



# 401 HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Provisional Liquidators Appointed)

(Stock Code: 0401)

## ANNOUNCEMENT OF FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2004

### RESULTS

The joint and several provisional liquidators (“Provisional Liquidators”) of 401 Holdings Limited (Provisional Liquidators Appointed) (“Company”) announce that the audited consolidated results of the Company and its subsidiaries (together “Group”) for the year ended 31 March 2004 together with the comparative figures for the preceding year are as follows:—

		Year ended 31 March 2004 HK\$'000	Year ended 31 March 2003 HK\$'000
Turnover		23,136	6,933
Cost of sales		<u>(24,182)</u>	<u>(3,907)</u>
Gross (loss)/profit		(1,046)	3,026
Other revenues		1	347
Marketing and promotion costs		(11)	(23)
Staff costs		(7,775)	(14,065)
Depreciation		(323)	(949)
Administrative expenses		(5,018)	(10,725)
Gain on disposal of subsidiaries		9,372	—
Other charges	3	<u>(19,098)</u>	<u>(20,875)</u>
Operating loss	4	(23,898)	(43,264)
Finance costs	5	(9,088)	(14,214)
Shares of (loss)/profit of associates		<u>(279)</u>	<u>63</u>
Loss before taxation		(33,265)	(57,415)
Taxation	6	<u>—</u>	<u>(33)</u>
Loss attributable to the shareholders		<u><u>(33,265)</u></u>	<u><u>(57,448)</u></u>
Basic loss per share	8	<u><u>8.02 cents</u></u>	<u><u>16.77 cents</u></u>

## NOTES

### 1. BASIS OF PREPARATION OF THE ACCOUNTS

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. 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 of the Company 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 year ended 31 March 2004 were incomplete. Accordingly, the accounts of the Company and the Group for the year ended 31 March 2004 have been prepared on the following bases:

- (A) The accounts have been prepared on the basis of the management accounts prepared by the Provisional Liquidators. The Provisional Liquidators prepared the management accounts on the basis of the information available to them, including unaudited management accounts of the Group as at 31 March 2004, 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 ("Resumption Proposal"). As the Resumption Proposal remains subject to, amongst other things, the approval of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the accounts for the year ended 31 March 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 realisable 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 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.

### 2. SEGMENT TURNOVER AND RESULTS

Analysis of the Group's turnover and results for the year by principal activities and markets is as follows:

(i) *Business Segments*

	Turnover		Segment result	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Sales and leasing of properties	21,925	2,705	(13,952)	(4,524)
Logistics, freight forwarding, and shipping services	651	1,264	(224)	(9,353)
Sales of goods	357	1,520	(69)	384
Consultancy, marketing and other services	199	1,342	(383)	676
Property and household services	4	102	(659)	(2,220)
Others	—	—	(13)	(266)
	<u>23,136</u>	<u>6,933</u>	<u>(15,300)</u>	<u>(15,303)</u>
Unallocated corporate expenses			(17,970)	(27,961)
Gain on disposal of subsidiaries			9,372	—
Loss from operations			(23,898)	(43,264)
Finance costs			(9,088)	(14,214)
Share of (loss)/profit of associates			(279)	63
Loss before taxation			(33,265)	(57,415)
Taxation			—	(33)
Loss after taxation			<u>(33,265)</u>	<u>(57,448)</u>

(ii) *Geographical segments*

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

### 3. OTHER CHARGES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Compensation paid	—	180
Loss on disposal and write off of fixed assets	424	1,672
Provision for diminution in the value of investment securities	—	250
Provision for amounts due from associates	—	489
Provision for bad and doubtful debts	717	1,515
Provision for diminution in value of properties for sale	11,877	2,939
Unrealised losses for other investment	—	13,200
Write off of prepayment, deposits and other receivables	6,080	—
Write off of properties for sale	—	630
	<u>19,098</u>	<u>20,875</u>

### 4. OPERATING LOSS

The operating loss is stated after crediting and charging the following and other charges in Note 3 above:—

