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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Celestial Asia Securities Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CELESTIAL ASIA SECURITIES HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock code #1049)

**POSSIBLE VERY SUBSTANTIAL DISPOSAL:
DEEMED DISPOSAL**

A notice convening a special general meeting of Celestial Asia Securities Holdings Limited to be held at 21/F The Center, 99 Queen's Road Central, Hong Kong on 18 July 2005 (Monday) at 9:30 am is set out on pages 141 to 142 of this circular. If you are not able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the meeting should you so wish.

30 June 2005

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Announcement”	the joint announcement made by the Company and Pricerite on 25 May 2005 in respect of, among other things, the Convertible Note and the Deemed Disposal
“AustChina”	AustChina Information Technology Pyt Limited, a corporation incorporated in Australia and an independent third party, which is not a connected person of the Company or Pricerite as defined under the Listing Rules, and the Group did not have any past business relationship or dealing with the AustChina (save for the Cooperation Agreement)
“Board”	the board of Directors
“CFSG”	CASH Financial Services Group Limited, a company incorporated in Bermuda with limited liability and which shares are listed on the GEM and is a non-wholly owned subsidiary of the Company
“CFSG Group”	CFSG and its subsidiaries
“CIGL”	Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability and is the controlling shareholder of Pricerite, and a wholly-owned subsidiary of the Company
“CN Agreement”	the agreement entered into between Pricerite and AustChina on 23 May 2005 in relation to the proposed issue of the Convertible Note
“Company”	Celestial Asia Securities Holdings Limited, a company incorporated in Bermuda with limited liability and which securities are listed on the main board of the Stock Exchange
“Conditions”	the conditions of the CN Agreement as set out in the sub-section headed “Conditions” in this circular
“Conversion Price”	HK\$0.45 (subject to adjustment) per Conversion Share

DEFINITIONS

“Conversion Share(s)”	the new Pricerite Share(s) issuable upon the conversion of any part of the Convertible Note
“Convertible Note”	the convertible note of a principal amount of HK\$108,000,000 to be convertible into Pricerite Shares at the Conversion Price proposed to be issued by Pricerite, and which terms are set out in the section headed “CN Agreement” in this circular
“Cooperation Agreement”	the agreement entered into between a wholly-owned subsidiary of Pricerite and AustChina on 23 May 2005 in relation to the proposed cooperation to develop retail business in the PRC as announced in the Announcement
“Deemed Disposal”	the deemed disposal by the Company of its shareholding interest in Pricerite under the Listing Rules as a result of the issue of the Conversion Shares by Pricerite upon the full conversion of the Convertible Note (if happens)
“Director(s)”	director(s) of the Company
“GEM”	Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries, including Pricerite and CFSG and their respective subsidiaries
“Latest Practicable Date”	24 June 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Pricerite”	Pricerite Group Limited, a company incorporated in Bermuda with limited liability and which securities are listed on the main board of the Stock Exchange and is a non-wholly owned subsidiary of the Company
“Pricerite Board”	the board of Pricerite Directors

DEFINITIONS

“Pricerite Director(s)”	the director(s) of Pricerite
“Pricerite Group”	Pricerite and its subsidiaries
“Pricerite SGM”	a special general meeting of Pricerite convened to be held at 21/F The Center, 99 Queen’s Road Central, Hong Kong on 18 July 2005 (Monday) at 9:35 am to approve, inter alia, the CN Agreement
“Pricerite Share(s)”	ordinary share(s) of HK\$0.02 each in Pricerite
“Pricerite Shareholders”	holders of Pricerite Shares
“Remaining Group”	the Company and its subsidiaries excluding their direct and indirect interest in the Pricerite Group on the assumption that completion of the Deemed Disposal had taken place
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company convened to be held at 21/F The Center, 99 Queen’s Road Central, Hong Kong on 18 July 2005 (Monday) at 9:30 am to approve the Deemed Disposal
“Share(s)”	ordinary share(s) of HK\$0.10 each in the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of the Hong Kong Special Administrative Region of the PRC

LETTER FROM THE BOARD



CELESTIAL ASIA SECURITIES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code #1049)

Board of Directors:

Executive:

KWAN Pak Hoo Bankee

LAW Ping Wah Bernard

WONG Kin Yick Kenneth

MIAO Wen Hao Felix

KWOK Oi Kuen Joan Elmond

LI Yuen Cheuk Thomas

Independent Non-executive:

LEUNG Ka Kui Johnny

WONG Chuk Yan

CHAN Hak Sin

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business:

21/F The Center

99 Queen's Road Central

Hong Kong

30 June 2005

To Shareholders

Dear Sir/Madam,

POSSIBLE VERY SUBSTANTIAL DISPOSAL: DEEMED DISPOSAL

INTRODUCTION

By the Announcement, the Board and the Pricerite Board jointly announced that, among other things, the CN Agreement was entered into between Pricerite and AustChina in relation to the issue of the Convertible Note by Pricerite and the Deemed Disposal by the Company.

The issue of Conversion Shares by Pricerite upon the full conversion of the Convertible Note (if happens) is a deemed disposal and constitutes a very substantial disposal by the Company under the Listing Rules, which is subject to the approval by Shareholders. The purposes of this circular are to provide the Shareholders with further information on the Deemed Disposal and to give you notice for convening the SGM at which necessary resolution will be proposed to seek your approval.

LETTER FROM THE BOARD

CN AGREEMENT

Date

23 May 2005

Parties

Issuer : Pricerite

The subscriber : AustChina, an independent third party, which is not a connected person of the Company (as defined under the Listing Rules)

Conditions

The issue of the Convertible Note is conditional upon, among other things,:-

- (a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares on the Stock Exchange;
- (b) the approval of the CN Agreement by the Pricerite Shareholders in Pricerite SGM; and
- (c) the approval of the Deemed Disposal by the Shareholders in SGM.

The Conditions are required to be fulfilled on or before 31 July 2005, or such later date as may be agreed between Pricerite and AustChina. If the Conditions are not fulfilled by such date, the CN Agreement will be terminated without any clause of damages against each other by the parties thereto.

