

CASH 時富

Celestial Asia Securities Holdings Limited



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Interim Results 2002

## SUMMARY

- Consolidated turnover increased 64.6% to HK\$578.7 million.
- Despite difficult economy conditions, net loss attributable to shareholders declined to HK\$10.9 million, representing an improvement of 96.3%.
- Cash and bank balances were HK\$574.8 million with a healthy liquidity ratio maintained at 1.4 times.

## CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of Celestial Asia Securities Holdings Limited ("Company" or "CASH") and its subsidiaries ("Group") for the six months ended 30 June 2002 together with the comparative figures for the last corresponding period are as follows:

	Notes	Unaudited	
		2002	2001
		HK\$'000	HK\$'000
Turnover	2	578,687	351,634
Other revenue	4	59,573	–
Changes in inventories of finished goods		(292,133)	(149,124)
Salaries, allowances and commission		(144,574)	(116,626)
Depreciation and amortisation		(30,462)	(21,003)
Other operating and administrative and selling expenses		(153,310)	(140,856)
Finance costs		(3,151)	(6,979)
Share of losses of associates		(7,665)	(6,005)
Restructuring costs		–	(42,672)
Impairment loss on investment		–	(173,900)
Provision for doubtful receivable		(6,000)	–
Impairment loss on property and equipment		(25,135)	–
Loss before taxation		(24,170)	(305,531)
Taxation	5	–	(11)
Loss before minority interests		(24,170)	(305,542)
Minority interests		13,295	12,135
Net loss attributable to shareholders		<u>(10,875)</u>	<u>(293,407)</u>
Loss per share	6		
– Basic		<u>(3.4) cents</u>	<u>(94.9) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

		30 June 2002 (Unaudited) Notes	31 December 2001 (Audited)
		HK\$'000	HK\$'000
Non-current assets			
Property and equipment		235,586	236,453
Interests in associates		207,287	164,466
Investments		57,000	57,000
Goodwill		85,562	88,604
Intangible assets		13,732	14,582
Other assets		49,947	54,067
Loans receivable		40,959	42,646
		<u>690,073</u>	<u>657,818</u>
Current assets			
Inventories		56,021	53,983
Accounts receivable	7	307,181	290,872
Loans receivable		31,094	24,470
Prepayments, deposits and other receivable		79,687	88,769
Investments		43,994	33,502
Taxation recoverable		857	1,023
Pledged bank deposits		38,349	43,745
Bank balances – trust and segregated accounts		321,282	362,634
Bank balances (general) and cash		215,195	355,320
		<u>1,093,660</u>	<u>1,254,318</u>
Current liabilities			
Accounts payable	8	531,438	548,046
Accrued liabilities and other payable		124,952	106,212
Taxation		2,071	2,071
Obligations under finance leases – amount due within one year		1,371	1,988
Bank borrowings		135,385	155,589
		<u>795,217</u>	<u>813,906</u>
Net current assets		<u>298,443</u>	<u>440,412</u>
		<u><u>988,516</u></u>	<u><u>1,098,230</u></u>

## CONSOLIDATED BALANCE SHEET (continued)

		30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
	Notes		
Capital and reserve			
Share capital	9	30,548	639,435
Reserves	10	<u>774,860</u>	<u>263,136</u>
		<b>805,408</b>	<b>902,571</b>
Minority interests		<b>181,816</b>	194,910
Non-current liabilities			
Obligations under finance leases			
– amount due after one year		<u>1,292</u>	<u>749</u>
		<b><u>988,516</u></b>	<b><u>1,098,230</u></b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	422	(280,578)
Net cash outflow from returns on investments and servicing of finance	(5,137)	(6,979)
Net cash inflow/(outflow) from taxation	166	(332)
Net cash outflow from investing activities	<u>(104,883)</u>	<u>(73,357)</u>
Net cash outflow before financing activities	(109,432)	(361,246)
Net cash (outflow)/inflow from financing	<u>(23,199)</u>	<u>20,655</u>
Decrease in cash and cash equivalents	(132,631)	(340,591)
Cash and cash equivalents at beginning of period	<u>250,790</u>	<u>476,560</u>
Cash and cash equivalents at end of period	<u><u>118,159</u></u>	<u><u>135,969</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	574,826	802,668
Bank borrowings, repayable within three months from date of the advances	<u>(135,385)</u>	<u>(188,379)</u>
	439,441	614,289
Less: Bank balances – trust and segregated accounts	<u>(321,282)</u>	<u>(478,320)</u>
	<u><u>118,159</u></u>	<u><u>135,969</u></u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Notes	Unaudited six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
At 1 January		902,571	1,193,239
Shares issued for acquisition of Pricerite Group		–	152,346
Repurchase of shares		(26,718)	(3,638)
Share issue expenses		–	(626)
Shares issued upon exercise of bonus warrants		3	–
Gain realised on expiry of placing warrants	4	(59,573)	–
Net loss for the period		(10,875)	(293,407)
At 30 June		<u>805,408</u>	<u>1,047,914</u>

Notes:

(1) Principal accounting policies and basis of preparation

The unaudited interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 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").

The accounting policies and methods of computation used in preparation of these unaudited consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2001.

(2) Turnover

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Fees and commission income	96,697	127,325
Interest income	19,318	-
Loss on trading of securities, options and futures	(4,998)	(19,760)
Information technology advisory income in Hong Kong	1,679	-
Sales of furniture and household goods, net of discounts and returns	465,991	237,905
Others	-	6,164
	<u>578,687</u>	<u>351,634</u>

(3) Income statement by business and geographical 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 were 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 investment



Segment information about these businesses for the six months ended 30 June 2002 and 30 June 2001 is presented below:

*For the six months ended 30 June 2002*

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>111,877</u>	<u>462,697</u>	<u>1,679</u>	<u>2,434</u>	<u>578,687</u>
Segment (loss)/profit	<u>(13,408)</u>	<u>664</u>	<u>(23,872)</u>	<u>4,026</u>	(32,590)
Unallocated corporate expenses					(36,923)
Impairment loss of property and equipment					(935)
Gain realised on expiry of placing warrants					<u>59,573</u>
Loss before taxation					(10,875)
Taxation credit					<u>-</u>
Net loss attributable to shareholders					<u>(10,875)</u>

*For the six months ended 30 June 2001*

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000 (restated)
Turnover	<u>127,325</u>	<u>237,905</u>	<u>-</u>	<u>(13,596)</u>	<u>351,634</u>
Segment (loss)/profit	<u>(51,897)</u>	<u>12,503</u>	<u>(43,093)</u>	<u>(181,366)</u>	(263,853)
Unallocated corporate expenses					<u>(29,543)</u>
Loss before taxation					(293,396)
Taxation credit					<u>(11)</u>
Net loss attributable to shareholders					<u>(293,407)</u>

**Geographical segments**

The Group's information technology operations and other operations for the period were located in Hong Kong. The Group's turnover for the current period was derived from Hong Kong.

