

# Notes to the Financial Statements

For the year ended 31 December 2002

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Stock Exchange. Its intermediate holding company is CASH, a company incorporated in Bermuda with its shares being listed on the Stock Exchange and its ultimate holding company is Cash Guardian, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 12.

The financial statements for the current year cover the 12 month period from 1 January 2002 to 31 December 2002 while the financial statements for the prior period covered the 9 month period from 1 April 2001 to 31 December 2001. Therefore, they may not be comparable. The period covered by the financial statements for prior period was less than 12 months as the Directors considered it was appropriate to change the Company's financial year end date in order to coincide with the financial year end of the Company's intermediate holding company.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in changes in the format of presentations of the cash flow statement and the statement of changes in equity, and in the adoption of the following new and revised accounting policies but has had no effect on the results for the current or prior accounting years.

### **Cash flow statements**

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents resulted in a restatement in the comparative amounts shown in the cash flow statement.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

#### Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefits plans. Because the Group participates only in defined contribution retirement benefits schemes, the adoption of SSAP 34 has not had any impact on the financial statements.

### 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 each year.

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

#### 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.

#### Investments in subsidiaries

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

## Notes to the Financial Statements

For the year ended 31 December 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment

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

Leasehold 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 leasehold 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 and amortisation are 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:

Leasehold 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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment

At each balance sheet date, the Company 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 a 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 other SSAP.

#### Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investments in securities**

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

All securities 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 year/period. 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 year/period.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

#### **Revenue recognition**

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

Interest income is accrued on a time 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 valued at market rate with unrealised profits and losses included in the income statement.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation

The charge for taxation is based on the results for the year/period 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.

#### 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 assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's reserves. Such translation differences are recognised as an income or as an expense in the period in which the operation is disposed of.

#### Retirement benefits costs

Payments to the Group's retirement benefits schemes are charged as an expense as they fall due.

### 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 is substantially derived from the retailing activity carried out in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 5. (LOSS) PROFIT FROM OPERATING ACTIVITIES

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

	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Allowance for inventory obsolescence and write-off of inventories (included in cost of sales)	4,990	6,795
Allowance for bad and doubtful debts (included in other operating expenses)	3,990	–
Amortisation of goodwill (included in other operating expenses)	3,093	626
Auditors' remuneration	677	714
Compensation for early termination of tenancy agreements and investment project	7,004	–
Deficit on revaluation of leasehold land and buildings	8,658	715
Depreciation and amortisation of property and equipment:		
Owned assets	27,856	21,724
Leased assets	126	–
	27,982	21,724
Interest income	(951)	(1,416)
(Gain) Loss on disposal of property and equipment	(591)	1,081
Loss (Gain) on trading of securities	3,712	(344)
Net foreign exchange loss (gain)	2	(188)
Operating lease rentals in respect of land and buildings:		
Minimum lease payments	105,702	71,944
Contingent rents	5,179	9,906
	110,881	81,850
Staff costs (including Directors' remuneration):		
Wages and salaries	83,445	65,032
Contributions to retirement benefits schemes	4,005	2,731
	87,450	67,763
Unrealised loss on trading of securities	2,486	5,986

## Notes to the Financial Statements

For the year ended 31 December 2002

### 6. FINANCE COSTS

	The Group	
	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	692	1,622
Finance leases	42	—
	<u>734</u>	<u>1,622</u>

### 7. DIRECTORS' REMUNERATION

	The Group	
	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Fees:		
Executive Directors	—	—
Independent Non-executive Directors	—	—
Other emoluments paid to Executive Directors:		
Salaries, allowances and other benefits	1,418	5,696
Contributions to retirement benefits schemes	31	43
Performance related incentive payments	53	443
Total remuneration	<u>1,502</u>	<u>6,182</u>



## Notes to the Financial Statements

For the year ended 31 December 2002

### 7. DIRECTORS' REMUNERATION (continued)

The remuneration of Directors fell within the following bands:

	The Group	
	1.1.2002 to 31.12.2002 Number of Directors	1.4.2001 to 31.12.2001 Number of Directors
Nil - HK\$1,000,000	11	13
HK\$3,500,001 - HK\$4,000,000	—	1
	<u>11</u>	<u>14</u>

During the year, no emolument was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

During the period ended 31 December 2001, HK\$2,000,000 was paid by the Group to a Director as a compensation for loss of office.

