

notes to the financial statements

FOR THE PERIOD FROM 1 APRIL 2001 TO 31 DECEMBER 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Stock Exchange. Its ultimate holding company is CASH, a company incorporated in Bermuda with its shares being listed on the Stock Exchange.

The company is an investment holding company. Details of the activities of the subsidiaries are set out in note 12.

The financial statements for the current period cover the 9 month period ended 31 December 2001. The corresponding amounts shown for the financial statements and the related notes cover a 12 month period from 1 April 2000 to 31 March 2001 and therefore may not be comparable with amounts shown for the current period. The period covered by the 2001 financial statements is less than 12 months as the Directors considered it is appropriate to change the Company's financial year end date in order to coincide with the financial year end of the Company's ultimate holding company.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current period, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of these revised and new SSAPs has not resulted in any changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods. However, these revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2001.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property and equipment

Property and equipment are stated at cost or valuation less depreciation and accumulated impairment losses, if any.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost or valuation of property and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Land	Over the lease terms
Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	4 to 7 years
Motor vehicles	5 years

In previous years, leasehold improvements were depreciated over the lease terms. With effect from 1 April 2001, leasehold improvements are to be depreciated over the shorter of the lease terms and 5 years, which reflects the Group's previous experience of the useful lives of its assets. This change in depreciation rate has increased the depreciation charge for the period by approximately HK\$4,706,000. This change in depreciation rate was not reflected in the Group's interim report for the six months ended 30 September 2001 as the reassessment of the useful lives of these assets was completed after the issue of the interim report.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period/year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period/year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Realised profits and losses arising from trading securities are accounted for in the period in which the securities are sold as the difference between the net sales proceeds and the carrying amount of the securities. Unsold securities are value at market rate with unrealised profits and losses included in the income statement.

Taxation

The charge for taxation is based on the results for the period/year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Pension scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current period to the Group's Mandatory Provident Fund Scheme.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the invoiced value of sales of furniture and household goods, net of discounts and returns.

The Group's turnover and results are substantially derived from the retailing activity carried out in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging (crediting):

	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Amortisation of goodwill (included in other operating expenses)	626	–
Auditors' remuneration	714	450
Deficit (surplus) on revaluation of leasehold land and buildings	715	(2,505)
Depreciation:		
Owned assets	21,724	21,704
Leased assets	–	376
	21,724	22,080
Loss on disposal of property and equipment	1,081	3,522
Operating lease rentals in respect of land and buildings:		
Minimum lease payments	71,944	89,389
Contingent rents	9,906	9,796
	81,850	99,185
Provision for inventory obsolescence and write-off of inventories (included in cost of sales)	6,795	17,146
Staff costs (including Directors' remuneration):		
Wages and salaries	65,032	69,382
Contributions to retirement benefits scheme	2,731	1,227
	67,763	70,609
Unrealised loss on trading securities	5,986	–
Interest income	(1,416)	(3,537)
Gain on disposal of trading securities	(344)	–
Net foreign exchange gain	(188)	(621)
Write-off of goodwill on acquisition of a subsidiary	–	22
Impairment loss on long term unlisted investments	–	500
Provision for bad and doubtful debts	–	2,637
Loss on disposal of long term listed investments	–	19

6 FINANCE COSTS

	THE GROUP	
	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	1,622	4,064
Finance leases	–	22
	1,622	4,086

7. DIRECTORS' REMUNERATION

	THE GROUP	
	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Fees:		
Executive Directors	–	–
Independent Non-executive Directors	–	30
Other emoluments paid to Executive Directors:		
Salaries, allowances and other benefits	5,696	4,722
Contributions to retirement benefits scheme	43	16
Performance related incentive payments	443	386
	6,182	5,154

The remuneration of Directors fell within the following bands:

	THE GROUP Number of Directors	
	1.4.2001 to 31.12.2001	1.4.2000 to 31.3.2001
Nil – HK\$1,000,000	13	8
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
	14	10

7. DIRECTORS' REMUNERATION *continued*

During the period, HK\$2,000,000 were paid by the Group to a Director as a compensation for loss of office. No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group. None of the Directors has waived any emoluments during the period.

