CASH 時富

CELESTIAL ASIA SECURITIES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code #1049)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2003

FINAL RESULTS

The audited consolidated results of Celestial Asia Securities Holdings Limited ("Company") and its subsidiaries ("Group") for the year ended 31 December 2003 together with the comparative figures for the last corresponding year are as follows:

	Notes	**2003** ***HK$'000***	2002 *HK$'000*
Turnover	*2&3*	**1,028,271**	1,097,028
Other operating income		**22,634**	–
Reversal of impairment loss previously recognised in respect of property and equipment		**900**	–
Cost of sales		**(541,246)**	(572,018)
Salaries, allowances and commission		**(204,697)**	(236,810)
Other operating, administrative and selling expenses		**(316,525)**	(380,168)
Depreciation and amortisation		**(55,946)**	(61,834)
Finance costs		**(7,593)**	(5,162)
Allowance for bad and doubtful debts		**(1,073)**	(95,687)
Impairment loss recognised in respect of goodwill held in reserves		**(300)**	–
Impairment loss recognised in respect of club membership		**–**	(1,330)
Impairment loss recognised in respect of goodwill		**–**	(27,209)
Impairment loss recognised in respect of investments		**–**	(57,000)
Impairment loss recognised in respect of property and equipment		**–**	(64,153)
		(75,575)	(404,343)
Gain on expiry of warrants		**–**	59,573
Write back of (Allowance for) loan to an associate		**24,600**	(219,828)
Loss before taxation		**(50,975)**	(564,598)
Taxation (charge) credit	*4*	**(134)**	1,779
Loss before minority interests		**(51,109)**	(562,819)
Minority interests		**(520)**	122,236
Net loss attributable to shareholders		**(51,629)**	(440,583)
Loss per share	*5*		
– Basic		**HK$(0.15)**	HK$(1.41)
– Diluted		**HK$(0.15)**	HK$(1.41)

Notes:–

(1) Basis of preparation

The audited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") and with the applicable disclosure requirements of the Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the HKSA. The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised) Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The adoption of SSAP 12 (Revised) has had no effect on the results for the current or prior accounting years.

(2) Turnover

	2003 ***HK$'000***	2002 *HK$'000*
Sales of furniture and household goods, net of discounts and returns	**842,063**	889,918
Fees and commission income	**173,610**	182,810
Interest income	**17,404**	28,039
Loss on trading of securities, options and futures	**(5,560)**	(5,600)
Information technology advisory income	**754**	1,861
	1,028,271	1,097,028

(3) Income statement by business and geographical segments

Business segments

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

Principal activities are as follows:

Financial services	Broking, financing, proprietary trading and corporate finance services
Retailing	Sales of furniture and household goods
Investment holding	Strategic investments
Others	Business solutions and brand management

Income statement for the year ended 31 December 2003

	Financial services ***HK$'000***	**Retailing** ***HK$'000***	**Investment holding** ***HK$'000***	**Others** ***HK$'000***	**Consolidated** ***HK$'000***
TURNOVER	**186,431**	**836,006**	**150**	**5,684**	**1,028,271**
RESULT					
Segment profit (loss)	**9,988**	**(36,467)**	**24,450**	**(9,882)**	**(11,911)**
Unallocated corporate expenses					**(39,064)**
Loss before taxation					**(50,975)**
Taxation charge					**(134)**
Loss after taxation and before minority interests					**(51,109)**

Income statement for the year ended 31 December 2002

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

Geographical segments

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

(4) Taxation (charge) credit

The taxation (charge) credit are as follows:

	2003 ***HK$'000***	2002 *HK$'000*
Hong Kong Profits Tax:		
Provision for the year	**(134)**	–
Overprovision in prior years	**–**	1,782
Underprovision in prior years	**–**	(3)
Taxation attributable to the Company and its subsidiaries	**(134)**	1,779

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the year.