### 8. EMPLOYEES' EMOLUMENTS

The five highest paid employees included two (2001: four) Directors of the Company. The details of the remuneration of the remaining three (2001: one) highest paid individuals for the year/period were as follows:

	The Group	
	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Salaries, allowances and benefits in kind	1,094	463
Contributions to retirement benefits schemes	31	10
Performance related incentive payments	103	11
	<u>1,228</u>	<u>484</u>

## Notes to the Financial Statements

For the year ended 31 December 2002

### 8. EMPLOYEES' EMOLUMENTS (continued)

Their emoluments were within the following band:

	The Group	
	2002 Number of employees	2001 Number of employees
Nil to HK\$1,000,000	<u>3</u>	<u>1</u>

### 9. TAXATION

	The Group	
	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Hong Kong Profits Tax for the year/period	<u>—</u>	<u>200</u>

No provision for Hong Kong Profits Tax was made for the year ended 31 December 2002 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.

Hong Kong Profits Tax was calculated at 16% on the Group's estimated assessable profit arising in Hong Kong for the period ended 31 December 2001.

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Estimated tax losses	12,386	4,013
Excess of tax allowances over depreciation	<u>(3,717)</u>	<u>(3,441)</u>
	<u>8,669</u>	<u>572</u>

## Notes to the Financial Statements

For the year ended 31 December 2002

### 9. TAXATION (continued)

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.

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

	The Group	
	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
Tax effect of timing differences because of:		
Estimated tax losses arising (utilised)	8,373	(2,588)
Difference between tax allowances and depreciation	(276)	782
	<u>8,097</u>	<u>(1,806)</u>

Deferred tax has not been provided on the revaluation surplus (deficit) arising on the revaluation of leasehold 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.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 10. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share for the year ended 31 December 2002 together with the comparative figures for the nine months ended 31 December 2001 are calculated as follows:

	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
(Loss) Earnings		
(Loss) Profit attributable to shareholders used in basic and diluted (loss) earnings per share calculation	<b>(96,856)</b>	14,616
Number of shares		
Weighted average number of shares in issue during the year/period used in basic earnings per share calculation	<b>2,076,777,000</b>	1,112,069,449
Weighted average number of shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year/period	<b>N/A</b>	2,082,636
Weighted average number of shares used in diluted (loss) earnings per share calculation	<b>2,076,777,000</b>	1,114,152,085

The computation of diluted loss per share for the year does not assume the exercise of the Company's outstanding share options as the exercise price of these options is higher than the average market price for shares for the year.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 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
<b>THE GROUP</b>					
COST OR VALUATION					
At 1 January 2002	71,000	60,466	110,102	4,269	245,837
Acquired on acquisition of subsidiaries	–	–	–	450	450
Deficit on revaluation	(10,400)	–	–	–	(10,400)
Additions	–	23,301	23,431	1,760	48,492
Disposals	(14,000)	(26)	(105)	(1,900)	(16,031)
At 31 December 2002	46,600	83,741	133,428	4,579	268,348
ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT					
At 1 January 2002	–	36,383	66,000	4,032	106,415
Provided during the year	2,084	11,724	13,867	307	27,982
Written back on revaluation	(1,742)	–	–	–	(1,742)
Impairment loss recognised in the income statement	–	769	2,098	–	2,867
Eliminated on disposals	(342)	(26)	(39)	(1,805)	(2,212)
At 31 December 2002	–	48,850	81,926	2,534	133,310
NET BOOK VALUES					
At 31 December 2002	46,600	34,891	51,502	2,045	135,038
At 31 December 2001	71,000	24,083	44,102	237	139,422
Analysis of cost or valuation:					
At cost	–	83,741	133,428	4,579	221,748
At valuation	46,600	–	–	–	46,600
	46,600	83,741	133,428	4,579	268,348

