# CASH Retail Management Group Limited

(Formerly Pricerite Group Limited)

## Interim Results 2005

CRMG
CASH RETAIL MANAGEMENT GROUP
時 惠 環 球 控 股

# Consolidated Income Statement

The unaudited consolidated results of CASH Retail Management Limited ("Company") and its subsidiaries ("Group") for the six months ended 30 June 2005 together with the comparative figures for the last corresponding period are as follows:

| | Notes | **Unaudited six months ended 30 June 2005 HK$'000** | 2004 HK$'000 |
|---|---|---|---|
| Turnover | (3) | **439,983** | 417,281 |
| Cost of sales | | **(286,892)** | (265,885) |
| Gross profit | | **153,091** | 151,396 |
| Surplus on revaluation of properties | | **9,199** | – |
| Surplus on revaluation of investment properties | | **454** | – |
| Other operating income | | **4,518** | 955 |
| Selling and distribution costs | | **(137,279)** | (146,595) |
| Administrative expenses | | **(13,955)** | (10,803) |
| Depreciation and amortisation | | **(12,026)** | (12,851) |
| Net realised and unrealised losses on financial assets at fair value through profit and loss | | **(964)** | – |
| Loss from investment in securities | | **–** | (490) |
| | | **3,038** | (18,388) |
| Impairment loss recognised in respect of goodwill | (8) | **(150)** | – |
| Profit (Loss) from operating activities | | **2,888** | (18,388) |
| Finance costs | | **(1,766)** | (1,484) |
| Profit (Loss) before taxation | | **1,122** | (19,872) |
| Taxation | (4) | **–** | – |
| Profit (Loss) attributable to shareholders | | **1,122** | (19,872) |
| Earnings (Loss) per share | (5) | | |
| – Basic | | **0.1 cent** | (3.3) cents |
| – Diluted | | **N/A** | (3.3) cents |

# Consolidated Balance Sheet

| | Notes | **30 June 2005 (Unaudited) HK$'000** | 31 December 2004 (Audited) HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | (6) | **100,469** | 98,990 |
| Investment property | (7) | **5,000** | – |
| Other assets | | **1,760** | 1,760 |
| Rental and utility deposits | | **14,806** | 7,018 |
| | | **122,035** | 107,768 |
| Current assets | | | |
| Inventories | | **59,612** | 59,013 |
| Accounts receivable | (9) | **8,916** | 1,856 |
| Prepayments, deposits and other receivables | | **82,751** | 24,043 |
| Financial assets at fair value through profit and loss | | **14,315** | – |
| Investments in securities | | **–** | 19,083 |
| Amounts due from affiliated companies | | **5,540** | – |
| Amounts due from fellow subsidiaries | | **–** | 6,920 |
| Pledged bank deposits | | **44,400** | 36,002 |
| Bank balances and cash | | **143,762** | 163,232 |
| | | **359,296** | 310,149 |
| Current liabilities | | | |
| Accounts payable | (11) | **131,031** | 168,084 |
| Accrued liabilities and other payables | | **28,579** | 21,002 |
| Taxation payable | | **145** | 145 |
| Obligations under finance leases – amount due within one year | | **–** | 30 |
| Bank borrowings, secured | | **61,345** | 62,495 |
| | | **221,100** | 251,756 |
| Net current assets | | **138,196** | 58,393 |
| | | **260,231** | 166,161 |
| Equity | | | |
| Capital and reserves attributable to the Company's shareholders | | | |
| Share capital | (12) | **19,851** | 13,334 |
| Reserves | | **227,441** | 136,962 |
| Total equity | | **247,292** | 150,296 |
| Non-current liabilities | | | |
| Bank borrowings, secured | | **12,939** | 15,865 |
| | | **260,231** | 166,161 |

# Condensed Consolidated Cash Flow Statement

| | | Unaudited six months ended 30 June | |
|---|---|---|---|
| | | **2005** | 2004 |
| | | **HK$'000** | HK$'000 |
| Net cash used in operating activities | | **(35,292)** | (39,016) |
| Investing activities | | | |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | Note | **(2,726)** | – |
| Other investing activities | | **(64,852)** | (10,831) |
| Net cash used in investing activities | | **(67,578)** | (10,831) |
| Net cash from financing activities | | **83,400** | 9,253 |
| Net decrease in cash and cash equivalents | | **(19,470)** | (40,594) |
| Cash and cash equivalents at beginning of period | | **163,232** | 197,895 |
| Cash and cash equivalents at end of period | | **143,762** | 157,301 |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances (general) and cash | | **143,762** | 157,301 |

Note:

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| NET ASSETS ACQUIRED | **3,850** | – |
| Goodwill | **150** | – |
| | **4,000** | – |
| SATISFIED BY | | |
| Cash | **4,000** | – |
| CASH OUTFLOW ARISING ON ACQUISITION | | |
| Cash consideration | **(4,000)** | – |
| Bank balances and cash acquired | **1,274** | – |
| Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries | **(2,726)** | – |

The subsidiaries acquired during the period contributed approximately HK$395,000 to the Group's turnover and approximately a loss of HK$1,081,000 to the Group's loss from operating activities.