(4) Other revenue

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Gain realised on expiry of placing warrants (W580) ("Placing Warrants")	59,573	—
	<u>59,573</u>	<u>—</u>

On 14 July 2000, the Company issued 496,400,000 Placing Warrants to independent investors at a price of HK\$0.12 per Placing Warrant and the proceeds of HK\$59,573,000 received from placing were credited to other reserve. On 1 February 2002, Placing Warrants remained unexercised and lapsed. As a result, the placing proceeds were recognised in the profit and loss account upon expiry.

(5) Taxation

Hong Kong Profits Tax was provided at 16% on the Group's estimated assessable profits arising in Hong Kong.

(6) Loss per share

The calculation of basic loss per share for the six months ended 30 June 2002 together with the comparative figures for 2001 is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Loss for the purpose of basic loss per share calculation	(10,875)	(293,407)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>318,467,629</u>	<u>309,244,661</u>

The weighted average number of ordinary shares for the six months ended 30 June 2001 for the purposes of basic loss per share has been adjusted for the share consolidation on 26 April 2002.

No diluted loss per share is shown for the above two periods because the dilution effects arising from the exercises of all dilutive potential ordinary shares would be anti-dilutive.

## (7) Accounts receivable

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing house, brokers and dealers	31,463	10,928
Cash clients	24,867	11,817
Margin clients	213,554	221,456
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	35,882	43,674
Trade debtors:		
Retailing	875	2,997
Information technology advisory and others	540	–
	<u>307,181</u>	<u>290,872</u>

The settlement terms of accounts receivable arising from the business of dealing in securities and equity options were two days after trade date, and accounts receivable arising from the business of dealing in futures and options were 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 were secured by clients' pledged securities, repayable on demand and bore interest at commercial rates. No aging analysis is disclosed as in the opinion of Directors, the aging 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 was an amount of approximately HK\$26,361,000 (At 31 December 2001: 25,220,000) due from companies controlled by Kwan Pak Hoo Bankee. The amount was secured by pledged securities and repayable on demand, and bore interest at commercial rates which were similar to the rates offered to other margin clients. The maximum amount outstanding therefrom during the period was HK\$28,701,000 (For the year ended 31 December 2001: HK\$25,220,000).

The aging analysis of trade debtors – retailing and information technology advisory and others was as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	1,134	2,609
31 – 60 days	281	388
	<u>1,415</u>	<u>2,997</u>

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

(8) Accounts payable

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Cash clients	232,653	243,866
Margin clients	37,830	52,575
Accounts payable to clients arising from the business of dealing in futures and options	137,477	119,826
Trade creditors – retailing	123,478	131,779
	<u>531,438</u>	<u>548,046</u>

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

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

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

The aging analysis of trade creditors - retailing was as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
0 – 30 days	8,674	35,671
31 – 60 days	12,910	30,784
61 – 90 days	14,616	24,989
Over 90 days	87,278	40,335
	<u>123,478</u>	<u>131,779</u>

(9) Share capital

	Notes	Number of shares '000	Amount HK\$'000
AUTHORISED			
Ordinary shares of HK\$0.10 each at 1 January 2002		10,000,000	1,000,000
Reduced due to Share Consolidation	<i>a(i)</i>	<u>(9,500,000)</u>	<u>–</u>
Ordinary shares of HK\$2.00 each		500,000	1,000,000
Reduced due to Capital Reduction	<i>a(ii)</i>	<u>–</u>	<u>(950,000)</u>
Ordinary shares of HK\$0.10 each		500,000	50,000
Share cancellation of unissued share capital	<i>a(iii)</i>	(180,283)	(18,028)
Increase in authorised share capital	<i>a(iii)</i>	<u>180,283</u>	<u>18,028</u>
Ordinary shares of HK\$0.10 each at 30 June 2002		<u>500,000</u>	<u>50,000</u>
ISSUED AND FULLY PAID			
Ordinary shares of HK\$0.10 each at 1 January 2002		6,394,355	639,435
Reduced due to Share Consolidation	<i>a(i)</i>	<u>(6,074,637)</u>	<u>–</u>
Ordinary shares of HK\$2.00 each		319,718	639,435
Reduced due to Capital Reduction	<i>a(ii)</i>	<u>–</u>	<u>(607,463)</u>
Ordinary shares of HK\$0.10 each		319,718	31,972
Exercise of warrants	<i>(b)</i>	0.263	0.0263
Shares repurchased and cancelled	<i>(c)</i>	<u>(14,242)</u>	<u>(1,424)</u>
Ordinary shares of HK\$0.10 each at 30 June 2002		<u>305,476</u>	<u>30,548</u>

*Notes:*

- (a) Pursuant to the special resolution passed by the shareholders at the special general meeting of the Company held 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");
  - (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\$50,000,000.00 by the creation of additional new shares of HK\$0.10 each; and
  - (iv) transferred the credit amount arising from the Capital Reduction of HK\$607,463,726.70 to the contributed surplus account.
- (b) During the period, a total amount of HK\$3,419.00 bonus warrants (W284) ("Bonus Warrants") were exercised by warrant holders to subscribe for a total number of 263 shares in the Company at the adjusted subscription price of HK\$13.00 per share.
- (c) During the period, the Company repurchased 14,242,000 shares in the Company at a total consideration (before expenses) of HK\$26,588,460.00. All the shares repurchased were cancelled upon repurchase.

## (10) Reserves

		Share premium	Contributed surplus	General reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002		294,035	519,500	1,160	71,887	(623,446)	263,136
Increased due to Capital Reduction	(a)	-	607,464	-	-	-	607,464
Transfer from contributed surplus to set off accumulated losses	(b)	-	(669,503)	-	-	669,503	-
Shares issued upon exercise of Bonus Warrants		3	-	-	-	-	3
Premium arising from repurchase of shares		(25,295)	-	-	-	-	(25,295)
Gain realised on expiry of Placing Warrants	(c)	-	-	-	(59,573)	-	(59,573)
Net loss for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,875)</u>	<u>(10,875)</u>
At 30 June 2002		<u>268,743</u>	<u>457,461</u>	<u>1,160</u>	<u>12,314</u>	<u>35,182</u>	<u>774,860</u>

### Notes:

- (a) Please refer to the notes of share capital.
- (b) Pursuant to the minutes of a directors' meeting held on 16 May 2002, an amount of HK\$669,502,735.00 was transferred from the contributed surplus account to set off against the accumulated losses of the Company at 31 December 2001.
- (c) The gain referred to the proceeds received from issuing the Placing Warrants to independent investor on 14 July 2000 at a price of HK\$0.12 per warrant. On 1 February 2002, the Placing Warrants remained unexercised and lapsed. The proceeds credited to other reserves was recognised in the profit and loss account accordingly.

## DIVIDEND

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

## REVIEW AND OUTLOOK

### *Financial Review*

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

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

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

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



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

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

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

### *Business Review*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Pricerite Group*

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

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

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

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

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

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

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

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

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

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

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

### *Halo Group*

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

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

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

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

### *Transtech Group*

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

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

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

### *Outlook*

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

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

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

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

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

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

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

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

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

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

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

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

## EMPLOYEE INFORMATION

At 30 June 2002, the Group had 1,107 employees, of which 261 were at CFSG Group and 789 at Pricerite Group. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options and performance bonus. We continue to organise training to employees in the areas of mandatory professional development programmes required by regulatory bodies, computer application, product knowledge, customer services, problem solving and Putonghua training.



## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the Directors' interests in and rights to subscribe for the ordinary shares of HK\$0.10 each in the Company and shares in 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:

### 1. Interest in shares or debentures

#### A. The Company

##### (a) Ordinary shares

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	-	156,952,376*	51.38
Law Ping Wah Bernard	5,096,200	-	1.67
Kwok Oi Kuen Joan Elmond	2,700,000	-	0.88
Law Ka Kin Eugene	125,000	-	0.04
Li Yuen Cheuk Thomas	2,501,875	-	0.82

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

(b) *Warrants*

Warrants carrying rights to subscribe for shares of HK\$0.10 each in the Company at the adjusted subscription price of HK\$13.00 each during the period from 20 July 2000 to 31 July 2002 (both days inclusive).

Name	Amount of warrants beneficially held	
	Personal (HK\$)	Other interest (HK\$)
Kwan Pak Hoo Bankee	-	159,976,285.30*
Law Ping Wah Bernard	3,526,238.30	-
Kwok Oi Kuen Joan Elmond	260,000.00	-
Law Ka Kin Eugene	162,500.00	-
Li Yuen Cheuk Thomas	1,952,437.50	-

\* The amount of warrants was held as to HK\$144,876,749.55 by Cash Guardian and as to HK\$15,099,535.75 by Suffold Resources Limited ("Suffold"). Cash Guardian and Suffold were both 100% beneficially owned by Jeffnet Inc. Details of the ultimate beneficial interest of Jeffnet Inc are disclosed in the "Substantial Shareholders" below. Mr Kwan was deemed to be interested in all these warrants as a result of his interests in Cash Guardian and Suffold.

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

(a) *Ordinary shares in CFSG*

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	-	54,330,997*	53.92
Law Ping Wah Bernard	271,249	-	0.27
Kwok Oi Kuen Joan Elmond	20,000	-	0.02
Law Ka Kin Eugene	12,500	-	0.01
Li Yuen Cheuk Thomas	150,187	-	0.15

\* The shares were held as to 50,463,239 shares by Celestial Investment Group Limited ("CIGL"), a wholly-owned subsidiary of CASH, and as to 3,867,758 shares by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH and Cash Guardian as disclosed in the "Substantial Shareholders" below.

(b) Ordinary shares in Pricerite Group Limited (“Pricerite”)

Name	Number of shares beneficially held		Shareholding (%)
	Other interest		
Kwan Pak Hoo Bankee	1,374,432,297*		66.18

\* The shares were held by CIGL, a wholly-owned subsidiary of CASH. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the “Substantial Shareholders” below.

Save as disclosed above, as at 30 June 2002, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

2. Rights to acquire shares in the Company

Pursuant to the share option schemes of the Company, certain Directors of the Company were granted share options to subscribe for shares in the Company, details of which as at 30 June 2002 were as follows:

Name	Date of grant	Number of options					Exercise period	Exercise price per share (HK\$)	Notes
		Outstanding as at 1 January 2002	Lapsed during the period	Adjusted on 25 April 2002	Granted during the period	Outstanding as at 30 June 2002			
Kwan Pak Hoo Bankee	4/10/1999	40,000,000	(40,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Law Ping Wah Bernard	4/10/1999	40,000,000	(40,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Kwok Oi Kuen Joan Elmond	4/10/1999	5,750,000	(5,750,000)	-	-	-	8/4/2000-7/4/2002	0.59	(2)
	6/11/2000	15,000,000	-	(14,250,000)	-	750,000	16/5/2001-15/5/2003	5.40	(3)
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Law Ka Kin Eugene	4/10/1999	3,000,000	(3,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	(2)
	1/6/2000	10,000,000	-	(9,500,000)	-	500,000	1/12/2000-30/11/2002	7.00	(3)
	6/11/2000	10,000,000	-	(9,500,000)	-	500,000	16/5/2001-15/5/2003	5.40	(3)
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2002	1.32	
Li Yuen Cheuk Thomas	4/10/1999	20,000,000	(20,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Khoo Ken Wee	4/10/1999	20,000,000	(20,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
Wong Chuk Yan	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
Chan Hak Sin	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
Leung Ka Kui Johnny	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
		<u>163,750,000</u>	<u>(128,750,000)</u>	<u>(33,250,000)</u>	<u>15,600,000</u>	<u>17,350,000</u>			

*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.
- (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) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (5) Mr Khoo Ken Wee has resigned as Director of the Company during the period.

Save as disclosed above, during the six months ended 30 June 2002, none of the Directors or chief executive of the Company or any of their spouse or children under 18 years of age was granted or holding options to acquire shares in or debentures of the Company.

## SHARE OPTION SCHEMES

### The Company

Details of share options to subscribe for shares in the Company granted to participants under the share option schemes of the Company during the six months ended 30 June 2002 were as follows:

Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Number of options				Outstanding as at 30 June 2002
				Outstanding as at 1 January 2002	Adjusted on 25 April 2002	Granted during the period	Lapsed during the period	
<b>Directors</b>								
4/10/1999	0.59	8/4/2000-7/4/2002	(2)	128,750,000	-	-	(128,750,000)	-
1/6/2000	7.00	1/12/2000-30/11/2002	(2)	10,000,000	(9,500,000)	-	-	500,000
6/11/2000	5.40	16/5/2001-15/5/2003	(2)	25,000,000	(23,750,000)	-	-	1,250,000
2/5/2002	1.32	2/5/2002-30/4/2003	(2)	-	-	15,600,000	-	15,600,000
				<u>163,750,000</u>	<u>(33,250,000)</u>	<u>15,600,000</u>	<u>(128,750,000)</u>	<u>17,350,000</u>
<b>Employees</b>								
13/5/1999	4.60	13/11/2000-12/5/2002		750,000	(712,500)	-	(37,500)	-
4/10/1999	0.59	8/4/2000-7/4/2002	(3)	23,810,000	-	-	(23,810,000)	-
15/11/1999	12.20	1/11/2000-31/10/2002	(5)	10,000,000	-	-	(10,000,000)	-
10/1/2000	16.00	10/1/2001-9/1/2003		10,000,000	(9,500,000)	-	-	500,000
10/1/2000	16.00	11/7/2000-10/7/2002	(3)	500,000	(475,000)	-	-	25,000
1/6/2000	7.00	1/12/2000-30/11/2002	(4)	45,000,000	(42,750,000)	-	-	2,250,000
28/7/2000	9.80	1/2/2001-31/1/2003	(3)	1,000,000	(950,000)	-	-	50,000
6/11/2000	5.40	16/5/2001-15/5/2003	(4)	25,000,000	(23,750,000)	-	-	1,250,000
6/11/2000	5.40	16/5/2001-15/5/2003	(3)	6,000,000	(5,700,000)	-	-	300,000
2/2/2001	4.80	16/8/2001-15/8/2003	(3)	6,000,000	(5,700,000)	-	-	300,000
31/8/2001	2.60	1/3/2002-28/2/2004	(4)	90,000,000	(85,500,000)	-	-	4,500,000
2/5/2002	1.32	2/5/2002-30/4/2003	(6)	-	-	4,500,000	-	4,500,000
2/5/2002	1.32	1/11/2002-31/10/2003	(4) & (6)	-	-	2,000,000	-	2,000,000
				<u>218,060,000</u>	<u>(175,037,500)</u>	<u>6,500,000</u>	<u>(33,847,500)</u>	<u>15,675,000</u>
				<u>381,810,000</u>	<u>(208,287,500)</u>	<u>22,100,000</u>	<u>(162,597,500)</u>	<u>33,025,000</u>