During the year, the Group entered into an agreement with a landlord pursuant to which several shop's tenancy agreements would be early terminated. The Directors have reassessed the recoverable amount of the assets of approximately HK\$2,867,000 in these shops and recognised an impairment loss of approximately HK\$2,867,000.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 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:

	2002 HK\$'000	2001 HK\$'000
Long leases	15,000	25,400
Medium-term leases	31,600	45,600
	<u>46,600</u>	<u>71,000</u>

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

The medium-term leasehold land and buildings were revalued on 31 December 2002 at HK\$31,600,000 by Knight Frank, independent professional valuers, on an open market existing use basis. The resulting surplus of HK\$1,258,000 arising from the revaluation was credited to the income statement.

During the year, the Group entered into a provisional sale and purchase agreement with a third party under which the Group agreed to sell its long term leasehold land and buildings at a total consideration of HK\$15,000,000. This sale was completed in March 2003. After making due enquiry, the Directors were satisfied that the selling price of the long term leasehold land and buildings represented the market value as at 31 December 2002. Thus, the deficit arising from the revaluation of HK\$9,916,000 was charged to the income statement.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and amortisation, their carrying value would have been approximately HK\$76,350,000 (2001: HK\$115,528,000).

## Notes to the Financial Statements

For the year ended 31 December 2002

### 11. PROPERTY AND EQUIPMENT (continued)

The net book value of motor vehicles of HK\$2,045,000 include an amount of HK\$1,132,000 (2001: nil) in respect of assets held under finance leases.

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
COST OR VALUATION			
At 1 January 2002 and at 31 December 2002	31,600	2,540	34,140
ACCUMULATED DEPRECIATION AND AMORTISATION			
At 1 January 2002	–	855	855
Provided during the year	1,258	127	1,385
Written back on revaluation	(1,258)	–	(1,258)
At 31 December 2002	–	982	982
NET BOOK VALUES			
At 31 December 2002	31,600	1,558	33,158
At 31 December 2001	31,600	1,685	33,285
Analysis of cost or valuation:			
At cost	–	2,540	2,540
At valuation	31,600	–	31,600
	31,600	2,540	34,140

## Notes to the Financial Statements

For the year ended 31 December 2002

### 12. INTERESTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	32,607	32,607
Impairment loss recognised	(26,000)	(26,000)
	<u>6,607</u>	<u>6,607</u>
Amounts due from subsidiaries	248,433	249,047
Allowance for amounts due from subsidiaries	(76,000)	—
	<u>172,433</u>	<u>249,047</u>
	<u>179,040</u>	<u>255,654</u>

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.

The following table lists the 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	Place/ Country of incorporation	Paid up issued share capital/ registered capital	Effective beneficial interest held	Principal activities
Pricerite Stores Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$5,000,000*	100%	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	100%	Retailing of furniture and household goods through a website
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	100%	Wholesale and retailing of cosmetic and skin care products



## Notes to the Financial Statements

For the year ended 31 December 2002

### 12. INTERESTS IN SUBSIDIARIES (continued)

\* 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

	<b>The Group</b> HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	30,928
AMORTISATION AND IMPAIRMENT	
At 1 January 2002	626
Charged for the year	3,093
Impairment loss recognised in the income statement	27,209
At 31 December 2002	30,928
NET BOOK VALUES	
At 31 December 2002	—
At 31 December 2001	30,302

The amortisation period adopted for goodwill is 10 years.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 13. GOODWILL (continued)

Due to cessation of the business of the subsidiaries principally engaging in retailing of discounted products and continuous losses incurred by those subsidiaries principally engaging in wholesale and retailing of cosmetic and skin care products, the Directors have reassessed the recoverable amount of the assets of these subsidiaries. The Directors, having taken into account the current economic condition and the changes in the business environment in the wholesale and retailing business, recognised an impairment loss of HK\$27,209,000, in respect of goodwill arising from the acquisition of these subsidiaries.