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

(5) Loss per share

The calculation of basic and diluted loss per share for the year ended 31 December 2003 together with the comparative figures for 2002 are calculated as follows:

	2003 ***HK$'000***	2002 *HK$'000*
Loss for the purposes of basic and diluted loss per share	**(51,629)**	(440,583)
Weighted average number of ordinary shares for the purpose of basic loss per share	**340,333,142**	311,921,618
Effect of dilutive potential ordinary shares assumed exercise of share options	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	**340,333,142**	311,921,618

The computation of diluted loss per share for the year did not:

(i) adjust the share of result of subsidiaries as the exercise price of the subsidiaries' outstanding share options were higher than the average market price of the subsidiaries' shares; and

(ii) assume the exercise of the Company's outstanding share options since their exercise would result in a reduction in loss per share.

The calculation of diluted loss per share for the year ended 31 December 2002 did not:

(i) adjust the share of result of subsidiaries as the subsidiaries incurred losses; and

(ii) assume the exercise of the Company's outstanding share options and warrants as the exercise price of those options and warrants were higher than the average market price of shares.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2003 (2002: Nil).

BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

Financial Services – CASH Financial Services Group Limited (CFSG)

Global and local market environment, together with regulatory reforms including the abolition of minimum brokerage commissions and the implementation of the Securities and Futures Ordinance, necessitated that to effectively compete in the new landscape, brokerage businesses must more than ever be mindful of and strive for optimal operational efficiency.

In anticipation of the regulatory changes in the industry and the increasing adverse business environment, CFSG continued with its business re-engineering programme that began in 2002 to rationalise costs and business structures. These imperatives, culminating with the rationalisation of our branch network in February, have not only put us in good stead to weather market uncertainties, but also ensured that our lean cost base would position us well to benefit from any potential market rebound.

As a result, the operating costs of CFSG in 2003 were reduced by 21.8% to HK$156.9 million from 2002. As it also turned out, our continuous focus on cost leadership paid off. We were among the first company in the brokerage industry as well as the local economy that has come out of the trough of the market cycle. We managed to turn back into positive profit territory as early as the impact of SARS showed signs of abating.

The local stock market had since been revived on the prospect of a global recovery and as investors' sentiments were bolstered by positive policy measures, Closer Economic Partnership Agreement (CEPA) in particular, both on the part of the HKSAR and the Central Government. Operating from a low cost base, CFSG was quick to capitalise on this market turnaround and began to operate decisively in black since the beginning of the third quarter as confidence for a sustainable economic recovery continued to rise.

For the full year, CFSG turned in net profit of a convincing HK$10.7 million with a respectable fourth quarter net profit of HK$13.1 million. Business turnover was also on the rise and increased by 50.1% year-on-year from HK$84.5 million to HK$126.8 million in the second half. These positive results are in fact testimonial to the cumulative efforts of our re-engineering and rationalisation works over the past several years, while reflecting enviable growth potential going forward.

Servicing Clients with Versatility

CFSG has stated as a key component of its development strategy the diversification of product offerings both with a view to better service our clients as well as to minimise the impact on business performance of market cycles. We remain firmly on course on the strategy as we continue our pursuit of establishing ourselves as the financial services house of choice for our clients.

In July 2003, CFSG acquired Frederick Taylor International Financial Services Limited (renamed CASH Frederick Taylor Limited), an independent financial advisory firm, in a move that provided us with a springboard into the fast growing and yet currently lowly penetrated market of financial planning. Through the acquisition, the product offerings of CFSG have been complemented with a wide range of mid- to long-term investment products and services, enabling us to cater for our clients' full spectrum of investment needs. Albeit with a short history, our team of financial planning professionals has since been growing at an encouraging pace, turning in revenues which now already represent a decent percentage of our overall income, and supporting and boding well for our multiple-product and active client cross-selling approach.

On another front, investment banking remains a pillar business and a major revenue contributor alongside our equity and commodities brokerage operation and our newly acquired personal financial planning arm.

