

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 16.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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

Cash flow statements

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

Discontinuing operations

SSAP 33 “Discontinuing Operations” is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”. Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. Details of the Group’s discontinued operations in previous year are disclosed at note 8.

Employee benefits

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

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For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Property and equipment

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold land and buildings	over the lease terms
Leasehold improvements	the shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 years

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leased assets

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

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

Investments

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Intangible assets

Intangible assets are included in the balance sheet at cost and amortised on a straight-line basis over their estimated useful lives.

Club memberships

Club memberships are stated at cost less any identified impairment loss.

Inventories

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

Revenue recognition

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

Fees and commission income are recognised on a trade date basis when the services are rendered.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Realised profits and losses arising from trading of financial products are accounted for in the period in which the contracts/positions are closed as the difference between the net sales proceeds and the carrying amount of the financial products. Open contracts/positions are valued at market rate with unrealised profits and losses included in the income statement.

Information technology advisory income is recognised when the services are rendered.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

Retirement benefits costs

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

Notes to the Financial Statements

For the year ended 31 December 2002

4. TURNOVER

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Sales of furniture and household goods, net of discounts and returns	889,918	748,633
Fees and commission income	182,810	200,973
Interest income	28,039	52,936
Loss on trading of securities, options and futures	(5,600)	(30,502)
Information technology advisory income in Hong Kong	1,861	1,520
	1,097,028	973,560

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions, namely, financial services, retailing, information technology and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Financial services	Broking, financing, proprietary trading and corporate finance services
Retailing	Sales of furniture and household goods
Information technology	Providing information technology advisory services
Investment holding	Strategic investments

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Income statement for the year ended 31 December 2002

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	196,334	889,918	1,861	8,915	1,097,028
Segment loss	(106,573)	(96,856)	(5,869)	(135,206)	(344,504)
Unallocated corporate expenses					(59,839)
Loss from operating activities					(404,343)
Gain on the expiry of warrants					59,573
Allowance for loan to an associate					(219,828)
Loss before taxation					(564,598)
Taxation credit					1,779
Loss after taxation and before minority interests					(562,819)

Balance sheet as at 31 December 2002

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	636,050	514,962	1,312	3,282	1,155,606
Unallocated corporate assets					74,669
Consolidated total assets					1,230,275
LIABILITIES					
Segment liabilities	466,735	247,445	2,312	–	716,492
Unallocated corporate liabilities					65,304
Consolidated total liabilities					781,796

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Other information for the year ended 31 December 2002

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property and equipment	9,717	48,942	147	40,000	1,478	100,284
Allowance for bad and doubtful debts	63,726	3,990	182	27,789	–	95,687
Depreciation and amortisation	24,210	34,116	46	–	3,462	61,834
Impairment losses recognised in income statement	–	38,734	–	107,000	3,958	149,692
Loss (Gain) on disposal of property and equipment	5,737	(591)	–	–	935	6,081

Income statement for the year ended 31 December 2001

	Continuing operations				Discontinued operations	
	Financial services HK\$'000	Retailing HK\$'000	Information technology business in Hong Kong HK\$'000	Investment holding HK\$'000	Information technology business in the United States of America HK\$'000	Consolidated HK\$'000
Turnover	223,407	748,633	1,520	–	–	973,560
Segment (loss) profit	(136,914)	14,616	(3,846)	(228,919)	(43,659)	(398,722)
Unallocated corporate expenses						(54,790)
Gain on deemed disposal of investments in subsidiaries						2,351
Loss from operating activities						(451,161)
Loss from associates						(30,215)
Loss before taxation						(481,376)
Taxation credit						152
Loss after taxation and before minority interests						(481,224)

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Balance sheet as at 31 December 2001

	Continuing operations				Consolidated HK\$'000
	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	
ASSETS					
Segment assets	932,359	545,750	6,344	397,611	1,882,064
Unallocated corporate assets					30,072
Consolidated total assets					1,912,136
LIABILITIES					
Segment liabilities	605,817	178,335	17,592	–	801,744
Unallocated corporate liabilities					12,911
Consolidated total liabilities					814,655

Other information for the year ended 31 December 2001

	Continuing operations					Discontinued operations	Consolidated HK\$'000
	Financial services HK\$'000	Retailing HK\$'000	Information technology business in Hong Kong HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Information technology business in the United States of America HK\$'000	
Additions of property and equipment	21,106	162,943	143	–	10,216	–	194,408
Allowance for bad and doubtful debts	43,561	–	–	1,357	–	–	44,918
Depreciation and amortisation	23,934	24,721	11	–	6,059	–	54,725
Impairment losses recognised in income statement	2,073	–	–	228,900	5,454	–	236,427
Loss on disposal of property and equipment	–	1,081	–	–	7,892	11,170	20,143

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's turnover and loss before taxation for both years are substantially derived from Hong Kong. Accordingly, no analysis by geographical segment is presented.

6. OTHER REVENUE

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Gain on deemed disposal of interests in Pricerite and its subsidiaries	—	2,351

7. SALARIES, ALLOWANCES AND COMMISSION

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and commission represents the amounts paid and payable to the Directors and employees and comprises of:		
Salaries, allowances and commission	230,071	230,514
Contributions to retirement benefits schemes	6,739	9,277
	236,810	239,791

8. LOSS ON DISCONTINUED OPERATIONS

In response to the rapid deterioration of the global information technology business environment, the Group commenced a restructuring plan during the year ended 31 December 2001 for its Technology Development Group ("TDG"). The plan included the downsizing and consolidating of some operations of TDG to preserve resources only on those technology projects with the most promising potentials. As part of the plan, the Group closed its information technology business in the United States of America in July 2001.

Notes to the Financial Statements

For the year ended 31 December 2002

8. LOSS ON DISCONTINUED OPERATIONS (continued)

The results of the discontinued operation for the period from 1 January 2001 to the date of discontinuance, which have been included in the consolidated financial statements, are as follows:

	The Group 2001 HK\$'000
Turnover	—
Write-off of property and equipment	11,170
Redundancy costs	32,489
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Loss before taxation	43,659
Taxation	—
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	43,659
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During the year ended 31 December 2001, TDG utilised approximately HK\$32,489,000 to the Group's net operating cash flows.