### 14. OTHER ASSETS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Prepayment for advertising and tele-communication services:		
Amount classified as non-current assets	13,812	–
Amount classified as current assets and included in prepayments, deposits and other receivables	7,500	–
	<u>21,312</u>	<u>–</u>

### 15. INVENTORIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Finished goods held for sale	<u>65,391</u>	<u>53,983</u>

Finished goods of approximately HK\$2,607,000 (2001: HK\$8,479,000) are carried at net realisable value.

### 16. TRADE RECEIVABLES

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

The aged analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	218	2,609
31 – 60 days	120	388
61 – 90 days	76	–
Over 90 days	28	–
	<u>442</u>	<u>2,997</u>

## Notes to the Financial Statements

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### 17. INVESTMENTS IN SECURITIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Equity trading securities listed on the Stock Exchange, at market value	<u>41,006</u>	<u>32,886</u>

### 18. PLEDGED BANK DEPOSITS

#### The Group

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

### 19. TRADE PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	40,785	35,671
31 - 60 days	29,813	30,784
61 - 90 days	33,516	24,989
Over 90 days	50,122	40,335
	<u>154,236</u>	<u>131,779</u>

## Notes to the Financial Statements

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### 20. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	445	–	410	–
In the second to fifth year inclusive	525	–	509	–
	<u>970</u>	–	<u>919</u>	–
Less: Future finance charges	51	–	–	–
Present value of lease obligations	<u>919</u>	–	<u>919</u>	–
Less: Amount due for payment within one year			410	–
Amount due for payment after one year			<u>509</u>	–

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and are secured by guarantees given by a subsidiary.

### 21. BANK BORROWINGS, SECURED

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts	6,353	1,956
Trust receipt loans	52,538	18,341
	<u>58,891</u>	<u>20,297</u>

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\$8,500,000 (2001: HK\$8,500,000) bank deposits.

## Notes to the Financial Statements

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### 22. 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 and at 31 December 2002	<u>3,000,000</u>	<u>300,000</u>

Pursuant to an ordinary resolution 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 during the year.

	Notes	Number of shares '000	Amount HK\$'000
Issued and fully paid:			
At 1 April 2001		628,669	62,867
Exercise of share options	(a)	590	59
Placement of shares	(b)	63,000	6,300
Rights issue	(c)	1,384,518	138,452
At 31 December 2001 and at 31 December 2002		<u>2,076,777</u>	<u>207,678</u>

There was no movement in the issued share capital during the year.

Notes:

(a) **Exercise of share options**

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.

(b) **Placement of shares**

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 totaled 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.

(c) **Rights issue**

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 totaled 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.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 23. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	(Accumulated losses)/ Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>				
At 1 April 2001	117,773	6,055	(53,719)	70,109
Reduction of share premium transferred to write-off 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 and at 1 January 2002	80,764	6,055	14,616	101,435
Reduction of share premium transferred to write off accumulated losses	(30,253)	–	30,253	–
Net loss for the year	–	–	(96,856)	(96,856)
At 31 December 2002	50,511	6,055	(51,987)	4,579

## Notes to the Financial Statements

For the year ended 31 December 2002

### 23. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1 April 2001	117,773	31,029	(79,503)	69,299
Reduction of share premium transferred to write off 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 loss for the period	–	–	(4,469)	(4,469)
At 31 December 2001 and at 1 January 2002	80,764	31,029	(30,253)	81,540
Reduction of share premium transferred to contributed surplus	(30,253)	30,253	–	–
Reduction of contributed surplus transferred to write off accumulated losses	–	(30,253)	30,253	–
Net loss for the year	–	–	(76,863)	(76,863)
At 31 December 2002	50,511	31,029	(76,863)	4,677

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 approximately HK\$53,719,000. The amount arising from the reduction of the share premium account was credited to the accumulated losses account of approximately HK\$53,719,000.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 23. RESERVES (continued)

In accordance with clause 14 of the Company's Bye-laws, a special resolution was passed at the annual general meeting held on 16 May 2002 whereby the share premium account was reduced by an amount of approximately HK\$30,253,000. The amount arising from the reduction of the share premium account was transferred to the contributed surplus account to set off the accumulated losses of approximately HK\$30,253,000 at 31 December 2001.