# Consolidated Statement of Changes in Equity

| | Notes | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Capital reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| | | **Unaudited six months ended 30 June 2005** | | | | | |
| Balance at 1 January 2005 | | 13,334 | 47,631 | 170,942 | 6,055 | (87,666) | 150,296 |
| Issue of new shares | (b) | 6,120 | 84,020 | – | – | – | 90,140 |
| Issue of new shares due to exercise of share options | (c) | 397 | 5,871 | – | – | – | 6,268 |
| Share issue expenses | | – | (534) | – | – | – | (534) |
| Net profit for the period | | – | – | – | – | 1,122 | 1,122 |
| Balance at 30 June 2005 | | 19,851 | 136,988 | 170,942 | 6,055 | (86,544) | 247,292 |

| | Note | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Capital reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| | | Unaudited six months ended 30 June 2004 | | | | | |
| Balance at 1 January 2004 | | 10,384 | – | 170,942 | 6,055 | (5,049) | 182,332 |
| Issue of new shares due to exercise of share options | (a) | 280 | 4,732 | – | – | – | 5,012 |
| Net loss for the period | | – | – | – | – | (19,872) | (19,872) |
| Balance at 30 June 2004 | | 10,664 | 4,732 | 170,942 | 6,055 | (24,921) | 167,472 |

Notes:

(a) In January 2004, 2,800,000 share options were exercised at the exercise price of HK$1.79 per share, resulting in the issue of 2,800,000 shares of HK$0.10 each for a total consideration (before expenses) of HK$5,012,000 on 19 January 2004.

(b) In April 2005, 83,000,000 new shares at the subscription price of HK$0.28 per share were issued to two investors and total net proceeds of HK$23.2 million had been raised for general working capital pursuant to two subscription agreements both dated 23 March 2005 entered into between the Company and respectively two subscribers. In May 2005, 223,000,000 new shares of HK$0.02 each at the placing price of HK$0.30 per share were issued to investors and total net proceeds of HK$65.7 million were raised for the expansion of retail business of the Group in China and as its working capital pursuant to a placing agreement dated 4 April 2005 entered into between the Company and the placing agent.

(c) In May 2005, 19,833,333 options were exercised at the exercise price of HK$0.316 per share, resulting in the issue of 19,833,333 shares of HK$0.02 each for a total consideration (before expenses) of HK$6.3 million on 23 May 2005.

Notes:

## (1) Change of Name

Pursuant to a special resolution passed by the shareholders at a special general meeting of the Company held on 18 July 2005, the name of the Company was changed to "CASH Retail Management Group Limited" with the adoption of the Chinese name of "時惠環球控股有限公司". The change of name took effect on 20 July 2005.

## (2) Basis of preparation and significant accounting policies

The unaudited interim financial statements of the Group have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting.

The accounting policies used in the unaudited interim financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2004 except as described below.

The Hong Kong Institute of Certified Public Accountants ("HKICPA", formerly the Hong Kong Society of Accountants) has undertaken to converge by 1 January 2005 all Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects.

The unaudited consolidated results of the Group have been prepared in accordance with the accounting principles generally accepted in Hong Kong. In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |

| | |
|---|---|
| HKAS 23 | Borrowings Costs |
| HKAS 24 | Related Party Disclosure |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

The following new and revised HKFRSs adopted by the Group during the period have resulted in changes in the Group's accounting policies which will have effects on the results of the Group for the current or prior accounting period:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 36 | Impairment of Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to the adoption, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date was amortised over the subsequent relevant vesting period.

However, the adoption of the HKFRS 2 has no material effect on the results for current nor prior accounting periods. Accordingly, no prior period adjustment is required.

The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. Prior to the adoption, goodwill was:

– amortised on a straight-line basis over a period of not exceeding 20 years; and

– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 January 2005;

– accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and

– from the year ending 31 December 2005 onwards, goodwill will be tested annually for impairment, as well as when there are indications of impairment.

As this new accounting standard has no retrospective effect, no prior period adjustment is required. The adoption of this new accounting standard has no material effect on the results for the current or the prior accounting periods.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Before 1 January 2005, short-term investments of the Group were presented as other investments and were stated in the balance sheet at fair value.

The adoption of HKAS 39 has no retrospective effect but has resulted the following changes:

– redesignated all short-term investments into financial assets and such redesignation has no financial effect on the current and prior accounting periods except the changes in presentation; and

– remeasured those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised value.

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies which will affect the result of the Group, but certain presentation and disclosures will be affected in this report and the 2005 annual report.

The new accounting policies adopted in the preparation of the result of the Group for the current period are:

**Employee benefit costs**

For share options granted under the share options scheme (the scheme approved by an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002), the fair value of the employee services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

When the options are exercised, the proceeds received will be credited to share capital (nominal value) and share premium.

**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 is recognised as an asset and evaluated at least annually for impairment.

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

**Investment properties**

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise.

**Investments**

With effect from 1 January 2005, investments of the Group are classified to financial assets at fair value through profit or loss. This category comprises financial assets held for trading if they are acquired principally for the purpose of selling in short term.

Investments under this category are stated at their fair value. Unrealised gains and losses arising from changes in fair value are included in the profit and loss account in the period in which they arise.

**Accounts payable**

Accounts payable are stated at their fair value.

**Borrowing**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

## (3) Turnover and segment information

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

## (4) Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profits for both periods.

No deferred tax asset in respect of tax losses has been recognised in the financial statements due to the unpredictability of future taxable profit streams.

## (5) Earnings (Loss) per share

The calculations of basic and diluted earnings (loss) per share for the six months ended 30 June 2005 together with the comparative figures for 2004 is based on the following data:

| | **Unaudited six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Earnings (Loss) for the purpose of basic and diluted earnings (loss) per share | **1,122** | (19,872) |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **763,380,657** | 597,711,117 |
| Effect of dilutive potential ordinary shares assumed exercise of share options | **N/A** | N/A |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | **763,380,657** | 597,711,117 |

The weighted average number of ordinary shares for the six months ended 30 June 2004 for the purpose of basic and diluted loss per share has been adjusted for the rights issue which was completed on 30 September 2004.