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Crediting</b>		
Gross rental income from properties	1,195	2,705
Less: Outgoings	<u>767</u>	<u>810</u>
Net rental income from properties	428	1,895
Net exchange gain	25	—
<b>Charging</b>		
Auditors' remuneration		
— current year	318	276
— overprovision in prior year	—	(5)
Net exchange loss	—	29
Operating lease rentals in respect of land and buildings	773	1,422
Operating lease rentals in respect of plant and machinery	—	35
Staff costs including directors' emoluments		
— salaries, bonus, allowances and benefits in kind	6,782	10,416
— payment in lieu of notice and severance payment	—	848
— compensation for loss of office as directors of the Company's subsidiaries — contractual payment	—	1,757
— provision for annual leave	—	37
— provision for long service payment	861	813
— retirement benefits scheme contributions	<u>132</u>	<u>194</u>

## 5. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans and overdrafts	595	582
Interest on other loans	5,632	598
Interest on convertible debts	2,861	1,692
Premium on redemption of preference shares	—	11,342
	<u>9,088</u>	<u>14,214</u>

## 6. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax		
Overseas taxation	—	33
	<u>—</u>	<u>33</u>

No Hong Kong profits tax has been provided in the accounts as the Group has no assessable profit for the year (2003: nil). Overseas taxation in last year was provided on the profits of the overseas subsidiaries and branches in accordance with the tax laws of the countries in which these subsidiaries and branches operate.

As at 31 March 2004, the Group had unused tax losses of approximately HK\$17,140,000 (2003: HK\$171,408,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

As at 31 March 2004, the Group had unrecognised deferred tax asset of approximately HK\$61,000 (2003: HK\$8,000) which represents the tax effect of temporary differences arising from tax depreciation. This deferred tax asset has not been recognised in the accounts as it is not certain that future taxable profits will be available against which such temporary differences can be utilised.

The Group had no material unrecognised deferred tax liability as at 31 March 2004 and 2003.

## 7. DIVIDEND

No dividend was declared and paid during the year.

## 8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year ended 31 March 2004 of HK\$33,265,000 (2003: HK\$57,448,000), and the weighted average number of 414,536,489 ordinary shares (2003: 342,598,798) in issue during the year.

Diluted loss per share for the year ended 31 March 2003 and 2004 has not been presented as the effect of any dilution is anti-dilutive.

## AUDITORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004

### Basis of Opinion

The auditors conducted their audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), except that the scope of their work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Provisional Liquidators in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

The auditors planned their audit so as to obtain all the information and explanations which they considered necessary in order to provide them with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. However, the evidence available to them was limited as set out in detail in the following paragraphs.

1. The accounts for the year ended 31 March 2004 have been prepared based on the management accounts prepared by the Provisional Liquidators and the management accounts have been prepared on the basis of the information available to them which may not be complete. In light of the fact that evidence available to the auditors was possibly limited and that there are no practicable audit procedures to ensure the completeness of evidence, they are unable to satisfy themselves as to whether the accounts are free from material misstatement.
2. Due to missing supporting documentation and relevant accounting records, the auditors are unable to perform audit work necessary to ascertain the validity and completeness on the following amounts included in the consolidated profit and loss account for the year ended 31 March 2004:
  - Site management fee to a related company of approximately HK\$248,000;
  - Revenue in respect of the provision of freight forwarding services in the PRC of approximately HK\$425,000;
  - Revenue in respect of the sales and leasing of properties of approximately HK\$537,000.
3. Included in the staff costs, there is HK\$994,000 in respect of which there was insufficient evidence available for the auditors to ascertain its validity.
4. Regarding the disclosure of directors' and senior management's emoluments, the auditors are unable to obtain direct confirmations from some of the former directors in respect of the emoluments paid and payable to them for the year ended 31 March 2004. The auditors are also unable to obtain sufficient evidence regarding the amounts disclosed for the five highest paid individuals. They are, therefore, unable to satisfy themselves as to whether the disclosure of directors' and senior management's emoluments is accurate and/or adequate.