9. FINANCE COSTS

	The Group 2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank overdrafts and loans wholly repayable within five years	4,989	10,426
Finance leases	173	309
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	5,162	10,735
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For the year ended 31 December 2002

10. DIRECTORS' REMUNERATION

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive Directors	—	—
Independent Non-executive Directors	—	—
Other emoluments paid to Executive Directors:		
Salaries, allowances and other benefits	7,247	7,940
Contributions to retirement benefits schemes	271	284
Performance related incentive payment	239	3,449
Total remuneration	7,757	11,673

The remuneration of the Directors fell within the following bands:

	The Group	
	2002	2001
	Number of Directors	Number of Directors
Nil – HK\$1,000,000	6	3
HK\$1,000,001 – HK\$1,500,000	4	—
HK\$1,500,001 – HK\$2,000,000	—	3
HK\$2,000,001 – HK\$2,500,000	—	3
	10	9

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

Notes to the Financial Statements

For the year ended 31 December 2002

11. EMPLOYEES' EMOLUMENTS

The five highest paid employees included two (2001: five) Directors of the Company, details of whose remuneration are included in note 10 above. The details of the remuneration of the remaining three (2001: nil) individual are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,998	—
Contributions to retirement benefits schemes	160	—
Performance related incentive payment	158	—
	4,316	—

Their emoluments were within the following band:

	2002	2001
	Number of employees	Number of employees
HK\$1,000,001 to HK\$1,500,000	3	—

Notes to the Financial Statements

For the year ended 31 December 2002

12. LOSS BEFORE TAXATION

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Advertising and promotion expenses	51,119	36,949
Allowance for inventory obsolescence and write-off of inventories (included in the changes in inventories of finished goods)	4,990	6,795
Amortisation of intangible assets (included in depreciation and amortisation)	1,830	1,830
Amortisation of goodwill (included in depreciation and amortisation)	6,135	2,997
Auditors' remuneration	2,070	1,723
Compensation for early termination of tenancy agreements and investment project	7,004	—
Depreciation and amortisation of property and equipment:		
Owned assets	52,283	48,084
Leased assets	1,586	1,814
	53,869	49,898
Loss on disposal of property and equipment	6,081	20,143
Loss on disposal of subsidiaries	—	1,023
Operating lease rentals in respect of land and buildings		
Minimum lease payments	128,567	98,821
Contingent rents	5,179	9,906
	133,746	108,727
Net foreign exchange gain	(706)	(47)

13. TAXATION CREDIT

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong Profits Tax:		
Provision for the year	—	(200)
Overprovision in prior years	1,782	352
Underprovision in prior years	(3)	—
Taxation attributable to the Company and its subsidiaries	1,779	152

No provision for Hong Kong Profits Tax was made for the year ended 31 December 2002 as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward.

Notes to the Financial Statements

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13. TAXATION CREDIT (continued)

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

Details of the Group's unprovided deferred taxation are set out in note 34.

14. LOSS PER SHARE

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

	2002 HK\$'000	2001 HK\$'000
Loss for the purpose of basic loss per share	(440,583)	(454,036)
Adjustment to the share of result of subsidiaries based on dilution of their earnings per share	N/A	(8)
Loss for the purpose of diluted loss per share	(440,583)	(454,044)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	311,921,618	314,680,405

The calculation of diluted loss per share does not:

- (i) adjust the share of result of subsidiaries as the subsidiaries incurred losses for the year; and
- (ii) assume the exercise of the Company's outstanding share options and warrants as the exercise price of those options and warrants were higher than the average market price of shares for both years.

The weighted average number of ordinary shares for the year ended 31 December 2001 for the purpose of basic and diluted loss per share has been adjusted for the share consolidation which took effect on 26 April 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

15. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1 January 2002	87,500	10,000	72,399	135,988	6,280	312,167
Additions	–	–	31,325	26,750	1,759	59,834
Acquired on acquisition of a subsidiary	–	–	–	40,000	450	40,450
Disposals	(17,500)	–	(5,634)	(17,466)	(2,659)	(43,259)
At 31 December 2002	70,000	10,000	98,090	185,272	5,830	369,192
ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1 January 2002	9,500	–	17,835	46,071	2,308	75,714
Provided for the year	2,233	–	20,526	29,736	1,374	53,869
Impairment loss recognised in the income statement	11,286	10,000	769	42,098	–	64,153
Eliminated on disposals	(1,877)	–	(1,995)	(9,080)	(1,893)	(14,845)
At 31 December 2002	21,142	10,000	37,135	108,825	1,789	178,891
NET BOOK VALUES						
At 31 December 2002	48,858	–	60,955	76,447	4,041	190,301
At 31 December 2001	78,000	10,000	54,564	89,917	3,972	236,453

During the year, the Group entered into a provisional sale and purchase agreement with a third party under which the Group agree to sell its long term leasehold land and buildings at a total consideration of approximately HK\$15,000,000. This sale was completed in March 2003. After making due enquiry, the Directors were satisfied that the selling price of the long term leasehold land and buildings represented the market value as at 31 December 2002. Thus, an impairment loss of approximately HK\$10,400,000 is recognised in the income statement.

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15. PROPERTY AND EQUIPMENT (continued)

The Directors have reassessed the recoverable amount of the medium-term leasehold land and buildings and recognised an impairment loss of approximately HK\$886,000 which was determined with reference to the market price.

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

Due to the cessation of the personal loan financing activity, the Directors have reassessed the recoverable amount of the assets of construction in progress amounting to approximately HK\$10,000,000 for this activity and recognised an impairment loss of approximately HK\$10,000,000 in the income statement.

During the year, the Group acquired a software of HK\$40,000,000 through acquisition of a subsidiary for the purpose of a proposed project for the development of a smart community. However, the proposed project was aborted and the Directors recognised an impairment loss of HK\$40,000,000 in the financial statements.

The leasehold land and buildings of the Group are situated in Hong Kong. The lease terms of the leasehold land and buildings are as follows:

	2002 HK\$'000	2001 HK\$'000
Long leases	14,516	25,400
Medium-term leases	34,342	52,600
	48,858	78,000

The leasehold land and buildings with a net book value of approximately HK\$44,858,000 (2001: HK\$71,000,000) held by the Group were pledged to secure general banking facilities granted to the Group.