No diluted earnings per share for the period ended 30 June 2005 has been presented because there is no outstanding share option as at 30 June 2005.

**(6) Property and equipment**

During the period, the Group spent approximately HK$8,852,000 (year ended 31 December 2004: HK$20,026,000) on the acquisition of property and equipment.

Certain leasehold land and buildings having total net book value of HK$45,000,000 (31 December 2004: HK$37,000,000) were revalued on 30 June 2005 at HK$45,000,000 (31 December 2004: HK$37,000,000) by Knight Frank, independent professional valuers, on an open market existing use basis. The resulting surplus of HK$9,199,000 arising from the revaluation which reversing the previous revaluation deficiency on the same asset was credited to the income statement.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and amortisation, their carrying value would be approximately of HK$66,649,000 (31 December 2004: HK$68,302,000).

At 30 June 2005, the Group had pledged these leasehold land and buildings with carrying value of HK$45,000,000 (31 December 2004: HK$37,000,000) to secure general banking facilities granted to the Group.

**(7) Investment property**

In current period, the Group reclassified a property with carrying value of HK$4,600,000 at 31 December 2004 which was previously grouped under property and equipment to investment property as a result of a change of investment intention thereon.

The investment property was then revalued on 30 June 2005 at HK$5,000,000 (31 December 2004: HK$4,600,000) by Knight Frank, independent professional valuers, on an open market existing use basis. The resulting surplus of HK$454,000 arising from the revaluation was credited to the income statement.

## (8) Goodwill

| | **30 June 2005 (Unaudited) HK$'000** | 31 December 2004 (Audited) HK$'000 |
|---|---|---|
| COST | | |
| Arising on acquisition of subsidiaries | **150** | 1,863 |
| IMPAIRMENT | | |
| Impairment loss recognised in the income statement | **150** | 1,863 |
| NET BOOK VALUE | **–** | – |

Due to continuous losses incurred by the subsidiaries principally engaging in retailing of furniture, household and personal care products, the Directors reassessed the recoverable amount of the goodwill arising on acquisition of these subsidiaries and recognised an impairment loss of HK$150,000.

## (9) Accounts receivable

The Group allows an average credit period of 30-90 days to trade debtors.

The aged analysis of accounts receivable at the balance sheet date is as follows:

| | **30 June 2005 (Unaudited) HK$'000** | 31 December 2004 (Audited) HK$'000 |
|---|---|---|
| 0-30 days | **2,247** | 985 |
| 31-60 days | **4,092** | 430 |
| 61-90 days | **707** | 144 |
| Over 90 days | **1,870** | 297 |
| | **8,916** | 1,856 |

## (10) Financial assets at fair value through profit and loss

It represents equity securities listed in Hong Kong stated at market value.

## (11) Accounts payable

The aged analysis of accounts payable at the balance sheet date is as follows:

| | **30 June 2005 (Unaudited) HK$'000** | 31 December 2004 (Audited) HK$'000 |
|---|---|---|
| 0-30 days | **76,221** | 94,520 |
| 31-60 days | **27,333** | 40,880 |
| 61-90 days | **21,148** | 21,203 |
| Over 90 days | **6,329** | 11,481 |
| | **131,031** | 168,084 |

## (12) Share capital

| | Notes | **Number of shares '000** | **Amount HK$'000** |
|---|---|---|---|
| Ordinary shares of HK$0.02 each | | | |
| Authorised: | | | |
| At 1 January 2005 | | 750,000 | 15,000 |
| Increase during the period | (a) | 750,000 | 15,000 |
| At 30 June 2005 | | 1,500,000 | 30,000 |
| Issued and fully paid: | | | |
| At 1 January 2005 | | 666,693 | 13,334 |
| Issue of new shares | (b) | 306,000 | 6,120 |
| Exercise of share options | (c) | 19,833 | 397 |
| At 30 June 2005 | | 992,526 | 19,851 |

Notes:

(a) Pursuant to an ordinary resolution passed on 13 May 2005, the authorised share capital of the Company was increased from HK$15,000,000 to HK$30,000,000 by the creation of an additional 750,000,000 ordinary shares of HK$0.02 each.

(b) In April 2005, 83,000,000 new shares at the subscription price of HK$0.28 per share were issued to two investors and total net proceeds of HK$23.2 million had been raised for general working capital pursuant to two subscription agreements both dated 23 March 2005 entered into between the Company and respectively two subscribers. In May 2005, 223,000,000 new shares at the placing price of HK$0.30 per share were issued to investors and total net proceeds of HK$65.7 million were raised for the expansion of retail business of the Group in China and as its working capital pursuant to a placing agreement dated 4 April 2005 entered into between the Company and the placing agent.

(c) In May 2005, 19,833,333 options were exercised at the exercise price of HK$0.316 per share, resulting in the issue of 19,833,333 shares for a total consideration (before expenses) of HK$6.3 million on 23 May 2005.

## (13) Contingent liabilities

(a) (i) In prior year, Bates Hong Kong Limited ("Bates HK") filed a statement of claim against, inter alia, Pricerite Stores Limited ("PSL") (a wholly-owned subsidiary of the Company) as a second defendant, alleging that PSL had agreed to appoint Bates HK as its advertising agent with monthly retainer fee in the sum of HK$320,000 payable to Bates HK. PSL had not appointed Bates HK as its advertising agent and no agreement of whatever nature, oral or written, had been entered into between PSL and Bates HK to such effect.

