CASH

Celestial Asia Securities Holdings Limited Interim Report 2001

CASH

RESULTS

The unaudited consolidated results of Celestial Asia Securities Holdings Limited ("CASH" or "Company") and its subsidiaries ("Group") for the six months ended 30 June 2001 together with the comparative figures for the last corresponding period are as follows:

Consolidated Income Statement

	Notes	Unaudited Six months ended 30 June 2001 HK$'000	2000 HK$'000
Turnover	3	**351,634**	292,693
Cost of goods sold		**(149,124)**	–
Gross profit		**202,510**	292,693
Salaries, allowance and commission		**(116,626)**	(122,213)
Depreciation and amortization		**(20,153)**	(7,807)
Amortization of goodwill		**(850)**	–
Other operating and administrative expenses		**(140,856)**	(130,882)
Finance costs		**(6,979)**	(7,357)
Net operating (Loss)/Profit		**(82,954)**	24,434
Other revenue	4	**–**	135,202
Restructuring costs	5	**(42,672)**	–
Impairment losses of investments in securities		**(173,900)**	–
Share of losses of associates		**(6,005)**	(1,018)
(Loss)/Profit before taxation		**(305,531)**	158,618
Taxation	6	**(11)**	(3,900)
(Loss)/Profit before minority interests		**(305,542)**	154,718
Minority interests		**12,135**	19,712
(Loss)/Profit attributable to shareholders		**(293,407)**	174,430
(Loss)/Earnings per share	7		
Basic		**(4.74 cents)**	3.51 cents
Diluted		**N/A**	3.38 cents

There was no recognized gains or losses other than net loss for the period.

Condensed Consolidated Balance Sheet

	Notes	30 June 2001 (Unaudited) HK$'000	31 December 2000 (Audited) HK$'000
Non-current assets			
Property and equipment		250,231	119,613
Interests in associates		90,191	61,155
Investments in securities		82,000	175,900
Intangible assets	9	79,421	16,412
Other assets		15,097	51,457
Loans receivable		91,208	114,252
		608,148	538,789
Current assets			
Inventories		57,925	–
Accounts receivable	10	354,716	318,630
Loans receivable		105,817	72,000
Prepayments, deposits and other receivables		180,678	35,701
Investments in securities		59,318	30,245
Taxation recoverable		2,704	2,538
Pledged bank deposits		59,055	28,137
Bank balances and cash		743,613	892,378
		1,563,826	1,379,629
Current liabilities			
Accounts payable	11	685,136	374,716
Accrued liabilities and other payables		101,836	103,221
Taxation		1,873	2,164
Obligations under finance leases and hire purchase contracts – amount due within one year		2,759	2,146
Bank borrowings		188,379	121,362
		979,983	603,609
Net current assets		583,843	776,020
		1,191,991	1,314,809
Capital and reserves			
Share capital	12	641,402	592,390
Reserves	13	406,512	600,850
		1,047,914	1,193,240
Minority interests		144,077	119,942
Non-current liabilities			
Obligations under finance leases and hire purchase contracts – amount due after one year		–	1,627
		1,191,991	1,314,809

Condensed Consolidated Cash Flow Statement

	Notes	Unaudited six months ended 2001 HK$'000
Net cash outflow from operating activities		(280,578)
Net cash outflow from returns on investments and servicing of finance		(6,979)
Net cash outflow from taxation		(332)
Investing activities		
Acquisition of subsidiaries	14	55,158
Other investing activities		(128,515)
Net cash outflow from investing activities		(73,357)
Net cash outflow before financing		(361,246)
Net cash inflow from financing		20,655
Decrease in cash and cash equivalents		(340,591)
Cash and cash equivalents at beginning of period		476,560
Cash and cash equivalents at end of period		135,969
Analysis of balances of cash and cash equivalents		
Bank balances and cash		802,668
Bank borrowings, repayable within three months from date of the advances		(188,379)
		614,289
Less: Bank trust and segregated accounts		(478,320)
		135,969

Notes:–

(1) Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), except no comparative figures have been presented for the unaudited condensed consolidated cash flow statements.