The net book values of furniture, fixtures and equipment of HK\$76,447,000 and motor vehicles of HK\$4,041,000 include an amount of HK\$227,000 (2001: HK\$1,740,000) and HK\$2,970,000 (2001: HK\$2,764,000) respectively in respect of assets held under finance leases.

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15. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1 January 2002 and at 31 December 2002	8,426	11,130	19,556
ACCUMULATED DEPRECIATION			
At 1 January 2002	4,280	9,526	13,806
Provided for the year	1,538	1,593	3,131
At 31 December 2002	5,818	11,119	16,937
NET BOOK VALUES			
At 31 December 2002	2,608	11	2,619
At 31 December 2001	4,146	1,604	5,750

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	60,793	60,793
Impairment loss recognised	(60,793)	(60,793)
	—	—

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16. INVESTMENTS IN SUBSIDIARIES (continued)

The following table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place/ Country of incorporation	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Halo Solutions Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology advisory services
CASH Financial Services Group Limited ("CFSG")	Bermuda	Ordinary HK\$10,075,941	50.08	Investment holding
CASH E-Trade Limited	Hong Kong	Ordinary HK\$4,000,000	50.08	Provision of management services
CASH Payment Services Limited	Hong Kong	Ordinary HK\$2	50.08	Provision of payment gateway services
Celestial Capital Limited	Hong Kong	Ordinary HK\$17,000,000	50.08	Provision of corporate finance services
Celestial Commodities Limited	Hong Kong	Ordinary HK\$10,000,000	50.08	Futures and options broking and trading
Celestial Finance Limited	Hong Kong	Ordinary HK\$30,000,002 Non-voting deferred * HK\$10,000,000	50.08	Provision of share margin financing

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place/ Country of incorporation	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Celestial (International) Securities & Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred * HK\$10,000,000	50.08	Money lending
Celestial Securities Limited	Hong Kong	Ordinary HK\$50,000,000	50.08	Securities and equity options broking and trading
Pricerite Group Limited	Bermuda	Ordinary HK\$207,677,700	68.35	Investment holding
Pricerite Stores Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred ** HK\$5,000,000	68.35	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	68.35	Retailing of furniture and household goods through a website
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	68.35	Wholesale and retailing of cosmetic and skin care products

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16. INVESTMENTS IN SUBSIDIARIES (continued)

* The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards income, the holders thereof are not entitled to any dividend unless the relevant company determines to distribute in respect of any financial year distributable profits in excess of HK\$1 trillion to which the holders of the non-voting deferred shares are collectively entitled to one half of the said profits in excess of the said HK\$1 trillion; and
- (c) as regards capital, on a return of assets on winding-up or otherwise the assets of the company to be returned, the holders of such non-voting deferred shares are collectively entitled to one half of the surplus assets of the company in excess of HK\$500 trillion.

** The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards dividends, the holders thereof are not entitled to any dividend unless the net profits of the relevant company available for dividend (as certified by its auditors) as earned in the year in respect of which a dividend is declared exceed HK\$100 billion, in which case the holders of the non-voting deferred shares are collectively entitled to one thousandth of one per cent of the amount of the profits so available which exceed HK\$100 billion; and
- (c) as regards capital, on a return of assets or a winding-up, the holders of such non-voting deferred shares are entitled out of the surplus assets of the relevant company to a return of capital paid on such non-voting deferred shares held by then after a total of HK\$1,000 billion has been distributed in such winding-up in respect of each of the issued ordinary shares in the relevant company.

The principal place of operation of the subsidiaries is Hong Kong. All the subsidiaries shown above are indirectly held by the Company.

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	–	–
Loan to an associate	219,828	164,466
Allowance for loan to an associate	(219,828)	–
	–	164,466

The loan to an associate is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of Directors, the loan to the associate will not be recoverable and accordingly an allowance of approximately HK\$219,828,000 has been made.

At 31 December 2002, the Group had interests in the following principal associates:

Name	Place of incorporation	Form of business structure	Provision of nominal value of issued ordinary capital held by the Group %	Principal activities
Transtech Services Group Limited	Hong Kong	Incorporated	46.25	Investment holding
Transtech Photonics Limited	Hong Kong	Incorporated	46.25	Producing of photonics products and system but had not yet commenced production during the year

Transtech Photonics Limited is a wholly-owned subsidiary of Transtech Services Group Limited.

The principal place of operation of these companies is Hong Kong.

The following details have been extracted from the consolidated management accounts of Transtech Services Group Limited.

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES (continued)

	2002 HK\$'000	2001 HK\$'000
Non-current assets	397,494	327,506
Current assets	4,483	9,825
Non-current liabilities	440,198	328,932
Current liabilities	15,165	35,845
Net liabilities	(53,386)	(27,446)
Net loss for the year	25,910	28,449

18. INVESTMENTS

	Investment securities		The Group Other investments		Total	
	2002 HK'000	2001 HK'000	2002 HK'000	2001 HK'000	2002 HK'000	2001 HK'000
Equity securities:						
Non-current						
Unlisted, at cost	301,500	301,500	—	—	301,500	301,500
Impairment loss recognised	(301,500)	(244,500)	—	—	(301,500)	(244,500)
	—	57,000	—	—	—	57,000
Current						
Listed in Hong Kong, at market value	—	—	52,534	33,502	52,534	33,502
	—	57,000	52,534	33,502	52,534	90,502

In response to the deterioration of the global information technology business environment during the year, the Group has assessed the recoverable amounts of its investment securities. The Directors, having taken into account the revenues generated from these companies, the prevailing uncertain and sluggish economic condition and the estimated future cash flows generated from these companies, recognised an impairment loss of approximately HK\$57,000,000 (2001: HK\$228,900,000) in respect of the investment securities.

Notes to the Financial Statements

For the year ended 31 December 2002

19. GOODWILL

	The Group HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	91,601
AMORTISATION	
At 1 January 2002	2,997
Charged for the year	6,135
Impairment loss recognised	27,209
At 31 December 2002	36,341
NET BOOK VALUES	
At 31 December 2002	55,260
At 31 December 2001	88,604

The amortisation period adopted for goodwill is from 10 to 20 years.

