

(10) Placement of shares

On 19 July 2001, 63,000,000 shares of HK\$0.10 each were issued to independent third parties through 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.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

REVIEW AND OUTLOOK

Financial Review

For the six months ended 30 June 2002, our Group recorded a 6.7% decrease in turnover to HK\$466.0 million when compared with the six-month period ended September of last year. Notwithstanding that turnover figures from the two different accounting periods are not strictly comparable, the fall in our turnover was manifested by the worsening deflation and depressed economic environment. The subsequent weak consumer sentiment was further aggravated by the persistent sluggish property market. As a result of the decline in turnover, we achieved a net profit attributable to shareholders of HK\$1.0 million, representing a 92.2% decrease for the period when compared with the reporting period of last year.

Our Group's total shareholders' equity amounted to HK\$310.1 million on 30 June 2002 as compared to HK\$309.1 million at the end of the last year. Retrogressing business results under aggravated economic environment of Hong Kong was the major contributor to the just slight increase of the Group's net asset value.

On 30 June 2002, our cash and bank balances, all denominated in HK dollars, totalled HK\$121.8 million as compared to HK\$165.5 million on 31 December 2001. Our continued expansion in our retail network by opening new shops in Hong Kong and our plan to expand into the mainland markets by opening shops in the major cities this year accounted for the reduction in our cash and bank balances. Nevertheless, our liquidity ratio remained at a comfortable level of 1.8 times on 30 June 2002 as compared to 1.7 times on 31 December

2001. On 30 June 2002, our listed securities investment portfolio was valued at HK\$43.2 million. The trading results of the investment did not perform satisfactorily as a result of the poor investment sentiment for the period. The Board maintained a conservative view on the future performance of the listed securities investment for the second half of the year following the recent spate of confidence crisis in the US securities market, which in turn has caused further uncertainty for the HK stock market.

Our total bank borrowings on 30 June 2002 were reduced by HK\$2.2 million to HK\$18.1 million. All of our borrowings were repayable within 3 months from the date of advance. Over 93% of the borrowings were in HK dollar whereas the remaining was in US dollar, with the interest rates priced at close to banks' funding costs. The peak season of borrowings requirements would be the second quarter and the fourth quarter of each year. The ratio of total borrowings to shareholders' equity at the end of the period was 5.8% as compared to 6.6% on 31 December 2001. Fluctuations in our cost of capital arising from interest rate volatility will not be significant for the whole year. Notwithstanding any acute volatility in foreign exchange market brought on by declining market confidence on US dollar assets, our exposure to exchange rate risk was limited as insignificant amounts of our liabilities are in foreign currencies.

On 30 June 2002, leasehold properties at their carrying value of approximately HK\$56.1 million and bank deposits of HK\$8.5 million were pledged to secure general banking facilities granted to a subsidiary. In addition, we had contingent liabilities amounted to approximately HK\$12.3 million which included long service payments that we were liable to pay under some circumstances specified in the Employer Ordinance of Hong Kong and guarantees given to a few banks for an issue of a letter of credit for a subsidiary of the Group. Save as aforesaid, we had no other material contingent liabilities and charges on assets at the end of the period.

Our Group did not make any material acquisitions or disposals during the six months ended 30 June 2002. Save for our new product line – skin care and fragrance collections being on sales under a globally renowned trademark in its first shop that was opened in July 2002, we do not have any future plans for material investments or capital assets.

Industry Review

After the severe downturn in 2001, overall economic activity remained austere in the first half of 2002. On a year-on-year comparison, Hong Kong's GDP fell by 0.9% in real terms during the first quarter of 2002.

According to the latest figures on retail sales (6 August 2002), the overall value of retail sales in June 2002 fell by 7.7% compared with a year earlier. Sales of furniture and fixtures in June 2002 declined by 14.7% in value, while sales of commodities in department stores declined by 4.7%.

Consumer spending declined by 0.6% in real terms in the first quarter of 2002 from a year earlier along with rising unemployment and wage restraint.