The interim consolidated financial statements for the six months ended 30 June 2001 are unaudited but have been reviewed by the Audit Committe of the Company.

Certain comparative figures for the six months ended 30 June 2000 have been reclassified to conform with the current period's presentation as required under SSAP 1 "Presentation of Financial Statements" and the presentation of the audited accounts for the year ended 31 December 2000.

(2) Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2000, except the newly adopted accounting standards as described below.

In the current period, the Group adopted, for the first time, a number of new and revised SSAP issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognized retrospectively (see Note 8). Goodwill arising on acquisition 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, associate or joint venture, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or joint venture.

Goodwill arising on acquisitions after 1 January 2001 is capitalized and amortized over its estimated useful life of 20 years. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

(3) Segmental information

The principal activities of its subsidiaries consist of (a) investment holding, (b) financial services including brokerage and trading of securities, futures, commodities and options, margin financing and corporate finance, (c) retail sales, and (d) technology development projects.

The Group's turnover and contribution to profit before taxation for the period 30 June 2001, analyzed by principal activity and geographical market, were as follows:

	Turnover		Contribution to profit before taxation	
	Unaudited Six months ended 30 June			
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Income from broking, financing and advisory services	**127,325**	289,941	**(51,897)**	38,283
Income from retail sales	**237,905**	–	**12,503**	–
Loss arising from strategic investments and proprietary trading	**(19,760)**	–	**(196,985)**	(81)
Income from information technology development	**–**	–	**(43,093)**	(36)
Contribution from associates	**–**	–	**(6,005)**	(1,018)
Other revenues	**–**	–	**–**	135,202
Others	**6,164**	2,752	**(20,054)**	(13,732)
	351,634	292,693	**(305,531)**	158,618
By geographical market:				
Hong Kong	**351,634**	292,693	**(262,859)**	158,618
United States of America	**–**	–	**(42,672)**	–
	351,634	292,693	**(305,531)**	158,618

(4) Other revenue

Other revenue represented gains on deemed partial disposals of interests in certain subsidiaries, namely CASH on-line, Inc. and its subsidiaries.

(5) Restructuring costs

In response to the rapid deterioration of the global information technology business environment, the Group commenced a restructuring plan in the first half of the year for its Technology Development Group ("TDG"). The plan included downsizing and consolidating of some operations of TDG to preserve resources only on those technology projects with the most promising potentials.

	Six months ended 30 June 2001 HK$'000
The restructuring costs incurred comprise:	
Loss on impairment of property and equipment	11,170
Redundancy costs of the staff	31,502
	42,672

(6) Taxation

Hong Kong Profits Tax is calculated at the prevailing rate in force on the Group's estimated assessable profits arising in Hong Kong less tax losses brought forward.

(7) (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share of HK$0.10 each is based on the loss attributable to shareholders for the period of HK$293,407,000 (2000: Profit of HK$174,430,000) and the weighted average number of 6,184,893,223 (2000: 4,970,507,916) ordinary shares in issue during the period.

No diluted loss per share is shown in the same period of the current year because the dilution effects arising from the exercises of all dilutive potential ordinary shares would be anti-dilutive. The calculation of diluted earnings per share for the period ended 30 June 2000 is based on the following data:

	6 months ended 30 June 2000
Earnings	
Profit for the period attributable to shareholders	HK$174,430,000
Number of shares	
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	4,970,507,916
Weighted average number of ordinary shares:	
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	88,137,000
Assumed issued upon the conversion of the conversion options granted to Fortune International Limited and CyberWorks Ventures Limited	100,603,000
Weighted average number of ordinary shares used in diluted earnings per share calculation	5,159,247,916

(8) Adjustments retrospectively applied upon adoption of new and revised SSAP

The financial effect of the adoption of the revised accounting policy as described in note 2 is summarized as belows:

	6 months ended 30 June 2000 (Unaudited) HK$'000	12 months ended 31 December 2000 (Audited) HK$'000
Profit as previously reported	174,430	101,767
Impairment of goodwill recognized upon the adoption of SSAP 31	–	(438,118)
Profit/(loss) as retrospectively restated	174,430	(336,351)
Basic earnings/(loss) per share:		
As previously reported	3.51 cents	2.00 cents
As retrospectively restated	3.51 cents	(6.61 cents)
Diluted earnings per share:		
As previously reported	3.38 cents	1.99 cents
As restrospectively restated	3.38 cents	N/A

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets, (including property and equipment, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. The Group has retrospectively restated its previously reported net profit for the periods ended 30 June 2000 and 31 December 2000 by a loss of HK$ nil and HK$438,118,000 respectively for the impairment of goodwill arising from the acquisition of subsidiaries and associates.

