

## DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

## REVIEW AND OUTLOOK

### Financial Review

For the six months ended 30 June 2003, our Group recorded a 16.7% decrease in turnover to HK\$388.3 million when compared with the same period last year. The decrease in turnover speaks of the tough environment for the entire retail sector which had long been plagued by the ever-rising unemployment rates to record high and the years-long deflationary pressure on the local economy. The outbreak of Severe Acute Respiratory Syndrome ("SARS"), lasting for more than three months from end of March to end of June, had further dampened already weak consumer market as the highly contagious disease had scared away consumers from the crowded shopping outlets and entertainment complex. To reduce the adverse effects brought about by SARS on sales, the Group operated on a discounted pricing strategy by lowering profit margins during the period to encourage more customer traffic. The SARS outbreak, the first of its kind in the Hong Kong's history, had further exacerbated our non-performing results and the Group suffered a net loss attributable to shareholders of HK\$16.7 million for the period.

The Group's total shareholders' equity amounted to HK\$195.6 million on 30 June 2003 as compared to HK\$212.3 million at the end of the last year. The decrease in equity was direct result of the reported loss for the period.

On 30 June 2003, our cash and bank balances stood at HK\$134.8 million as compared to HK\$147.1 million on 31 December 2002. The mild reduction in cash balances reflected the decrease in sales receipts during the period. However, our liquidity ratio remained healthy at 1.4 times on 30 June 2003 as compared to 1.2 times on 31 December 2002.

Our total bank borrowings on 30 June 2003 were HK\$78.7 million as compared to HK\$58.9 million on 31 December 2002. The additional bank borrowings were used in financing the renovation in the Group's several flagship shops and in accelerating payments to our vendors in exchange for greater purchase discounts during the SARS period. All of the Group's borrowings are either in HK dollar or US dollar, with the interest rates priced at close to banks' funding costs. By using effective instrument to hedge any adverse changes in interest rates, the Group's exposure to both foreign currency and interest rate fluctuation was insignificant. The Group has sufficient banking facilities for its operations even at the peak seasons in the second quarter. On 30 June 2003, the Group's listed investment securities were valued at HK\$16.6 million and a loss on investment of HK\$4.0 million was recorded for the period, reflecting the extremely poor investment sentiment in the SARS-stricken stock market. The ratio of total banking borrowings to shareholders' equity on 30 June 2003 was 40.2%, still at a healthy level, as compared to 27.7% on 31 December 2002.

As at 30 June 2003, leasehold properties at their carrying value of approximately HK\$30.9 million and bank deposits of HK\$17.0 million were pledged to secure a bank term loan and general banking facilities granted to a subsidiary. Save as aforesaid, the Group had no other material contingent liabilities at the period end.

In April 2003, the Group entered into an agreement whereby its wholly owned subsidiary, the principal activities of which are retailing and trading branded skin-care and cosmetic products, was sold to a fellow subsidiary owned by the Group's major shareholder at a price equal to its then net asset value. Save as aforesaid, our Group did not make any material acquisitions or disposals during the six months ended 30 June 2003.

There was no significant investment held during the period under review. We do not have any future plans for material investments or capital assets.

## Industry Review

The prolonged economic hardships in Hong Kong continued in the first half of 2003. Consumer sentiment was further aggravated by the outbreaks of SARS and the US-Iraqi War, deepening both the global and local depressions. All these rendered the retail environment tougher than ever. The retail sales in the first half of 2003 declined by 6.7% in value or 4.2% in volume; while in June 2003, the value of total retail sales decreased by 6.4% as compared with June 2002.

The record high unemployment rate of 8.6% in April to June of 2003, as well as the protracted payroll cuts and employment vacancies reductions exacerbated the already poor consumer sentiment. The total number of personal bankruptcies in the first half of 2003 amounted to 15,665, an almost 54% increase over the same period last year. The Composite Consumer Price Index declined by 2.2% in the first half of 2003, with prices of durable goods registered the largest year-on-year decline of 7.9% in June 2003, putting more downward pressure on local economy.

## Business Review

Despite these difficulties, we continued to sharpen our business edges to provide the best value and quality lifestyle and basic home improvement solutions to customers.

### **Fast and Timely Response to Customer Needs**

During the early SARS period, we envisaged the importance of on-line shopping so that customers can avoid going to crowded area. We therefore timely promote our on-line shopping channel, [www.pricerite.com.hk](http://www.pricerite.com.hk), to boost sales. As a result, our online sales increased by 55% in the first half of 2003 over the same period last year.

Further, in view of the outbreak of SARS and the imminent threat of Dengue Fever, we strengthened our cleaning and sterilising products to capture the increasing health and hygiene awareness of our customers, and hence the increasing demand of such products. In just a short period time, we managed to flexibly increase more than 20% of SKUs in cleaning, sterilising and mosquito repelling products, while in April alone, the sales in this product category were doubled as compared with the same period last year. This proved that we were heading the right direction in flexibly providing customers with lifestyle solutions complemented with basic merchandise offers.

### **Enriching our Product Mix**

Pricerite recognised meeting the needs of our customers as our primary management objective as situations changed rapidly during the first half of 2003. During this period we further extended our product mix to cater for customer needs as they emerged. New products were introduced to each and every section of our merchandise groupings, providing our customers with valued products to take care of the various aspects of their home and family members.

