

## DIVIDEND

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

## REVIEW AND OUTLOOK

### *Financial Review*

For the six months ended 30 June 2002, our Group recorded a 64.6% increase in turnover to HK\$578.7 million when compared with the same period last year. This was mainly attributable to the consolidation of the turnover of Pricerite, a subsidiary acquired in March 2001, for a full six month period, while the results for last corresponding period included the turnover of Pricerite for 3 months ended 30 June 2001 only.

Even though we reported an increase in turnover over the same period last year, the business environment for the period under review was extremely difficult, with the financial industry and the retail business being the worst hit. This precipitated in our net loss attributable to shareholders of HK\$10.9 million, representing a 96.3% improvement as compared with the same period of last year. The substantial decrease in net loss was mainly due to (1) the recognition of the gain on the expiry of placing warrants during the period, (2) the substantial reduction in impairment loss for fixed assets and investments for the period as compared to the impairment provisions of \$173.9 million for investments made in the last corresponding period.

Our Group's total shareholders' equity amounted to HK\$805.4 million on 30 June 2002 as compared to HK\$902.6 million at the end of last year. The decrease was attributable to the net operating loss reported for the period and the share repurchases during the period.

On 30 June 2002, our cash and bank balances totalled HK\$574.8 million as compared to HK\$761.7 million on 31 December 2001. The reduction was primarily due to our investment in the optical fibre joint venture plant, Transtech, and the investments in our retail network expansion both in Guangzhou and Hong Kong for Pricerite. However, our liquidity ratio remained healthy at 1.4 times on 30 June 2002 as compared to 1.5 times on 31 December 2001. The cash balances and the liquidity were maintained at a healthy level at all times.

Our total bank borrowings on 30 June 2002 were reduced to HK\$135.4 million. All of our borrowings were repayable within 3 month from the date of advance. In addition, over 95% of the borrowings were in HK dollar whereas the remaining was in US dollar with interest rates priced at close to banks' funding costs. As most of our borrowings were utilised for margin financing business, the fluctuations in our funding requirements were dependent on the prevailing market sentiment and there was no significant seasonality effect on our borrowing needs. At the same time, the ratio of the total bank borrowings to shareholders' equity remained at a safe level of 16.8% on 30 June 2002 as compared to 17.2% on 31 December 2001. Furthermore, as the majority of our borrowings were used to finance the margin trading clients of CFSG, the Group's exposure to over-lending, especially under an adverse economic weather, was not significant. As such, our exposure to interest rate volatility was limited. Notwithstanding any acute volatility in foreign exchange market brought on by declining market confidence on US dollar assets, our exposure to exchange rate risk was limited as insignificant amounts of our borrowings and liabilities are in foreign currencies.

On 30 June 2002, leasehold properties at their carrying value of approximately HK\$56.1 million and bank deposits of approximately HK\$38.3 million were pledged to secure general banking facilities granted to two subsidiaries and an associate, a guarantee given to a bank for general banking facilities granted to an associate. In addition, we had contingent liabilities amounted to approximately HK\$30.0 million which included long services payments that we were liable to pay under some circumstances specified in the Employment Ordinance of Hong Kong and guarantees given to a few banks for banking facilities granted to one subsidiary and an associate of the Group.

Our Group did not make material acquisitions or disposals during the six months ended 30 June 2002. We do not have any future plans for material investments or capital assets.

### *Business Review*

The global and regional economic environment remained austere and uncertain during the first half of 2002. On a year-on-year comparison, GDP fell by 0.9% in real terms during the first quarter of 2002, recording a smaller decline than the 1.4% in the fourth quarter of 2001.

The local stock market staged a brief rebound at the beginning of 2002, stimulated in part by a price surge in technology-related shares in the United States. However, market sentiment was weighed down by concern over rising unemployment and an uncertain business outlook. Consumer spending remained subdued, amidst record high unemployment rate and wage restraint. The investment sentiment with concerns about job security, income uncertainty and protracted weakness in the asset markets continued to be subdued.

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

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

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

### *CASH Financial Services Group ("CFSG")*

Following the completion of corporate restructuring and rationalization last year, we continued with our efforts to secure CFSG's position as a multiple financial services provider and investment services house of choice.

