

Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended	
	30 September	
	2001	2000
	HK\$'000	HK\$'000
Net cash inflow from operating activities	15,661	26,812
Net cash outflow from returns on investments and servicing of finance	(303)	(755)
Net cash outflow from taxation	(42)	–
Investing activities	<u>(28,828)</u>	<u>(21,199)</u>
Net cash (outflow)/inflow before financing activities	(13,512)	4,858
Net cash inflow from financing	<u>21,870</u>	<u>59,097</u>
Increase in cash and cash equivalents	8,358	63,955
Cash and cash equivalents at beginning of period	<u>30,245</u>	<u>(29,011)</u>
Cash and cash equivalents at end of period	<u><u>38,603</u></u>	<u><u>34,944</u></u>
Analysis of balance of cash and cash equivalents		
Bank balances and cash	63,180	64,701
Bank overdrafts	–	(1,237)
Trust receipt loans	<u>(24,577)</u>	<u>(28,520)</u>
	<u><u>38,603</u></u>	<u><u>34,944</u></u>

Notes:

(1) Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

(2) Accounting policies

The accounting policies used in preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2001 except the newly adopted accounting standards as described below.

In the current period, the Group adopted, for the first time, a number of new and revised SSAP issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is amortized over its estimated useful life of 20 years. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

(3) Segment information

The Group's turnover and profit from operating activities are entirely derived from retailing activities carried out in Hong Kong. Accordingly, no analysis by activities or by geographical areas of operation for the period ended 30 September 2000 and 2001 is presented.

(4) Taxation

Hong Kong Profits Tax is provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the period.

	Unaudited Six months ended 30 September	
	2001 HK\$'000	2000 HK\$'000
Provision for the period:		
Company and subsidiaries	200	114
Associate	—	—
	<u>200</u>	<u>114</u>
Taxation for the period	<u>200</u>	<u>114</u>

(5) Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$12,782,000 (2000: profit of HK\$6,051,000) and the weighted average number of 654,482,934 shares (2000: 601,743,984 shares) in issue.

The calculations of diluted earnings per share for the period ended 30 September 2001 together with the comparative figures for 2000 are calculated as follow:

	2001 HK\$'000	2000 HK\$'000
Earnings		
Profit attributable to shareholders, used in basic and diluted earnings per share calculation	<u>12,782</u>	<u>6,051</u>
Number of shares		
Weighted average number of shares in issue during the period used in basic earnings per share calculation	654,482,934	601,743,984
Weighted average number of shares assumed issued at no consideration on deemed exercise of all shares options outstanding during the period	<u>6,535,948</u>	<u>1,776,836</u>
Weighted average number of shares used in diluted earnings per share calculation	<u>661,018,882</u>	<u>603,520,820</u>

(6) Intangible assets

	30 September 2001 (Unaudited) HK\$'000	31 March 2001 (Audited) HK\$'000
Goodwill on acquisition of a subsidiary	<u>13,267</u>	<u>—</u>

(7) Accounts payables

The aging analysis of accounts payables was as follows:

	30 September 2001 (Unaudited) HK\$'000	31 March 2001 (Audited) HK\$'000
Current to 30 days	19,991	30,973
31 – 60 days	33,469	27,057
61 – 90 days	43,224	32,424
Over 90 days	24,398	17,366
	<u>121,082</u>	<u>107,820</u>

(8) Share capital

	Number of ordinary shares of HK\$0.10 each (in thousands)	Amount HK\$'000
At 1 April 2001	628,669	62,867
Shares issued	63,590	6,359
At 30 September 2001	<u>692,259</u>	<u>69,226</u>

(9) Reserves

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	117,773	6,055	(53,719)	70,109
Premium arising from issue of shares	19,183	–	–	19,183
Shares issuing expenses	(630)	–	–	(630)
Reduction of share premium transferred to write off against the accumulated loss	(53,719)	–	53,719	–
Net profit attributable to shareholders	<u>–</u>	<u>–</u>	<u>12,782</u>	<u>12,782</u>
At 30 September 2001	<u>82,607</u>	<u>6,055</u>	<u>12,782</u>	<u>101,444</u>

INTERIM DIVIDEND

The board of directors (“Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2001 (2000: Nil).