Overall consumer prices, which have been on a continuous decline since late 1998, fell further in the first quarter of 2002. The Composite Consumer Price Index (CPI) fell by 2.6% in the first quarter of 2002 over a year earlier. Costs and prices continued to drift lower, along with a further decline in property prices, rentals and labour wages. Also, price discounts were prevalent at the retail outlets.

Operating Performance Review

The year began on an encouraging note with sales for the month of January reaching a record month high. However, the downward spiral of increasing unemployment and declining consumer confidence, exacerbated by the repercussions of the World Cup in June, inevitably impacted our performance during the first half of 2002.

Business Review

Following our successful turnaround efforts, we began a process of review to develop a strategy that will better place our Group for the increasingly competitive Hong Kong marketplace and to expand into the mainland market.

We began a process of reviewing our brand both in our advertising and promotions strategy as well as the totality of our business. On the top of stressing "value for money", the Group will add "lifestyle" element to its products.

To counter the declining consumer sentiment, we launched in successive tactical marketing campaigns to maintain sales momentum. These campaigns included:

- (a) proactive individual store promotions and localized marketing programs, for example, free parking and delivery services, different types of discount coupons and other privileges; and
- (b) special marketing campaigns, for example, Calling Card Promotion held in March 2002, Furniture Cash Coupons Promotion held in May 2002 as well as our World Cup Scratch Card Event in June 2002.

We further adjusted our media mix by widening media channel to include outdoor billboards at MTR and KCR stations, bus stops, radio as well as M-channel displays on selective bus and minibus routes.

To ensure that the shopping environment we provide fits with the totality of the brand promise we aimed to enhance, we maintained our commitment to train and develop our front-line personnel to facilitate improvements in our customer service. Over 1,000 man hours were invested in the area of customer service training during the period.

Complementing our efforts to enhance customer service, we conducted additional work in visual merchandising through modernization of shop designs, use of show cases and mix-and-match coordination. We rolled out a new renovation initiative to bring in the “new concept” of shop design, for example, new design is in full implementation in branches in Causeway Bay, Choi Yuen, Cheung Sha Wan and our three recently opened stores. More family and lifestyle elements were added to match our newly designed shops.

During the period under review, the Group opened two new retail outlets in Kwai Fong and Tsim Sha Tsui in May and June respectively after our in-depth research to confirm high customer traffic. In July, one more outlet was opened in Olympic City. At present, our network boasts a total of 46 retail outlets.

The consumer awareness and acceptance of the Group's B2C e-shop, *www.pricerite.com.hk*, continued to improve, with around 30,000 registered users.

Outlook

Hong Kong, as an international financial centre is suffering from a crisis of confidence arisen from the global recession. Significant improvements in our business environment in the near future is unlikely, and we believe that there is a high probability that Hong Kong will suffer from a double digit unemployment rate. This will continue to impinge on consumer confidence and hence spending.

Local consumer prices are likely to drift lower in the near term, as competition in a slackened retail market is keen, as wages and rental prices are expected to decline. As such, we hold little expectation, if any, for improvements in our revenue picture for the rest of the year.

To enhance our ability to continuously draw consumers' traffic into our store network, we began development of a category-focused promotion to establish ourselves as the de facto destination store for our leading categories. To complement this advertising and promotions strategy, we will focus our merchandising efforts to add further depth for these leading categories.

However, we are certain that our core strength in logistic management, the economy of scale we enjoy and the reach of our store network should help us weather the challenging environment. Ultimately, we are confident of our competitive strengths and are certain that our combined strength will place us as a front runner in the sector.

Mainland China

The Group is well poised to capitalize on the vast opportunity in Mainland China. Our first flagship retail store will be opened in Guangzhou in the second half of 2002, following which will be the launch of our flagship stores in Shanghai, Beijing and Shenzhen. With the established network of flagship stores in the major cities, in 2003, we shall develop a strategic plan focused on second-tier cities elsewhere.

Our Group aims to move forward by combining our expertise in modern retailing and local partners' in-depth local knowledge and appreciation of the differing regional consumer profile as well as operating environment in order to expand our network of stores and build the requisite logistic infrastructure.