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.
  - (2) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities" under the sub-heading "Rights to acquire shares in the Company".
  - (3) 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.
  - (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.
  - (5) 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.
  - (6) The closing price of the share immediately before the date of grant was HK\$1.32.
  - (7) The lapsed options were due to expiry or cessation of employment of participants with the Group.
  - (8) No option was exercised or cancelled during the period.
  - (9) The fair value of the options granted during the period totalled approximately HK\$14,383,270. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
    - (i) an expected volatility of 41.6%;
    - (ii) no annual dividends; and
    - (iii) the estimated expected life of the options granted during the period is 2.5 years. The corresponding 2.5 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.75%.
- The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.
- (10) Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the share options.
  - (11) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the period.

## The subsidiaries

Details of share options to subscribe for shares in CFSG and Pricerite granted to participants under the share option schemes of CFSG and Pricerite respectively during the six months ended 30 June 2002 were as follows:

### 1. CFSG

Name	Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Outstanding as at 1 January 2002	Number of options		
						Lapsed during the period	Adjusted on 25 April 2002	Outstanding as at 30 June 2002
<b>Directors</b>								
Law Ka Kin Eugene	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	25,000,000	-	(23,750,000)	1,250,000
Law Ping Wah Bernard	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	20,000,000	-	(19,000,000)	1,000,000
					<u>45,000,000</u>	<u>-</u>	<u>(42,750,000)</u>	<u>2,250,000</u>
<b>Employees</b>								
	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	55,000,000	-	(52,250,000)	2,750,000
	27/3/2001	2.20	1/10/2001-30/9/2004	(2)	24,100,000	(1,000,000)	(21,945,000)	1,155,000
					<u>79,100,000</u>	<u>(1,000,000)</u>	<u>(74,195,000)</u>	<u>3,905,000</u>
					<u>124,100,000</u>	<u>(1,000,000)</u>	<u>(116,945,000)</u>	<u>6,155,000</u>

#### 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.
- (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.
- (3) The lapsed options were due to cessation of employment of participants with the Group.
- (4) No option was granted, exercised or cancelled during the period.

## 2. Pricerite

Name	Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Number of options			Outstanding as at 30 June 2002
					Outstanding as at 1 January 2002	Granted during the period	Lapsed during the period	
<b>Directors</b>								
Kwan Pak Hoo Bankee	12/6/2000	0.32	13/6/2000-12/6/2002		18,000,000	-	(18,000,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	20,000,000	-	20,000,000
Law Ping Wah Bernard	12/6/2001	0.21	16/6/2001-15/6/2003		7,200,000	-	-	7,200,000
	17/1/2002	0.21	1/2/2002-31/1/2004		-	13,000,000	-	13,000,000
<b>Kwok Oi Kuen</b>								
Joan Elmond	17/1/2002	0.21	1/2/2002-31/1/2004		-	20,000,000	-	20,000,000
<b>Li Yuen Cheuk Thomas</b>								
	12/6/2001	0.21	16/6/2001-15/6/2003		14,400,000	-	-	14,400,000
	17/1/2002	0.21	1/2/2002-31/1/2004		-	6,000,000	-	6,000,000
<b>Khoo Ken Wee</b>								
	12/6/2001	0.21	16/6/2001-15/6/2003		7,200,000	-	(7,200,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	13,000,000	(13,000,000)	-
					<u>46,800,000</u>	<u>72,000,000</u>	<u>(38,200,000)</u>	<u>80,600,000</u>
<b>Employees</b>								
	12/6/2000	0.32	13/6/2000-12/6/2003	(1)	4,437,000	-	(270,000)	4,167,000
	12/6/2000	0.32	13/6/2000-12/6/2002	(2)	3,600,000	-	(3,600,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	42,500,000	-	42,500,000
					<u>8,037,000</u>	<u>42,500,000</u>	<u>(3,870,000)</u>	<u>46,667,000</u>
					<u>54,837,000</u>	<u>114,500,000</u>	<u>(42,070,000)</u>	<u>127,267,000</u>



Notes:

- (1) 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.
- (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 6 months from the commencement of the exercise period.
- (3) The closing price of the share immediately before the date of grant was HK\$0.207.
- (4) The lapsed options were due to cessation of employment of participants with the Group or expiry.
- (5) No option was cancelled during the period.
- (6) The fair value of the options granted during the period totalled approximately HK\$3,606,750. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
  - (i) an expected volatility of 25.4%;
  - (ii) no annual dividends; and
  - (iii) the estimated expected life of the options granted during the period is 2 years. The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.75%.

The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.

- (7) Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the share options.
- (8) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the period.
- (9) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company
- (10) Mr Khoo Ken Wee has resigned as Director of the Company during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Shareholding (%)
Kwan Pak Hoo Bankee ( <i>Note</i> )	156,952,376	51.38
Jeffnet Inc ( <i>Note</i> )	156,952,376	51.38
Cash Guardian	156,952,376	51.38

*Note:* This refers to the same number of shares held by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc (“Jeffnet”). Jeffnet held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to SDI Ordinance, Mr Kwan and Jeffnet were deemed to be interested in the shares held by Cash Guardian.

Save as disclosed above, as at 30 June 2002, no other parties were recorded in the register required by the SDI Ordinance to be kept as having an interest of 10% or more of the issued share capital of the Company.

## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonable indicate that the Company is not, or was not for any part of the accounting period from 1 January 2002 to 30 June 2002, 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 six months ended 30 June 2002, the Company purchased shares of HK\$0.10 each in the Company on the Stock Exchange as follows:

2002 Month	Number of shares purchased	Highest price paid per share <i>(HK\$)</i>	Lowest price paid per share <i>(HK\$)</i>	Aggregate price paid (before expenses) <i>(HK\$)</i>
May	1,126,000	1.96	1.87	2,141,420.00
June	<u>13,116,000</u>	1.99	1.00	<u>24,447,040.00</u>
Total	<u>14,242,000</u>			<u>26,588,460.00</u>

The above shares were cancelled upon repurchase.

The reason for making the purchases was to enhance the net value per share in the Company.

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 six months ended 30 June 2002.