8. EMPLOYEES' EMOLUMENTS

The five highest paid employees included four (1.4.2000 – 31.3.2001: four) Directors of the Company, details of whose remuneration are set out in note 7. The details of the remuneration of the remaining individual for the period/year were as follows:

	THE GROUP	
	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Salaries, allowances and other benefits	463	590
Contributions to retirement benefits scheme	10	4
Performance related incentive payments	11	–
	484	594

9. TAXATION

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the period.

No provision for Hong Kong Profits Tax was made for the year ended 31 March 2001 as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward.

At the balance sheet date, the major components of the unprovided deferred taxation assets (liabilities) were as follows:

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Tax effect of timing differences because of:		
Estimated tax losses	4,013	6,601
Excess of tax allowances over depreciation	(3,441)	(4,223)
	572	2,378

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

9. TAXATION continued

The amount of the unprovided deferred taxation (charge) credit for the period/year is as follows:

	THE GROUP	
	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Tax effect of timing differences because of:		
Estimated tax losses utilised	(2,588)	(1,311)
Excess of tax allowances over depreciation	782	(369)
	(1,806)	(1,680)

Deferred tax has not been provided on the revaluation surplus (deficit) arising on the revaluation of land and buildings as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the period ended 31 December 2001 together with the comparative figures for year ended 31 March 2001 are calculated as follows:

	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Earnings		
Profit attributable to shareholders used in basic and diluted earnings per share calculation	14,616	13,681
Number of shares		
Weighted average number of shares in issue during the period used in basic earnings per share calculation	1,112,069,449	879,691,670
Weighted average number of shares assumed issued at no consideration on deemed exercise of all share options outstanding during the period	2,082,636	2,441,010
Weighted average number of shares used in diluted earnings per share calculation	1,114,152,085	882,132,680

The weighted average number of ordinary shares for the year ended 31 March 2001 for the purposes of basic earnings per share has been adjusted for the rights issue on 22 November 2001.

11. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2001	73,500	56,841	101,482	4,196	236,019
Acquired on acquisition of subsidiaries	–	102	222	–	324
Deficit on revaluation	(2,500)	–	–	–	(2,500)
Additions	–	9,656	10,816	100	20,572
Disposals	–	(6,133)	(2,418)	(27)	(8,578)
At 31 December 2001	71,000	60,466	110,102	4,269	245,837
ACCUMULATED DEPRECIATION					
At 1 April 2001	–	31,694	58,571	3,708	93,973
Provided during the period	1,785	10,084	9,520	335	21,724
Written back on revaluation	(1,785)	–	–	–	(1,785)
Disposals	–	(5,395)	(2,091)	(11)	(7,497)
At 31 December 2001	–	36,383	66,000	4,032	106,415
NET BOOK VALUES					
At 31 December 2001	71,000	24,083	44,102	237	139,422
At 31 March 2001	73,500	25,147	42,911	488	142,046
Analysis of cost or valuation:					
At cost	–	60,567	110,375	4,269	175,211
At valuation	71,000	–	–	–	71,000
	71,000	60,567	110,375	4,269	246,211

11. PROPERTY AND EQUIPMENT continued

The leasehold land and buildings of the Group are situated in Hong Kong. The lease terms of the leasehold land and buildings are as follows:

	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Long leases	25,400	26,500
Medium-term leases	45,600	47,000
	71,000	73,500

The leasehold land and buildings held by the Group have been pledged to banks to secure general banking facilities granted to the Group.

The leasehold land and buildings were revalued on 31 December 2001 at HK\$71,000,000 by Knight Frank, independent professional valuers, on an open market existing use basis. The resulting deficit of HK\$715,000 arising from the revaluation was charged to the income statement.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$115,528,000 (31.3.2001: HK\$118,326,000).