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

Notes to the Financial Statements

For the year ended 31 December 2002

20. INTANGIBLE ASSETS

	The Group HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	18,235
AMORTISATION	
At 1 January 2002	3,653
Charged for the year	1,830
At 31 December 2002	5,483
NET BOOK VALUES	
At 31 December 2002	12,752
At 31 December 2001	14,582

Intangible assets represent trading rights in exchanges in Hong Kong and are amortised over 10 years.

21. OTHER ASSETS

	The Group 2002 HK\$'000	2001 HK\$'000
Club memberships	5,588	5,588
Prepayment for advertising and tele-communication services	21,554	–
Statutory and other deposits	5,379	9,479
Deposits for long term investments/projects	–	39,000
	32,521	54,067
Impairment loss recognised in respect of club membership	(1,330)	–
	31,191	54,067

At the balance sheet date, the Directors reassessed the recoverable amount of the club membership and recognised an impairment loss of approximately HK\$1,330,000 which was determined by reference to the market price.

Notes to the Financial Statements

For the year ended 31 December 2002

22. LOANS RECEIVABLE

The maturity of the loans receivable is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Matured within 180 days	600	22,770
Matured between 181 days to 365 days	600	1,700
Matured within one year	1,200	24,470
Matured over one year	2,217	42,646
	3,417	67,116

23. INVENTORIES

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

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

24. ACCOUNTS RECEIVABLE

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	5,254	10,928
Cash clients	29,433	11,817
Margin clients	100,467	221,456
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	36,887	43,674
Trade debtors	550	2,997
	172,591	290,872

Notes to the Financial Statements

For the year ended 31 December 2002

24. ACCOUNTS RECEIVABLE (continued)

The settlement terms of accounts receivable arising from the business of dealing in securities and equity options are two days after trade date, and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

Except for the loans to margin clients as mentioned below, all the above balances aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Included in accounts receivable from margin clients arising from the business of dealing in securities is an amount in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. Details of the amount are as follows:

Name of company	Balance at 31.12.2002 HK\$'000	Balance at 1.1.2002 HK\$'000	Maximum amount outstanding during the year HK\$'000
Cash Guardian	8,862	—	28,575
Suffold Resources Limited ("Suffold")	—	25,220	25,385
	<u>8,862</u>	<u>25,220</u>	

The above balances are secured by pledged securities and repayable on demand, and bear interest at commercial rates which are similar to the rates offered to other margin clients.

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

	2002 HK\$'000	2001 HK\$'000
0 – 30 days	326	2,609
31 – 60 days	120	388
61 – 90 days	76	—
Over 90 days	28	—
	<u>550</u>	<u>2,997</u>

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

Notes to the Financial Statements

For the year ended 31 December 2002

25. PLEDGED BANK DEPOSITS

The Group

At the balance sheet date, the Group's bank deposits of HK\$611,000 and HK\$26,279,000 were pledged to banks to secure the forward foreign exchange facilities and general banking facilities granted to a subsidiary and an associate respectively.

At 31 December 2001, the Group's bank deposits of HK\$42,868,000 were pledged to banks to secure the general banking facilities granted to subsidiaries and an associate, and to secure foreign exchange margin trading facilities granted to a subsidiary. In addition, the Group's bank deposit of HK\$877,000 was pledged to secure a bank guarantee of HK\$877,000 given to one of the Group's landlords.

26. ACCOUNTS PAYABLE

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Cash clients	158,188	243,866
Margin clients	28,053	52,575
Accounts payable to clients arising from the business of dealing in futures and options	149,549	119,826
Trade creditors	154,236	131,779
	490,026	548,046

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Notes to the Financial Statements

For the year ended 31 December 2002

26. ACCOUNTS PAYABLE (continued)

Accounts payable to clients arising from the business of dealing in futures and options are margin deposits received from clients for their trading of futures and options. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of futures and options dealing.

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

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

27. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	717	2,033	681	1,988
In the second to fifth year inclusive	772	893	753	749
	1,489	2,926	1,434	2,737
Less: Future finance charges	55	189	–	–
Present value of lease obligations	1,434	2,737	1,434	2,737
Less: Amount due for payment within one year			681	1,988
Amount due for payment after one year			753	749

Notes to the Financial Statements

For the year ended 31 December 2002

27. OBLIGATIONS UNDER FINANCE LEASES (continued)

It is the Group's policy to lease certain of its furniture, fixtures and equipment, and motor vehicles under finance leases. The average lease term is 2 to 4 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and an amount of HK\$919,000 (2001: HK\$599,000) is secured by guarantees given by a subsidiary.

28. BANK BORROWINGS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts	77,104	10,248
Bank loans	75,900	127,000
Trust receipt loans	52,538	18,341
	205,542	155,589
Unsecured	10,820	496
Secured	194,722	155,093
	205,542	155,589

The bank borrowings bear interest at commercial rates and are repayable on demand or within one year. These borrowings are used to finance the financing business and the retail business of the Group.

At 31 December 2002, the Group's bank borrowings of HK\$194,722,000 (2001: HK\$155,093,000) were secured by:

- (a) corporate guarantees from two subsidiaries and the Company;
- (b) marketable securities of the Group's clients (with clients' consent);
- (c) pledge of the Group's certain leasehold land and buildings;
- (d) pledge of HK\$9,111,000 (2001: HK\$8,500,000) bank deposits; and
- (e) a subsidiary's listed shares with an aggregate market value of approximately HK\$129,320,000 at 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

29. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2001		8,000,000	800,000
Increase during the year		2,000,000	200,000
At 31 December 2001 and at 1 January 2002		10,000,000	1,000,000
Reduced due to share consolidation	(a)(i)	(9,500,000)	–
Reduced due to capital reduction	(a)(ii)	–	(950,000)
Cancellation of unissued share capital	(a)(iii)	(180,283)	(18,028)
Increase during the year	(a)(iii)	180,283	18,028
At 31 December 2002		500,000	50,000
Issued and fully paid:			
At 1 January 2001		5,923,898	592,390
Issued as consideration to acquire 78.44% of the issued capital of Pricerite	(b)	507,654	50,765
Issued as consideration for general offer related to the acquisition of Pricerite	(b)	164	16
Shares repurchased and cancelled	(c)	(37,362)	(3,736)
At 31 December 2001 and at 1 January 2002		6,394,354	639,435
Reduced due to share consolidation	(a)(i)	(6,074,637)	–
Reduced due to capital reduction	(a)(ii) & (iv)	–	(607,464)
Shares repurchased and cancelled	(c)	(14,242)	(1,424)
Exercise of warrants	(d)	9	1
At 31 December 2002		305,484	30,548