In January 2002, CFSG successfully developed the requisite systems and gained approval from the Hong Kong Stock Exchange to act as a market maker for warrants trading. As a result, we became a designated market maker for premier partners such as KBC and Barclays. By forming the partnership with these warrant specialists, we actively participated in the market of this new Stock Exchange product with great success.

We continued to develop our international trading hub through link-ups with regional and international brokerage partners. We further broadened the market coverage for securities trading services to stocks listed in Taiwan, Korea, Singapore and London, albeit only via traditional channels initially, upgrading the futures and options trading platform to extend trading services of futures and options products in eight overseas markets.

Through the new partnerships, we offered fixed-income trading services that cover a wide range of bonds including US government treasury bonds, perpetual corporate bonds, and Hong Kong and US corporate bonds. Complemented by the link-ups to the market information of bond trading with CASH on-line website, our investors were able to capture concrete and timely information through our platform.

To pave way for the increasing role mainland investors would play in the Hong Kong market, CFSG revamped the CASH on-line website that was completed on 3 May 2002. Through the revamp of the website, we developed a simplified Chinese version of [www.cashon-line.com](http://www.cashon-line.com) and our electronic trading platform.

During the period, we focused to leverage on our brand strength to cross-sell into our enlarged client base as well as to tap into Pricerite's retail customer coverage through below-the-line marketing initiatives. These included the 82 road shows co-organised with the Bank of East Asia and Pricerite for the promotion of our CASH credit cards, combined with the roll-out of permanent hotline-connected product information counters across the top 15 stores in the Pricerite store network.

On the other hand, we implemented a tactical product marketing campaign including above-the-line media such as bus body advertisement, bus road show and print, as well as below-the-line promotion such as posters, direct mail and e-marketing for promoting futures and options trading in February and March. Responses from the investment public were encouraging, 168 internet commodities trading accounts were opened by the end of March, representing over half of all the new accounts opened during the period.

With China's accession into WTO, we focused significant efforts during the period to develop our expertise and business reach within China, culminating in the inauguration of our CASH Liaoning Investment Consultant joint venture ("CLIC") with Liaoning Securities on 23 April 2002.

Liaoning Securities, formed in 1988, is one of the oldest securities firm in the mainland. With a network of more than 40 branches in Liaoning province and other economically prosperous regions, Liaoning Securities enjoys a client base of over 300,000 clients. Apart from holding memberships at the Shanghai and the Shenzhen stock exchanges, Liaoning Securities also offers securities and fixed-income underwriting services and financial advisory services to its mainland clients. It also acts as financial advisors to provincial and local municipal governments on asset restructuring and capital management.

Our Beijing operation focuses mainly on providing financial advisory services to mainland enterprises by tapping into the corporate finance expertise of Liaoning Securities and ours at the beginning. Together with our teams in our Shanghai liaison office, CLIC completes the physical presence that constitutes our future business development strategy in the mainland.

We aim to leverage on our rapidly developing corporate finance group and institutional placing capability to pursue our goal to act as an importer of international investment funds for mainland-based private enterprises.

During the period, we further enhanced our brand penetration through strategic road shows, seminars, and exhibition initiatives in our targeted cities. We participated in the Shanghai International Exhibition for On-line Securities Services as well as the First China Securities Exhibition in Guangzhou, China. We also held our first seminar in Shenzhen with Shenzhen Special Administrative Zone Daily and Hong Kong Commercial Daily in May, and received positive response and enquiries from potential clients.

### *Pricerite Group*

Our home improvement retail business, the Pricerite Group, began the year on an encouraging note with sales for the month of January reaching a record monthly high. However, the downward spiral of increasing unemployment and declining consumer confidence severely impacted our performance during the first half of 2002.

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

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

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

- (a) proactive individual store promotions and localized marketing programs, for example, free parking and delivery services, different types of discount coupons and other privileges; and

- (b) special marketing campaigns, for example, Calling Card Promotion held in March 2002, Furniture Cash Coupons Promotion held in May 2002 as well as our World Cup Scratch Card Event in June 2002.

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

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

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

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

The consumer awareness and acceptance of the Group’s B2C e-shop, [www.pricerite.com.hk](http://www.pricerite.com.hk), continued to improve, with around 30,000 registered users.

### *Halo Group*

Halo Group, our business solutions strategic investment, enjoyed satisfactory progress during the period.