11. PROPERTY AND EQUIPMENT continued

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
THE COMPANY			
COST OR VALUATION			
At 1 April 2001	32,500	2,540	35,040
Deficit on revaluation	(900)	–	(900)
At 31 December 2001	31,600	2,540	34,140
ACCUMULATED DEPRECIATION			
At 1 April 2001	–	759	759
Provided during the period	938	96	1,034
Written back on revaluation	(938)	–	(938)
At 31 December 2001	–	855	855
NET BOOK VALUES			
At 31 December 2001	31,600	1,685	33,285
At 31 March 2001	32,500	1,781	34,281
Analysis of cost or valuation:			
At cost	–	2,540	2,540
At valuation	31,600	–	31,600
	31,600	2,540	34,140

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Unlisted shares, at cost	32,607	46,314
Less: Impairment loss	(26,000)	(29,550)
Amounts due from subsidiaries	6,607 249,047	16,764 44,259
	255,654	61,023

The balances with subsidiaries are unsecured and interest-free. In the opinion of the Directors, the amounts will not be repaid in the next twelve months.

12. INTERESTS IN SUBSIDIARIES continued

The following table lists the wholly-owned subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Country/Place of incorporation	Paid up issued share capital	Principal activities
Pricerite Stores Limited	Hong Kong	Ordinary HK\$1,000 Deferred non-voting HK\$5,000,000*	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	Retailing of furniture and household goods through a website
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	Retailing of cosmetic and skin care products

* The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards dividends, the holders thereof are not entitled to any dividend unless the net profits of the relevant company available for dividend (as certified by its auditors) as earned in the year in respect of which a dividend is declared exceed HK\$100 billion, in which case the holders of the non-voting deferred shares are collectively entitled to one thousandth of one per cent of the amount of the profits so available which exceed HK\$100 billion; and
- (c) as regards capital, on a return of assets or a winding-up, the holders of such non-voting deferred shares are entitled out of the surplus assets of the relevant company to a return of capital paid on such non-voting deferred shares held by them after a total of HK\$1,000 billion has been distributed in such winding-up in respect of each of the issued ordinary shares in the relevant company.

The principal place of operation of the subsidiaries is Hong Kong. All the subsidiaries shown above are indirectly held by the Company.

13. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of subsidiaries during the period and at 31 December 2001	30,928
AMORTISATION	
Charged for the period and at 31 December 2001	(626)
NET BOOK VALUE	
At 31 December 2001	30,302

The amortisation period adopted for goodwill is 10 years.

14. INVENTORIES

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Finished goods held for sale	53,983	51,787

Finished goods of approximately HK\$8,479,000 (31.3.2001: HK\$6,997,006) are carried at net realisable value.

15. TRADE RECEIVABLES

The Group allows an average credit period of 60 days to trade customers.

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

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
0 – 30 days	2,609	–
31 – 60 days	388	–
	2,997	–

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Equity trading securities listed on the Stock Exchange, at market value	32,886	–

17. PLEDGED BANK DEPOSITS

The pledged bank deposits were pledged to secure the general banking facilities granted to a subsidiary.

18. TRADE PAYABLES

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

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
0 – 30 days	35,671	30,973
31 – 60 days	30,784	27,057
61 – 90 days	24,989	32,424
Over 90 days	40,335	17,366
	131,779	107,820

19. BANK BORROWINGS, SECURED

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Bank overdrafts	1,956	510
Bank loans	–	4,075
Trust receipt loans	18,341	37,535
	20,297	42,120

The bank borrowings bear interest at commercial rates and are repayable on demand or within one year.

All of the above bank borrowings and other banking facilities of the Group are secured by:

- (i) pledge of the Group's leasehold land and buildings; and
- (ii) pledge of HK\$8.5 million (31.3.2001: HK\$8.5 million) bank deposits.

20. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2001	1,000,000	100,000
Increase during the period	2,000,000	200,000
At 31 December 2001	3,000,000	300,000

20. SHARE CAPITAL continued

Pursuant to the ordinary resolutions passed on 1 November 2001, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 shares of HK\$0.10 each. These shares rank pari passu in all respects with other shares in issue.