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

Hong Kong, 8 August 2002

## SUMMARY

- Consolidated turnover increased 64.6% to HK\$578.7 million.
- Despite difficult economy conditions, net loss attributable to shareholders declined to HK\$10.9 million, representing an improvement of 96.3%.
- Cash and bank balances were HK\$574.8 million with a healthy liquidity ratio maintained at 1.4 times.

## CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of Celestial Asia Securities Holdings Limited ("Company" or "CASH") and its subsidiaries ("Group") for the six months ended 30 June 2002 together with the comparative figures for the last corresponding period are as follows:

	Notes	Unaudited	
		2002	2001
		HK\$'000	HK\$'000
Turnover	2	578,687	351,634
Other revenue	4	59,573	–
Changes in inventories of finished goods		(292,133)	(149,124)
Salaries, allowances and commission		(144,574)	(116,626)
Depreciation and amortisation		(30,462)	(21,003)
Other operating and administrative and selling expenses		(153,310)	(140,856)
Finance costs		(3,151)	(6,979)
Share of losses of associates		(7,665)	(6,005)
Restructuring costs		–	(42,672)
Impairment loss on investment		–	(173,900)
Provision for doubtful receivable		(6,000)	–
Impairment loss on property and equipment		(25,135)	–
Loss before taxation		(24,170)	(305,531)
Taxation	5	–	(11)
Loss before minority interests		(24,170)	(305,542)
Minority interests		13,295	12,135
Net loss attributable to shareholders		<u>(10,875)</u>	<u>(293,407)</u>
Loss per share	6		
– Basic		<u>(3.4) cents</u>	<u>(94.9) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

		30 June 2002 (Unaudited) Notes	31 December 2001 (Audited)
		HK\$'000	HK\$'000
Non-current assets			
Property and equipment		235,586	236,453
Interests in associates		207,287	164,466
Investments		57,000	57,000
Goodwill		85,562	88,604
Intangible assets		13,732	14,582
Other assets		49,947	54,067
Loans receivable		40,959	42,646
		<u>690,073</u>	<u>657,818</u>
Current assets			
Inventories		56,021	53,983
Accounts receivable	7	307,181	290,872
Loans receivable		31,094	24,470
Prepayments, deposits and other receivable		79,687	88,769
Investments		43,994	33,502
Taxation recoverable		857	1,023
Pledged bank deposits		38,349	43,745
Bank balances – trust and segregated accounts		321,282	362,634
Bank balances (general) and cash		215,195	355,320
		<u>1,093,660</u>	<u>1,254,318</u>
Current liabilities			
Accounts payable	8	531,438	548,046
Accrued liabilities and other payable		124,952	106,212
Taxation		2,071	2,071
Obligations under finance leases – amount due within one year		1,371	1,988
Bank borrowings		135,385	155,589
		<u>795,217</u>	<u>813,906</u>
Net current assets		<u>298,443</u>	<u>440,412</u>
		<u><u>988,516</u></u>	<u><u>1,098,230</u></u>

CONSOLIDATED BALANCE SHEET (continued)

		30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
	Notes		
Capital and reserve			
Share capital	9	30,548	639,435
Reserves	10	<u>774,860</u>	<u>263,136</u>
		805,408	902,571
Minority interests		181,816	194,910
Non-current liabilities			
Obligations under finance leases			
– amount due after one year		<u>1,292</u>	<u>749</u>
		<u>988,516</u>	<u>1,098,230</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	422	(280,578)
Net cash outflow from returns on investments and servicing of finance	(5,137)	(6,979)
Net cash inflow/(outflow) from taxation	166	(332)
Net cash outflow from investing activities	<u>(104,883)</u>	<u>(73,357)</u>
Net cash outflow before financing activities	(109,432)	(361,246)
Net cash (outflow)/inflow from financing	<u>(23,199)</u>	<u>20,655</u>
Decrease in cash and cash equivalents	(132,631)	(340,591)
Cash and cash equivalents at beginning of period	<u>250,790</u>	<u>476,560</u>
Cash and cash equivalents at end of period	<u><u>118,159</u></u>	<u><u>135,969</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	574,826	802,668
Bank borrowings, repayable within three months from date of the advances	<u>(135,385)</u>	<u>(188,379)</u>
	439,441	614,289
Less: Bank balances – trust and segregated accounts	<u>(321,282)</u>	<u>(478,320)</u>
	<u><u>118,159</u></u>	<u><u>135,969</u></u>



## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Notes	Unaudited six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
At 1 January		902,571	1,193,239
Shares issued for acquisition of Pricerite Group		–	152,346
Repurchase of shares		(26,718)	(3,638)
Share issue expenses		–	(626)
Shares issued upon exercise of bonus warrants		3	–
Gain realised on expiry of placing warrants	4	(59,573)	–
Net loss for the period		(10,875)	(293,407)
At 30 June		<u>805,408</u>	<u>1,047,914</u>

Notes:

(1) Principal accounting policies and basis of preparation

The unaudited interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 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").

The accounting policies and methods of computation used in preparation of these unaudited consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2001.

(2) Turnover

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Fees and commission income	96,697	127,325
Interest income	19,318	–
Loss on trading of securities, options and futures	(4,998)	(19,760)
Information technology advisory income in Hong Kong	1,679	–
Sales of furniture and household goods, net of discounts and returns	465,991	237,905
Others	–	6,164
	<u>578,687</u>	<u>351,634</u>

(3) Income statement by business and geographical 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 were 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 investment

Segment information about these businesses for the six months ended 30 June 2002 and 30 June 2001 is presented below:

*For the six months ended 30 June 2002*

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>111,877</u>	<u>462,697</u>	<u>1,679</u>	<u>2,434</u>	<u>578,687</u>
Segment (loss)/profit	<u>(13,408)</u>	<u>664</u>	<u>(23,872)</u>	<u>4,026</u>	(32,590)
Unallocated corporate expenses					(36,923)
Impairment loss of property and equipment					(935)
Gain realised on expiry of placing warrants					<u>59,573</u>
Loss before taxation					(10,875)
Taxation credit					<u>-</u>
Net loss attributable to shareholders					<u>(10,875)</u>

*For the six months ended 30 June 2001*

	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000 (restated)
Turnover	<u>127,325</u>	<u>237,905</u>	<u>-</u>	<u>(13,596)</u>	<u>351,634</u>
Segment (loss)/profit	<u>(51,897)</u>	<u>12,503</u>	<u>(43,093)</u>	<u>(181,366)</u>	(263,853)
Unallocated corporate expenses					<u>(29,543)</u>
Loss before taxation					(293,396)
Taxation credit					<u>(11)</u>
Net loss attributable to shareholders					<u>(293,407)</u>

**Geographical segments**

The Group's information technology operations and other operations for the period were located in Hong Kong. The Group's turnover for the current period was derived from Hong Kong.

(4) Other revenue

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Gain realised on expiry of placing warrants (W580) ("Placing Warrants")	59,573	—
	<u>59,573</u>	<u>—</u>

On 14 July 2000, the Company issued 496,400,000 Placing Warrants to independent investors at a price of HK\$0.12 per Placing Warrant and the proceeds of HK\$59,573,000 received from placing were credited to other reserve. On 1 February 2002, Placing Warrants remained unexercised and lapsed. As a result, the placing proceeds were recognised in the profit and loss account upon expiry.

