for the six months ended 30 September 2004 have been prepared based on the management accounts prepared by the Provisional Liquidators on the basis of the information available to them which may not be complete for the period up to 3 August 2004, the date when the Provisional Liquidators of the Company were appointed. In these circumstances, save and except for the period after the appointment of the Provisional Liquidators, the Independent Accountants were unable to carry out all the review procedures, or obtain all the information and explanations they considered necessary.

Fundamental uncertainty

The trading of the Company's shares has been suspended since 28 March 2003. On 19 May 2004, the Stock Exchange announced that the Company had been placed into the third stage of the de-listing procedure. The Stock Exchange imposed a six-month period to 18 November 2004 for the Company to submit a viable resumption proposal.

On 25 October 2004, the Company submitted a resumption proposal (the "Resumption Proposal") to the Listing Division of Stock Exchange ("Listing Division"). The Resumption Proposal set out a proposed self-restructuring proposal of the Company, under which, amongst other things, the full amount of the liabilities of the Company will be discharged and compromised through the Schemes with the creditors and the entire interests of the Company in its dormant or insolvent subsidiaries will be transferred to a nominee of the scheme administrators. However, the Listing Division did not consider the Resumption Proposal represented a viable proposal and has advised that it will apply to the Listing Committee of the Stock Exchange ("Listing Committee") for the cancellation of listing of the Company's shares. The Company has requested a review of the Listing Division by the Listing Committee. Notwithstanding this, in light of, inter alia, the petitioning creditor's support for the proposed self-restructuring, the High Court of Hong Kong on 10 January 2005 further adjourned the hearing of the petition to wind up the Company to 14 March 2005.

Should the listing of the Company's shares be cancelled, the petitioning creditor may proceed with the winding-up petition and the Company may be wound up. In these circumstances, adjustments might have to be made further to reduce the value of properties for sale to their forced sales value.

Details of the circumstances relating to this fundamental uncertainty are described in note 2(D) above.

Inability to reach a review conclusion

Because of the possible significance of the effects of the limitation in evidence available to them prior to the appointment of the Provisional Liquidators on 3 August 2004, the Independent Accountants are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 September 2004.

DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The Group was engaged in the provision of freight-forwarding and logistics services, information technology investments and related businesses, and property services. Following the appointment of Provisional Liquidators to the Company, the Group has been focused principally on trading and the provision of logistics services.

For the six months ended 30 September 2004, the Group recorded a consolidated turnover of approximately HK\$38.9 million which was mainly attributable to the trading and logistics business. The appointment of the Provisional Liquidators coincided with the bankruptcy and resignation of the former managing director of the Company, Mr. David Leung. The current Directors have advised that Mr Leung had previously impeded previous attempts to restructure the Group and revitalise its business operations. Since Mr. Leung's bankruptcy and resignation, the Provisional Liquidators and the Directors have been able to formulate and develop a self-restructuring proposal which, inter alia, has involved revitalising the Group's business.

The net profit for the period was approximately HK\$0.8million. The profit from operations was approximately HK\$3.1 million for the period, compared with a loss of approximately HK\$5.7 million for the six months ended 30 September 2003.

PROSPECTS

Upon the completion of the Proposed Self-Restructuring, it is anticipated that the financial position of the Company will be substantially improved as all liabilities of the Company will be compromised and discharged through the Schemes. Under the proposed self-restructuring, a rights issue will also be conducted to provide additional working capital to the Company.

The Provisional Liquidators consider that, upon completion of the Proposed Self-Restructuring, the Company will be able to carry on a substantial and profitable business for the benefit of its shareholders and creditors. Subject to the results of its detailed financial and operational post completion review of the Group, the Directors intend to restore the Group's full range of integrated logistics services and trading businesses and also explore other viable business opportunities to further strengthen the Group's financial position.

As at the date of this report, the Provisional Liquidators have received written in-principle support from majority creditors and no creditor has raised any material objection to the Proposed Self-Restructuring proposal. Subject to the approval of the Resumption Proposal by the Listing Committee, the Provisional Liquidators consider that the Proposed Self-Restructuring can be completed in accordance with its terms.