(9) Intangible assets

	Goodwill on consolidation HK$'000	Trading rights in exchanges in Hong Kong HK$'000	Total HK$'000
Cost			
Balance at 1 January 2001	–	18,235	18,235
Addition during the period	–	65	65
On acquisition of subsidiaries	69,668	–	69,668
On disposal of interests in subsidiaries	(4,959)	–	(4,959)
Balance at 30 June 2001	**64,709**	**18,300**	**83,009**
Amortization			
Balance at 1 January 2001	–	1,823	1,823
Amortization for the period	850	915	1,765
Balance at 30 June 2001	**850**	**2,738**	**3,588**
Net Book Value	**63,859**	**15,562**	**79,421**

(10) Accounts receivable

	30 June 2001 (Unaudited) HK$'000	31 December 2000 (Audited) HK$'000
Accounts receivable arising from the ordinary course of business of dealing in securities and equity options:		
Hong Kong Securities Clearing Company Limited		
SEHK Options Clearing House Limited		
Brokers and dealers	2,223	5,036
Cash clients	30,182	11,789
Margin clients	242,906	257,637
Accounts receivable arising from the ordinary course of business of dealing in futures and options contracts:		
Brokers and dealers		
HKFE Clearing Corporation Limited	46,585	44,168
Accounts receivable arising from the ordinary course of retails business	32,820	–
	354,716	318,630

The ageing analysis of trade receivable of retails business was as follows:

	30 June 2001 (Unaudited) HK$'000	31 December 2000 (Audited) HK$'000
Current to 30 days	10,358	–
31- 60 days	9,867	–
61- 90 days	7,222	–
Over 90 days	5,373	–
Total	32,820	–

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

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

Loans to share 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.

(11) Accounts payable

	30 June 2001 (Unaudited) HK$'000	31 December 2000 (Audited) HK$'000
Accounts payable arising from the ordinary course of business of dealing in securities and equity options:		
Hong Kong Securities Clearing Company Limited		
Brokers and dealers		
Cash clients	2,904	8,331
Margin clients	391,461	233,357
Option clients	37,675	32,386
Accounts payable to clients arising from the ordinary course of business of dealing in futures and options contracts	108,853	100,642
Accounts payable to clients arising from the ordinary course of retails business	144,243	–
	685,136	374,716

The ageing analysis of trade payable of retails business was as follows:

	30 June 2001 (Unaudited) HK$'000	31 December 2000 (Audited) HK$'000
Current to 30 days	44,052	–
31- 60 days	41,536	–
61- 90 days	32,789	–
Over 90 days	25,866	–
Total	144,243	–

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities are two days after trade date. The age of these balances is within 30 days.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options contracts are margin deposits received from clients for their trading of futures and options contracts. The excesses 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 contracts dealing.

Amounts due to share margin clients are repayable on demand. No ageing 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.

(12) Share capital

	Number of ordinary shares of HK$0.10 each (in thousands)	Amount HK$'000
At 1 Jan 2001	5,923,898	592,390
Shares issued for acquisition of the interests in Pricerite Group Limited ("Pricerite")	507,819	50,782
Share buyback	(17,698)	(1,770)
At 30 June 2001	**6,414,019**	**641,402**