Completion

The CN Agreement shall be completed within 2 business days (or any extended period as agreed by Pricerite) after the CN Agreement becoming unconditional, at which time the Convertible Note will be issued by Pricerite to AustChina.

LETTER FROM THE BOARD

CONVERTIBLE NOTE

The principal terms of the Convertible Note proposed to be issued are set out below.

Principal terms

- | | | |
|------------------|---|--|
| Consideration | : | HK\$108,000,000 in cash |
| Principal amount | : | HK\$108,000,000 |
| Conversion Price | : | HK\$0.45 (subject to adjustment) per Conversion Share, determined on an arm's length basis between Pricerite and AustChina, being: |
- about 53.1% discount to the closing price of HK\$0.96 per Pricerite Share on 20 May 2005 (the last trading day of the Pricerite Shares prior to the date of the Announcement);
 - about 48.9% discount to the average closing price of about HK\$0.88 per Pricerite Share based on the closing prices as quoted on the Stock Exchange for the 5 trading days ended on 20 May 2005;
 - about 51.1% discount to the average closing price of about HK\$0.92 per Pricerite Share based on the closing prices as quoted on the Stock Exchange for the 10 trading days ended on 20 May 2005;
 - about 2.2% discount to the average closing price of about HK\$0.46 per Pricerite Share based on the closing prices as quoted on the Stock Exchange for the 3 months ended on 20 May 2005;
 - about 12.5% premium to the average closing price of about HK\$0.40 per Pricerite Share based on the closing prices as quoted on the Stock Exchange for the 6 months ended on 20 May 2005;
 - about 38.4% discount to the closing price of HK\$0.73 per Pricerite Share on the Latest Practicable Date; and

LETTER FROM THE BOARD

- about 80% premium to the adjusted unaudited net asset value per Pricerite Share of HK\$0.25 per Pricerite Share as at 20 May 2005.

Interest rate	:	the Convertible Note bears no coupon rate and the effective yield to maturity is zero
Repayment right	:	at the discretion of Pricerite any time after the issue of the Convertible Note but prior to the maturity date (as described below)
Conversion right	:	at the discretion of any of Pricerite or AustChina
Conversion period	:	any time after the expiry of 6 months from the issue date of Convertible Note and ending on the maturity date
Maturity date	:	31 August 2007, or any other date mutually agreed between Pricerite and AustChina, on which all outstanding principal amount of the Convertible Note together with the accrued interest thereon shall be fully repaid
Transferability	:	the Convertible Note will be transferable with the consent of Pricerite only to persons who are not connected persons of Pricerite (as defined under the Listing Rules) (save for the wholly-owned subsidiaries of AustChina which shall not require the consent of Pricerite)

Conversion Shares to be issued upon conversion

The Conversion Shares to be issued by Pricerite upon conversion of the Convertible Note will rank pari passu in all respects with the Pricerite Shares then in issue at the relevant dates of conversion.

Upon full conversion of the Convertible Note by AustChina, AustChina may become a substantial Pricerite Shareholder holding more than 10% of the issued share capital of Pricerite as enlarged by the Conversion Shares. Assuming that the Convertible Note is converted at the initial Conversion Price, a total of 240,000,000 Conversion Shares, representing approximately 24.18% of the existing issued share capital of Pricerite, and approximately 19.47% of the issued share capital of Pricerite as enlarged by the Conversion Shares, will be issued by Pricerite. AustChina has indicated that, in view of the lower price for the conversion price as compared with the recent market price of Pricerite Shares, it will convert the Convertible Note in full into Pricerite Shares at any time after the commencement of the conversion period.

LETTER FROM THE BOARD

Voting rights of the holder of the Convertible Note

The holder of the Convertible Note will not have any right to vote at the general meetings of Pricerite by virtue of its being the holder of the Convertible Note.

Listing of the Convertible Note

No listing of the Convertible Note will be sought on the Stock Exchange or any other stock exchange. However, Pricerite has applied for the listing on the Stock Exchange of the Conversion Shares issuable upon the conversion of the Convertible Note.

SHAREHOLDING STRUCTURE OF PRICERITE

The respective shareholding structures of Pricerite as at the Latest Practicable Date and after the full conversion of the Convertible Note are as follows:

Pricerite Shareholder	As at the Latest Practicable Date		Upon full conversion of Convertible Note	
	<i>Number of Pricerite Shares</i>	<i>%</i>	<i>Number of Pricerite Shares</i>	<i>%</i>
CIGL ⁽¹⁾ and its subsidiaries	443,572,587	44.69	443,572,587	35.99
AustChina	0	0.00	240,000,000	19.47
Public	548,953,558	55.31	548,953,558	44.54
Total	<u>992,526,145</u>	<u>100.00</u>	<u>1,232,526,145</u>	<u>100.00</u>

Notes:

- (1) A wholly-owned subsidiary of the Company.
- (2) The Pricerite Shares held by the directors of Pricerite as shown in the Announcement had been disposed of before the Latest Practicable Date.

LETTER FROM THE BOARD

USE OF PROCEEDS AND THE REASONS FOR THE ISSUE OF THE CONVERTIBLE NOTE BY PRICERITE

The proceeds from the issue of the Convertible Note are intended to be used by Pricerite Group for developing its retail business operations in the PRC. A potential location of the initial retail business operations in the PRC has been preliminarily proposed to be in Beijing lying directly opposite to the Beijing 2008 Olympic Games' Athletic Registration Centre which is at the heart of the city. However, no legally binding agreement or detailed plan for the retail business operations in the PRC has been reached by Pricerite Group.

FINANCIAL INFORMATION ON PRICERITE GROUP

The audited consolidated net losses before and after taxation, minority interest and extraordinary items of the Pricerite Group for the year ended 31 December 2003 were both about HK\$29.9 million, and the audited consolidated net losses before and after taxation, minority interest and extraordinary items of the Pricerite Group for the year ended 31 December 2004 were both HK\$82.6 million. The audited consolidated net assets of the Pricerite Group as at 31 December 2003 and 31 December 2004 were about HK\$182.3 million and HK\$150.3 million respectively.