In August 2003, with a view to continue to develop our core competence in investment banking and in anticipation of growing business opportunities as the equities market recovers, CFSG acquired Chateron Corporate Finance Limited, a prominent investment banking house previously known as Pacific Challenge Capital Limited. Chateron, which specialises in corporate finance and financial advisory services with a team of high-calibre corporate finance professionals, an excellent track record, and strong credentials in mergers and acquisitions, initial public offerings (IPO) and financial advisory, is a vital addition to our already fully-fledged investment banking division.

As CFSG pursues the strategy to diversify our income sources, we remain steadfast on pursuing the continuous development of our core brokerage businesses, constantly seeking to enhance service quality in order to meet the needs of our clients. During the year under review, we invested substantially to upgrade our trading platform (for example the introduction of a "stop loss limit order" function), and added new types of product offerings. As a result, in addition to the traditional and existing offerings, we are now in a position to provide in-house a full range of short- to medium-term structured products, have expanded in the range of commodities and future products, are in the process of re-introducing forex trading services, and have from time to time supported the Hong Kong Exchanges in its launches of new derivatives products (for example, we are among the major sponsors of the Exchanges' latest launch of the H-share Index Futures).

Home Improvement – Pricerite Group Limited (Pricerite)

In the first two quarters of the year, the general business environment continued to slow down following the five-year long deflation. For the first six months of 2003, total sales of Pricerite amounted to HK$388.3 million, representing a 16.7% decline from the same period in 2002.

Since July, the Hong Kong economy started to recover fairly rapidly. Among other developments, the Central Government announced to grant HKSAR the CEPA, granting Hong Kong produced products free of import duties since January 2004. The Central Government also announced to lift certain restrictions on the travelling of Mainland visitors to Hong Kong, which led to a significant increase in visitor flow. Consumer sentiments were then aroused.

The business of Pricerite had also been recovering since then, particularly in the furniture division. In December, furniture sales had recovered to exceed the December sales in 2002 by 36.2%.

As a summary to the overall performance of the year's business, the sales revenues have been maintained at HK$836.0 million, as compared to the 2002 level of HK$889.9 million.

Amid the ups and downs in the economy, Pricerite continued to sharpen our business edges to provide the best value and quality lifestyle and basic home improvement solutions to customers.

Fast and Timely Response to Customer Needs

During the early severe acute respiratory syndromes (SARS) period, we envisaged the significance of on-line shopping and promoted our on-line shopping channel, www.pricerite.com.hk, to boost sales. As a result, our on-line sales increased by 6.9% in 2003. In response to increasing customer demand, we had strengthened our cleaning and sterilising products to capture the increasing health and hygiene awareness of our customers.

Enriching our Product Mix

We further extended our product mix to cater for customer needs as they emerged. We saw an increasing trend in product specialisation and hence we opened the IT Corner, and expanded the Small Office, Home Office (SOHO) Division in our flagship stores. We also started to provide professional and personalised customer service in choosing these products.

Strengthening our Brand with the Relationship of our Customers

To further associate our brand with our "customer-caring" motto, we continued to provide quality products to meet with customers needs. Furthermore, we joined with major merchants and credit card companies to provide promotional offers to our customers. Such merchants included the Bank of China, the Standard Chartered Bank, the Dao Heng Bank, Epson, MacDonald's, and Kentucky Fried Chicken. To instil more "lifestyle" element into our "value for money" products, we launched a new corporate identity in June 2003 to further strengthen our brand power.

Enhancing our Customer Service

With an aim to constantly improve our customer service, we launched the interactive voice recording system in April 2003. To better equip our staff and to enhance their morale, we continued to invest in the "Service with Hearts" training programme to improve the product knowledge and communications skills of our staff.

Improving Customers' Shopping Experience

We continued with the "room setting" visual merchandising strategy in our flagship stores. To further improve our store layout and product display, we had finalised our specifications and planning in the Planogram, which will allow visual planning of retail space utilisation and in turn maximise its efficiency. We also worked with Octopus Cards Limited to install the Octopus payment system in all of our stores to offer customers convenience and to improve our customers' shopping experience.