(5) Taxation

Hong Kong Profits Tax was provided at 16% on the Group's estimated assessable profits arising in Hong Kong.

(6) Loss per share

The calculation of basic loss per share for the six months ended 30 June 2002 together with the comparative figures for 2001 is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Loss for the purpose of basic loss per share calculation	(10,875)	(293,407)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>318,467,629</u>	<u>309,244,661</u>

The weighted average number of ordinary shares for the six months ended 30 June 2001 for the purposes of basic loss per share has been adjusted for the share consolidation on 26 April 2002.

No diluted loss per share is shown for the above two periods because the dilution effects arising from the exercises of all dilutive potential ordinary shares would be anti-dilutive.

## (7) Accounts receivable

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing house, brokers and dealers	31,463	10,928
Cash clients	24,867	11,817
Margin clients	213,554	221,456
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	35,882	43,674
Trade debtors:		
Retailing	875	2,997
Information technology advisory and others	540	–
	<u>307,181</u>	<u>290,872</u>

The settlement terms of accounts receivable arising from the business of dealing in securities and equity options were two days after trade date, and accounts receivable arising from the business of dealing in futures and options were 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 were secured by clients' pledged securities, repayable on demand and bore interest at commercial rates. No aging analysis is disclosed as in the opinion of Directors, the aging 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 was an amount of approximately HK\$26,361,000 (At 31 December 2001: 25,220,000) due from companies controlled by Kwan Pak Hoo Bankee. The amount was secured by pledged securities and repayable on demand, and bore interest at commercial rates which were similar to the rates offered to other margin clients. The maximum amount outstanding therefrom during the period was HK\$28,701,000 (For the year ended 31 December 2001: HK\$25,220,000).

The aging analysis of trade debtors – retailing and information technology advisory and others was as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	1,134	2,609
31 – 60 days	281	388
	<u>1,415</u>	<u>2,997</u>

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

(8) Accounts payable

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Cash clients	232,653	243,866
Margin clients	37,830	52,575
Accounts payable to clients arising from the business of dealing in futures and options	137,477	119,826
Trade creditors – retailing	123,478	131,779
	<u>531,438</u>	<u>548,046</u>

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

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

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

The aging analysis of trade creditors - retailing was as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
0 – 30 days	8,674	35,671
31 – 60 days	12,910	30,784
61 – 90 days	14,616	24,989
Over 90 days	87,278	40,335
	<u>123,478</u>	<u>131,779</u>

(9) Share capital

	Notes	Number of shares '000	Amount HK\$'000
AUTHORISED			
Ordinary shares of HK\$0.10 each at 1 January 2002		10,000,000	1,000,000
Reduced due to Share Consolidation	a(i)	<u>(9,500,000)</u>	<u>—</u>
Ordinary shares of HK\$2.00 each		500,000	1,000,000
Reduced due to Capital Reduction	a(ii)	<u>—</u>	<u>(950,000)</u>
Ordinary shares of HK\$0.10 each		500,000	50,000
Share cancellation of unissued share capital	a(iii)	(180,283)	(18,028)
Increase in authorised share capital	a(iii)	<u>180,283</u>	<u>18,028</u>
Ordinary shares of HK\$0.10 each at 30 June 2002		<u>500,000</u>	<u>50,000</u>
ISSUED AND FULLY PAID			
Ordinary shares of HK\$0.10 each at 1 January 2002		6,394,355	639,435
Reduced due to Share Consolidation	a(i)	<u>(6,074,637)</u>	<u>—</u>
Ordinary shares of HK\$2.00 each		319,718	639,435
Reduced due to Capital Reduction	a(ii)	<u>—</u>	<u>(607,463)</u>
Ordinary shares of HK\$0.10 each		319,718	31,972
Exercise of warrants	(b)	0.263	0.0263
Shares repurchased and cancelled	(c)	<u>(14,242)</u>	<u>(1,424)</u>
Ordinary shares of HK\$0.10 each at 30 June 2002		<u>305,476</u>	<u>30,548</u>

*Notes:*

- (a) Pursuant to the special resolution passed by the shareholders at the special general meeting of the Company held 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");
  - (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\$50,000,000.00 by the creation of additional new shares of HK\$0.10 each; and
  - (iv) transferred the credit amount arising from the Capital Reduction of HK\$607,463,726.70 to the contributed surplus account.
- (b) During the period, a total amount of HK\$3,419.00 bonus warrants (W284) ("Bonus Warrants") were exercised by warrant holders to subscribe for a total number of 263 shares in the Company at the adjusted subscription price of HK\$13.00 per share.
- (c) During the period, the Company repurchased 14,242,000 shares in the Company at a total consideration (before expenses) of HK\$26,588,460.00. All the shares repurchased were cancelled upon repurchase.



## (10) Reserves

		Share premium	Contributed surplus	General reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002		294,035	519,500	1,160	71,887	(623,446)	263,136
Increased due to Capital Reduction	(a)	-	607,464	-	-	-	607,464
Transfer from contributed surplus to set off accumulated losses	(b)	-	(669,503)	-	-	669,503	-
Shares issued upon exercise of Bonus Warrants		3	-	-	-	-	3
Premium arising from repurchase of shares		(25,295)	-	-	-	-	(25,295)
Gain realised on expiry of Placing Warrants	(c)	-	-	-	(59,573)	-	(59,573)
Net loss for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,875)</u>	<u>(10,875)</u>
At 30 June 2002		<u>268,743</u>	<u>457,461</u>	<u>1,160</u>	<u>12,314</u>	<u>35,182</u>	<u>774,860</u>

### Notes:

- (a) Please refer to the notes of share capital.
- (b) Pursuant to the minutes of a directors' meeting held on 16 May 2002, an amount of HK\$669,502,735.00 was transferred from the contributed surplus account to set off against the accumulated losses of the Company at 31 December 2001.
- (c) The gain referred to the proceeds received from issuing the Placing Warrants to independent investor on 14 July 2000 at a price of HK\$0.12 per warrant. On 1 February 2002, the Placing Warrants remained unexercised and lapsed. The proceeds credited to other reserves was recognised in the profit and loss account accordingly.

## DIVIDEND

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

## REVIEW AND OUTLOOK

### *Financial Review*

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

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

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

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

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

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

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

### *Business Review*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Pricerite Group*

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

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

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

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

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

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

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

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

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

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

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

### *Halo Group*

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

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

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

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

### *Transtech Group*

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

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

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

### *Outlook*

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



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

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

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

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

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

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

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

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

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

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

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

## EMPLOYEE INFORMATION

At 30 June 2002, the Group had 1,107 employees, of which 261 were at CFSG Group and 789 at Pricerite Group. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options and performance bonus. We continue to organise training to employees in the areas of mandatory professional development programmes required by regulatory bodies, computer application, product knowledge, customer services, problem solving and Putonghua training.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the Directors' interests in and rights to subscribe for the ordinary shares of HK\$0.10 each in the Company and shares in 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:

### 1. Interest in shares or debentures

#### A. The Company

##### (a) Ordinary shares

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	-	156,952,376*	51.38
Law Ping Wah Bernard	5,096,200	-	1.67
Kwok Oi Kuen Joan Elmond	2,700,000	-	0.88
Law Ka Kin Eugene	125,000	-	0.04
Li Yuen Cheuk Thomas	2,501,875	-	0.82

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

(b) *Warrants*

Warrants carrying rights to subscribe for shares of HK\$0.10 each in the Company at the adjusted subscription price of HK\$13.00 each during the period from 20 July 2000 to 31 July 2002 (both days inclusive).