There was no movement in the authorised share capital of the Company during the year ended 31 March 2001.

	notes	Number of shares '000	Amount HK\$'000
Issued and fully paid:			
At 1 April 2000		265,378	26,538
Issue of shares	(a)	363,000	36,300
Exercise of share options	(b)	291	29
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At 31 March 2001 and at 1 April 2001		628,669	62,867
Exercise of share options	(c)	590	59
Placement of shares	(d)	63,000	6,300
Rights issue	(e)	1,384,518	138,452
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At 31 December 2001		2,076,777	207,678

notes:

- (a) On 5 April 2000 and 9 June 2000, 310,000,000 and 53,000,000 shares of HK\$0.10 each were issued to Miliway Resources Limited at subscription prices of HK\$0.20 and HK\$0.60 per share respectively for a total cash consideration, before expenses, of HK\$93,800,000. The proceeds from the issue of shares were used as the Group's working capital.
- (b) On 7 April 2000, 16,000 share options were exercised at the subscription price of HK\$0.36 per share, resulting in the issue of 16,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$5,760. On 12 June 2000, 31,460,000 share options at the subscription price of HK\$0.58 was granted to Directors and certain employees, out of which 130,000 and 145,000 share options were exercised on 4 July 2000 and 4 August 2000 respectively resulting in the issue of 275,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$159,500.
- (c) On 18 June 2001, 590,000 share options were exercised to subscribe for 590,000 shares of HK\$0.10 each at the subscription price of HK\$0.58 per share for a total cash consideration, before expenses, of HK\$342,200.
- (d) On 19 July 2001, 63,000,000 shares of HK\$0.10 each were issued to independent third parties through a placement at a subscription price of HK\$0.40 per share. The proceeds, before expenses, totalled HK\$25,200,000. The proceeds from the issue of shares were used for developing the Group's retailing of furniture and household goods in China.
- (e) On 22 November 2001, 1,384,518,000 shares of HK\$0.10 each were issued by way of rights issue at a subscription price of HK\$0.10 per share. The proceeds before expenses, totalled HK\$138,451,800. The proceeds from the issue of shares were used for developing the Group's retailing of furniture and household goods in Hong Kong and China and as the Group's working capital.

All the shares issued rank pari passu in all respects with all other shares in issue.

20. SHARE CAPITAL continued

Options

At 31 December 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Option type	Number of options	Exercise period	Exercise price per share HK\$
2000 options	26,037,000	13.6.2000 – 12.6.2002	0.32*
2001 options	28,800,000	16.6.2001 – 15.6.2003	0.21**

* The initial exercise price was HK\$0.58. On 23 November 2001, the exercise price per share was adjusted to HK\$0.32 due to the rights issue.

** The initial exercise price was HK\$0.39. On 23 November 2001, the exercise price per share was adjusted to HK\$0.21 due to the rights issue.

The exercise in full of the outstanding 54,837,000 share options at 31 December 2001 would, under the present capital structure of the Company, result in the issue of 54,837,000 additional shares for a total cash consideration, before expenses, of approximately HK\$14,380,000.

21. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Investments revaluation reserve HK\$'000	(Accumulated losses) Retained profits HK\$'000	Total HK\$'000
THE GROUP					
At 1 April 2000	62,254	6,055	3	(67,400)	912
Issue of shares	57,636	–	–	–	57,636
Share issue expenses	(2,117)	–	–	–	(2,117)
Transfer to income statement on disposals	–	–	(3)	–	(3)
Decrease in fair value of long term investments	–	–	(500)	–	(500)
Transfer to income statement as impairment loss (note 5)	–	–	500	–	500
Net profit for the year	–	–	–	13,681	13,681
At 31 March 2001 and at 1 April 2001	117,773	6,055	–	(53,719)	70,109
Reduction of share premium transferred to accumulated losses	(53,719)	–	–	53,719	–
Issue of shares	18,900	–	–	–	18,900
Exercise of share options	283	–	–	–	283
Share issue expenses	(2,473)	–	–	–	(2,473)
Net profit for the period	–	–	–	14,616	14,616
At 31 December 2001	80,764	6,055	–	14,616	101,435