Halo Group joined with several IT companies to provide for IT services for the SAR government. This consortium has been selected as an approved government vendor in IT services. In addition, Halo had won the contracts of a number of IT projects in government funded organisations and professional bodies. We

also established long-term relationship with a number of well-known clients in various vertical markets, including banking, consumer electronics, media, metal trading and manufacturing, and property management. Our proprietary software products had gained proven acceptance from these clients.

Our development efforts included partnership programmes with local higher education institutions such as City University and Hong Kong Institute of Vocational Education to supervise and lead Hong Kong computer science and information science students to develop practical software applications. Under such efforts, Halo had successfully developed software systems in human resources management and sales force automation.

### *Transtech Group*

The first half of the year was a watershed period for our optical fibre strategic investment during which we demonstrated our mastery of optical fibres manufacturing know-how. Various systems of manufacturing equipment in our Tai Po facility were fully installed & tested. We had also met or exceeded all measures of safety and environmental friendliness.

Our preform production facilities and draw towers were successfully commissioned. We had also produced high quality optical fibre that meets the industry standard on quality and are ready to proceed to the production phase.

Transtech had also started our marketing and sales programmes. We had developed our network of client contacts and entered into detailed negotiations with optical cable manufacturers, telecommunication corporations and other optical fibre users in Hong Kong and in the Asia-Pacific region.

### *Outlook*

We are currently weathering a global recession. Hong Kong, as an international financial centre is suffering from a similar crisis of confidence as in markets elsewhere. In particular, with our close link to the US market, we are certain that the financial service industry here together with our CFSG will be hard hit. We do not anticipate any significant improvements in our business environment in the near future. Furthermore, we believe that there is a high probability that Hong Kong will suffer from a double digit unemployment rate which will continue to impinge on consumer confidence and hence spending.

Our focus for CFSG will remain towards cost control and maintaining cost leadership. We are confident that after our corporate restructuring and rationalisation for CFSG, we are operating from a cost and resource base that will enable us to overcome future challenges.

We are confident that this rationalized infrastructure will still enable us to support our business development strategies in the Mainland China market. At the same time, we shall continue to diversify our products and services hence our revenue stream to reduce the cyclical and regulatory impact on our overall revenue.

For the Pricerite Group, local consumer prices are likely to drift lower in the near term, as competition in a slackened retail market is keen, as wages and rental prices are expected to decline.

However, we are certain that Pricerite's core strength in logistic management, the economy of scale we enjoy and the reach of our store network should help us weather the challenging environment.

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

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

As for Halo Group, we foresee increasing demand for quality products and services that enhance operation efficiency in various business environments. Halo intends to serve these growing needs with a focus on our strengths in web-based and wireless solutions. Where appropriate, we will consider adopting an expansionary strategy through acquisitions. We are currently looking into opportunities to broaden our customer base and to source new systems and solutions to our customers.

Capitalising on the experiences accrued from our tailor made solutions work, Halo Platform will re-engineer these customised solutions delivered to more complex corporations into generic product modules that are interoperable and can be easily integrated with other vendor applications that built on open platform to create communication tools, collaborations tools, workflow as well as form-based applications to SME clients.

In line with Halo Group's overall strategy to develop cost leaderships to combat the challenging market environment, Halo Solutions is now considering the possibility of establishing a software development and outsourcing centre in Mainland China.

Although the rapid growth in the IT industry declined as a result of the economic downturn in 2001, most industry analysts expect that spending on information technology will recover in 2002, particularly in service and software. We are confident that the work done during the period especially in terms of revenue generation ensures that Halo is well poised to capture from any eventual recovery.

Although our optical fibre development the Transtech Group completed its build and development phase on schedule and within budget, our business is entering into a difficult market environment in no small part created by the Worldcom debacle. We are, however, confident of the long term demand and future of the optical fibre manufacturing industry and will proceed with Transtech's development plans with extreme caution.

## EMPLOYEE INFORMATION

At 30 June 2002, the Group had 1,107 employees, of which 261 were at CFSG Group and 789 at Pricerite Group. 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 and performance bonus. We continue to organise training to employees in the areas of mandatory professional development programmes required by regulatory bodies, computer application, product knowledge, customer services, problem solving and Putonghua training.