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.

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.

### 24. ACQUISITION OF SUBSIDIARIES

	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	450	324
Inventories	–	850
Prepayments, deposits and other receivables	160	3,021
Bank balances and cash	–	248
Other payables and accrued liabilities	(10)	(3,371)
	<u>600</u>	<u>1,072</u>
Goodwill	–	30,928
	<u>600</u>	<u>32,000</u>
SATISFIED BY		
Cash	<u>600</u>	<u>32,000</u>
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash consideration	(600)	(32,000)
Bank balances and cash acquired	–	248
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(600)</u>	<u>(31,752)</u>

The subsidiaries acquired during the year/period 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 that year/period.



## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES

#### (A) Share option schemes of the Company

(a) *Share option scheme adopted on 21 January 1994 ("Old Option Scheme")*

The major terms of the Old Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any full-time employee or executive director of any member of the Group.
- (iii) The maximum number of shares in respect of which options may be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares in respect of which options may be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.
- (v) No minimum period for which an option must be held before it became exercisable was required.
- (vi) The exercise period of an option shall be any period determined by the board of Directors but shall not be beyond 20 January 2004.
- (vii) The acceptance of an option, if accepted, must be made within 21 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
- (viii) The exercise price of an option must not be less than the higher of:
  - a price not less than 80% of the average closing price of the share for the 5 trading days immediately preceding the grant; and
  - the nominal value of the share.
- (ix) The life of the Old Option Scheme was originally effective for 10 years until 20 January 2004. On 19 February 2002, the Old Option Scheme was resolved by the shareholders of the Company to have been cancelled thereon. However, the options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (A) Share option schemes of the Company (continued)

##### (b) *Share option scheme adopted on 19 February 2002 ("New Option Scheme")*

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002, the Company adopted the New Option Scheme to replace the Old Option Scheme. All the options granted under the Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Old Option Scheme. No option was granted under the New Option Scheme since its adoption on 19 February 2002. The major terms of the New Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to:
  - award and retain the participants who have made contributions to the Group, CASH and its subsidiaries ("CASH Group") and CFSG and its subsidiaries ("CFSG Group") (altogether "Three Groups"); or
  - attract potential candidates to serve the Group for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (iii) The maximum number of shares in respect of which options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 207,677,700 shares, representing 10% of the issued share capital of the Company, as at the date of the Annual Report. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (A) Share option schemes of the Company (continued)

##### (b) Share option scheme adopted on 19 February 2002 ("New Option Scheme") (continued)

- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of Directors and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of Directors upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
- (viii) The exercise price of an option must be the highest of:
  - the closing price of the shares on the date of grant which day must be a trading day;
  - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (A) Share option schemes of the Company (continued)

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options								
					outstanding as at 1.4.2001	granted during the period (Note 5)	exercised during the period (Note 6)	lapsed during the period (Note 7)	adjusted due to rights issue	outstanding as at 31.12.2001 and 1.1.2002	granted during the year (Note 5)	lapsed during the year (Note 7)	outstanding as at 31.12.2002
<b>Directors</b>													
Old Option Scheme	12.6.2000	0.32	13.6.2000-12.6.2002	(1)	20,000,000	-	-	(10,000,000)	8,000,000	18,000,000	-	(18,000,000)	-
	12.6.2000	0.32	13.6.2000-12.6.2002	(1) & (3)	4,000,000	-	-	(2,000,000)	1,600,000	3,600,000	-	(3,600,000)	-
	12.6.2001	0.21	16.6.2001-15.6.2003	(2)	-	16,000,000	-	-	12,800,000	28,800,000	-	(7,200,000)	21,600,000
	17.1.2002	0.21	1.2.2002-31.1.2004	(5)	-	-	-	-	-	-	84,500,000	(13,000,000)	71,500,000
					<u>24,000,000</u>	<u>16,000,000</u>	<u>-</u>	<u>(12,000,000)</u>	<u>22,400,000</u>	<u>50,400,000</u>	<u>84,500,000</u>	<u>(41,800,000)</u>	<u>93,100,000</u>
<b>Employees</b>													
Old Option Scheme	12.6.2000	0.32	13.6.2000-12.6.2003	(1), (4) & (6)	4,495,000	-	(590,000)	(1,608,000)	2,140,000	4,437,000	-	(918,000)	3,519,000
	17.1.2002	0.21	1.2.2002-31.1.2004	(5)	-	-	-	-	-	-	30,000,000	-	30,000,000
						<u>4,495,000</u>	<u>-</u>	<u>(590,000)</u>	<u>(1,608,000)</u>	<u>2,140,000</u>	<u>4,437,000</u>	<u>30,000,000</u>	<u>(918,000)</u>
					<u>28,495,000</u>	<u>16,000,000</u>	<u>(590,000)</u>	<u>(13,608,000)</u>	<u>24,540,000</u>	<u>54,837,000</u>	<u>114,500,000</u>	<u>(42,718,000)</u>	<u>126,619,000</u>