INFORMATION OF AUSTCHINA

The group of AustChina, being the holding company of AustChina and its subsidiaries, specializes in supply and support of technologies, such as telecommunication, information technology solutions and innovations, through partnership with Australian companies, and facilitates the localization of specialised products to meet the specific needs of the China market. They are experienced in the areas of communication transmission equipment, telecommunication carriers and mobile service providers, the finance and banking sector and rail and air transportation. AustChina is an Australian private investment firm promoting a range of Australian products, such as technological related products and services, that target markets with high growth potential in China, and also engages in private investment in Beijing and Sydney.

POSSIBLE VERY SUBSTANTIAL DISPOSAL BY THE COMPANY

Based on the existing shareholding structure of Pricerite, should the conversion right attached to the Convertible Note be exercised in full, the resultant allotment and issue of the Conversion Shares by Pricerite will be regarded as a deemed disposal by the Company of shareholding interest in Pricerite and constitutes a possible very substantial disposal for the Company under the Listing Rules, which is subject to the approval by the Shareholders. No Shareholder is required to abstain from voting in the SGM.

LETTER FROM THE BOARD

Taking into account (i) the existing shareholding structure of Pricerite; (ii) that there will be a substantial decrease in the shareholding interest of the Company in Pricerite upon the exercise of conversion rights attached to the Convertible Note in full; and (iii) that AustChina has indicated that, in view of the lower price for the conversion price as compared with the recent market price of Pricerite Shares, it will exercise the conversion right attached to the Convertible Note in full at any time after the commencement of the conversion period, Pricerite will cease to be a subsidiary of the Company upon issue of the Convertible Note. Though the shareholding interest of the Company in Pricerite reduced to 45.60% immediately after the placing in May 2005, Pricerite remained as subsidiary of the Company since there was no other substantial shareholder holding more than 10% of the issued share capital of Pricerite. However, in view of the proposed issue of the Convertible Note, the intention of AustChina to convert the Convertible Note and the possible introduction of AustChina as new substantial shareholder of Pricerite, the Board is of the view that Pricerite will cease to be a subsidiary of the Company upon the issue of the Convertible Note. AustChina, the subscriber of the Convertible Note, is independent of the Company and its connected persons (as defined under the Listing Rules).

Based on the adjusted unaudited consolidated balance sheet of the Pricerite Group as at 20 May 2005 as adjusted by the net proceeds from the issue of the 83 million subscription shares and 223 million placing shares in April and May 2005 respectively and the option shares in May 2005, the effect of the Deemed Disposal will lead to the Group an accounting profit of approximately HK\$17,507,000 and an increase of consolidated net asset value by the same amount. On the other hand, the effect of the Deemed Disposal would lead to the Group an profit of approximately HK\$768,000 based on the audited net asset value of Pricerite Group as at 31 December 2003 and adjusted for the consideration of HK\$108,000,000, in this case, on the basis and assumption that such full conversion was completed on 1 January 2004. Details of the calculation has been set out in the unaudited pro forma consolidated income statement in Appendix III to this circular.

The financial information regarding the Group for the three years ended 31 December 2004 have been set out in Appendix I to this circular. For further information regarding the financial implication of the Deemed Disposal on the Group, please refer to the pro forma financial information prepared pursuant to and in compliance with Rule 4.29 of the Listing Rules and set out in Appendix III to this circular.

Having taken into account that the share price of Pricerite Shares has increased substantially recently, although the Conversion Price represents discounts to the recent closing prices, on the basis that the Conversion Price also represents (i) a discount of about 2.2% to and a premium of about 12.5% over the average closing prices of about HK\$0.46 per Pricerite Share and HK\$0.40 per Pricerite Share respectively based on the closing prices as quoted on the Stock Exchange for the 3 months and 6 months ended on 20 May 2005, and (ii) a premium of about 80% over the adjusted unaudited net asset value per Pricerite Share of HK\$0.25 as at 20 May 2005, the Directors are of the opinion that the Conversion Price is fair and reasonable and in the interests of the

LETTER FROM THE BOARD

Company and the Shareholders as a whole. The Directors also considered that the issue of the Convertible Note will provide Pricerite with immediate funds to allow it to capture the investment opportunity for developing retail business operation of Pricerite Group in the PRC. Following the Deemed Disposal, as the Company will remain as the single largest shareholder in Pricerite holding 35.99% of its shareholding interest immediately after the full conversion of the Convertible Note, the management and operation of Pricerite will continue to be under the substantial influence of the Board and the investment in Pricerite will continue to represent a substantial portion of the investment of the Company. It is anticipated that the Company will continue to benefit from the investment in Pricerite by equity accounting its results as an associate company and sharing of its results as well as the benefits from its development in retail business in the PRC. The Directors consider that the Deemed Disposal is in the interests of the Company and the Shareholders as a whole.

GENERAL

The principal activities of the Group consist of (i) financial services provided via CFSG and its subsidiaries including online and traditional brokerage of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products and their trading services, margin financing, corporate finance and other financial services; (ii) retailing of furniture and household items via Pricerite Group; (iii) investment holding including property investment; (iv) brand management.

Should the Convertible Note be fully converted into Conversion Shares, the shareholding interest of the Group in Pricerite may be reduced from 44.69% to 35.99% after the conversion. Pricerite will cease to be a subsidiary of the Company upon the issue of the Convertible Note taking into account the existing shareholding structure of Pricerite, the possible substantial dilution effect on the shareholding of the Company in Pricerite upon exercise of conversion rights attached to the Convertible Note in full and AustChina has indicated that it will exercise the conversion rights attached to the Convertible Note in full at any time after the commencement of the conversion period. Pricerite will be equity accounted for by the Company as an associate company. The Board does not have any present intention to dispose of the remaining Pricerite Shares by the Company or change the composition of the Pricerite Board. The issue of the Convertible Note and the Conversion Shares upon the full conversion of the Convertible Note (if happens) will be regarded as a deemed disposal and constitutes a very substantial disposal for the Company under the Listing Rules.