Refocusing and Re-Engineering of Pricerite

Over the course of the year, the Pricerite board of directors had undergone an in-depth re-examination of the business model of Pricerite to focus on the following key performance indicators to improve overall performance: (1) category sales performance; (2) optimal mix and match of merchandising; (3) asset conversion cycles; (4) profitability analysis; and (5) financial performance.

With a view to maximise shareholder value, the board of directors made the effort to redefine the business model of Pricerite so as to build on our strengths and to capture the emerging business opportunities.

Redefining our Strength

The Pricerite board of directors had engaged Ernst and Young to conduct a strategic diagnosis of our business model and to advise the board of directors on defining the strategic direction of future business growth. Mr Anthony Troughton, a veteran retail expert, had conducted an in-depth examination with our management team to redefine our strengths. Such strengths had enabled Pricerite to build on its retail business model and extend to an international supply chain management (SCM) business model focusing on furniture and household products.

Strategic Refocus of the Pricerite Business Model

The Pricerite board of directors had also identified two critical factors pertinent to our strategic refocus: (1) the Hong Kong retail business and the international SCM business have significant complementary effects; and (2) the emergence of China as a major economic power and its strength in the manufacturing sector offer significant business opportunities in sourcing, merchandising, and the logistic setup of products.

Investment in IT

To support the strategy of migrating Pricerite into a global player in the furniture and household product markets, the board of directors had provided persistent support to re-engineer Pricerite.

In 2003 we had engaged in a major overhaul of the management information system. The first major component built and installed was the Pricerite warehouse management systems (WMS) that provided better performance control in the logistics of merchandising from the warehouse to the stores. The Pricerite WMS was a winner of the Intelligent 20, a regional information technology award that recognises outstanding business technological applications in the Asia Pacific region.

Building the Structure for Long-term Growth

To ensure the success of our strategic refocus, the Pricerite board of directors had made changes in the management organisation structure so as to further clarify management responsibilities and reinforce expertise in each of the functional areas. Pricerite operations are divided into five functional divisions: (1) brand equity management responsible for marketing, customer services and e-commerce; (2) supply chain management responsible for product sourcing, merchandising, quality assurance and vendor relations; (3) retail operations management responsible for retail network planning, store operations and staff training; (4) back office control responsible for the administrative functions, including accounting, human resources, information technology, loss prevention, and warehousing and logistics management; and (5) system operations management responsible for system design and enhancement (headed by the newly appointed chief operation officer, who is also responsible for spearheading the building of relevant management and control systems, and the continual examination of the Pricerite management systems to assure that the operation is consistent with the state of development of business).

Business Solutions – Halo Group Limited (Halo)

Halo, our IT strategic investment, enjoyed significant progress and made several key strategic business expansion during the year. In addition to sustaining Halo's core IT solution business, Halo has made powerful expansion into the IT outsourcing and product distribution areas. Such development will enable Halo to be placed in a strong position for rebound as the IT market outlook improves.

Halo continued to expand its client base in IT solution service provision, and successfully launched an "application service provider" service for SCM in the retail industry. The IT outsourcing business also received a strong head-start by landing business from leading institutions in both commercial and government sectors.

In the first half of 2003, we further extended our business to the marketing and trading of IT products, including personal computers, computer accessories and peripherals, as well as digital electronics products. This included the successful launch of the "Halo PC" brand of personal computers. Leveraging on our strong industry presence, knowledge and experience, coupled with the strength of Pricerite's retail network, our IT products marketing business recorded steady and healthy growth.

Brand Management – Cosmos Global Limited (Cosmos Global)

Cosmos Global saw a successful year despite losing precious development time due to the SARS epidemic. Cosmos Global began the year as a single brand and single market brand management and distribution firm and transformed itself into a multiple product category Asia Pacific total business solution provider for North American and European brands.