(13) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Capital reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
Balance at 1 January 2001 previously reported	196,221	62,874	1,160	71,887	268,708	600,850
Impairment of goodwill recognized upon the adoption of SSAP 31	–	438,118	–	–	(438,118)	–
Balance at 1 January 2001 as retrospectively restated	196,221	500,992	1,160	71,887	(169,410)	600,850
Shares issued for acquisition of interests in Pricerite	101,564	–	–	–	–	101,564
Shares issuing expenses	(626)	–	–	–	–	(626)
Shares buyback	(1,869)	–	–	–	–	(1,869)
Result for the period	–	–	–	–	(293,407)	(293,407)
At 30 June 2001	**295,290**	**500,992**	**1,160**	**71,887**	**(462,817)**	**406,512**

(14) Acquisition of subsidiaries

	Unaudited six months 30 June 2001 HK$'000
NET ASSETS ACQUIRED	
Property and equipment	142,046
Inventories	51,787
Prepayments, deposits and other receivables	30,786
Taxation recoverable	125
Pledged bank deposits	8,500
Bank balances and cash	68,290
Accounts payable	(107,820)
Accrued liabilities and other payables	(18,618)
Bank borrowings	(42,120)
Minority Interests	(28,666)
	104,310
Goodwill on consolidation	69,668
	173,978
SATISIFIED BY	
Issue of new shares	152,346
Cash consideration	21,632
	173,978
NET CASH INFLOW ARISING ON ACQUISITION	
Cash consideration	(21,632)
Bank balances and cash acquired	76,790
	55,158

(15) Non-cash transaction

During the period, the Group acquired 493,144,099 shares of Pricerite at a total consideration of HK$173,978,000 (including expenses), of which HK$152,346,000 was settled by issuing 507,818,605 new ordinary shares of HK$0.10 each of the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).

OUTLOOK AND REVIEW

REVIEW

The first half of 2001 saw a significant and continuous decline in the financial market. As a result, volatile market conditions and economic slowdown impacted adversely on the Group's financial services core business. Due to the unfavorable market condition, the Group reported an operating loss of HK$83 million before provisions for investments for the period. However, in view of the extremely unfavorable investment environment, the board of directors ("Board") decided to make impairment provisions of HK$173.9 million for its investments. The Board had been tracking and reviewing the state of the Hong Kong economy closely and made decisive short-term remedies to weather the current economic environment as well as long-term measures to ensure growth and future prosperity.

The year began with an ongoing across the board cost reduction initiative for the financial services business bringing about rationalization and streamlining of business operations, more stringent capital expenditure and reduction in operating expenses. To fulfill the mission of the management to continuously seek out opportunities and means to grow, the Board began a process of diversifying the income stream of the Group while leveraging on the experience and strength culminated from serving the Hong Kong retail public in the financial services arena. The reorientation to become a diversified service conglomerate to broaden the customer base and to develop a more stable income stream for the Group led to the acquisition of a majority stake in Pricerite. Listed on the Stock Exchange, Pricerite is one of the largest local retailers of household and furnishing items. The Board intends to seek out further opportunities in the low-to-mid end service sector to further mitigate the cyclical factors inherent to the financial services industry.

By adopting the ongoing cost control measures, together with the acquisition of Pricerite and the Group's strong balance sheet, the Directors are confident that the Group is well placed to weather the current economic difficulties.

Financial Services

The first half of this year saw a continuation of the severe decline in turnover and volume on the Stock Exchange that began with the burst of the technology bubble in 2000. Against a backdrop of deteriorating economic outlook, worsening market sentiment and consumer confidence, the Group conducted a decisive and sweeping reorganization and rationalization initiative to ensure that the financial service business will not succumb to the current difficulties and future challenges to come. In the pursuit of cost reduction and efficiency enhancement, non-profitable business lines were suspended, credit policy and risk management were further tightened, and employee headcount was reduced. This precautionary plan, although did not immune the group from the negative cyclical nature of the financial services industry, served to minimize the exposure to the downturn as the World brace itself for further decline in the global economy.