LIQUIDITY AND FINANCIAL REVIEW

The Group's net liabilities approximate to HK\$119.6 million as at 30 September 2004 (31 March 2004: net liabilities of HK\$120.4 million). Cash and bank balances and interest-bearing borrowings approximate HK\$0.4 million (31 March 2004: HK\$4.5 million) and HK\$10 million (31 March 2004: HK\$10 million), respectively, as at the balance sheet date. The Group's borrowings from creditors were not repaid in accordance with the schedules set out by the creditors and, have become due for immediate repayment. As a result, the outstanding amounts due to the creditor banks have been reclassified as current liabilities.

Interest-bearing borrowings were in Hong Kong dollars and as a result, there is no foreign exchange risk. Interest-bearing borrowings were subject to floating interest rates. The Group did not use financial instruments for hedging purposes.

PLEDGE OF ASSETS

As at 30 September 2004, properties for sale with a carrying amount of HK\$8,560,000 (as at 31 March 2004: HK\$8,560,000) of the Group were pledged to secure bank loans and other loans granted to the Group.

Further, due to the Group's failure to pay outstanding building management fees, the provider of the property management services has registered a Memorandum of Outstanding Management Fees and Building Fund over properties held by the Group for sale with a book value of HK\$2,846,000.

CONTINGENT LIABILITIES

In light of the incomplete books and records of the Group obtained by the Provisional Liquidators for the six months ended 30 September 2004, the following information on the Group's and the Company's contingent liabilities has been prepared on the basis of press announcements made and/or circulars issued by the Company prior to the appointment of the Provisional Liquidators and those made by the Provisional Liquidators following their appointment. The Provisional Liquidators have confirmed that, to the best of their knowledge, the information disclosed is complete.

The Company has provided corporate guarantees to certain bankers and creditors to secure general finance facilities granted to its subsidiaries. As at 30 September 2004, such facilities utilised by the subsidiaries totalled HK\$346,000 (as at 31 March 2004: HK\$346,000) and the related liabilities had been fully recorded in the consolidated balance sheet at that date.

EMPLOYEES

The Group had approximately 15 employees during the reporting period. Remuneration packages comprise salary, double pay, and year-end bonuses based on individual merit.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

To the best of their knowledge and having made all reasonable enquiries, the Provisional Liquidators are not aware that the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period. Trading in the shares of the Company has been suspended since 10:00 a.m. on 28 March 2003.

AUDIT COMMITTEE

No audit committee was established during the period as the board did not include an independent non-executive director. Pursuant to the terms of the Proposed Self-Restructuring that three independent non-executive directors will be appointed prior to the resumption of trading in the Company's shares and the Company shall thereafter be able to comply with the requirements of the Listing Rules in this regard.

CODE OF BEST PRACTICE

Since the Provisional Liquidators were only appointed to the Company on 3 August 2004, they are unable to comment as to whether the Directors have complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (“Code of Best Practice”). However, in the opinion of the Provisional Liquidators, the Company has complied with the Code of Best Practice following their appointment, except that (1) no audit committee meeting has been held, and (2) no full board meeting has been held, as, since the appointment of the Provisional Liquidators, the authority and powers of all Directors has been suspended.

THE MODEL CODE

The Provisional Liquidators understand that the Company has adopted a code of conduct regarding directors’ securities transactions on terms no less than the required standard set out in the Model Code in Appendix 10 of the Listing Rules (“Model Code”). Since the Provisional Liquidators were only appointed to the Company on 3 August 2004, the Provisional Liquidators are unable to comment as to whether the Directors have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE’S WEBSITE

All the information of the interim results of the Group for the six months ended 30 September 2004 required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the Stock Exchange’s website in due course.

As at the date of the announcement, the Directors are Mr. Wong Chong Kwong, Derek, Mr. Po Kam Hi, John, Mr. Au-Yeung Yok Cho and Mr. Wu Chi Lok. Pursuant to an Order of the High Court of Hong Kong, Provisional Liquidators were appointed to the Company and the powers of the board has been suspended since then. Mr. Wu Chi Lok has since become an executive director of an operating subsidiary of the Company to assist the Provisional Liquidators with its business operations.

For and on behalf of
401 Holdings Limited
(Provisional Liquidators Appointed)
Cosimo Borrelli
Fan Wai Kuen
Joint and Several Provisional Liquidators

Hong Kong, 15 February 2005

Please also refer to the published version of this announcement in the China Daily.