To fulfil its regional role as a distributor of branded lifestyle products, Cosmos Global expanded its geographic coverage through self-developed distribution channels or partners from only Hong Kong to include Australia, Mainland China, Macau, Philippines, South Korea and Russia.

It has developed from a distributor and developer of cosmetics and toiletries products into a total business solution provider serving brand owners from North America and Europe covering also designer home products, home appliance, household utensils, fashion and fashion accessories, specialty food and beverage as well as character licensed products.

During the year, brands represented grew from only Hallmark Design Collection to Baronessa Cali, Elizabeth French, Katie's Friends, Lizzie, Spa, and Pure for the cosmetics and toiletries sector, Kate Storer for designer home products, Wilfa for Home appliances, Astonish for household utensils, Fleur de Santàm for fashion and fashion accessories, La Pavonni and Mocca Master for specialty food and beverage products and "Turn Left, Turn Right" for character licensed products.

THE FUTURE

For Financial Services – CFSG

Building for a Bright Future

In November 2003, with an overwhelming support from its shareholders, CFSG successfully raised over HK$62 million of capital via a two-time over-subscribed rights issue. This tremendously successful fund raising exercise reflects shareholders' confidence in the viability and growth potential of our Group. The enhanced capital strength has put our core brokerage business in a vantage position to benefit from a market upturn.

Having, through the efforts of the past years, contained operating costs at a desirable level and laid the foundation business structure for development, in the light of a benign economic environment, CFSG is now in a position to look at growth and development. Accordingly, we have planned for our business dynamics and begun to pursue development within our pillar businesses, namely, brokerage, financial planning and investment banking. Our goal is to achieve further business diversification and cross-selling effectiveness with an ultimate view to create a healthy revenue mix that is less susceptible to market cycles.

With a changing regulatory landscape, we believe that consolidation will take place within the currently over-crowded securities industry. Accordingly, we will proactively seek to identify merger and acquisition opportunities to complement our organic growth strategy.

We are continuing to look for opportunities to expand our business reach in the Greater China Region, focusing in particular on the regulatory development in respect of the vast Mainland China market and the opportunities that CEPA will offer as it expands in scope. Pending further opening up of the Mainland's finance and securities sector, however, we will continue to embrace our thus far successful strategy of forging partnerships with our Mainland counterparts, seeking to develop a strong base of Mainland Chinese clients in preparation for our eventual foray into the Mainland market. At the same time, we are keeping a close eye on investment and acquisition opportunities in the Mainland that could provide us with valuable client contacts and complement us with the local expertise to operate.

In respect of investment banking, we are already in close cooperation with our numerous Mainland partners in identifying candidates, in particular the mid-cap Mainland private enterprises, for fund raising in Hong Kong through IPO.

As we said at the beginning, 2003 had been indisputably a year of unprecedented challenges. CFSG is nonetheless pleased to report that it has overcome all those challenges and has emerged as a much better and stronger entity. We are now stronger in capital strength; we have diversified our product offerings and are now in a position to cater for the full spectrum of our clients' investment needs; we are on course to developing a healthy, stable and diversified revenue streams; we have laid foundation for a sound business structure; notwithstanding a devastating business environment in the first half, through achieving and maintaining a lean cost base, we have been able to quickly capitalise on the market rebound, made up for losses and return to profitability. As a result, we have now put ourselves in a strong position to look for growth and investing opportunities in the future.

While we are positive on CFSG's outlook and the profit trend going forward, we will remain staunch in upholding our principle of cost leadership. We will be steadfast in striking a healthy balance in our revenue mix to avoid over reliance on any single one source. Through value creation, we will be firm in our course to establish ourselves as the financial services house of choice for all clients.

For Home Improvement – Pricerite

Capitalising on Growth Opportunities

Continual Growth of the Mainland Economy

The Pricerite board of directors is in a view that the Mainland economy will continue to be strong with a high growth rate in the next three to five years. Given the strong Mainland economy, we envisage substantial business opportunities for Pricerite.