2001 saw marked intensification in competition within the brokerage industry. New entrants to the on-line arena in the already crowded and depressed market place brought with them competition by way of steep discounts and massive cash giveaways to attract customers. But the most formidable competition came in the form of banks. The banking industry, faced with the deregulation in interest rate this July, have been moving aggressively into fee based services. Previously a value added service is rapidly becoming a major fee based service to replace revenue lost to decreased interest income. The Board elected to refrain from resorting to utilize cost of sales items such as acute commission discounts or overly aggressive incentive schemes to attract new clients and to retain existing ones. The Directors are unanimous in the belief that resorting to strategies that discounts the value of our services in the name of competition does not build a long lasting and profitable customer base. Instead, the Group will move forward on a tradition of continuously delivering additional values via upgrading service quality, constant product enhancements, and utilizing technology to deliver the most efficient and reliable trading services possible.

The Group introduced its Prestige personalized service for high net worth house clients. It spearheads the overall drive to upgrade our service quality. The Directors are of the opinion that only by relentlessly improving our service offering will the Group become one of the most recognized and preferred brokerage in Hong Kong and will reward the Group with enhanced revenue generating ability when the market recovers from the recent doldrums.

It is according to this belief that CASH on-line Limited ("COL"), the Group's listed on-line financial services subsidiary continued to broaden its product offering. During the period COL successfully launched its WAP and PDA trading services for securities and commodities through its partnership with PCCW Mobility Services and Hutchison OrangeWorld. By extending the real time credit management module developed for the commodities trading and margin trading service, the Company became the first brokerage in Hong Kong to offer a T + 2 settlement service, adding further efficiency and flexibility to benefit its clients.

The Company broadened its service offering by launching e-Fund, a unit trust trading platform supported by nine fund providers with over 300 SFC approved funds for its clients to choose from. It also launched the e-Surance insurance distribution platform. Developed through a partnership with the leading American insurance brokerage firm AON, it marks the Group's first venture into the insurance distribution business.

The first half of 2001 saw the successful launch of the Group's Hong Kong securities execution service for ICBC (Asia) and SinoPac Bank of Taiwan. This marks the first step in the realization in COL's mission to develop a B2B revenue stream through the efficient and robust transaction platforms. The Company is in active dialogues with other financial institutions to further extend the "white label" transaction support services.

The Group is encouraged by the much improved investment banking services during the period. The corporate finance service launched the brand new Shareholders Value Enhancement program that builds long term relationship with the corporate clients of CASH as well as broaden the income stream of the Group. The Directors are optimistic that the corporate finance consultancy will bring significant increases in revenue contribution in the future.

In June, the Group and COL proposed to its shareholders to merge the on-line and off-line financial services businesses. The Directors are of the view that only operating as a unified "brick and mortar" operation will the financial services business reap the benefits of economies of scale as well as eliminate unnecessary duplications in infrastructure, human and capital resources. It will also enable the merged group to tap the broadest possible audience in the Hong Kong market. Combined, it will be in a position to offer more compelling product offerings against an even more efficient infrastructure. Both COL and the Group had already received both consent from the relevant regulatory bodies as well as their respective shareholders. Completion will take place in September and the Directors believe that the combined group will bring with it a new level of enhanced competitiveness and profitability in the future.

Pricerite

The Group embarked on its mission to transform itself into a cross-sector services conglomerate with the acquisition of Pricerite. Since the acquisition, a restructuring program in Pricerite in financing, management and marketing was completed. The subsequent new advertising campaign launched to re-brand Pricerite was well received by Hong Kong consumers.

Under the guidance from the Board, the management of Pricerite embarked on a series of enhancement programs to build dynamism and business momentum for the company. Operational structure was rationalized and workflow streamlined. Pricerite saw a steady and significant increase in operational efficiency through improvements made in logistics, merchandising, inventory management and technology driven warehouse rationalization. Pricerite is now a customer-driven retailer committed to providing a full range of well-selected household products with emphasis on quality assurance. As a result, Pricerite enjoyed an increase turnover and net profit for the period. The Directors are encouraged to see that through management and financial support from CASH, Pricerite is moving from strength to strength despite a declining economy and consumer spending.

Transtech – Optical Fiber Joint Venture

The development of Transtech Services Group ("Transtech"), the joint venture optical fiber manufacturing arm is progressing according to schedule. Since its inception in mid 2000, the progress of this investment project has reached the final completion of the Tai Po manufacturing plant and management is preparing for test run in the near future. The Directors anticipate that once completed, this manufacturing plant will enjoy a comparatively lower operating cost than comparable international manufacturers. Responses from potential buyers in the region have been positive.