LETTER FROM THE BOARD

SGM

Set out on pages 141 to 142 of this circular is a notice convening the SGM in which an ordinary resolution will be proposed to be considered and, if thought fit, be passed by the Shareholders for approving the Deemed Disposal.

A form of proxy for use at the SGM is enclosed with this circular. If you are not able to attend the SGM, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no less than 48 hours before the time appointed for the holding of the SGM. Completion and return of a form of proxy will not preclude you from attending and voting in the SGM should you so wish.

PROCEDURE TO DEMAND A POLL BY SHAREHOLDERS

Shareholders may demand a resolution to be taken by poll if:

- (1) the demand is raised before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll; and
- (2) the demand is made by:
 - (a) chairman of the meeting; or
 - (b) at least 3 registered Shareholders (as represented personally, or by proxy, or by corporate representative) entitled to vote at the meeting; or
 - (c) a registered Shareholder or registered Shareholders (as represented personally, or by proxy, or by corporate representative(s)) representing not less than 10% of the total voting rights of all Shares in issue that entitle the holders to vote at the meeting; or
 - (d) a registered Shareholder or registered Shareholders (as represented personally, or by proxy, or by corporate representative(s)) holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the Shares conferring that right.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors are of the view that the issue of the Conversion Shares by Pricerite and the Deemed Disposal are in the interest of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Bankee P Kwan
Chairman

**AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE YEARS ENDED
31 DECEMBER 2002, 2003 AND 2004**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular received from the independent reporting accountants, Deloitte Touche Tohmatsu, Hong Kong.

Deloitte.
德勤

德勤•關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

30 June 2005

The Directors
Celestial Asia Securities Holdings Limited

We set out below our report on the financial information regarding Celestial Asia Securities Holdings Limited (“Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2004 (“Relevant Periods”) for inclusion in the circular of the Company dated 30 June 2005 in connection with a possible very substantial disposal: deemed disposal.

The Company was incorporated in Bermuda as an exempted company with limited liability on 25 October 1993 and is engaged in investment holding.

As at date of this report, particulars of the Company’s subsidiaries and associates are as follows.

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Subsidiaries				
CASH Assets Limited	British Virgin Islands (“BVI”)	Ordinary US\$1	100	Inactive
CASH (China) Holdings Limited	BVI	Ordinary US\$1	100	Inactive

APPENDIX I**ACCOUNTANTS' REPORT OF THE GROUP**

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Cashflow Credit Limited	Hong Kong	Ordinary HK\$6,000,100	100	Money lending
Celestial Investment Group Limited (“CIGL”)	BVI	Ordinary US\$10,000	100	Investment holding
Celestial IT Investments Limited	BVI	Ordinary US\$1	100	Investment holding
Champion Ford Limited	Hong Kong	Ordinary HK\$2	100	Provision of management services
Character Properties Limited	BVI	Ordinary US\$1	100	Investment holding
Cheer Forever Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Confident Profits Limited	BVI	Ordinary US\$1	100	Investment holding
Excel Smart Profits Limited	BVI	Ordinary US\$1	100	Inactive
Halo Group Limited	Bermuda	Ordinary HK\$1,000,000	100	Inactive
Kawoo Finance Limited	BVI	Ordinary US\$1	100	Investment holding
Majestic Assets Limited	BVI	Ordinary US\$1	100	Investment holding

APPENDIX I**ACCOUNTANTS' REPORT OF THE GROUP**

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Max Luck Associates Limited	BVI	Ordinary US\$1	100	Investment holding
Nimble Mind Profits Limited	BVI	Ordinary US\$10	100	Investment holding
Vie Orientale SARL	France	Ordinary Euro 7,500	100	Inactive
Value Success Finance Limited	BVI	Ordinary US\$1	50	Inactive
CASH Financial Services Group Limited (“CFSG”)	Bermuda	Ordinary HK\$75,455,644	51.27	Investment holding
All Success Limited	Hong Kong	Ordinary HK\$10 Non-voting HK\$2	51.27	Provision of treasury functions and money lending
CASH Asset Management Limited	Hong Kong	Ordinary HK\$200,000	51.27	Provision of asset management services
CASH E-Surance Limited	Hong Kong	Ordinary HK\$2	51.27	Provision of on-line insurance services
CASH E-Trade Limited	Hong Kong	Ordinary HK\$4,000,000	51.27	Provision of management services

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
CASH on-line Limited	BVI	Ordinary US\$50,000	51.27	Inactive
CASH Payment Services Limited	Hong Kong	Ordinary HK\$2	51.27	Provision of payment gateway services
CASH Research Limited	Hong Kong	Ordinary HK\$26,000,000	51.27	Inactive
Celestial Asia Investment Limited	Hong Kong	Ordinary HK\$2	51.27	Inactive
Celestial Asset Management Limited	Hong Kong	Ordinary HK\$4,000,100	51.27	Provision of treasury functions
Celestial Capital Limited	Hong Kong	Ordinary HK\$22,000,000	51.27	Provision of corporate finance services
Celestial Commodities Limited	Hong Kong	Ordinary HK\$10,000,000	51.27	Futures and options broking and trading
Celestial Finance Limited	Hong Kong	Ordinary HK\$40,000,002	51.27	Inactive
Celestial Financial Services Limited	BVI	Ordinary US\$10,000	51.27	Investment holding

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Celestial (International) Securities & Investment Limited	Hong Kong	Ordinary HK\$10,000,002	51.27	Inactive
Celestial Investments (HK) Limited	Hong Kong	Ordinary HK\$2	51.27	Money lending
Celestial (Nominees) Limited	Hong Kong	Ordinary HK\$2	51.27	Provision of nominee services
Celestial Securities Limited (“CSL”)	Hong Kong	Ordinary HK\$120,000,000	51.27	Securities, equity options broking and trading and provision of share margin financing
CFT Nominees Limited <i>Note (vi)</i>	BVI	Ordinary US\$1	51.27	Inactive
Chateron Corporate Finance Limited	Hong Kong	Ordinary HK\$10,000,000	51.27	Inactive
icoupon Limited	BVI	Ordinary US\$1	51.27	Investment holding
Linkup Assets Management Limited <i>Note (vi)</i>	BVI	Ordinary US\$1	51.27	Investment holding
CASH Frederick Taylor Limited (“CASH Frederick Taylor”)	Hong Kong	Ordinary HK\$1,000,000	51.27 <i>Note (i)</i>	Financial advisory consultancy