Notes:

(a) Share consolidation and capital reduction

Pursuant to the special resolution passed on 25 April 2002, the Company:

(i) consolidated every 20 issued and unissued shares of HK\$0.10 each into one share of HK\$2.00 each ("Consolidated Share(s)") ("Share Consolidation");

Notes to the Financial Statements

For the year ended 31 December 2002

29. SHARE CAPITAL (continued)

- (ii) reduced the issued share capital by cancelling paid up capital to the extent of HK\$1.90 on each of the Consolidated Shares in issue ("Capital Reduction");
- (iii) cancelled all of the authorised but unissued share capital and forthwith upon such cancellation, increased the authorised share capital to HK\$50,000,000 by the creation of additional new shares of HK\$0.10 each; and
- (iv) transferred the credit amount arising from the Capital Reduction of approximately HK\$607,464,000 to the contributed surplus account.

Share Consolidation and Capital Reduction took effect on 26 April 2002.

(b) Acquisition of majority interests in Pricerite

On 9 February 2001, the Company entered into agreements with Miliway Resources Limited ("Miliway") and Joyplace Inc ("Joyplace"), pursuant to which the Company agreed to purchase or procure the purchase of 320,000,000 and 115,132,000 shares of HK\$0.10 each in Pricerite respectively from Miliway and Joyplace at a consideration of HK\$112,000,000 and HK\$40,296,200 respectively. The considerations were settled by the issue and allotment of 373,333,333 and 134,320,667 shares of HK\$0.10 each in the Company.

Following the completion of the agreements with Miliway and Joyplace, the Company made unconditional general offers for all the issued shares in Pricerite on the basis of one share in Pricerite for HK\$0.35 or six shares in Pricerite for seven shares in the Company, and the outstanding options which entitle the holders to subscribe for shares in Pricerite on the basis of each option for HK\$0.0001. During the period of the general offers, the Company issued 164,605 shares of HK\$0.10 each in the Company to acquire 141,096 shares of HK\$0.10 each in Pricerite.

(c) Shares repurchased

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
May	1,126,000	1.96	1.87	2,141,420
June	13,116,000	1.99	1.00	24,447,040
	<u>14,242,000</u>			<u>26,588,460</u>

The above shares were cancelled upon repurchase.

The Directors considered that as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Notes to the Financial Statements

For the year ended 31 December 2002

29. SHARE CAPITAL (continued)

(d) Warrants

The placing warrants and bonus warrants issued by the Company in 2000 lapsed after the close of business on 31 January 2002 and 31 July 2002 respectively. During the year, a total amount of approximately HK\$109,000 bonus warrants were exercised by warrantholders to subscribe for a total number of 8,422 ordinary shares in the Company at the adjusted subscription price of HK\$13 per share.

30. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2001	196,221	500,992	1,160	71,887	(169,410)	600,850
Issue of shares	101,564	—	—	—	—	101,564
Share issue expenses	(816)	—	—	—	—	(816)
Premium arising from repurchase of shares	(2,934)	—	—	—	—	(2,934)
Goodwill reversed on disposal of an associate	—	18,508	—	—	—	18,508
Net loss for the year	—	—	—	—	(454,036)	(454,036)
At 31 December 2001 and at 1 January 2002	294,035	519,500	1,160	71,887	(623,446)	263,136
Capital Reduction	—	607,464	—	—	—	607,464
Amount transferred to write off accumulated losses	—	(669,503)	—	—	669,503	—
Issue of shares upon exercise of warrants	108	—	—	—	—	108
Premium arising from repurchase of shares	(25,295)	—	—	—	—	(25,295)
Gain on expiry of warrants recognised in the income statement	—	—	—	(59,573)	—	(59,573)
Net loss for the year	—	—	—	—	(440,583)	(440,583)
At 31 December 2002	268,848	457,461	1,160	12,314	(394,526)	345,257
Attributable to:						
Company and subsidiaries	268,848	457,461	1,160	12,314	(86,489)	653,294
Associates	—	—	—	—	(308,037)	(308,037)
	268,848	457,461	1,160	12,314	(394,526)	345,257

Notes to the Financial Statements

For the year ended 31 December 2002

30. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January 2001	194,183	580,593	59,573	(23,595)	810,754
Issue of shares	101,564	—	—	—	101,564
Share issue expenses	(816)	—	—	—	(816)
Premium arising from repurchase of shares	(2,934)	—	—	—	(2,934)
Net loss for the year	—	—	—	(645,908)	(645,908)
At 31 December 2001 and at 1 January 2002	291,997	580,593	59,573	(669,503)	262,660
Capital Reduction	—	607,464	—	—	607,464
Amount transferred to write off accumulated losses	—	(669,503)	—	669,503	—
Issue of shares upon exercise of warrants	108	—	—	—	108
Premium arising from repurchase of shares	(25,295)	—	—	—	(25,295)
Gain on expiry of warrants recognised in the income statement	—	—	(59,573)	—	(59,573)
Net loss for the year	—	—	—	(441,037)	(441,037)
At 31 December 2002	266,810	518,554	—	(441,037)	344,327

The contributed surplus of the Group arose as a result of the group reorganisation in 1994 and represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

At 1 January 2001, goodwill arising from acquisition of an associate of approximately HK\$18,503,000 was included in the Group's contributed surplus account. This goodwill was reversed on disposal of the associate in 2001.

The contributed surplus of the Company arose as a result of the group reorganisation in 1994 and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefore.

Notes to the Financial Statements

For the year ended 31 December 2002

30. RESERVES (continued)

Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Pursuant to the minutes of a directors' meeting held on 16 May 2002, an amount of approximately HK\$669,503,000 was transferred from contributed surplus account to set off the accumulated losses of the Company at 31 December 2001.