The Mainland property market is expected to remain strong despite consolidation in certain geographical areas. The increase in household income will create significant demand for furniture and household products with higher levels of quality and styling. With our long operating history in the Hong Kong market, Pricerite is in a good position to tap into the fast growing market for quality furniture and household products.

Also, the manufacturing base in the Mainland will gain further strength and more global buyers will shift their purchase to the Mainland. Leveraged on the strong sourcing and merchandising platform we have built, Pricerite is in a good position and will aggressively move to develop our merchandising services for international clients in furniture and household products.

Business Opportunities under CEPA

The Pricerite board of directors is in a view that CEPA will bring significant business opportunities which will begin to take shape in 2004. Catered for the increased number of Mainland visitors, Pricerite is in the process of adjusting our product mix, especially in the household sections, to provide for the demand for quality and stylish household products for visitors, including products from overseas markets such as Japan, Korea, and the South East Asia. In addition, Pricerite will increase the lines of IT products which are in high demand from Mainland visitors.

CEPA provides a favourable environment for Hong Kong companies to invest directly in the Mainland. Pricerite is actively seeking to capitalise on this advantage and speed up our investments in the Mainland market.

Pricerite China

The Pricerite board of directors expects to speed up our development for Pricerite China in 2004. Our first store in Guangzhou had recorded satisfactory results in 2003. Despite the SARS influence, the business had quickly picked up and returned to normal. Both sales and transaction count had experienced a remarkable growth in the second half of the year. Customer loyalty programs, including the Pricerite VIP card, had been launched. The feedback had been extremely positive as evidenced by the continuous increase of repeated purchases and average ticket value.

Besides our retail model, Pricerite China is actively negotiating with suitable business partners which have the local business network so as to shorten our time to market in the appropriate markets. Pricerite has the strategy to develop our operation in major cities such as Beijing and Shanghai. We also plan to expand our presence in Guangzhou given our improved understanding of customer taste and demand.

Growth of International Business

We began in earnest our international business development strategy this year. Our mission is to leverage on our unique strength in sourcing and SCM in the furniture and household products categories to scale up the sales of our products globally. Our Group is ideally located to leverage on China's growing low cost manufacturing base and our ability to mate this strength with our ability to develop products as well as work with international designers to produce world class products at competitive quality and prices.

We are currently reviewing and pursuing multiple distribution models in our international initiatives. These include buying agency service for European brand owners, FOB trading into European and north American territories, franchising as well as Build Operate and Transfer (BOT) models to develop Pricerite branded outlets abroad.

We kicked off 2004 with two programmes. The first, our collaboration with the ARTAR Group of Saudi Arabia to develop both a Pricerite branded retail network as well as wholesale business in the Middle East region. The first Pricerite Store is targeted for launch in Riyadh by the end of 2004. Our second initiative focused on the exploration and development of the European market. We exhibited a limited range of our product assortment at the Birmingham Spring Fair in February 2004 together with our sister companies Cosmos Global and Halo. Responses from potential buyers have been encouraging and we are in active pursuit to convert enquiries into FOB sales into the UK. We are also reviewing and refining the execution plan to enter the European market with a trade fair based FOB export model based on buyer feedbacks.

While we are not planning to build substantial international infrastructure in the near term, we are reviewing and considering market entry into Europe and North America by way of acquisitions.

For Business Solutions – Halo

Halo will continue to expand the customer base for our IT solution service and IT outsourcing business. Halo will distribute and support leading software solutions to target the growing business IT demands, especially in the areas of SCM, mobile applications, and workflow automation, to name a few.

Halo, with our sound foundation, is in the best position to capture opportunities arising from CEPA. We are planning to establish our presence in the Mainland China to provide IT consulting and business solution service to Mainland China, local and overseas enterprises. We will also seek to establish strategic partnership with key institutions and companies in Mainland China to support our operation and market exposure.