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Associates				
Pricerite Group Limited ("Pricerite")	Bermuda	Ordinary HK\$19,850,523	44.69	Investment holding
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	44.69	Wholesale and retailing of branded household products
Cosmos Global Assets Limited	BVI	Ordinary US\$2	44.69	Inactive
Cosmos Global Export (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM350,100	44.69	Trading of household and cosmetic products
East Lake Development Limited	Hong Kong	Ordinary HK\$2	44.69	Holding of equipment
E-Tailer Holding Limited	BVI	Ordinary US\$1	44.69	Trading of securities
Golden Riverside Industrial Limited	Hong Kong	Ordinary HK\$102	44.69	Holding of equipment
Lifetore Limited <i>Note (vii)</i>	Hong Kong	Ordinary HK\$2	44.69	Inactive
Lifetore (HK) Limited <i>Note (vi)</i>	Hong Kong	Ordinary HK\$1	44.69	Inactive
PLZ Retail Group Limited <i>Note (vi)</i>	BVI	Ordinary US\$1	44.69	Investment holding

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Pricerite BVI Limited	BVI	Ordinary US\$10,000	44.69	Investment holding
Pricerite (China) Limited	Hong Kong	Ordinary HK\$2	44.69	Investment holding
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	44.69	Retailing of household furniture and goods through a website
Pricerite Development Limited	Hong Kong	Ordinary HK\$2	44.69	Inactive
Pricerite International Holdings Limited	BVI	Ordinary US\$1	44.69	Inactive
Pricerite Marketing Limited	Hong Kong	Ordinary HK\$2	44.69	Inactive
Pricerite SA (HK) Limited	Hong Kong	Ordinary HK\$2	44.69	Trading of furniture and household goods
Pricerite (Saudi Arabia) Limited	BVI	Ordinary US\$1	44.69	Inactive
Pricerite Stores Limited ("PSL")	Hong Kong	Ordinary HK\$100,000,000	44.69	Retailing of furniture and household goods

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Richwell Target Limited	Hong Kong	Ordinary HK\$2	44.69	Property holding
Wealthy View Investment Limited <i>Note (vi)</i>	BVI	Ordinary US\$10	44.69	Investment holding
Worldwide Luck Limited	Hong Kong	Ordinary HK\$2	44.69	Golf club membership holding
3C Digital Limited (“3C”)	Hong Kong	Ordinary HK\$100	44.69 <i>Note (ii)</i>	Retailing of digital products and electrical appliances
3C Retail Group Limited <i>Note (vi)</i>	BVI	Ordinary US\$100	44.69	Investment holding
廣州時惠家居用品有限公司 <i>Note (iii)</i>	PRC	Registered capital RMB1,000,000	44.69	Retailing of furniture and household goods
深圳市品致生活家居用品有限公司 <i>Note (iii)</i>	PRC	Registered capital RMB500,000	44.69	Retailing of furniture and household goods
Pricerite (Guangzhou) Limited <i>Note (iii)</i>	PRC	Registered capital HK\$1,000,000	44.69	Inactive

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
上海經艷家居用品有限公司 <i>Notes (iii) & (vii)</i>	PRC	Registered capital US\$1,000,000	44.69	Holding of equipment
上海雅盈家居用品有限公司 <i>Notes (iii) & (vii)</i>	PRC	Registered capital RMB500,000	44.69	Retailing of furniture, household and personal care products
上海雅室家居用品有限公司 <i>Note (iii) & (vii)</i>	PRC	Registered capital RMB100,000	44.69	Corporate design

Notes:

- (i) The Group holds a 35.89% effective interest in CASH Frederick Taylor and controls a 51.27% of voting power at general meetings of CASH Frederick Taylor through the 51.27% interest in CFSG.
- (ii) The Group holds a 26.81% effective interest in 3C and controls a 44.69% of voting power at general meetings of 3C through the 44.69% interest in Pricerite.
- (iii) The principal place of operation is in PRC.
- (iv) Except otherwise stated, the principal place of operation of the subsidiaries and associates is in Hong Kong.
- (v) Except CIGL, all the subsidiaries and associates shown above are indirectly held by the Company.
- (vi) It is incorporated subsequent to the Relevant Periods.
- (vii) It is acquired by Wealthy View Investment Limited subsequent to the Relevant Periods.

On 23 March 2005, Pricerite and two subscribers entered into agreements pursuant to which the subscribers agreed to subscribe for a total of 83,000,000 new ordinary shares of Pricerite at the subscription price of HK\$0.28 per share. On 4 April 2005, Pricerite and the placing agent entered into an agreement pursuant to which Pricerite agreed to issue and the placing agent agreed to procure placees to subscribe for a maximum of 223,000,000 new ordinary shares of Pricerite at the placing price of HK\$0.30 per share. The subscription of 83,000,000 new ordinary shares of Pricerite and placement of 223,000,000 new ordinary shares of Pricerite were completed on 6 April 2005 and 19 May 2005 respectively. After the issue of the subscription shares and the placing shares by Pricerite as mentioned above and due to the issue of shares upon exercise of share options of Pricerite, the Company's interest in Pricerite was decreased from 66.52% as at 31 December 2004 to 44.69% at the date of this report. On 23 May 2005, Pricerite and AustChina Information Technology Pty Limited entered into an agreement in relation to the proposed issue of convertible note of an initial principal amount of HK\$108,000,000 ("Convertible Note"). Upon full conversion of the Convertible Note, a maximum of 240,000,000 shares of HK\$0.02 each in the share capital of Pricerite will be issued and thereby further reducing the Group's interest in Pricerite Group. Details of the financial information of Pricerite and its subsidiaries ("Pricerite Group") for the Relevant Periods are set out in note 37 to the financial information.