The Directors are closely monitoring signs of a reduction in global demand for optical fiber. The price of optical fibers has been on a steady decline from its peak in 2000 while international competitors have been reducing production capacity and operating costs. The Directors will modify the output capacity and underlying cost structure as the plant enters into production to fall in line with the overall industry.

OUTLOOK

The Hong Kong economy continued its downward spiral with increasing unemployment, decline in private and corporate investment as well as diminishing consumer spending. Downsizing efforts by local and international businesses during the period served to confirm the weakness in the global economy currently and in the future. Compounded by the terrorist attacks in America, the destruction in the largest financial center in the world and the tragic lost of lives, further turbulence and uncertainty lies ahead. The Board believes that prudence and restraints is of utmost importance for the future of the Group.

The Directors anticipate further hard times ahead in particular, during the second half of 2002 when brokerage commission has been deregulated. The Directors expect to see substantial consolidation within the over crowded market space leaving only those with solid and efficient infrastructure and financial strengths. Preservation of a strong balance sheet will be the key objective as the entire financial services industry faces further decrease in revenue and profit margins. The management will continue to tighten cost control while continuing to extend and enhance the product offering on a cautious and selective basis.

Recent market research showed that Pricerite ranks first across several household product categories in Hong Kong. To maintain its leadership position, Pricerite will continue to enrich its mix and match product range as well as its product quality improvement initiative. Additional resources will be allocated to improve logistics technology to better manage space and human resources allocation, work scheduling and inventory cycle. The Group will focus its efforts to attain the highest level of operation efficiency possible to create better value for customers and improved margin for Pricerite. The Directors are encouraged by Pricerite's ability to exceed its aggressive budgetary targets and is confident that it will take its place as one of Hong Kong's top household goods retailers.

Amidst the potential global turmoil, China's economical development continues to grow from strength to strength. To fulfill management duty to continuously seek out and create growth for the Company, a representative office was established in Shanghai as a staging point to prudently explore future development opportunities. To this end, Pricerite commenced development of its business in China through the establishment of its first marketing point in Shanghai. While the Board are optimistic over the potential offered in China, the management will exercise the utmost prudence in the foray into the China market by closely monitoring and managing investment levels and the return on investments.

The Directors do not foresee non-recurring business or provision during the remainder of the year. Cost leadership, capital preservation, creating synergies and economies of scale in services, and maintenance of our strong balance sheet will continue to be the mainstay of our strategy to steer the Group through the current economic turbulence and to realize the mission of the Group to become a cross-sector services conglomerate.

LIQUIDITY AND CAPITAL RESOURCE

The Group continued to maintain a solid balance sheet even though it had already taken account of the unsatisfactory results for the period and the provisions for impairment made for its investments. As at 30 June 2001, total net assets decreased approximately 12% from HK$1.19 billion as at 31 December 2000 to HK$1.05 billion as at 30 June 2001.

The cash and bank balances totalled HK$802.7 million as at 30 June 2001, representing a decrease of HK$117.8 million as compared to those of as at 31 December 2000. The lower earnings during the period and the Group's investment in its optical fiber joint venture had attributed to the decrease in the cash and bank balances.

The total bank borrowings increased to HK$188.4 million as at 30 June 2001 from HK$121.4 million as at 31 December 2000. The increase in bank borrowings was the result of consolidating the bank borrowings of Pricerite following its acquisition by the Group in March 2001. Accordingly, the ratio of total bank borrowings to shareholders' equity was increased to 18% as at 30 June 2001 from 10% as at 31 December 2000. Bank borrowings are closely monitored by the Group to maintain gearing at a reasonable level.