Name	Amount of warrants beneficially held	
	Personal (HK\$)	Other interest (HK\$)
Kwan Pak Hoo Bankee	-	159,976,285.30*
Law Ping Wah Bernard	3,526,238.30	-
Kwok Oi Kuen Joan Elmond	260,000.00	-
Law Ka Kin Eugene	162,500.00	-
Li Yuen Cheuk Thomas	1,952,437.50	-

\* The amount of warrants was held as to HK\$144,876,749.55 by Cash Guardian and as to HK\$15,099,535.75 by Suffold Resources Limited ("Suffold"). Cash Guardian and Suffold were both 100% beneficially owned by Jeffnet Inc. Details of the ultimate beneficial interest of Jeffnet Inc are disclosed in the "Substantial Shareholders" below. Mr Kwan was deemed to be interested in all these warrants as a result of his interests in Cash Guardian and Suffold.

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

(a) *Ordinary shares in CFSG*

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	-	54,330,997*	53.92
Law Ping Wah Bernard	271,249	-	0.27
Kwok Oi Kuen Joan Elmond	20,000	-	0.02
Law Ka Kin Eugene	12,500	-	0.01
Li Yuen Cheuk Thomas	150,187	-	0.15

\* The shares were held as to 50,463,239 shares by Celestial Investment Group Limited ("CIGL"), a wholly-owned subsidiary of CASH, and as to 3,867,758 shares by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH and Cash Guardian as disclosed in the "Substantial Shareholders" below.

(b) Ordinary shares in Pricerite Group Limited (“Pricerite”)

Name	Number of shares beneficially held		Shareholding (%)
	Other interest		
Kwan Pak Hoo Bankee	1,374,432,297*		66.18

\* The shares were held by CIGL, a wholly-owned subsidiary of CASH. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the “Substantial Shareholders” below.

Save as disclosed above, as at 30 June 2002, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

2. Rights to acquire shares in the Company

Pursuant to the share option schemes of the Company, certain Directors of the Company were granted share options to subscribe for shares in the Company, details of which as at 30 June 2002 were as follows:

Name	Date of grant	Number of options					Exercise period	Exercise price per share (HK\$)	Notes
		Outstanding as at 1 January 2002	Lapsed during the period	Adjusted on 25 April 2002	Granted during the period	Outstanding as at 30 June 2002			
Kwan Pak Hoo Bankee	4/10/1999	40,000,000	(40,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Law Ping Wah Bernard	4/10/1999	40,000,000	(40,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Kwok Oi Kuen Joan Elmond	4/10/1999	5,750,000	(5,750,000)	-	-	-	8/4/2000-7/4/2002	0.59	(2)
	6/11/2000	15,000,000	-	(14,250,000)	-	750,000	16/5/2001-15/5/2003	5.40	(3)
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Law Ka Kin Eugene	4/10/1999	3,000,000	(3,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	(2)
	1/6/2000	10,000,000	-	(9,500,000)	-	500,000	1/12/2000-30/11/2002	7.00	(3)
	6/11/2000	10,000,000	-	(9,500,000)	-	500,000	16/5/2001-15/5/2003	5.40	(3)
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2002	1.32	
Li Yuen Cheuk Thomas	4/10/1999	20,000,000	(20,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
	2/5/2002	-	-	-	3,000,000	3,000,000	2/5/2002-30/4/2003	1.32	
Khoo Ken Wee	4/10/1999	20,000,000	(20,000,000)	-	-	-	8/4/2000-7/4/2002	0.59	
Wong Chuk Yan	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
Chan Hak Sin	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
Leung Ka Kui Johnny	2/5/2002	-	-	-	200,000	200,000	1/11/2002-31/10/2003	1.32	(3)
		<u>163,750,000</u>	<u>(128,750,000)</u>	<u>(33,250,000)</u>	<u>15,600,000</u>	<u>17,350,000</u>			

*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.
- (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) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (5) Mr Khoo Ken Wee has resigned as Director of the Company during the period.

Save as disclosed above, during the six months ended 30 June 2002, none of the Directors or chief executive of the Company or any of their spouse or children under 18 years of age was granted or holding options to acquire shares in or debentures of the Company.

## SHARE OPTION SCHEMES

### The Company

Details of share options to subscribe for shares in the Company granted to participants under the share option schemes of the Company during the six months ended 30 June 2002 were as follows:

Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Number of options				Outstanding as at 30 June 2002
				Outstanding as at 1 January 2002	Adjusted on 25 April 2002	Granted during the period	Lapsed during the period	
<b>Directors</b>								
4/10/1999	0.59	8/4/2000-7/4/2002	(2)	128,750,000	-	-	(128,750,000)	-
1/6/2000	7.00	1/12/2000-30/11/2002	(2)	10,000,000	(9,500,000)	-	-	500,000
6/11/2000	5.40	16/5/2001-15/5/2003	(2)	25,000,000	(23,750,000)	-	-	1,250,000
2/5/2002	1.32	2/5/2002-30/4/2003	(2)	-	-	15,600,000	-	15,600,000
				<u>163,750,000</u>	<u>(33,250,000)</u>	<u>15,600,000</u>	<u>(128,750,000)</u>	<u>17,350,000</u>
<b>Employees</b>								
13/5/1999	4.60	13/11/2000-12/5/2002		750,000	(712,500)	-	(37,500)	-
4/10/1999	0.59	8/4/2000-7/4/2002	(3)	23,810,000	-	-	(23,810,000)	-
15/11/1999	12.20	1/11/2000-31/10/2002	(5)	10,000,000	-	-	(10,000,000)	-
10/11/2000	16.00	10/1/2001-9/11/2003		10,000,000	(9,500,000)	-	-	500,000
10/11/2000	16.00	11/7/2000-10/7/2002	(3)	500,000	(475,000)	-	-	25,000
1/6/2000	7.00	1/12/2000-30/11/2002	(4)	45,000,000	(42,750,000)	-	-	2,250,000
28/7/2000	9.80	1/2/2001-31/11/2003	(3)	1,000,000	(950,000)	-	-	50,000
6/11/2000	5.40	16/5/2001-15/5/2003	(4)	25,000,000	(23,750,000)	-	-	1,250,000
6/11/2000	5.40	16/5/2001-15/5/2003	(3)	6,000,000	(5,700,000)	-	-	300,000
2/2/2001	4.80	16/8/2001-15/8/2003	(3)	6,000,000	(5,700,000)	-	-	300,000
31/8/2001	2.60	1/3/2002-28/2/2004	(4)	90,000,000	(85,500,000)	-	-	4,500,000
2/5/2002	1.32	2/5/2002-30/4/2003	(6)	-	-	4,500,000	-	4,500,000
2/5/2002	1.32	1/11/2002-31/10/2003	(4) & (6)	-	-	2,000,000	-	2,000,000
				<u>218,060,000</u>	<u>(175,037,500)</u>	<u>6,500,000</u>	<u>(33,847,500)</u>	<u>15,675,000</u>
				<u>381,810,000</u>	<u>(208,287,500)</u>	<u>22,100,000</u>	<u>(162,597,500)</u>	<u>33,025,000</u>