REVIEW OF OPERATIONS

Industry Review

The economic environment continued to worsen during the period with the 11 September 2001 terrorist attack in US further aggravating the already deteriorating business environment and declining consumer sentiment. Provisional economic figures released by the Government’s Census and Statistics Department indicated that the total retail sales in September 2001 dropped by 4.4% in value and 1.7% in volume when compared with September 2000. At the same time, the unemployment rate increased to 5.3% in July to September 2001 when compared with 4.8% in July to September 2000.

Operating Performance Review

Against a backdrop of continuously declining market conditions, the Board is pleased to report that for the six months ended 30 September 2001, the turnaround efforts initiated in April 2000 continued to bear fruit culminating, in 18 months of continuous growth in turnover and net profit attributable to shareholders. The results demonstrate the increasing ability of the Group to enhance its competitive edge by ensuring suitable products positioning and pricing strategy as well as building the Pricerite brand image and consumer goodwill in the market.

For the six months ended 30 September 2001, the Group recorded a 19% increase in turnover to HK\$499 million as compared with the same period of last year. In terms of product mix, household products and furniture accounted for 58% and 42% respectively. Household products had achieved 13% growth in sales while furniture had attained 26% increase as compared with the same period of last year. This was mainly attributable to the combination of effective marketing and promotion programs, successful product development and merchandising, and strategic outlet location selection.

During the period, the Group achieved a net profit attributable to shareholders of HK\$13 million, representing a 111% increase as compared with the same period of last year. Complimenting the improvement in sales, the improvement in operating performance was mainly due to an increase in cost effectiveness resulting from stringent cost control, improved logistics and inventory management.

BUSINESS REVIEW

In March 2001, the Group became a proud member of Celestial Asia Securities Holdings Limited ("CASH"), a Hong Kong based services conglomerate. The strength of the management group was significantly enhanced in order to further increase the professional standards of the Group as well as to ensure that modern management concepts are applied.

During the period under review, the Group continued to make strategic initiatives to build business momentum, strengthen management structure, and streamline operations. Through advance logistics technology and work-scheduling, stock flow efficiency was improved and inventory cycles were shortened. Efforts in global sourcing and product research further brought about enhancements in Product Development as well as a significantly enlarged portfolio of suppliers.

The directors (“Directors”) were mindful that as a mass retail service provider, branding is an ongoing commitment that extends beyond mere advertising and promotion schemes. A total brand management approach was adopted. The Group engaged an independent market research agency to conduct studies that enhanced management appreciation to changing customer needs and expectations. The findings led to an in-depth review of the market position of the Group, better merchandising sensitivity to consumer requirements, and store redesigns to enhance consumer shopping experience. According to a market survey conducted by AC Nielsen in October 2001, our Self-Assembled Furniture, Moveable Storage Accessories, Tools and Racks, and Sitting Room Cabinets ranked first in terms of market share by value in Hong Kong. Additional focus was given to improving the quality of the “mix and match” product ranges. To synchronize brand perception with the improved brand, the “Your Lifestyle at Your Price” and “New Ideas from Pricerite; New Page for Modern Life” series of television commercial and print advertisement were developed and rolled out.

During the period under review, the Group opened 5 new retail outlets in strategic locations including Wong Tai Sin, Taipo and Tin Shui Wai. Management took extra care and ensured in-depth research was conducted to confirm high pedestrian flows and reasonable rental cost. Simultaneously, the Group closed 5 less profitable retail outlets in less favorable areas upon lease expiry. At present, there were a total of 42 retail outlets in operation.

The consumer awareness and acceptance of the Group’s B2C e-shop, www.pricerite.com.hk, continued to improve, with over 20,000 registered users and more than one million page-views per month.

OUTLOOK AND PROSPECT

The Board is concerned that despite the economic and political measures taken by the various countries on the aftermath of the September 11 terrorist attacks, the economic repercussions will persist beyond the near term.

In the medium term however, the Board is of the view that Hong Kong retail market will benefit from the low interest rate and improving consumer sentiment. With accession of China into the World Trade Organization and together with the 2008 Beijing Olympic Games, the Directors anticipate a gradually improving business environment that will benefit the Group. The Board is therefore optimistic for the future.