The ratio of current assets to current liabilities was 1.60 as at 30 June 2001 compared to 2.28 as at 31 December 2000. The Board believes the downturn of the economy will continue which casts much uncertainty on the investment market in a longer perspective. However, the Group is standing on a healthy financial position and with the adopted prudent financial policy, the Group is well positioned to challenge any forthcoming difficulties and to grasp any business opportunities that may arise amid the adverse investment environments.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2001, the Directors' and chief executive's interests in shares in or debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

A. The Company

(a) Interests in ordinary shares

	Number of shares beneficially held			
Name	Personal	Corporate	Other Interest	Shareholding (%)
Kwan Pak Ho Bankee*	–	–	3,374,579,709	52.61
Khoo Ken Wee**	30,000,000	2,692,019,826	–	42.44
Li Yuen Cheuk Thomas	30,037,500	–	–	0.47
Law Ping Wah Bernard	54,249,828	–	–	0.85
Law Ka Kin Eugene	2,500,000	–	–	0.04
Kwok Oi Kuen Joan Elmond	4,000,000	–	–	0.06

* The shares are held as to 2,692,019,826 shares by Cash Guardian Limited ("Cash Guardian") and as to 682,559,883 shares by Suffold Resources Limited ("Suffold"). Mr Kwan is deemed to be interested in all these shares as a result of his interests in Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

** The shares are held as to 30,000,000 shares personally and as to 2,692,019,826 shares by Cash Guardian. Mr Khoo is deemed to be interested in the shares held by Cash Guardian as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

For avoidance of doubt, the above interests held by Mr Kwan and Mr Khoo have taken into account the 2,692,019,826 shares held by Cash Guardian.

(b) Interests in warrants

Warrants carrying rights to subscribe for shares in the Company at a subscription price of HK$0.65 each (subject to adjustment) during the period from 20 July 2000 to 31 July 2002 (both days inclusive)

	Amount of warrants beneficially held		
Name	Personal (HK$)	Corporate (HK$)	Other Interest (HK$)
Kwan Pak Hoo Bankee*	–	–	159,976,285.30
Khoo Ken Wee**	1,950,000.00	144,876,749.55	–
Li Yuen Cheuk Thomas	1,952,437.50	–	–
Law Ping Wah Bernard	3,526,238.30	–	–
Law Ka Kin Eugene	162,500.00	–	–
Kwok Oi Kuen Joan Elmond	260,000.00	–	–

* The amount of warrants are held as to HK$144,876,749.55 by Cash Guardian and as to HK$15,099,535.75 by Suffold. Mr Kwan is deemed to be interested in all these warrants as a result of his interests in Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

** The amount of warrants are held as to HK$1,950,000.00 personally and as to HK$144,876,749.55 by Cash Guardian. Mr Khoo is deemed to be interested in the warrants held by Cash Guardian as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

For avoidance of doubt, the above interest held by Mr Kwan and Mr Khoo have taken into account the HK$144,876,749.55 amount of warrants held by Cash Guardian.

B. Associated corporations (within the meaning of SDI Ordinance)

(a) Interests in COL

Ordinary shares

	Number of shares beneficially held			
Name	Personal	Corporate	Other Interest	Shareholding (%)
Kwan Pak Hoo Bankee*	–	–	1,086,619,945	53.92
Khoo Ken Wee**	3,000,000	1,057,152,090	–	52.61
Li Yuen Cheuk Thomas	3,003,750	–	–	0.15
Law Ping Wah Bernard	5,424,982	–	–	0.27
Law Ka Kin Eugene	250,000	–	–	0.01
Kwok Oi Kuen Joan Elmond	400,000	–	–	0.02

* The shares are held as to 1,009,264,783 shares by Celestial Investment Group Limited ("CIGL") (a wholly owned subsidiary of the Company), as to 47,887,307 shares by Cash Guardian and as to 29,467,855 shares by Suffold. Mr Kwan is deemed to be interested in all these shares as a result of his interests in the Company, Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

** The shares are held as to 3,000,000 shares personally, as to 1,009,264,783 shares by CIGL and as to 47,887,307 shares by Cash Guardian. Mr Khoo is deemed to be interested in all these shares as a result of his interests in the Company and Cash Guardian as disclosed in the "Substantial Shareholders" below.

For avoidance of doubt, the above interests held by Mr Kwan and Mr Khoo have taken into account the 1,009,264,783 shares held by CIGL and 47,887,307 shares held by Cash Guardian.