(ii) In prior year, Bates China Limited ("Bates China") filed a statement of claim against, inter alia, the Company as a second defendant, alleging that the Company had agreed to appoint Bates China as its advertising agent with monthly retainer fee in the sum of HK$150,500 payable to Bates China. The Company had not appointed Bates China as its advertising agent and no agreement of whatever nature, oral or written, had been entered into between the Company and Bates China to such effect.

The judgement was delivered in August 2005 in favour of the plaintiffs and the Directors were considering for appeal. Accordingly, a provision for HK$500,000, which in the opinion of the Directors had reflected such contingent liability as further legal cost, was made in the financial statements.

(b) In prior year, Chan Pit Wah ("Chan") filed a statement of damages against PSL alleging that a forklift truck of PSL rolled over Chan's right foot and he has claimed for damages of approximately HK$1,780,000 with interest and costs thereof. During the year ended 31 December 2004, the Group made a provision of HK$570,000. No provision was made for the remaining amount as in the opinion of the legal advisor, it is not practicable at this stage to determine with certainty the amount of damages to be awarded to the plaintiff.

## (14) Related party transactions

At the balance sheet date, the Group had amount due from an affiliated company of approximately HK$5,540,000 (31 December 2004: due from a former fellow subsidiary of approximately HK$6,920,000), the amount was unsecured, non-interest bearing and had no fixed terms of repayment.

In addition, the Group entered into the following transactions with related parties:

| | | **Unaudited six months ended 30 June** | |
|---|---|---|---|
| | Notes | **2005 HK$'000** | 2004 HK$'000 |
| Celestial Asia Securities Holdings Limited ("CASH") and its wholly-owned subsidiaries ("CASH Group"): | | | |
| Directors' remuneration paid | (i) | **960** | 900 |
| Rental expenses | (ii) | **420** | 456 |
| | | **1,380** | 1,356 |

Notes:

(i) Directors' remuneration was charged to the Group by the CASH Group based on the estimated time spent by the Directors on the management of the Group.

(ii) The Group paid rental expenses to a wholly-owned subsidiary of CASH. The charge is calculated at the effective rate charged to the wholly-owned subsidiary of CASH by the head landlord with reference to the floor area occupied by the Group.

## (15) Post balance sheet events

(i) Pursuant to the joint announcement made by the Company and CASH on 25 May 2005 and the circular dated 30 June 2005 issued by the Company, the Company proposed to issue a convertible note ("Convertible Note") with nominal value of HK$108,000,000 to an independent third party, AustChina Information Technology Pyt Limited ("AustChina"). The Convertible Note will bear zero coupon rate and has maturity date on 31 August 2007. The conversion price of Convertible Note is HK$0.45 (subject to adjustment) and can be exercisable after the expiry of 6 months from the issue date of the Convertible Note.

On 30 June 2005, such proposal was subjected to the conditions as set out in the circular dated 30 June 2005.

On 20 July 2005, all the conditions were fulfilled and the Convertible Note was then issued on 15 August 2005.

(ii) Pursuant to the announcement made by the Company on 26 August 2005, the Group entered into following two agreements on 24 August 2005:

(a) a sale and purchase agreement ("S&P Agreement") with Mr Qian Song Wen, an independent third party, as vendor ("Vendor") in relation to the proposed acquisition of all the issued shares and all shareholders' loan interest in Timecastle International Limited ("Timecastle") at a consideration of HK$500,000,000 (subject to adjustment) which will be partly settled by the issue of the New Convertible Note (as defined hereunder) and partly financed by the proceeds from the placing of the Placing Shares (as defined hereunder). Timecastle will be ultimately holding the beneficial interest in 東方銀座商業（北京）有限公司(with English name "Oriental Kenzo (Beijing) Company Limited" for identification purpose only) after the reorganization as more particularly stated in the announcement; and

(b) an agreement with a placing agent in relation to the proposed issue of a maximum of 100,000,000 new shares in the Company ("Placing Shares") at a placing price of not less than HK$0.45 per placing share to raise a new fund of HK$45 million.

A new convertible note at principal value of HK$180,000,000 ("New Convertible Note") shall be, at the completion of the S&P Agreement, issued by the Company to the Vendor. The New Convertible Note will bear zero coupon rate and has maturity date on 31 December 2007. The conversion price of the New Convertible Note is HK$0.45 (subject to adjustment) and can be exercisable after the expiry of 6 months from the issue date of the New Convertible Note.

As at the date of the report, the above proposals were subjected to the conditions, including, inter alia, approval from independent shareholders at a special general meeting of the Company to be convened and as more particularly set out in the announcement.

# Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

# Review and Outlook

## Financial Review

For the six months ended 30 June 2005, our Group recorded a 5.4% increase in turnover to HK$440.0 million when compared with the same period last year. Our Group's traditional retail business had benefited from the recent recovering economy. Only a slight drop of 4.5% in sales of household and furniture goods was recorded after our Group's fine-tuning of the retail network by reducing the number of stores from 43 during the first half of last year to 30 by the current period end. The comparatively slight drop in sales brought about by the closure of the non-performing stores had enabled us to better control our running costs by streamlining store operations and strengthening retail management amid the upward trend in costs, especially the rentals. The drop in sales, however, had been more than covered by the sales of the trendy digital products provided by our newly launched chain stores named under 3C Digital. With the lean cost base brought about by our network rationalisation, our operating cost for the period decreased by 4.1% even after investing the hefty initial advertising costs in developing the brand awareness for our new chain stores. Taking into account the revaluation surplus from leasehold properties, our Group had recorded a turnaround profit of HK$1.1 million for the period from the net loss of HK$19.9 million for last corresponding period.