Notes:

- (1) The initial exercise price was HK\$0.58. On 23 November 2001, the exercise price was adjusted to HK\$0.32 due to the rights issue.
- (2) The initial exercise price was HK\$0.39. On 23 November 2001, the exercise price was adjusted to HK\$0.21 due to the rights issue.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (4) The options are vested in 3 tranches as to (i) 1/3 exercisable from the commencement of the exercise period; (ii) 1/3 exercisable from the expiry of 12 months from the commencement of the exercise period; and (iii) 1/3 exercisable from the expiry of 24 months from the commencement of the exercise period.
- (5) The closing price of the share immediately before the date of grant in the year was HK\$0.207 (2001: HK\$0.77).

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (A) Share option schemes of the Company (continued)

- (6) 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. The market price of the Company's share on that date was HK\$0.527.
- (7) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (8) No option was exercised or cancelled during the year.

The exercise in full of the outstanding 126,619,000 share options at 31 December 2002 would, under the present capital structure of the Company, result in the issue of 126,619,000 additional shares for a total cash consideration, before expenses, of approximately HK\$26,977,000.

Total consideration received during the year from the Directors and the employees for taking up the options granted is amounted to HK\$10 (2001: HK\$3).

No charge is recognised in the income statement in respect of the value of options granted during the year.

#### (B) Share option schemes of CASH

##### (a) *Share option scheme adopted on 29 March 1994 ("CASH Old Option Scheme")*

The major terms of the CASH Old Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any employee or director of any member of CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the CASH Old Option Scheme must not exceed 10% of the issued share capital of CASH from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the CASH Old Option Scheme, must not exceed 25% of the maximum shares issuable under the CASH Old Option Scheme from time to time.
- (v) A grantee was required to hold an option for a minimum of 6 months before the option became exercisable.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (B) Share option schemes of CASH (continued)

(a) *Share option scheme adopted on 29 March 1994 ("CASH Old Option Scheme") (continued)*

- (vi) The exercise period of an option granted must not exceed a period of 3 years commencing on the expiry of the above mentioned minimum holding period or 28 March 2004, whichever is earlier.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CASH.
- (viii) The exercise price of an option must be the higher of:
- a price not less than 80% of the average closing price of the share for the 5 trading days immediately preceding the grant; and
  - the nominal value of the share.
- (ix) The life of the CASH Old Option Scheme was originally effective for 10 years until 28 March 2004. On 19 February 2002, the CASH Old Option Scheme was resolved by the shareholders of CASH to have been cancelled thereon. However, the options granted under the CASH Old Option Scheme are still exercisable in accordance with the terms of the CASH Old Option Scheme.