For the marketing of IT products, Halo will aim to consolidate on our early success to further develop our product ranges and retail channels. Through these activities, we target to establish Halo as a key intermediary service provider in hardware, software and services, for working with partners from both the Mainland and overseas.

For Brand Management – Cosmos Global

For a long time, we have been aware of the risk involved and the limitations from having a portfolio of business that derives income solely from Hong Kong. However, restructuring efforts for our businesses meant that we have been unable to commit resources into creating an international business base until now. We already made significant progress during 2003 in our plans to create global businesses.

We shall consolidate our product distribution infrastructure developed by Cosmos Global this year in the Asia Pacific region into a network that will serve as product distribution channels for Pricerite as well as Halo. We will continue to expand our geographic coverage preliminarily in 2004 via an active international trade fair programme to fast track development of our partner based network as well as our international client base. Our principal focus this year is to establish representation and operations in the European and North American markets.

We shall continue our brands portfolio expansion programme to increase the number and categories of brands under management for distribution as well as to service as a total business solution provider on the product sourcing side.

FINANCIAL REVIEW

For the year ended 31 December 2003, our Group recorded a turnover of HK$1,028.3 million as compared to HK$1,097.0 million in the previous year. The decline in turnover reflected the harsh operating environment facing all our businesses. In particular, the austere economic conditions throughout the first half of the year were so severe that our financial services and retail businesses suffered a decline of 46.7% and 16.7%, respectively, in turnover. Our ability to weather the hard times lies in the fact that we continued to maintain cost consciousness and our effort to raise our operational efficiency. As the securities markets in the second half of the year were on their way to recovery, our financial services business moved forward from strength to strength. For the whole fiscal year, the Group's financial service division managed to contain the decline in turnover to 5.0% and ended the year with a profit of HK$10.7 million. The Group's retail business also benefited from the economic recovery and narrowed the gap resulting from the decline in the sales during the outbreak of SARS at the beginning of the year. In hindsight, the dramatic changes in business environments throughout 2003 had made the year unprecedentedly challenging. Despite the adverse economic and investment climate, we managed to contain our net loss for the year to HK$51.6 million from HK$440.6 million a year ago.

Our Group's total shareholders' equity stood at HK$340.9 million on 31 December 2003 as compared to HK$375.8 million at the end of the last year. The decrease in equity was attributable to the loss reported for the year. In May 2003, 60 million of new shares were issued to investors, raising total net proceeds of HK$16.4 million for general working capital.

On 31 December 2003, our cash and bank balances were HK$664.5 million as compared to HK$569.6 million on 31 December 2002. The improvement in cash balances was mainly due to an increase in the deposits by our securities clients whose confidence in the securities market had been improving since the beginning of the second half of the year. Our liquidity ratio on 31 December 2003 remained healthy at 1.2 times, virtually unchanged from 2002.

Our total bank borrowings on 31 December 2003 increased to HK$341.9 million from HK$205.5 million on 31 December 2002. The increase in bank borrowings were mainly due to the increase in margin financing to our clients as the investment activities had been fast growing in the last quarter of the year. During the year, our ratio of the total bank borrowings to shareholders' equity was 1.0 as compared to 0.55 on 31 December 2002. We maintained our gearing at a prudent level, given the fact that the majority of our bank borrowings were used in back-to-back margin financing for the clients of CFSG.

All of the Group's borrowings are either in HK dollar or US dollar, with the interest rates priced at close to banks' funding costs. By using effective instruments to hedge any adverse changes in interest rates, our exposure to both foreign currency and interest rate fluctuation was insignificant. On 31 December 2003, our Group's listed investment securities were valued at HK$61.2 million and a loss on investment of HK$5.6 million was recorded for the whole year.

As at 31 December 2003, leasehold properties at their carrying value of approximately HK$29.4 million, bank deposits of HK$20.8 million and listed investment securities valued at HK$108.7 million were pledged to secure a bank term loan and general banking facilities granted to our Group. Save as aforesaid, we had no other material contingent liabilities at the end of the year.