Taking into account the reported profit for the period and the completion of subscription of 83 million and placing of 223 million new shares in April and May 2005 which had raised total net proceeds of approximately HK$88.9 million, our Group's total shareholders' equity stood at HK$247.3 million on 30 June 2005, as compared to HK$150.3 million at end of last year.

On 30 June 2005, our cash and bank balances were HK$188.2 million as compared to HK$199.2 million on 31 December 2004. The decrease in cash balances was due to deposits paid for expanding our Group's retail business in China and the repayments to trade creditors following the peak seasons in last December. Our liquidity ratio had substantially improved to 1.6 times on 30 June 2005, from 1.2 times at 31 December 2004.

Our total bank borrowings on 30 June 2005 were HK$74.3 million as compared to HK$78.4 million on 31 December 2004. The decrease in bank borrowings was due to the repayments of the trust receipt loans following the peak seasons in last December. All of our bank borrowings are in Hong Kong dollar, with the interest rates priced at closed to banks' funding costs. Therefore, our exposure to both foreign currency and interest rate fluctuation was insignificant. The Group has sufficient banking facilities for its operations throughout the period. On 30 June 2005, our Group was holding a portfolio of listed investment with market value of approximately HK$14.3 million and a loss on investment of HK$1.0 million was recorded for the period. The ratio of total bank borrowings to shareholders' equity on 30 June 2005 had significantly reduced to 30.0% from 52.1% on 31 December 2004.

As at 30 June 2005, leasehold properties at their carrying value of approximately HK$45.0 million and bank deposits of HK$44.4 million were pledged to secure bank term loan and general banking facilities granted to a subsidiary. Save as aforesaid, our Group had no other material contingent liabilities at the period end.

On 23 March 2005, our Group and two subscribers entered into agreements pursuant to which the subscribers agreed to subscribe for a total of 83 million new ordinary shares in the Company at the subscription price of HK$0.28 per share. On 4 April 2005, the Company and a placing agent entered into an agreement pursuant to which the Company agreed to issue and the placing agent agreed to procure placees to subscribe for a maximum of 223 million new ordinary shares in the Company at the placing price of HK$0.30 per share. The subscription of 83 million and the placement of 223 million new ordinary shares in the Company were completed on 6 April 2005 and 19 May 2005 respectively and total net proceeds of approximately HK$88.9 million were raised for our Group for retail business in the PRC and for its general working capital.

On 23 May 2005, our Group entered into a cooperation agreement with AustChina to jointly develop retail business in the PRC. Pursuant to the agreement, AustChina will be responsible for providing or procuring investors to provide funds of up to A$100 million and the Group will be responsible for identifying investment opportunities and projects for retail business in the PRC. Once the detailed terms relating to the investment and amount of the investment are mutually agreed by the parties, AustChina or the investors identified by AustChina will provide the fund for investment of up to A$100 million.

As a first step of cooperation, on 23 May 2005, the Company and AustChina entered into an agreement in relation to the proposed issue of a convertible note of an initial principal amount of HK$108,000,000. Subsequent to the period end, the agreement was completed and the convertible note was issued in August 2005.

On 24 August 2005, the Group entered into two agreements, including (i) a sale and purchase agreement in relation to the proposed acquisition of all the issued shares and all shareholders' loan interest in Timecastle at a consideration of HK$500 million (subject to adjustment) which will be partly settled by the issue of the New Convertible Note at principal value of HK$180 million and partly financed by the proceeds from the placing of a maximum of 100 million Placing Shares; and (ii) an agreement with a placing agent in relation to the proposed issue of the Placing Shares at a placing price of not less than HK$0.45 per placing share to raise a new fund of HK$45 million. Timecastle will be ultimately holding the beneficial interest in 東方銀座商業（北京）有限公司(with English name "Oriental Kenzo (Beijing) Company Limited" for identification purpose only) after reorganization. The above proposals were subjected to the conditions and details of the proposals were set out in the Company's announcement dated 26 August 2005.

Save as aforesaid, our Group did not make any material acquisitions or disposals during the period ended 30 June 2005. There was no significant investment held during the period. We do not have any future plans for material investments or capital assets.

## Industry Review

The first half of 2005 continued to see a solid growth in the general economy and hence the overall retail industry, with an exception to the furniture and fixtures market.

Total retail sales in the first half of 2005 grew by 7.9% in value, while retail sales in the furniture and fixtures market recorded a negative growth of 0.6%. The same was also reflected in the Consumer Price Index as overall consumer prices rose by 1.2% in June 2005, nonetheless durable goods prices continued its yearlong downward trend with a year-on-year 1.9% decline recorded for June 2005. The furniture and durable goods market is apparently lagging behind the general market recovery with certain margin pressure.

## Business Review and Outlook

In anticipation of the market environment, we took initiatives since the fourth quarter of last year to consolidate and re-engineer our operations, with an aim improve our operating efficiency and to further build upon our competitive advantages.

### Consolidating Our Network

As the first and foremost success factor of a retail business lies in the location strategy, we continued to rationalise our network of stores in order to achieve our defined Key Performance Indicators. During the period, we completed the location review for our network, which consisted of 30 stores in total as at the end of the review period.