(b) *Share option scheme adopted on 19 February 2002 ("CASH New Option Scheme")*

Pursuant to an ordinary resolution passed at the special general meeting of CASH held on 19 February 2002, CASH adopted the CASH New Option Scheme to replace the CASH Old Option Scheme. All the options granted under the CASH Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the CASH Old Option Scheme. The major terms of the CASH New Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to:
- award and retain the participants who have made contributions to the Three Groups; or
  - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (B) Share option schemes of CASH (continued)

(b) *Share option scheme adopted on 19 February 2002 ("CASH New Option Scheme") (continued)*

- (iii) The maximum number of shares in respect of which options might be granted under the CASH New Option Scheme must not exceed 10% of the issued share capital of CASH as at the date of approval of the CASH New Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CASH New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the CASH New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of CASH and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors of CASH upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CASH.
- (viii) The exercise price of an option must be the highest of:
- the closing price of the shares on the date of grant which day must be a trading day;
  - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share.
- (ix) The life of the CASH New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (B) Share option schemes of CASH (continued)

The following table discloses details of the share options granted by CASH and held by the Directors and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options				
					outstanding as at 1.4.2001 and 1.1.2002	adjusted on 25.4.2002	granted during the year	lapsed during the year	outstanding as at 31.12.2002
<b>Directors</b>									
CASH Old Option Scheme	4.10.1999	0.59	8.4.2000 – 7.4.2002		120,000,000	-	-	(120,000,000)	-
	4.10.1999	0.59	8.4.2000 – 7.4.2002	(2)	5,750,000	-	-	(5,750,000)	-
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (3)	15,000,000	(14,250,000)	-	-	750,000
CASH New Option Scheme	2.5.2002	1.32	2.5.2002 – 30.4.2003		-	-	12,000,000	-	12,000,000
					<u>140,750,000</u>	<u>(14,250,000)</u>	<u>12,000,000</u>	<u>(125,750,000)</u>	<u>12,750,000</u>

Notes:

- (1) The number and exercise price of options which remained outstanding on 25 April 2002 have been adjusted due to share consolidation of CASH for 20 shares into 1 share with effect from the close of business on 25 April 2002. The exercise price per share before share consolidation was HK\$0.27.
- (2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 6 months from the commencement of the exercise period; and (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.



## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (C) Share option schemes of CFSG

(a) *Share option scheme adopted on 20 November 2000 ("CFSG Old Option Scheme")*

The major terms of the CFSG Old Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any full-time employee or executive director of any member of CFSG Group.
- (iii) The maximum number of shares in respect of which options might as granted under the CFSG Old Option Scheme must not exceed 10% of the shares in issue as at the approval of shareholders from time to time and in any event the total maximum number of shares which might be issued or issuable upon exercise of all outstanding options should not exceed 30% of the issued share capital of CFSG from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the CFSG Old Option Scheme, must not exceed 25% of the maximum shares issuable under the CFSG Old Option Scheme from time to time.
- (v) No minimum period for which an option must be held before it became exercisable was required.
- (vi) The exercise period of an option granted must not be less than 3 years and beyond 14 December 2010.
- (vii) The acceptance of an option, if accepted, must be made within 3 business days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CFSG.
- (viii) The exercise price of an option must be the highest of:
  - the closing price of the share on the grant date; and
  - the average closing price of the share for the 5 trading days immediately preceding the grant; and
  - the nominal value of the share.
- (ix) The life of the CFSG Old Option Scheme was originally effective for 10 years until 14 December 2010. On 19 February 2002, the CFSG Old Option Scheme was resolved by the shareholders of CFSG to have been cancelled thereon. However, the options granted under the CFSG Old Option Scheme are still exercisable in accordance with the terms of the CFSG Old Option Scheme.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (C) Share option schemes of CFSG (continued)

(b) *Share option scheme adopted on 19 February 2002 ("CFSG New Option Scheme")*

Pursuant to an ordinary resolution passed at the special general meeting of CFSG held on 19 February 2002, CFSG adopted the CFSG New Option Scheme to replace the CFSG Old Option Scheme. All the options granted under the CFSG Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the CFSG Old Option Scheme. No option was granted under the CFSG New Option Scheme since its adoption on 19 February 2002. The major terms of the CFSG New Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to:
  - award and retain the participants who have made contributions to the Three Groups; or
  - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (iii) The maximum number of shares in respect of which options might be granted under the CFSG New Option Scheme must not exceed 10% of the issued share capital of CFSG as at the date of approval of the CFSG New Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CFSG New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the CFSG New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of CFSG and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors of CFSG upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. SHARE OPTION SCHEMES (continued)

#### (C) Share option schemes of CFSG (continued)

(b) *Share option scheme adopted on 19 February 2002 ("CFSG New Option Scheme") (continued)*

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CFSG.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the CFSG New Option Scheme is effective from 10 years from the date of adoption until 18 February 2012.