During the Relevant Periods, the Group held more than one half of the share capital of Pricerite and controlled respective voting power in the general meeting of Pricerite. Therefore, the Group had accounted for the investment in Pricerite Group as a subsidiary, and the consolidated financial statements of Pricerite Group were consolidated in the financial statements of the Company during the Relevant Periods.

We have acted as auditors of all the companies comprising the Group, other than the companies registered in the PRC, incorporated in BVI or France and Halo Group Limited, for the Relevant Periods or since their respective dates of incorporation/registration where there is a shorter period.

No audited financial statements of companies registered in the PRC, incorporated in BVI or France and Halo Group Limited have been prepared for the Relevant Periods or since their respective dates of incorporation/registration where there is a shorter period as there were no statutory audit requirements for these entities.

As a basis for forming an opinion on the financial information of the Group for the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the management accounts of companies registered in the PRC, incorporated in BVI or France and Halo Group Limited, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have audited the financial statements or, where necessary, the management accounts of the companies comprising the Group (“Underlying Financial Statements”) for each of the three years ended 31 December 2004 in accordance with Statements of Auditing Standards issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” recommended by the HKICPA.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the Directors of the Company who approved their issue. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at the respective balance sheet dates presented and of the results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	Year ended 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	2	1,102,628	1,033,831	1,124,389
Other operating income		–	22,634	11,599
Reversal of impairment loss previously recognised in respect of property and equipment		–	900	–
Cost of sales		(572,018)	(541,246)	(598,895)
Salaries, allowances and commission	4	(236,810)	(204,697)	(234,776)
Other operating, administrative and selling expenses		(380,168)	(316,525)	(339,682)
Depreciation and amortisation		(61,834)	(55,946)	(53,674)
Loss on trading of securities, options futures and leveraged foreign exchange contracts		(5,600)	(5,560)	(23,789)
Finance costs	5	(5,162)	(7,593)	(11,398)
Allowance for bad and doubtful debts		(95,687)	(1,073)	(7,630)
Impairment loss recognised in respect of club membership	17	(1,330)	–	–
Impairment loss recognised in respect of investments	14	(57,000)	–	(15,500)
Impairment loss recognised in respect of goodwill	15	(27,209)	–	(10,000)
Impairment loss recognised in respect of property and equipment	11	(64,153)	–	(2,060)
Impairment loss recognised in respect of goodwill held in reserves	26	–	(300)	–
		(404,343)	(75,575)	(161,416)
Gain on expiry on warrants		59,573	–	–
Allowance for loan to an associate	13	(219,828)	–	–
Write back of loan to an associate		–	24,600	–
Loss before taxation	8	(564,598)	(50,975)	(161,416)
Taxation credit (charge)	9	1,779	(134)	(356)
Loss before minority interests		(562,819)	(51,109)	(161,772)
Minority interests		122,236	(520)	17,606
Net loss attributable to shareholders		<u>(440,583)</u>	<u>(51,629)</u>	<u>(144,166)</u>
Loss per share	10			
– Basic		<u>HK\$(1.4)</u>	<u>HK\$(0.15)</u>	<u>HK\$(0.37)</u>
– Diluted		<u>HK\$(1.4)</u>	<u>HK\$(0.15)</u>	<u>HK\$(0.37)</u>

Consolidated Balance Sheets

	<i>Notes</i>	As at 31 December		
		2002	2003	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property and equipment	11	190,301	134,072	149,120
Interests in associates	13	–	–	–
Investments	14	–	15,500	10,800
Goodwill	15	55,260	70,808	57,199
Intangible assets	16	12,752	10,922	9,092
Other assets	17	31,191	21,504	13,346
Loans receivable	18	2,217	–	19,334
		<u>291,721</u>	<u>252,806</u>	<u>258,891</u>
Current assets				
Inventories	19	65,391	61,295	59,013
Accounts receivable	20	172,591	497,728	365,047
Loans receivable	18	1,200	700	20,623
Prepayments, deposits and other receivables		77,271	79,041	44,020
Investments	14	52,534	61,200	64,700
Taxation recoverable		6	6	–
Bank deposits under conditions	21	26,890	36,565	52,784
Bank balances – trust and segregated accounts		285,020	382,056	433,156
Bank balances (general accounts) and cash		257,651	245,924	236,147
		<u>938,554</u>	<u>1,364,515</u>	<u>1,275,490</u>
Current liabilities				
Accounts payable	22	490,026	739,479	784,990
Accrued liabilities and other payables		84,515	72,647	97,901
Taxation payable		279	513	729
Obligations under finance leases – amount due within one year	23	681	504	93
Bank borrowings – amount due within one year	24	205,542	322,442	181,777
		<u>781,043</u>	<u>1,135,585</u>	<u>1,065,490</u>
Net current assets		<u>157,511</u>	<u>228,930</u>	<u>210,000</u>
		<u>449,232</u>	<u>481,736</u>	<u>468,891</u>

	<i>Notes</i>	As at 31 December		
		2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Capital and reserves				
Share capital	25	30,548	36,548	43,748
Reserves	26	345,257	304,352	176,091
		<u>375,805</u>	<u>340,900</u>	<u>219,839</u>
Minority interests		<u>72,674</u>	<u>121,210</u>	<u>167,100</u>
Non-current liabilities				
Bank borrowings – amount due after one year	24	–	19,500	41,452
Convertible notes	27	–	–	40,500
Obligations under finance leases – amount due after one year	23	753	126	–
		<u>753</u>	<u>19,626</u>	<u>81,952</u>
		<u>449,232</u>	<u>481,736</u>	<u>468,891</u>

Balance Sheets of the Company

	<i>Notes</i>	As at 31 December		
		2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets				
Property and equipment	11	2,619	1,320	552
Investments in subsidiaries	12	–	–	–
		<u>2,619</u>	<u>1,320</u>	<u>552</u>
Current assets				
Prepayments, deposits and other receivables		2,214	1,928	1,928
Amounts due from subsidiaries		370,316	336,456	216,506
Bank balances and cash		66	9	63
		<u>372,596</u>	<u>338,393</u>	<u>218,497</u>
Current liabilities				
Accrued liabilities and other payables		340	340	640
		<u>372,256</u>	<u>338,053</u>	<u>217,857</u>
Net current assets				
		<u>374,875</u>	<u>339,373</u>	<u>218,409</u>
Capital and reserves				
Share capital	25	30,548	36,548	43,748
Reserves	26	344,327	302,825	174,661
		<u>374,875</u>	<u>339,373</u>	<u>218,409</u>