21. RESERVES continued

	Share premium account HK\$'000	Contributed surplus HK\$'000	Investments revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2000	62,254	31,029	3	(78,241)	15,045
Issue of shares	57,636	–	–	–	57,636
Share issue expenses	(2,117)	–	–	–	(2,117)
Transfer to income statement on disposals	–	–	(3)	–	(3)
Decrease in fair value of long term investments	–	–	(500)	–	(500)
Transfer to income statement as impairment loss	–	–	500	–	500
Net loss for the year	–	–	–	(1,262)	(1,262)
At 31 March 2001 and at 1 April 2001	117,773	31,029	–	(79,503)	69,299
Reduction of share premium transferred to accumulated losses	(53,719)	–	–	53,719	–
Issue of share	18,900	–	–	–	18,900
Exercise of share options	283	–	–	–	283
Share issue expenses	(2,473)	–	–	–	(2,473)
Net loss for the period	–	–	–	(4,469)	(4,469)
At 31 December 2001	80,764	31,029	–	(30,253)	81,540

The capital reserve of the Group represents the difference between the nominal value of the shares capital of Pricerite BVI Limited acquired pursuant to the group reorganisation and the nominal value of the issued share capital of the Company issued in exchange thereof.

The contributed surplus of the Company represents the difference between the consolidated net asset value of Pricerite BVI Limited on 21 January 1994 when its entire issued share capital was acquired by the Company pursuant to the group reorganisation, and the nominal amount of the Company's share issued in consideration for such acquisition.

In accordance with clause 14 of the Company's Bye-laws, a special resolution was passed at the annual general meeting held on 27 August 2001 whereby the share premium account was reduced by an amount of HK\$53,719,000. The amount arising from the reduction of the share premium account was credited to the accumulated losses account of HK\$53,719,000.

Under the Companies Act 1981 of Bermuda, the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

21. RESERVES continued

In addition, under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if

- (a) the Company is, or would after the payment be unable to pay its liabilities as they become due, or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

22. RECONCILIATION OF PROFIT FROM OPERATING ACTIVITIES TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	1.4.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.3.2001 HK\$'000
Profit from operating activities	16,438	14,375
Interest income	(1,416)	(3,537)
Depreciation	21,724	22,080
Amortisation of goodwill	626	–
Loss on disposal of property and equipment	1,081	3,522
Loss on disposal of long term investments	–	19
Unrealised loss on trading securities	5,986	–
Gain on disposal of trading securities	(344)	–
Impairment loss on long term unlisted investments	–	500
Provision for inventories obsolescence and write-off of inventories	6,795	17,146
Provision for bad and doubtful debts	–	2,637
Write-off of goodwill on acquisition of a subsidiary	–	22
Deficit (Surplus) on revaluation of leasehold land and buildings	715	(2,505)
Decrease (Increase) in rental and utility deposits	5,965	(3,681)
Increase in inventories	(8,141)	(5,743)
Increase in trade receivables	(2,997)	–
(Increase) Decrease in prepayments, deposits and other receivables	(34,331)	4,054
Increase in amount due from an associate	–	(640)
Increase (Decrease) in trade payables	23,959	(784)
Increase (Decrease) in other payables and accrued liabilities	4,070	(7,440)
Net cash inflow from operating activities	40,130	40,025

23. ACQUISITION OF SUBSIDIARIES

	31.12.2001 HK\$'000	31.3.2001 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	324	26,500
Inventories	850	–
Prepayments, deposits and other receivables	3,021	9
Bank balances and cash	248	2
Other payables and accrued liabilities	(3,371)	(553)
Taxation	–	(4)
	1,072	25,954
Goodwill	30,928	22
	32,000	25,976
SATISFIED BY		
Cash	32,000	11,170
Reclassification to interests in subsidiaries from interest in an associate	–	14,806
	32,000	25,976
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash consideration	(32,000)	(11,170)
Bank balances and cash acquired	248	2
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(31,752)	(11,168)

The subsidiary acquired during the period ended 31 December 2001 made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated net profit attributable to shareholders for the period.

24. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Other short terms loans HK\$'000	Obligations under leases HK\$'000	Loan from a Director HK\$'000
At 1 April 2000	88,792	19,295	10,000	240	3,000
Net cash inflow (outflow) from financing	91,848	(15,220)	(10,000)	(240)	(3,000)
At 31 March 2001 and at 1 April 2001	180,640	4,075	–	–	–
Net cash inflow (outflow) from financing	161,521	(4,075)	–	–	–
Transferred to accumulated losses	(53,719)	–	–	–	–
At 31 December 2001	288,442	–	–	–	–

25. COMMITMENTS

- (a) At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Within one year	77,076	87,098
In the second to fifth year inclusive	141,625	171,695
After five years	10,327	21,917
	229,028	280,710

Operating lease payments represent rentals payable by the Group for its retail shops. Leases are negotiated for an average term of six years and rentals are fixed for an average of three years. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percent of the gross sales of the relevant shop.

- (b) At the balance sheet date, the Group had the following notional amounts of forward foreign exchange contracts:

	THE GROUP	
	31.12.2001 HK\$'000	31.3.2001 HK\$'000
Buying of Italian Lira	–	2,126
Buying of Euros	–	2,032
	–	4,158

26. CONTINGENT LIABILITIES

- (a) The Company had contingent liabilities in respect of guarantees given to banks to secure the banking facilities granted to a subsidiary amounting to HK\$144,000,000 (2001: HK\$107,413,000). The extent of these banking facilities utilised by the subsidiary amounted to HK\$19,435,000 (2001: HK\$41,610,000) at the balance sheet date.
- (b) The Company had contingent liabilities in respect of guarantees given to a landlord to secure the payments of rental by a subsidiary under the rental agreements. At the balance sheet date, the rental payable in the remaining term of the leases under these rental agreements amounts to HK\$1,328,000 (2001: HK\$7,304,000).
- (c) A subsidiary has been named as a defendant in a court action in respect of the amount of goods supplied to the subsidiary and the interest on the said amount. The subsidiary is resisting the claim by filing a counterclaim on losses arising from unfulfilled delivery of products and delivery of defective products.

No provision for any potential liability has been made in these financial statements as in the opinion of the Directors, the amount of the potential liability is not significant.

- (d) At 31 December 2001, there were 89 (at 31.3.2001: 103) employees who had completed the required number of years of service under the Employment Ordinance of Hong Kong to be eligible for long-service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance. If the termination of all these employees' employment met the circumstances required by the Employment Ordinance, the Group's liability at 31 December 2001 would be approximately HK\$5,844,000 (31.3.2001: HK\$4,709,000) for which a HK\$585,000 (31.3.2001: HK\$1,160,000) provision has been made in the financial statements.

27. RELATED PARTY TRANSACTIONS

During the period/year, the Group entered into the following transactions with related parties:

		1.4.2001 to 31.12.2001	1.4.2000 to 31.3.2001
	notes	HK\$'000	HK\$'000
CASH and its subsidiaries:			
Services fees	(i)	5,247	–
Advisory and underwriting fees	(ii)	1,801	–
Purchase of equipment	(iii)	383	–
Associate:			
Rental expense	(iv)	–	284

notes:

- (i) CASH and its subsidiaries performed certain administrative services for the Group for which services fees of approximately HK\$5,247,000 was charged, being an appropriate allocation of costs incurred by the administration, accounting, company secretarial and information technology departments of CASH.
- (ii) A subsidiary of CASH acted as an advisor and an underwriter in the fund raising activities of the Company and received fees of approximately HK\$1,801,000 for the services rendered. The fees was calculated in accordance with the agreements entered into between the parties.
- (iii) The Group acquired the equipment at a net book value of approximately HK\$383,000.
- (iv) The rental expense charged by an associate, San Lorry Limited, of the Group related to a property used by the Company's subsidiary as a retail store. The rental expense was charged according to the terms of rental agreement. On 24 May 2000, the Company acquired the entire equity interest in San Lorry Limited, which, then became a wholly-owned subsidiary of the Group.