The following table discloses details of the share options granted by CFSG and held by the Directors and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options		
					outstanding as at 1.4.2001 and 1.1.2002	adjusted on 25.4.2002	outstanding as at 31.12.2002
<b>Directors</b>							
CFSG Old Option Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	30,000,000	(28,500,000)	1,500,000

Notes:

- (1) The number and exercise price of options which remained outstanding on 25 April 2002 have been adjusted due to share consolidation of CFSG for 20 shares into 1 share with effect from the close of business on 25 April 2002. The exercise price per share before share consolidation was HK\$0.11.
- (2) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 26. COMMITMENTS

#### (a) Operating lease commitments

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	108,994	77,076
In the second to fifth year inclusive	172,847	141,625
After five years	4,279	10,327
	<u>286,120</u>	<u>229,028</u>

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) Capital commitments

At the balance sheet date, the Group had the following capital commitments as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of property and equipment contracted for but not provided in the financial statements	<u>2,630</u>	<u>—</u>

#### (c) Forward foreign exchange contracts

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Buying of Euros	825	—
Buying of USD	15,600	—
	<u>16,425</u>	<u>—</u>

## Notes to the Financial Statements

For the year ended 31 December 2002

### 27. 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\$223,360,000 (2001: HK\$144,000,000). The extent of these banking facilities utilised by the subsidiary amounted to HK\$58,371,000 (2001: HK\$19,435,000) 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\$20,973,000 (2001: HK\$1,328,000).

### 28. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employer's contributions to the retirement benefits schemes charged to the income statement amounted to approximately HK\$4,005,000 (1.4.2001 to 31.12.2001: HK\$2,731,000) for the year ended 31 December 2002.

### 29. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of assets with a total capital value at the inception of the finance leases of approximately HK\$1,241,000 (2001: nil).

### 30. RELATED PARTY TRANSACTIONS

At the balance sheet date, the Group had amounts of approximately HK\$713,000 and HK\$2,400,000 due to the CASH Group and due from the CFSG Group respectively which were unsecured, non-interest bearing and had no fixed terms of repayment.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 30. RELATED PARTY TRANSACTIONS (continued)

In addition, during the year/period, the Group entered into the following transactions with related parties:

	Notes	1.1.2002 to 31.12.2002 HK\$'000	1.4.2001 to 31.12.2001 HK\$'000
The CASH Group:			
Services fees paid	(i)	311	5,247
Directors' emoluments paid	(ii)	1,502	—
Income from sales of coupons	(iii)	1,200	—
Advisory and underwriting fees paid	(iv)	—	1,801
Purchase of equipment	(v)	—	383
The CFSG Group:			
Rental income	(vi)	<u>2,400</u>	<u>—</u>

Notes:

- (i) CASH and its subsidiaries performed certain administrative services for the Group for which services fees were charged, being an appropriate allocation of costs incurred by the administration, accounting, company secretarial and information technology departments of CASH.
- (ii) Directors' emoluments were charged to the Group by the CASH Group based on the estimated time spent by the Directors on the management of the Group.
- (iii) The Group sold gift coupons of approximately HK\$1,200,000 to the CASH Group at their face value.
- (iv) A subsidiary of CASH acted as an adviser and an underwriter in the fund raising activities of the Company and received fees for the services rendered. The fees were calculated in accordance with the agreements entered into between the parties.
- (v) The Group acquired the equipment at a net book value.
- (vi) The Group received rental income of HK\$2,400,000 from the CFSG Group. The amount was at a price agreed between the parties.