Notes to the Financial Statements

For the year ended 31 December 2002

31. ACQUISITION OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	40,450	142,370
Prepayments, deposits and other receivables	160	33,807
Inventories	–	52,637
Taxation recoverable	–	125
Bank balances and cash	–	68,538
Pledged bank deposits	–	8,500
Accounts payable	–	(107,820)
Accrued liabilities and other payables	(10)	(21,989)
Bank borrowings	–	(42,120)
Minority interests	–	(28,666)
	40,600	105,382
Goodwill on consolidation	–	100,596
	40,600	205,978
SATISFIED BY		
Shares allotted	–	152,345
Cash	40,600	53,633
	40,600	205,978
NET CASH INFLOW (OUTFLOW) ARISING ON ACQUISITION		
Cash consideration	(40,600)	(53,633)
Bank balances and cash acquired	–	26,418
	(40,600)	(27,215)

The subsidiaries acquired during the year contributed zero revenue and a loss of HK\$40,000,000, and made no significant contribution to the cash flows for the period between the date of acquisition and the balance sheet date.

The subsidiaries acquired during the year ended 31 December 2001 contributed HK\$749,000,000 revenue and HK\$15,000,000 of profit before taxation for the period between the date of acquisition and 31 December 2001. During the period since acquisitions during the year ended 31 December 2001, the subsidiaries acquired have contributed approximately HK\$40,000,000 to the Group's net operating cash flows, contributed approximately HK\$157,000,000 in respect of financing activities and utilised approximately HK\$91,000,000 for investing activities.

Notes to the Financial Statements

For the year ended 31 December 2002

32. DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
NET ASSETS DISPOSED OF		
Investments	—	20,651
Accounts payable	—	(28)
	—	20,623
Loss on disposal	—	(1,023)
Total consideration	—	19,600
SATISFIED BY		
Cash	—	19,600
NET CASH INFLOW ARISING ON DISPOSAL		
Cash	—	19,600

The subsidiaries sold during the year ended 31 December 2001 contributed HK\$30,248,000 to the Group's net operating cash outflow.

The subsidiaries disposed of during the year ended 31 December 2001 contributed HK\$28,803,000 to the Group's loss before taxation.

33. MAJOR NON-CASH TRANSACTIONS

Pursuant to an agreement entered into between the Company and a third party, the third party agreed to procure its group companies to provide advertising and tele-communication services to the Company and its subsidiaries. The fee for these services will be used to offset the deposits which the Group paid and was previously classified as deposits for long term investments/projects in the financial statements. Thus, an amount of HK\$39,000,000 was transferred from deposits for long term investments/projects account to prepayment for advertising and tele-communication services account. During the year, the Group utilised advertising and tele-communication services amounting to approximately HK\$5,746,000.

During the year, the Group entered into finance lease in respect of assets with a total capital value at the inception of the finance leases of approximately HK\$1,241,000 (2001: HK\$1,220,000).

During the year ended 31 December 2001, the Company acquired 435,132,000 shares of HK\$0.10 each in Pricerite at a consideration of approximately HK\$152,296,200. The consideration was satisfied by the issue and allotment of 507,654,000 shares in the Company. During the period of the general offers made by the Company, the Company acquired 141,096 shares of HK\$0.10 each in Pricerite by issue of 164,605 shares in the Company.

Notes to the Financial Statements

For the year ended 31 December 2002

34. DEFERRED TAXATION

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

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Estimated tax losses	78,344	59,570	—	—
Excess of tax allowances over depreciation	(11,796)	(10,177)	—	—
	66,548	49,393	—	—

A net deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future assessable profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

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

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing difference because of:				
Estimated tax losses arising (utilising)	18,774	(15,714)	—	—
Excess of tax allowances over depreciation	(1,619)	(2,809)	—	(107)
	17,155	(18,523)	—	(107)

35. CONTINGENT LIABILITIES

- (a) Mr. Cheung Yiu Wing ("Cheung"), the former chairman and a shareholder of King Pacific International Holdings Limited ("KPI"), filed a statement of claim against the Company alleging that the Company had orally agreed to purchase from Cheung 50 million shares of KPI at a price of HK\$1.90 per share and seeking relief against the Company for the material specific performance thereof. The Directors confirmed that no discussions had been made between the Company and Cheung in relation to any purchase or intention to purchase the said shares as claimed by Cheung and no agreement in whatever nature, oral or written, had been entered into between the Company and Cheung. Relying on the advice from a legal counsel, the Directors does not envisage the claim by Cheung being held to be valid. Accordingly, no provision was made in the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2002

35. CONTINGENT LIABILITIES (continued)

- (b) The Group has given a guarantee to a bank in respect of general facilities granted to an associate. The extent of such facilities utilised by the associate at 31 December 2002 amounted to nil (2001: HK\$18,450,000).
- (c) The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2002 amounted to approximately HK\$39,335,000 (2001: HK\$55,774,000).

36. OPERATING LEASE COMMITMENTS

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	121,480	94,529	10,210	8,155
In the second to fifth year inclusive	174,673	157,615	7,930	2,269
After five years	4,279	10,527	–	–
	300,432	262,671	18,140	10,424

Operating lease payments represent rentals payable by the Group for office premises and retail shops. Leases are mainly negotiated for an average term of six years and rentals are fixed for an average of three years. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percent of the gross sales of the relevant shop.

37. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

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

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

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any employee or director of any member of the Group.

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

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

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

- (iii) The maximum number of shares in respect of which options might be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.
- (v) A grantee was required to hold an option for a minimum of 6 months before the option became exercisable.
- (vi) The exercise period of an option granted must not exceed a period of 3 years commencing on the expiry of the abovementioned minimum holding period or 28 March 2004, whichever the earlier.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
- (viii) The exercise price of an option must be the higher of:
 - a price not less than 80% of the average closing price of the share for the 5 trading days immediately preceding the grant; and
 - the nominal value of the share.
- (ix) The life of the Old Option Scheme was originally effective for 10 years until 28 March 2004. On 19 February 2002, the Old Option Scheme was resolved by the shareholders of the Company to have been cancelled thereon. However, the options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

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

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

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

- (i) The purpose was to provide incentives to:
 - award and retain the participants who have made contributions to the Group, including CFSG and its subsidiaries ("CFSG Group") and Pricerite and its subsidiaries ("Pricerite Group") (altogether "Three Groups"); or
 - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (iii) The maximum number of shares in respect of which options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 31,971,740 shares, representing 10.47% of the issued share capital of the Company as at the date of the Annual Report. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of Directors and provided in the offer of grant of option.