The Directors aim to further strengthen its product replenishment, merchandising and product development functions to extend the competitive position and the profitability of the Group. Active broadening of customer base will be achieved through further expansions in product range and elevations in product quality. The greater sensitivity to market demand and changes in consumer behavior will better synchronize new product launches. Leveraging on the ever increasing customer base of the Group, and the unique opportunities available by being a member of the CASH group, the management of the Company will actively explore avenues and possibilities to cross-sell products and services offered by other CASH group subsidiaries and affiliates to create new income streams for the Group.

Enhancing customer service quality will continue to be a mainstay of the Group's brand management initiatives. The Group is committed to provide better training to empower front line sales staff with the necessary skills to further improve the service quality. Regular "mystery shoppers" programs conducted by independent consultancies and other market surveys will help management benchmark its service level and market position. Conceptual visual merchandising programs emphasizing thematic "mix and match" of modern living styles will be implemented to provide pleasant store environment and memorable shopping experience.

In the local market, the Group will selectively identify the retail outlets in strategic locations to improve the dispersal pattern of its network and increase the bargaining power with landlords to further lower the rental costs.

Internationally, the Group plans to expand into selected markets of Asia with high growth potential. A regional expansion programme to leverage its expertise in home retailing and its supply, logistics and financing infrastructure is under development. The retail market in mainland China will be the major focus of expansion in the coming year. Target cities include Shanghai, Beijing, Guangzhou and Shenzhen. A China Project Team is in operation to conduct feasibility studies and make preparation for the initial forays outside of Hong Kong. The Board is confident of the ability of the breadth and depth of expertise and talents within the Group to ensure prudent and successful implementation of its regional expansion strategy.

The Group will further upgrade its internet outlet *www.pricerite.com.hk* using the latest technology. The Group believes that it complements the physical retail outlets by tapping into a considerably different consumer base, and will ultimately increase physical customer traffic and sales.

Looking ahead, the Group believes that the forthcoming year will be a year full of challenges and opportunities. The Board is confident that, with the dedicated and strengthened management team, together with the greater clarity in the objectives and values, the Group is well positioned to overcome any difficulty and challenges in the future. The Directors look forward to further continuous growth in sales and profitability.

LIQUIDITY AND CAPITAL RESOURCES

Subsequent to a share placement on 19 July 2001 and the satisfactory results for the period, the Group reported the continued improvement in its net asset value and gearing. Cash balance of HK\$72 million as at 30 September 2001 exceeded the Group's total interest bank borrowing of HK\$26 million by HK\$46 million. In addition, there was a significant improvement in inventory turnover, with turnover days dropped from 33 days at 31 March 2001 to 29 days in the current period under review.

At 30 September 2001, the total net assets increased to HK\$171 million from HK\$133 million as at 31 March 2001.

During the period, the ratio of total bank borrowings to shareholders' equity was substantially reduced from 32% at 31 March 2001 to 15% at 30 September 2001. The reduction of bank borrowings to HK\$26 million at the end of the period was attributed to better credit terms offered by the suppliers for goods sold and the improving cash flow and working capital from its operating and financial activities since the last financial year end. Since both the Group's borrowings and operating revenue are in Hong Kong currency, the Group's exposure to foreign currency mismatching was insignificant.

As at 30 September 2001, the Group still maintained a comfortable level of cash and bank balances at HK\$72 million. The ratio of current assets to current liabilities was 0.95 compared to 0.83 at 31 March 2001. The Board believed that the proven liquidity position and steady internal cash generation capability did not only satisfy the Group's various working capital requirements, but also provided a concrete base to the Group to exploit the growth opportunities in Hong Kong and China.

Subsequent to 30 September 2001 on 22 November 2001, the Company issued by way of rights issue a total of 1,384,518,000 new shares ("Rights Shares"), on the basis of two Right Shares for every one share held on 1 November 2001, with the proceeds before expenses amounting to approximately HK\$138 million.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 September 2001, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

A. *The Company*

Ordinary shares

Name	Number of shares beneficially held			Shareholding (%)
	Personal	Corporate	Other interest	
Kwan Pak Hoo Bankee*	-	-	458,144,099	66.18
Khoo Ken Wee*	-	458,144,099	-	66.18

* This refers to the same number of 458,144,099 shares beneficially held by Celestial Investment Group Limited ("CIGL") (a wholly-owned subsidiary of CASH). Both Mr Kwan and Mr Khoo are deemed to be interested in these shares as a result of their interests in CIGL through CASH as disclosed in the "Substantial Shareholders" below.