In all, the existing 30 stores are contributing positively to the Group's bottom line, and we are confident that on the back of a benign economic environment, the Group is operating from a low cost base to herald for any future possible network expansion. Nonetheless, in view of the current rampant retail rental market, we will take cautious approach in choosing new store locations that will maximise our returns and enhance our cost and operating efficiencies.

### Re-engineering Our Merchandise

During the period, we continued to consolidate our product groupings to focus on expanding the depth of our core product categories that are highly recognised by our customers, reduced carrying non-performing product categories, and streamlined our inventory management. In a nutshell, we continued to better match customer preferences with our product offerings. We will continue to review our product strategy on a regular basis, with an aim to provide our customers with a wide selection of quality merchandise at value-for-money prices.

### Sharpening Our Tools

Subsequent to our previous efforts in revamping the IT infrastructure to provide a more accurate and robust system for our management and operations, we continued to carry out system enhancements to further provide efficient and effective support to our supply chain management. During the period, we consolidated our household retailing system and started moving onto revamping our furniture retailing system. All major components of our furniture business and operations were studied and reviewed, with new operations workflow and system established.

We aim to integrate the household operations system with the furniture operations system to become by and large the CASH Retail Management System by end of the year. We will leverage on our competitive advantage of a single operating platform to support our multi-branded business and to further develop our retail business.

### Building Strength in Greater Pearl River Basin

Our operation support centre in Shenzhen, the PRC, gradually took shape in the past few months, providing efficient back-office support to Hong Kong and the Guangdong Province. Support functions include merchandising, inventory management, accounting, information technology, human resources, staff training and development, and logistics. Since the establishment of operation support centre, our operating cost was substantially reduced and improvement in operating efficiency was also recorded. This operation support centre will in time assume instrumental roles in our supply chain management, such as quality assurance and checking, product sourcing and procurement.

### Enhancing Our Customer Service

To further enhance our customer service standard, we started a new service culture programme early this year, indoctrinating a unique service culture into all level of staff. In all, the sense of belonging amongst staff was enhanced, the understanding and commitment in providing quality service was well embraced, and a stronger sense of unity was resulted. The presentation of the Outstanding Young Salesperson Awards to two of our frontline staff by the Hong Kong Management Association in 2005 once again crowned our dedication to enhancing our customer service. This has been the second successive year we were awarded since our participation in the same event last year. We will continue our commitment in enhancing our service standard by focusing resources in staff training and service culture development. More external professional consultancy programmes will be introduced to focus on pragmatic field coaching.

### Improving Customers' Shopping Experience

During the period, renovations on "room setting" in-store display for large furniture section in all stores were completed. The new arrangement was well received by our customers as it inspired their interior design ideas. These positive responses motivated us to start extending the "room setting" idea into the self-assembled furniture section in the second half of the year. Further, distinguished product zoning was delineated to include the electrical appliance zone, household zone, self-assembled furniture zone and the large furniture zone. The newly better-zoned store design was highly regarded by customers as more spacious and easily accessible. We will further upgrade and standardize our store layout, with an aim to constantly improve customers' shopping experience.

### Strengthening Our Brand with the Relationship of Our Customers

We re-aligned our advertising strategy to further instill the "value-for-money" image amongst our target customers. In general, Pricerite is perceived as the preferred and trustworthy brand that offers value-for-money products with value-added services. Other marketing communications channels were also re-launched to project a concerted and clear company image and positioning.

## Catering for the Digital Market Boom

Coinciding with the buoyant demand for digital products and electrical appliances in Hong Kong in the first half of 2005, 3C Digital added two new shops to make a total of six outlets. In line with our location strategy, the two new shops are well located at high customer traffic areas in Shatin and Kwun Tong. In order to focus on targeting our customers of the younger generations, a fresh new look was designed for our stores, and a new marketing campaign was launched to associate a young pop star as our spokesperson.

With a stronger network and a concerted promotion strategy, 3C Digital enjoyed remarkable growth in both sales and brand awareness. The encouraging market response has laid a good foundation for 3C Digital to carry on our network expansion plans in future.

## Strategically Positioned to Move Forward

To better reflect the business development of our Group, we changed our name to CASH Retail Management Group Limited in July 2005. Our mission is to become a leading retail services and management group, growing a diverse portfolio of brands that satisfy the lifestyle needs of customers from various strata. We are committed to offering customers with value-for-money products and services through blends of operating efficiencies, use of technology and human talents. We build our competitive advantage by achieving economies of scale through our single operating platform.

Over the past year, the Group has conducted in-depth research in reviewing the lifestyle market. It is believed that as the economy is gradually recovering, there will see a rising trend in demand for lifestyle products as consumers are actively seeking to improve their living environment. As such, the Group is planning to launch a new lifestyle brand in home furnishing, targeting at a different market segment than Pricerite. Flagship stores in Hong Kong are scheduled to open by end of the year, with plans to enter the Shanghai and Beijing markets next year upon completing our review in our current operations in China, consolidating our experience and re-modelling our PRC retail business. We believe that as PRC gradually migrates from an export-driven economy to a consumption-driven economy, there lies great potentials in her consumer market.

## Materialising Our International Business Model

Due to political instability in the Kingdom of Saudi Arabia, our Saudi business partner proposed to defer the project until first half of 2006 to ensure a sustainable economy on the back of a stable political environment. Nonetheless, shipment of products started in the first half of 2005 as scheduled and system establishment continued.