We also saw an increasing trend in product specialisation and hence we opened the IT Corner and the Kids' Corner, in addition to the existing SOHO (Small Office, Home Office) Corner in our flagship stores. We started to provide personalised customer service in choosing these products, with well-trained staff stationed in each of these corners to provide professional and tailored advice. We will be exploring other areas of specialisation so as to provide lifestyle solution to customers in addition to their basic needs.

### **Strengthening our Brand with the Relationship of our Customers**

To further associate our brand with our "customer-caring" motto, we continued with the "product promotion" strategy to timely provide quality products to meet with customers needs. In addition, we also provide free gifts to requite our loyal customers during festive days, e.g. flowers on the International Women's Day, candies and jellies for children during Easter Holidays, free film tickets, free PCCW cash coupons, and free locals tours, etc. These gifts were all well received by our customers and helped increase our loyal customer base.

In view of the prevalent economic predicament, we joined hand-in-hand with other merchants and credit card companies with an aim to provide greater offers to customers and hence stimulate consumer spending. In the first half of 2003, we worked with a number of famous merchants and credit card companies, to name a few, the Bank of China, the Standard Chartered Bank, the Dao Heng Bank, Epson, MacDonald's, and KFC.

To instil more “lifestyle” element into our “value for money” products, we launched a new corporate identity in June 2003 to further strengthen our brand power.

### **Enhancing our Customer Service**

With an aim to constantly improve our customer service, we launched the Interactive Voice Recording System (IVRS) in April 2003. Customers can enquire our products and services with this IVRS any time with a tone phone.

To better equip our staff and to enhance their morale, we continued to invest in the “Service with Hearts” training. Approximately 100 man-hours a month were used to improve the skills of our staff and to increase their sense of ownership in our brand, e.g. product knowledge, communications skills, team building, complaint handling, company orientations and computer application skills.

To reinforce the relations with our loyal customers, we have finished gathering initial consumer feedbacks and all the necessary system fine-tunings for our Customer Relations Management (“CRM”) programme, we target to launch it in the second half of 2003.

### **Improving Customers’ Shopping Experience**

During the period under review, we further enhanced our operations systems towards an ever more customer-friendly approach.

In the first half of 2003, we started reviewing our store network to include a mix of flagship stores and community stores. We closed seven stores that are not up to our performance standards. We also conducted regular research in various districts to review changing factors including demographics, household income, rental trend, and customer traffic. Hence, one community store was opened in Primeview Garden at Tuen Mun to capture the growing market in the northwestern part of Hong Kong.

We continued with the “room setting” visual merchandising strategy in our flagship stores. We revamped our Mongkok store to display our furniture and household products with more interior design inspirations to customers.

We constantly reviewed and upgraded our product displays and directional signages to enhance product accessibility to customers. We finalised our specifications and planning in the Planogram, which will allow visual planning of retail space utilisation and in turn maximise its efficiency. We have completed several successful trial runs of Planogram in the first half of 2003 and we target to launch it in the second half of the year.

We enhanced our store hygiene during the SARS period, and henceforth we made it as a company policy to regularly sterilise all stores during business hours, in addition to those after business hours. All frontline staff was required to wear masks during the SARS period to maximise the hygiene level and to reinsure customers' confidence.

During the period under review, we worked with Octopus Cards Limited to install the Octopus payment system in all of our stores to offer customers convenience in their payment. We also conducted numerous internal system upgrades to further smoothen our operations. We will continue to strive for more operations enhancement in order to further improve our customers' shopping experience.

### **Pricerite China**

Our first store in Guangzhou, China recorded satisfactory results in the first half of 2003. Similar to other retailers in Guangzhou business was adversely affected by SARS in the first quarter. However, such influence had been temporary. As the SARS outbreak became contained, the business of our shop had quickly returned to normal. Overall, we had seen an increase in transaction count and a continual expansion in our customer base.

We have been constantly gathering data to fine-tune our China business model so as to provide our customers with the best products, pricing, and services. We had reviewed the product mix and introduced enhancements in the shopping environment. Such changes had been positively received by our customers.

## Outlook

### Hong Kong

Analysts have been forecasting that Hong Kong will be slowly recovering from SARS and would probably return to the pre-SARS economic environment at end of 2003 or early 2004. We will continue to increase our competitiveness through enhancements in our business practices in order to catch up with the potential economic recovery.

In the latter half of 2003, we plan to launch a new look of our e-commerce platform, further facilitating on-line shopping, which we believe is a trend in future.

Subsequent to the period under review, we opened four more community stores after careful considerations. These stores are in high traffic areas in Tsuen Wan, Tin Shui Wai, Quarry Bay and Lam Tin. We will also continue to revamp existing flagship stores with our company's fresh image and visual merchandising strategy.

We aim at launching the Planogram in the second half of 2003, which we believe will further enhance our operating efficiencies. Further advancements in our logistics strength, data-mining and -warehousing will be conducted in associate with the Planogram. We believe that these improvements in our infrastructure will bring greater operating efficiencies in our product delivery and hence bringing a more favourable shopping experience to our customers.

### China

With China and Hong Kong signing the Closer Economic Partnership Arrangement (CEPA) protocol, we are confident that the arrangement will further facilitate our development into China. Our management teams in China and Hong Kong are working to build new programs to cater for the increasing flow of visitors from China to Hong Kong and the business opportunities that emerge. Our medium to long-term commitment in China remains unchanged. We will continue to leverage on the operation enhancements in Hong Kong to share the supply chain management structure with our operations in China.