Consolidated Statements of Changes in Equity

	Total Equity <i>HK\$'000</i>
At 1 January 2002	902,571
Issue of shares due to exercise of warrants	109
Repurchase of shares	(26,719)
Gain on expiry of warrants recognised in the income statement	(59,573)
Net loss for the year	(440,583)
	<hr/>
At 31 December 2002 and 1 January 2003	375,805
Impairment loss recognised in the income statement in respect of goodwill held in reserves	300
Issue of new shares	16,500
Share issue expenses	(76)
Net loss for the year	(51,629)
	<hr/>
At 31 December 2003 and 1 January 2004	340,900
Issue of new shares	23,760
Share issue expenses	(655)
Net loss for the year	(144,166)
	<hr/>
At 31 December 2004	<u>219,839</u>

Consolidated Cash Flow Statements

	Note	Year ended 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Operating activities				
Loss before taxation		(564,598)	(50,975)	(161,416)
Adjustments for:				
Advertising and telecommunication services expenses	29	5,746	13,269	11,213
Allowance for bad and doubtful debts		95,687	1,073	7,630
Allowance for inventory obsolescence and write-off of inventories		4,990	7,195	19,041
Allowance for loan to an associate		219,828	–	–
Amortisation of intangible assets		1,830	1,830	1,830
Amortisation of goodwill		6,135	4,351	6,928
Depreciation and amortisation of property and equipment		53,869	49,765	44,916
Gain on expiry of warrant		(59,573)	–	–
Deemed gain on partial disposal of interest in Pricerite		–	–	(769)
Dividends from investments		–	–	(1,015)
Gain on partial disposal of interest in CFSG		–	(6,321)	–
Impairment loss recognised in respect of club membership		1,330	–	–
Impairment loss recognised in respect of goodwill held in reserves		–	300	–
Impairment loss recognised in respect of investments		57,000	–	15,500
Impairment loss recognised in respect of goodwill		27,209	–	10,000
Impairment loss recognised in respect of property and equipment		64,153	–	2,060
Reversal of impairment loss previously recognised in respect of property and equipment		–	(900)	–
Interest expenses		5,162	7,593	11,398
Loss on disposal of property and equipment		6,081	1,941	4,746

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

	<i>Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flow before movements in working capital		(75,151)	29,121	(27,938)
Increase in inventories		(16,398)	(3,099)	(16,759)
Decrease (increase) in accounts receivable		72,514	(324,054)	131,457
Decrease (increase) in loans receivable		13,779	1,644	(38,118)
Decrease (increase) in prepayments, deposits and other receivables		24,208	(5,808)	26,022
Increase in investments		(19,032)	(8,666)	(3,500)
Decrease (increase) in bank balances				
– trust and segregated accounts		77,614	(97,036)	(51,100)
(Decrease) increase in accounts payable		(58,020)	249,453	45,511
(Decrease) increase in accrued liabilities and other payables		(21,707)	(16,858)	25,254
Cash (used in) from operations		(2,193)	(175,303)	90,829
Hong Kong Profits Tax paid		(12)	–	(134)
Hong Kong Profits Tax refunded		166	–	–
Dividends received		–	–	1,015
Interest paid		(4,989)	(7,550)	(11,376)
Net cash (used in) from operating activities		(7,028)	(182,853)	80,334
Investing activities				
Additional payment for acquisition of a subsidiary	15	–	–	(1,400)
Expenses paid for subscription of CFSG's rights shares		–	–	(800)
Proceeds from disposal of property and equipment		22,333	15,825	381
Purchase of property and equipment		(58,593)	(9,918)	(67,151)
Purchase of investments		–	(15,500)	(10,800)
Statutory and other deposits refunded (paid)		4,100	363	(1,601)
Acquisitions of subsidiaries (net of cash and cash equivalents acquired)	28	(40,600)	(2,706)	–
Decrease in club memberships		–	329	–
Proceeds from partial disposal of interest in CFSG		–	12,335	–
Loan to an associate		(55,362)	–	–
Net cash (used in) from investing activities		(128,122)	728	(81,371)

	Year ended 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing activities			
Increase (decrease) in trust receipt loans	34,197	8,444	(3,782)
Decrease (increase) in bank deposits under conditions	16,855	(9,675)	(16,219)
(Decrease) increase in bank loans	(51,100)	136,600	(86,603)
Increase (decrease) in bank overdrafts	66,856	(8,644)	(28,328)
Repayments of obligations under finance leases	(2,544)	(804)	(537)
Proceeds on issue of convertible notes	–	–	40,500
Proceeds on issue of shares	109	16,500	23,760
Repurchase of shares	(26,719)	–	–
Share issue expenses	–	(76)	(655)
Contributions from minority shareholders	–	30,642	66,476
Interest paid on obligations under finance leases	(173)	(43)	(22)
Share issue expenses paid by CFSG and Pricerite	–	(2,546)	(3,330)
	<u>37,481</u>	<u>170,398</u>	<u>(8,740)</u>
Net cash from (used in) financing activities			
Net decrease in cash and cash equivalents	(97,669)	(11,727)	(9,777)
Cash and cash equivalents at beginning of year	355,320	257,651	245,924
	<u>257,651</u>	<u>245,924</u>	<u>236,147</u>
Cash and cash equivalents at end of year			
Being:			
Bank balances and cash	<u>257,651</u>	<u>245,924</u>	<u>236,147</u>

NOTES TO THE FINANCIAL INFORMATION**1. Significant accounting policies**

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as the “New HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the financial statements for the Relevant Periods.