Looking ahead, we are cautiously optimistic about Hong Kong's economic outlook and will review closely the market development. We will continue to take cost leadership approach in rationalising our retail business and to secure our financial positions. At the same time, we are confident that our re-engineered operations will enable the Group to weather the prevalent market conditions and the forthcoming challenges.

# Employee Information

At 30 June 2005, the Group had 917 employees. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options, performance bonus and sales commission. The total amount of remuneration cost of employees of the Group for the period under review was approximately HK$46.1 million. We continue to provide training to employees in areas such as product knowledge, language training, customer service, selling techniques, problem solving, time management and coaching, etc. Meanwhile, we are also liaising with external consultants to conduct team building, service and selling training program.

# Directors' Interests in Securities

As at 30 June 2005, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

## A. The Company

*(a) Long positions in the shares*

| | | Number of shares | |
|---|---|---|---|
| **Name** | **Capacity** | **Other interest** | **Shareholding (%)** |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | 446,572,587* | 44.99 |

* The shares were held as to 443,572,587 shares by Celestial Investment Group Limited ("CIGL") and its subsidiaries and as to 3,000,000 shares by Cash Guardian Limited ("Cash Guardian"). Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

*(b) Long positions in the underlying shares – options under share option schemes*

| Name | Date of grant | Exercise period | Exercise price per share (HK$) | Number of options: outstanding as at 1 January 2005 | lapsed during the period (Note (2)) | exercised during the period (Note (1)) | outstanding as at 30 June 2005 | Percentage to issued shares as at 30 June 2005 (%) |
|---|---|---|---|---|---|---|---|---|
| Kwok Lai Ling Elaine | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | 5,666,667 | – | (5,666,667) | – | – |
| Leung Siu Pong James | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | 2,833,333 | – | (2,833,333) | – | – |
| Li Yuen Cheuk Thomas | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | 2,833,333 | – | (2,833,333) | – | – |
| Cheng Pui Lai Majone | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | 5,666,667 | (5,666,667) | – | – | – |
| | | | | 17,000,000 | (5,666,667) | (11,333,333) | – | – |

Notes:

(1) On 17 May 2005, 11,333,333 share options of the Company were exercised at the exercise price of HK$0.316 per share. The weighted average closing price of the Company's shares immediately before the date of exercise was HK$0.780 per share.

(2) The lapsed options were due to cessation of employment of participant with the Group.

(3) No option was granted or cancelled during the period.

(4) The options are held by the Directors in the capacity of beneficial owner.

## B. Associated corporations (within the meaning of SFO)

### 1. CASH

*(a) Long positions in the shares*

| Name | Capacity | Number of shares: Personal | Other interest | Shareholding (%) |
|---|---|---|---|---|
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | – | 164,028,376* | 37.49 |
| Law Ping Wah Bernard | Beneficial owner | 5,096,200 | – | 1.16 |
| Kwok Lai Ling Elaine | Beneficial owner and family interest | 21,200 | – | 0.01 |
| Li Yuen Cheuk Thomas | Beneficial owner | 2,501,875 | – | 0.57 |
| | | 7,619,275 | 164,028,376 | 39.23 |

* The shares were held by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

*(b) Long positions in the underlying shares – options under share option schemes*

| Name | Date of grant | Exercise period | Exercise price per share (HK$) | Number of options: outstanding as at 1 January 2005 | Number of options: outstanding as at 30 June 2005 | Percentage to issued shares as at 30 June 2005 (%) |
|---|---|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | 3,000,000 | 3,000,000 | 0.69 |
| Law Ping Wah Bernard | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | 3,000,000 | 3,000,000 | 0.69 |
| Li Yuen Cheuk Thomas | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | 1,000,000 | 1,000,000 | 0.23 |
| | | | | 7,000,000 | 7,000,000 | 1.61 |

Note: The options are held by the Directors in the capacity of beneficial owner.

## 2. CASH Financial Services Group Limited ("CFSG")

*(a) Long positions in the shares*

| Name | Capacity | Number of shares: Other interest | Shareholding (%) |
|---|---|---|---|
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | 397,827,434* | 52.73 |

* The shares were held as to 11,000,000 shares by Cash Guardian and as to 386,827,434 shares by CIGL, a wholly-owned subsidiary of CASH. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

*(b) Long positions in the underlying shares – options under share option schemes*

| Name | Date of grant | Exercise period | Exercise price per share (HK$) | Note | Number of options: outstanding as at 1 January 2005 | Number of options: lapsed during the period | Number of options: outstanding as at 30 June 2005 | Percentage to issued shares as at 30 June 2005 (%) |
|---|---|---|---|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 3,185,000 | – | 3,185,000 | 0.42 |
| Law Ping Wah Bernard | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 3,185,000 | – | 3,185,000 | 0.42 |
| Kwok Lai Ling Elaine | 2/12/2003 | 1/6/2004 – 31/5/2006 | 0.34 | | 650,000 | – | 650,000 | 0.09 |
| Li Yuen Cheuk Thomas | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 3,185,000 | – | 3,185,000 | 0.42 |
| Cheng Pui Lai Majone | 2/12/2003 | 1/6/2004 – 31/5/2006 | 0.34 | (1) | 650,000 | (650,000) | – | – |
| | | | | | 10,855,000 | (650,000) | 10,205,000 | 1.35 |

Notes:

(1) The lapsed options were due to cessation of employment of participant with the Group.

(2) The options are held by the Directors in the capacity of beneficial owner.