5. Regarding the disclosure of unrecognised deferred tax assets which is made in accordance with Statement of Standard Accounting Practice No. 12 (revised) issued by the HKICPA, the auditors were not provided with sufficient information to enable them to ascertain whether the disclosure is accurate.

There were no other satisfactory audit procedures that the auditors could adopt to satisfy themselves as to the matters set out above. Any adjustment found to be necessary would affect the results and/or cash flows of the Group for the year ended 31 March 2004 and/or the assets and liabilities of the Company and/or the Group as at that date.

In forming their opinion the auditors also evaluated the overall adequacy of the presentation of information in the accounts. The auditors believe that their audit provides a reasonable basis for their opinion.

### **Fundamental uncertainty**

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 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's decision 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 sales to their forced sales value.

The auditors consider that the fundamental uncertainty has been adequately disclosed in the accounts and their opinion is not qualified in this respect.

### **Qualified opinion: Disclaimer on view given by the accounts**

Because of the significance of the possible effects of the limitation in evidence available to the auditors referred to in the "Basis of opinion" section, the auditors are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's loss and cash flows for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

As set out in the section “Basis of Opinion”:

- (i) the auditors have not obtained all the information and explanations that they considered necessary for their audit; and
- (ii) the auditors were unable to determine whether proper books of account had been kept.

## **DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2004**

### **Review of the business development**

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 in the provision of logistics services. During the year ended 31 March 2004, 3 of the Group’s properties for sales in Hong Kong were disposed to reduce the liabilities of the Group and to provide general working capital for the Group. For the year ended 31 March 2004, the Group recorded a consolidated turnover of approximately HK\$23.1 million which was mainly attributable to the sales and leasing of properties for approximately HK\$21.9 million and logistics and freight forwarding services for approximately HK\$0.7 million.

The net loss for the year was approximately HK\$33.3 million. The loss from operations was approximately HK\$23.9 million for the year, compared with approximately HK\$43.3 million for the year 2003.

### **Future plan and prospect**

Upon the completion of the proposed self-restructuring (“Completion”), 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, 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.

## **PLEDGE OF ASSETS**

As at the balance sheet date, properties for sale with a carrying amount of HK\$8,560,000 (2003: HK\$41,471,000) 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.

## OPERATING COMMITMENTS

### (a) The Group as lessee

As at 31 March 2004, the Group had future minimum lease payment of approximately HK\$200,000 (2003: HK\$439,000) in respect of land and buildings under non-cancellable operating leases which fall due within one year after the balance sheet date.

The operating lease payments represent rentals payable by the Group for its office premises and warehouse in Hong Kong. Leases are negotiated and rentals are fixed for an average of one to three years.

### (b) The Group as lessor

As at the balance sheet date, the Group had minimum lease receipts which represent rentals receivable by the Group for its properties for sales under non-cancellable operating leases which fall due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	—	1,194
In the second to fifth years, inclusive	—	108
	<hr/>	<hr/>
	—	1,302
	<hr/> <hr/>	<hr/> <hr/>

### (c) The Company had no material operating lease commitment as at 31 March 2004 and 2003.

## CONTINGENT LIABILITIES

In light of the incomplete books and records of the Group obtained by the Provisional Liquidators for the year ended 31 March 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 31 March 2004, such facilities utilised by the subsidiaries totalled HK\$346,000 (2003:HK\$10,642,000) and the related liabilities had been fully recorded in the consolidated balance sheet at that date.

## **EMPLOYEES**

According to the books and records available, the Group employed a total of 18 full-time employees. 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 financial year. 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 year 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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") in this regard.

## **CODE OF BEST PRACTICE**

The Provisional Liquidators were only appointed to the Company on 3 August 2004. Consequently, the Provisional Liquidators have insufficient information to comment as to whether the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year.

## **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 of the Company 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 ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information of the annual results of the Group for the year ended 31 March 2004 required by paragraphs 45(1) to 45(3) 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 of the Company 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.