As of the end of the year, we did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

In July, our financial services business acquired CASH Frederick Taylor. In August, our financial services business acquired Chateron for a consideration of HK$7.0 million.

In December 2003, our Group entered into a conditional sale and purchase agreement to acquire the entire equity interest in Rainbow Day Investments Limited, a company which will hold a property situate in Beijing, China together with a mortgage of not more than RMB372 million (equivalent to HK$350.6 million) on the completion date stipulated in the agreement, at a consideration of approximately HK$233.7 million. The consideration shall be settled as to approximately HK$120.6 million by cash and as to HK$113.1 million by issue of the consideration shares by the Company. The acquisition is expected to complete in late April 2004. Other than the above acquisitions, our Group did not make any material acquisitions or disposals during the year. There was no significant investment held during the year.

Subsequent to the year end, our Group entered into a provisional sale and purchase agreement to acquire an investment property located in Hong Kong at a consideration of approximately HK$39.4 million. The transaction is expected to complete by the end of April 2004. Other than that, we do not have any future plans for material investments or capital assets.

EMPLOYEE INFORMATION

At 31 December 2003, the Group had 1,460 employees, of which 171 were at CFSG Group and 1,226 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, performance bonus and sales commission. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$153.9 million. We continue to organise training to employees in areas such as continuous professional training programmes required by regulatory bodies, product knowledge, customer services, selling techniques, problem solving, language training, time management, coaching, etc.

PUBLICATION OF FINANCIAL INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit a CD ROM to the Stock Exchange containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules for publication on the Stock Exchange's website as soon as possible.

PROPOSED AMENDMENTS TO THE BYE-LAWS

In view of the enactment of the Securities Futures Ordinance ("SFO") and the changes to the Listing Rules relating to corporate communications by electronic means as well as the recent changes on corporate governance issues which took effect on 31 March 2004, the Board announces that at a meeting of the Board held on 1 April 2004, it was resolved to propose to the shareholders of the Company for approval of certain amendments to the Bye-laws of the Company, extracts of which are mainly as follows:–

(a) references to the recognised clearing house shall be revised in accordance with the SFO;

(b) electronic corporate communications to holders of securities of the Company to the extent and in the manner permitted by the Listing Rules will be permitted;

(c) any contract or arrangement or any other proposal in which a Director has a material interest requiring approval of the Board and requiring the Director in concern not to vote on the resolution and not to be counted in the quorum of the Board meeting shall be extended to that in which he or any of his associates (as defined in the Listing Rules from time to time) has interest, and the exceptions to the application referring to the Director shall be extended to cover the Director or any of his associates (as defined in the Listing Rules from time to time) accordingly, where appropriate;

(d) the minimum period for lodgment of a notice to nominate a person as a Director shall commence from the day after the despatch of the notice of the meeting appointed for the election of Director(s); and

(e) where any shareholder of the Company is, under the Listing Rules, required to abstain from voting on or restricted to vote only for or only against any particular resolution, any votes in concern cast in contravention thereto shall not be counted.

The proposed amendments to the Bye-laws are subject to the approval of the shareholders of the Company by way of special resolution at a special general meeting ("SGM") of the Company to be held immediately after the conclusion or adjournment of the forthcoming annual general meeting of the Company to be convened. A circular containing, among other things, particulars of the proposed amendments to the Bye-laws and the notice of the SGM will be despatched to the shareholders of the Company as soon as possible.

On behalf of the Board
Bankee P Kwan
Chairman & CEO

The Directors as at the date hereof are Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard, Mr Wong Kin Yick Kenneth, Mr Miao Wen Hao Felix, Dr Chan Yau Ching Bob, Ms Kwok Oi Kuen Joan Elmond, Mr Law Ka Kin Eugene, Mr Li Yuen Cheuk Thomas, Mr Chan Hak Sin, Mr Leung Ka Kui Johnny and Mr Wong Chuk Yan.

Hong Kong, 1 April 2004