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.
  - (2) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities" under the sub-heading "Rights to acquire shares in the Company".
  - (3) 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.
  - (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.
  - (5) 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.
  - (6) The closing price of the share immediately before the date of grant was HK\$1.32.
  - (7) The lapsed options were due to expiry or cessation of employment of participants with the Group.
  - (8) No option was exercised or cancelled during the period.
  - (9) The fair value of the options granted during the period totalled approximately HK\$14,383,270. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
    - (i) an expected volatility of 41.6%;
    - (ii) no annual dividends; and
    - (iii) the estimated expected life of the options granted during the period is 2.5 years. The corresponding 2.5 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.75%.
- The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.
- (10) Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the share options.
  - (11) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the period.



## The subsidiaries

Details of share options to subscribe for shares in CFSG and Pricerite granted to participants under the share option schemes of CFSG and Pricerite respectively during the six months ended 30 June 2002 were as follows:

### 1. CFSG

Name	Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Outstanding as at 1 January 2002	Number of options		
						Lapsed during the period	Adjusted on 25 April 2002	Outstanding as at 30 June 2002
<b>Directors</b>								
Law Ka Kin Eugene	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	25,000,000	-	(23,750,000)	1,250,000
Law Ping Wah Bernard	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	20,000,000	-	(19,000,000)	1,000,000
					<u>45,000,000</u>	<u>-</u>	<u>(42,750,000)</u>	<u>2,250,000</u>
<b>Employees</b>								
	26/3/2001	2.20	1/10/2001-30/9/2004	(2)	55,000,000	-	(52,250,000)	2,750,000
	27/3/2001	2.20	1/10/2001-30/9/2004	(2)	24,100,000	(1,000,000)	(21,945,000)	1,155,000
					<u>79,100,000</u>	<u>(1,000,000)</u>	<u>(74,195,000)</u>	<u>3,905,000</u>
					<u>124,100,000</u>	<u>(1,000,000)</u>	<u>(116,945,000)</u>	<u>6,155,000</u>

#### 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.
- (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.
- (3) The lapsed options were due to cessation of employment of participants with the Group.
- (4) No option was granted, exercised or cancelled during the period.

## 2. Pricerite

Name	Date of grant	Exercise price per share (HK\$)	Exercise period	Notes	Number of options			Outstanding as at 30 June 2002
					Outstanding as at 1 January 2002	Granted during the period	Lapsed during the period	
<b>Directors</b>								
Kwan Pak Hoo Bankee	12/6/2000	0.32	13/6/2000-12/6/2002		18,000,000	-	(18,000,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	20,000,000	-	20,000,000
Law Ping Wah Bernard	12/6/2001	0.21	16/6/2001-15/6/2003		7,200,000	-	-	7,200,000
	17/1/2002	0.21	1/2/2002-31/1/2004		-	13,000,000	-	13,000,000
<b>Kwok Oi Kuen</b>								
Joan Elmond	17/1/2002	0.21	1/2/2002-31/1/2004		-	20,000,000	-	20,000,000
<b>Li Yuen Cheuk Thomas</b>								
	12/6/2001	0.21	16/6/2001-15/6/2003		14,400,000	-	-	14,400,000
	17/1/2002	0.21	1/2/2002-31/1/2004		-	6,000,000	-	6,000,000
<b>Khoo Ken Wee</b>								
	12/6/2001	0.21	16/6/2001-15/6/2003		7,200,000	-	(7,200,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	13,000,000	(13,000,000)	-
					<u>46,800,000</u>	<u>72,000,000</u>	<u>(38,200,000)</u>	<u>80,600,000</u>
<b>Employees</b>								
	12/6/2000	0.32	13/6/2000-12/6/2003	(1)	4,437,000	-	(270,000)	4,167,000
	12/6/2000	0.32	13/6/2000-12/6/2002	(2)	3,600,000	-	(3,600,000)	-
	17/1/2002	0.21	1/2/2002-31/1/2004		-	42,500,000	-	42,500,000
					<u>8,037,000</u>	<u>42,500,000</u>	<u>(3,870,000)</u>	<u>46,667,000</u>
					<u>54,837,000</u>	<u>114,500,000</u>	<u>(42,070,000)</u>	<u>127,267,000</u>

Notes:

- (1) 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.
- (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 6 months from the commencement of the exercise period.
- (3) The closing price of the share immediately before the date of grant was HK\$0.207.
- (4) The lapsed options were due to cessation of employment of participants with the Group or expiry.
- (5) No option was cancelled during the period.
- (6) The fair value of the options granted during the period totalled approximately HK\$3,606,750. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
  - (i) an expected volatility of 25.4%;
  - (ii) no annual dividends; and
  - (iii) the estimated expected life of the options granted during the period is 2 years. The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.75%.

The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.

- (7) Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the share options.
- (8) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the period.
- (9) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company
- (10) Mr Khoo Ken Wee has resigned as Director of the Company during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Shareholding (%)
Kwan Pak Hoo Bankee ( <i>Note</i> )	156,952,376	51.38
Jeffnet Inc ( <i>Note</i> )	156,952,376	51.38
Cash Guardian	156,952,376	51.38

*Note:* This refers to the same number of shares held by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc (“Jeffnet”). Jeffnet held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to SDI Ordinance, Mr Kwan and Jeffnet were deemed to be interested in the shares held by Cash Guardian.

Save as disclosed above, as at 30 June 2002, no other parties were recorded in the register required by the SDI Ordinance to be kept as having an interest of 10% or more of the issued share capital of the Company.

## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonable indicate that the Company is not, or was not for any part of the accounting period from 1 January 2002 to 30 June 2002, 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 six months ended 30 June 2002, the Company purchased shares of HK\$0.10 each in the Company on the Stock Exchange as follows:

2002 Month	Number of shares purchased	Highest price paid per share <i>(HK\$)</i>	Lowest price paid per share <i>(HK\$)</i>	Aggregate price paid (before expenses) <i>(HK\$)</i>
May	1,126,000	1.96	1.87	2,141,420.00
June	<u>13,116,000</u>	1.99	1.00	<u>24,447,040.00</u>
Total	<u>14,242,000</u>			<u>26,588,460.00</u>

The above shares were cancelled upon repurchase.

The reason for making the purchases was to enhance the net value per share in the Company.

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 six months ended 30 June 2002.

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

Hong Kong, 8 August 2002