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

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

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

- (vi) The exercise period should be any period fixed by the board of Directors upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
- (viii) The exercise price of an option must be the highest of:
 - the closing price of the shares on the date of grant which day must be a trading day;
 - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of the share.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

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

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

					Number of options								
Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	outstanding as at 1.1.2001	granted in 2001	lapsed in 2001	outstanding as at 31.12.2001 and 1.1.2002	adjusted on 25.4.2002	granted in 2002	lapsed in 2002	outstanding as at 31.12.2002	
								(Note 6)					
Directors													
Old Option Scheme	13.5.1999	0.23	13.5.2000 – 12.11.2001		2,500,000	–	(2,500,000)	–	–	–	–	–	
	4.10.1999	0.59	8.4.2000 – 7.4.2002		120,000,000	–	–	120,000,000	–	–	(120,000,000)	–	
	4.10.1999	0.59	8.4.2000-7.4.2002	(2)	8,750,000	–	–	8,750,000	–	–	(8,750,000)	–	
	1.6.2000	7.00	1.12.2000 – 30.11.2002	(1) & (3)	10,000,000	–	–	10,000,000	(9,500,000)	–	(500,000)	–	
	6.11.2000	5.40	16.5.2001-15.5.2003	(1) & (3)	30,000,000	–	–	30,000,000	(28,500,000)	–	–	1,500,000	
New Option Scheme	31.8.2001	2.60	1.3.2002-28.2.2004	(1) & (3)	–	30,000,000	–	30,000,000	(28,500,000)	–	–	1,500,000	
	2.5.2002	1.32	2.5.2002-30.4.2003	(5)	–	–	–	–	–	16,500,000	–	16,500,000	
	2.5.2002	1.32	1.11.2002-31.10.2003	(3) & (5)	–	–	–	–	–	600,000	–	600,000	
					171,250,000	30,000,000	(2,500,000)	198,750,000	(66,500,000)	17,100,000	(129,250,000)	20,100,000	
Employees													
Old Option Scheme	13.5.1999	4.60	13.11.2000-12.5.2002	(1)	750,000	–	–	750,000	(712,500)	–	(37,500)	–	
	4.10.1999	0.59	8.4.2000-7.4.2002	(2)	28,490,000	–	(4,680,000)	23,810,000	–	–	(23,810,000)	–	
	15.11.1999	0.61	1.11.2000-31.10.2002	(4)	10,000,000	–	–	10,000,000	–	–	(10,000,000)	–	
	10.1.2000	16.00	10.1.2001-9.1.2003	(1)	10,000,000	–	–	10,000,000	(9,500,000)	–	–	500,000	
	10.1.2000	16.00	11.7.2000-10.7.2002	(1) & (2)	500,000	–	–	500,000	(475,000)	–	(25,000)	–	
	1.6.2000	7.00	1.12.2000-30.11.2002	(1) & (3)	45,000,000	–	–	45,000,000	(42,750,000)	–	(2,250,000)	–	
	28.7.2000	9.80	1.2.2001-31.1.2003	(1) & (2)	11,000,000	–	(10,000,000)	1,000,000	(950,000)	–	–	50,000	
	6.11.2000	5.40	16.5.2001-15.5.2003	(1) & (3)	20,000,000	–	–	20,000,000	(19,000,000)	–	–	1,000,000	
	6.11.2000	5.40	16.5.2001-15.5.2003	(1) & (2)	6,500,000	–	(500,000)	6,000,000	(5,700,000)	–	–	300,000	
	2.2.2001	4.80	16.8.2001-15.8.2003	(1) & (2)	–	6,000,000	–	6,000,000	(5,700,000)	–	–	300,000	
	31.8.2001	2.60	1.3.2002-28.2.2004	(1) & (3)	–	60,000,000	–	60,000,000	(57,000,000)	–	–	3,000,000	
	New Option Scheme	2.5.2002	1.32	2.5.2002-30.4.2003	(5)	–	–	–	–	–	3,000,000	–	3,000,000
		2.5.2002	1.32	1.11.2002-31.10.2003	(3) & (5)	–	–	–	–	–	2,000,000	–	2,000,000
					132,240,000	66,000,000	(15,180,000)	183,060,000	(141,787,500)	5,000,000	(36,122,500)	10,150,000	
					303,490,000	96,000,000	(17,680,000)	381,810,000	(208,287,500)	22,100,000	(165,372,500)	30,250,000	

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

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

Notes:

- (1) The number and the exercise price of options which remained outstanding on 25 April 2002 have been adjusted due to share consolidation of the Company for 20 shares into 1 share with effect from the close of business on 25 April 2002. The exercise price per share before share consolidation was HK\$0.35, HK\$0.27, HK\$0.13, HK\$0.23, HK\$0.80, HK\$0.80, HK\$0.35, HK\$0.49, HK\$0.27, HK\$0.27, HK\$0.24 and HK\$0.13 respectively.
- (2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (4) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.
- (5) The closing price of the share immediately before the date of grant was HK\$1.32 (2001: HK\$0.295 and HK\$0.152 respectively).
- (6) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (7) No option was exercised or cancelled during the year.

The exercise in full of the outstanding 30,250,000 share options at 31 December 2002 would, under the present capital structure of the Company, result in the issue of 30,250,000 additional shares for a total cash consideration, before expenses, of approximately HK\$65,922,000.

Total consideration received during the year from the Directors and the employees for taking up the options granted amounted to HK\$20 (2001: HK\$5).

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(B) Share option schemes of CFSG

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(B) Share option schemes of CFSG (continued)

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

- (ix) The life of the CFSG Old Option Scheme was originally effective for 10 years until 14 December 2010. On 19 February 2002, the CFSG Old Option Scheme was resolved by the shareholders of the CFSG to have been cancelled thereon. However, the options granted under CFSG Old Option Scheme are still exercisable in accordance with the terms of the CFSG Old Option Scheme.