Save as disclosed above, as at 30 June 2005, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## Share Option Schemes

Details of share options to subscribe for shares in the Company having been granted and held by participants under the share option schemes of the Company during the six months ended 30 June 2005 were as follows:

| | | | | Number of options | | | |
|---|---|---|---|---|---|---|---|
| **Date of grant** | **Exercise period** | **Exercise price per share** (HK$) | Notes | **outstanding as at 1 January 2005** | **lapsed during the period** (Note (2)) | **exercised during the period** | **outstanding as at 30 June 2005** |
| **Directors** | | | | | | | |
| 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | (1) | 17,000,000 | (5,666,667) | (11,333,333) | – |
| **Employees** | | | | | | | |
| 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | (3) | 8,500,000 | – | (8,500,000) | – |
| | | | | 25,500,000 | (5,666,667) | (19,833,333) | – |

Notes:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".

(2) The lapsed options were due to cessation of employment of participants with the Group.

(3) On 13 May 2005 and 17 May 2005, 5,666,667 share options and 2,833,333 share options of the Company respectively were exercised at the exercise price of HK$0.316 per share. The weighted average closing price of the Company's shares immediately before the respective date of exercise was HK$0.770 per share and HK$0.780 per share respectively.

(4) No option was granted or cancelled during the period.

# Substantial Shareholders

As at 30 June 2005, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| **Name** | **Capacity** | **Number of shares** | **Shareholding (%)** |
|---|---|---|---|
| Jeffnet Inc (Note) | Trustee of a discretionary trust | 446,572,587 | 44.99 |
| Cash Guardian (Note) | Interest in a controlled corporation | 446,572,587 | 44.99 |
| CASH (Note) | Interest in a controlled corporation | 443,572,587 | 44.69 |
| CIGL (Note) | Beneficial owner | 443,572,587 | 44.69 |
| Ms Tin Yuen Sin Carol | Beneficial owner | 86,000,000 | 8.66 |
| Mr Chan Kwong Yin William | Beneficial owner | 56,000,000 | 5.64 |

Note: The shares were held as to 3,000,000 shares by Cash Guardian and as to 443,572,587 shares by CIGL and its subsidiaries. CIGL was a wholly-owned subsidiary of CASH which was owned as to approximately 37.49% by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in the shares held by CIGL through CASH. The above interest has already been disclosed as other interest of Mr Kwan in the section headed "Directors' Interests in Securities" above.

Save as disclosed above, as at 30 June 2005, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company.

# Corporate Governance

The Company on 13 June 2005 ("Adoption Date") adopted a set of code of corporate governance principles ("Principles") which aligns with or is more restrictive than all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. Since the adoption of the Principles, the CG Code has been duly complied. Before the Adoption Date, the summary of the major areas of deviations from the CG Code during the review period is as follows:

| CG Code | Deviations |
|---|---|
| A.1.1 Full board meetings shall be convened to be held at least 4 times yearly at approximately quarterly intervals | • Before the Adoption Date, the Company convened to hold full Board meeting only twice for each financial year, and had not held a full Board meeting for the first quarter of 2005.<br>• Since the Adoption Date, full Board meeting has been and will be convened to be held for each financial quarter. |
| A.2.1 The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual | • Before the Adoption Date, the Chairman and the CEO had been the same person during the initial period of the review period.<br>• Since the Adoption Date, the defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all the Executive Directors. Since the Adoption Date, the Company has not maintained a CEO. |
| A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election | • Before the Adoption Date, all the Independent Non-executive Directors ("INEDs") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws.<br>• With effect from or before the Adoption Date, the term of office for each existing INED has been fixed for one year commencing retrospectively from the date of the 2005 annual general meeting of the Company until the next annual general meeting of the Company, at which all of them shall retire, but be eligible for re-election. |

| | | |
|---|---|---|
| A.4.2 | Every director should be subject to retirement by rotation at least once every three years | • Before the Adoption Date, there were no fixed terms for all the Directors to retire at annual general meeting of the Company and the Chairman of the Board was not subject to retirement at annual general meeting of the Company in each year.<br><br>• With effect from or before the Adoption Date, all Executive Directors or Non-executive Directors (including the Chairman of the Board) of the Company shall retire, but be eligible for re-election, at least once in every 3 financial years at annual general meeting of the Company. |
| A.6.1 | Agenda and the board papers should be despatched at least 3 days before the meeting | • Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meeting and the Board meetings for approving the financial results.<br><br>• Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles has not been violated. |
| B.1.1 | A remuneration committee should be set up with majority members to be INEDs | • Before the Adoption Date, the Company had not set up a remuneration committee.<br><br>• Since the Adoption Date, the Company has maintained a remuneration committee comprising 2 INEDs and an Executive Director. |

All of the above deviations have been remedied and complied with before the end of the review period.

# Compliance with the Model Code

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Apopendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard of dealings set out therein throughout the review period.

# Review of Results

The Group's unaudited consolidated results for the six months ended 30 June 2005 have not been reviewed by the auditors of the Company, but have been reviewed by the Audit Committee of the Company.

# Purchase, Sale or Redemption of the Company's Securities

During the six months ended 30 June 2005, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
**Bankee P Kwan**
*Chairman*

Hong Kong, 29 August 2005

*As at the date hereof, the executive Directors are Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard, Ms Kwok Lai Ling Elaine, Mr Leung Siu Pong James, Mr Li Yuen Cheuk Thomas, and the Independent Non-executive Directors are Mr Lo Ming Chi Charles, Dr Hui Ka Wah Ronnie and Mr Leung Ka Kui Johnny.*