(b) Interests in Pricerite

Ordinary shares

	Number of shares beneficially held			
Name	Personal	Corporate	Other Interest	Shareholding (%)
Kwan Pak Hoo Bankee	–	–	458,144,099*	72.81
Khoo Ken Wee	–	458,144,099*	–	72.81

* The shares were held as to 435,132,000 by CIGL and as to 23,012,099 by the Company. Mr Kwan and Mr Khoo are deemed to be interested in all these shares as a result of his interests in the Company as disclosed in the "Substantial Shareholders" below.

Save as disclosed above, as at 30 June 2001, none of the Directors and chief executive of the Company had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES IN THE COMPANY

The Company has a share option scheme approved by the shareholders under which the Directors may, at their discretion, invite any employee or executive Directors of the Group to take up options at a consideration of HK$1.00 each to subscribe for ordinary shares in the Company.

Neither share options were granted nor exercised by the Directors during the period. Details of outstanding share options held by the Directors as at 30 June 2001 were as follows:-

Name	Number of outstanding options	Exercise period	Exercise price per share HK$
Kwan Pak Hoo Bankee	40,000,000	8 April 2000 – 7 April 2002	0.59
Khoo Ken Wee	20,000,000	8 April 2000 – 7 April 2002	0.59
Li Yuen Cheuk Thomas	20,000,000	8 April 2000 – 7 April 2002	0.59
Law Ping Wah Bernard	40,000,000	8 April 2000 – 7 April 2002	0.59
Law Ka Kin Eugene	2,500,000	13 May 2000 – 12 November 2001	0.23
	3,000,000	8 April 2000 – 7 April 2002	0.59
	10,000,000	1 December 2000 – 30 November 2002	0.35
	10,000,000	16 May 2001 – 15 May 2003	0.27
Kwok Oi Kuen Joan Elmond	5,750,000	8 April 2000 – 7 April 2002	0.59
	15,000,000	16 May 2001 – 15 May 2003	0.27

Save as disclosed above, during the six months ended 30 June 2001, none of the Directors and chief executive of the Company nor any of their spouse or children under 18 years of age was granted or holding options to subscribe for shares in the Company, nor had exercised such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares	Shareholding %
Jeffnet Inc *(Note 1)*	3,374,579,709	52.61
Kwan Pak Hoo Bankee *(Note 1)*	3,374,579,709	52.61
Khoo Ken Wee *(Note 2)*	2,722,019,826	42.44
Cash Guardian Limited	2,692,019,826	41.97
Suffold Resources Limited	682,559,883	10.64

Notes:

(1) The shares are held as to 2,692,019,826 shares by Cash Guardian (which is 60% beneficially owned by Jeffnet Inc ("Jeffnet")) and as to 682,559,883 shares by Suffold (which is 100% beneficially owned by Jeffnet). Jeffnet held these shares as trustee of The Jeffnet Unit Trust, units of which are held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to SDI Ordinance, Mr Kwan and Jeffnet are deemed to be interested in the aggregate shares held by Cash Guardian and Suffold.

(2) The shares are held as to 30,000,000 shares personally by Mr Khoo and as to 2,692,019,826 shares by Cash Guardian (which is 40% beneficially owned by Mr Khoo). Mr Khoo is deemed to be interested in all the shares held by Cash Guardian pursuant to the SDI Ordinance.

(3) For avoidance of doubt, the shares in notes (1) and (2) have taken into account the 2,692,019,826 shares held by Cash Guardian and the shares in note (1) has also taken into account the 682,559,883 shares held by Suffold.

Save as disclosed above, as at 30 June 2001, no other party was recorded as having an interest of 10% or more in the issued share capital of the Company in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period from 1 January 2001 to 30 June 2001, in compliance with Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange, save that the independent non-executive Directors of the Company were not appointed for specific terms but subject to retirement by rotation at annual general meeting as specified by the Company's bye-laws.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the underlying period, the Company has purchased a total number of 17,698,000 shares in the Company at the aggregate price of HK$3,638,848 on the Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

On behalf of the Board
Bankee P Kwan
Chairman

Hong Kong, 17 September 2001