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

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

- (i) The purpose was to provide incentives to:
- award and retain the participants who have made contributions to the Three Groups; or
 - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (iii) The maximum number of shares in respect of which options might be granted under the CFSG New Option Scheme must not exceed 10% of the issued share capital of CFSG as at the date of approval of the CFSG New Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CFSG New Option Scheme and any other share option scheme must not exceed 30% of the share in issue from time to time.

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(B) Share option schemes of CFSG (continued)

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(B) Share option schemes of CFSG (continued)

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

					Number of options						
					outstanding as at 1.1.2001	granted in 2001	lapsed in 2001	outstanding as at 31.12.2001 and 1.1.2002	adjusted on 25.4.2002	lapsed in 2002	outstanding as at 31.12.2002
Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes							
Directors											
CFSG Old Option Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	–	45,000,000	–	45,000,000	(42,750,000)	–	2,250,000
Employees											
CFSG Old Option Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	–	55,000,000	–	55,000,000	(52,250,000)	–	2,750,000
	27.3.2001	2.20	1.10.2001– 30.9.2004	(1) & (2)	–	26,300,000	(2,200,000)	24,100,000	(21,945,000)	(1,510,000)	645,000
					–	81,300,000	(2,200,000)	79,100,000	(74,195,000)	(1,510,000)	3,395,000
					–	126,300,000	(2,200,000)	124,100,000	(116,945,000)	(1,510,000)	5,645,000

Notes:

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(C) Share option schemes of Pricerite

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(C) Share option schemes of Pricerite (continued)

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(C) Share option schemes of Pricerite (continued)

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

37. SHARE OPTION SCHEMES (continued)

(C) Share option schemes of Pricerite (continued)

The following table discloses details of the share options granted by Pricerite and held by the Directors and the employees of the Three Groups and movements in such holdings during the year:

					Number of options								
Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	outstanding as at	granted	exercised	lapsed	adjusted due to	outstanding as at	granted	lapsed	outstanding
					1.1.2001	in 2001	in 2001	in 2001	right issue	31.12.201 and 1.1.2002	in 2002	in 2002	as at 31.12.2002
Directors													
Pricerite Old	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1)	10,000,000	–	–	–	8,000,000	18,000,000	–	(18,000,000)	–
Option Scheme	12.6.2001	0.21	16.6.2001 – 15.6.2003	(2)	–	16,000,000	–	–	12,800,000	28,800,000	–	(7,200,000)	21,600,000
	17.1.2002	0.21	1.2.2002 – 31.1.2004		–	–	–	–	–	–	72,000,000	(13,000,000)	59,000,000
					10,000,000	16,000,000	–	–	20,800,000	46,800,000	72,000,000	(38,200,000)	80,600,000
Employees													
Pricerite Old	12.6.2000	0.32	13.6.2000 – 12.6.2003	(1) & (3)	4,495,000	–	(590,000)	(1,608,000)	2,140,000	4,437,000	–	(918,000)	3,519,000
Option Scheme	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1) & (4)	4,000,000	–	–	(2,000,000)	1,600,000	3,600,000	–	(3,600,000)	–
	12.6.2000	0.32	13.6.2000 – 12.6.2002		10,000,000	–	–	(10,000,000)	–	–	–	–	–
	17.1.2002	0.21	1.2.2002 – 31.1.2004		–	–	–	–	–	–	42,500,000	–	42,500,000
					18,495,000	–	(590,000)	(13,608,000)	3,740,000	8,037,000	42,500,000	(4,518,000)	46,019,000
					28,495,000	16,000,000	(590,000)	(13,608,000)	24,540,000	54,837,000	114,500,000	(42,718,000)	126,619,000

Notes:

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

Notes to the Financial Statements

For the year ended 31 December 2002

38. RETIREMENT BENEFITS SCHEMES

The Group operates Mandatory Provident Fund Schemes ("MPF Schemes") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. All the employees of the Group in Hong Kong are required to join the MPF Schemes. In respect of those employees who leave the Group prior to completion of qualifying service period for the employer's voluntary contributions (represents contributions in excess of the mandatory requirements under the Mandatory Provident Fund Schemes Ordinance plus all the assets transferred from the Old Scheme) become fully vested, the relevant portion of the voluntary contributions forfeited will be reverted to the Group. Contributions are made based on a percentage of the employees' salaries and are charged to income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes.

The employer's contributions to the retirement benefits schemes charged to the income statement and the forfeited voluntary contributions credited to the income statements amounted to approximately HK\$8,619,000 (2001: HK\$9,278,000) and HK\$1,880,000 (2001: HK\$515,000) respectively for the year ended 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

39. COMMITMENTS

(a) Capital commitments

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

	2002 HK\$'000	2001 HK\$'000
Capital expenditure commitment in respect of the acquisition of property and equipment contracted for but not provided in the financial statements	10,630	8,000

(b) Other commitments

At the balance sheet date, the Group had the following other commitments:

	2002 HK\$'000	2001 HK\$'000
Contracted commitment in respect of advertising expenditure	3,306	7,398

(c) Forward foreign exchange contracts

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

	2002 HK\$'000	2001 HK\$'000
Buying of Euro	825	—
Buying of USD	15,600	—
Selling of Yen	9,700	2,972
	26,125	2,972

Notes to the Financial Statements

For the year ended 31 December 2002

40. RELATED PARTY TRANSACTIONS

During the year, the Group had the following related party transactions:

- (a) The Group received interest from margin financing of approximately HK\$1,473,000 (2001: nil) and nil (2001: HK\$1,942,000) from Cash Guardian and Suffold respectively, in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. The interest was calculated at commercial rates which were similar to the rates offered to other margin clients.
- (b) The Group pledged bank deposits of HK\$17,779,000 (2001: HK\$34,000,000) to secure general banking facilities granted to an associate by a bank, for which no charge is made. At 31 December 2002, the associate had utilised nil (2001: HK\$18,450,000) of these banking facilities.

During the year ended 31 December 2001, the Company acquired 320,000,000 shares of HK\$0.10 each in Pricerite from Miliway at a consideration of HK\$112,000,000 pursuant to the agreement entered into between the parties dated 9 February 2001. The consideration was settled by the issue and allotment of 373,333,333 shares of HK\$0.10 each in the Company. Miliway is ultimately wholly-owned by a discretionary trust established for the benefits of the family members of Kwan Pak Hoo Bankee.