The Group has commenced considering the potential impact of these New HKFRSs. Based on management’s preliminary assessment, the adoption of HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets” in the annual period beginning on 1 January 2005 will result in cessation of amortisation of goodwill to the income statement. Pursuant to HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, goodwill is to be recognised as an asset and reviewed for impairment at least annually and any impairment is recognised immediately in the income statement while the Group’s current policy is to amortise goodwill on a straight-line basis over its useful economic life. During the year ended 31 December 2002, 2003 and 2004, the amortisation of goodwill charged to the income statement amounted to approximately HK\$6,135,000, HK\$4,351,000 and HK\$6,928,000 respectively.

Management is still considering the potential impact of other New HKFRSs but is not yet in a position to determine whether other New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. Other New HKFRSs may result in changes on how the results and financial position are prepared and presented in future.

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

Basis of consolidation

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

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

Goodwill

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

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

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

Investments in subsidiaries

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

Property and equipment

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

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

Leasehold land	Over the lease terms
Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 years

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

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

Impairment

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

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

Leased assets

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

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

Investments

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

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

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

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

Intangible assets

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

Club memberships

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

Inventories

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

Revenue recognition

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

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

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

Realised profits and losses arising from trading of financial products, including equities, futures and option contracts as well as leveraged foreign exchange contracts which are not for hedging purposes, are accounted for in the period in which the contracts/positions are closed as the difference between the net sales proceeds and the carrying amount of the financial products. Open contracts/positions are valued at market rate with unrealised profits and losses included in the income statement.

Dividend income from investment is recognised when the shareholders' rights to receive payment have been established.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

Retirement benefits costs

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

2. Turnover

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Sales of furniture and household goods, net of discounts and returns	889,918	842,063	884,339
Fees and commission income	182,810	173,610	210,729
Interest income	28,039	17,404	29,321
Information technology advisory income	1,861	754	–
	<u>1,102,628</u>	<u>1,033,831</u>	<u>1,124,389</u>

3. 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, corporate finance services and wealth management
Retailing	Sales of furniture and household goods
Investment holding	Strategic investments
Others	Brand management and business solutions

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	<u>201,934</u>	<u>889,918</u>	<u>8,915</u>	<u>1,861</u>	<u>1,102,628</u>
Segment loss	<u>(106,573)</u>	<u>(96,856)</u>	<u>(135,206)</u>	<u>(5,869)</u>	(344,504)
Unallocated corporate expenses					<u>(59,839)</u>
Loss from operating activities					(404,343)
Gain on the expiry of warrants					59,573
Allowance for loan to an associate					<u>(219,828)</u>
Loss before taxation					(564,598)
Taxation credit					<u>1,779</u>
Loss after taxation and before minority interests					<u>(562,819)</u>

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP
Balance sheet as at 31 December 2002

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

Other information for the year ended 31 December 2002

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

Income statement for the year ended 31 December 2003

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>191,102</u>	<u>836,006</u>	<u>150</u>	<u>6,573</u>	<u>1,033,831</u>
Segment profit (loss)	<u>9,988</u>	<u>(36,467)</u>	<u>24,450</u>	<u>(9,882)</u>	(11,911)
Unallocated corporate expenses					<u>(39,064)</u>
Loss before taxation					(50,975)
Taxation					<u>(134)</u>
Loss after taxation and before minority interests					<u>(51,109)</u>

Balance sheet as at 31 December 2003

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	<u>1,067,201</u>	<u>515,679</u>	<u>15,500</u>	<u>2,827</u>	1,601,207
Unallocated corporate assets					<u>16,114</u>
Consolidated total assets					<u>1,617,321</u>
LIABILITIES					
Segment liabilities	<u>805,249</u>	<u>196,449</u>	<u>–</u>	<u>15,703</u>	1,017,401
Unallocated corporate liabilities					<u>137,810</u>
Consolidated total liabilities					<u>1,155,211</u>

Other information for the year ended 31 December 2003

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property and equipment	782	9,544	–	66	10	10,402
Allowance for bad and doubtful debts	1,073	–	–	–	–	1,073
Depreciation and amortisation	21,354	32,758	–	173	1,661	55,946
Impairment loss recognised in respect of goodwill held in reserves	–	–	300	–	–	300
Loss on disposal of property and equipment	<u>1,364</u>	<u>577</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,941</u>

Income statement for the year ended 31 December 2004

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>239,972</u>	<u>873,398</u>	<u>5</u>	<u>11,014</u>	<u>1,124,389</u>
Segment profit (loss)	<u>20,038</u>	<u>(90,472)</u>	<u>(15,495)</u>	<u>(25,715)</u>	(111,644)
Unallocated corporate expenses					<u>(49,772)</u>
Loss before taxation					(161,416)
Taxation					<u>(356)</u>
Loss after taxation and before minority interests					<u>(161,772)</u>

APPENDIX I**ACCOUNTANTS' REPORT OF THE GROUP****Balance sheet as at 31 December 2004**

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	<u>1,039,186</u>	<u>438,611</u>	<u>10,800</u>	<u>5,002</u>	1,493,599
Unallocated corporate assets					<u>40,782</u>
Consolidated total assets					<u>1,534,381</u>
LIABILITIES					
Segment liabilities	<u>788,527</u>	<u>265,017</u>	<u>–</u>	<u>2,604</u>	1,056,148
Unallocated corporate liabilities					<u>91,294</u>
Consolidated total liabilities					<u>1,147,442</u>

Other information for the year ended 31 December 2004

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property and equipment	7,137	20,026	–	608	39,380	67,151
(Write back of) allowance for bad and doubtful debts	(1,139)	6,269	–	–	2,500	7,630
Depreciation and amortisation	21,653	27,658	–	170	4,193	53,674
Impairment losses recognised in income statement	–	12,060	15,500	–	–	27,560
Loss on disposal of property and equipment	<u>7</u>	<u>4,646</u>	<u>–</u>	<u>93</u>	<u>–</u>	<u>4,746</u>

Geographical segments

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

4. Salaries, allowances and commission

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and commission			
represents the amounts paid and payable			
to the Directors and employees and			
comprises of:			
Salaries, allowances and commission	230,071	199,165	226,947
Contributions to retirement benefits schemes	6,739	5,532	7,829
	<u>236,810</u>	<u>204,697</u>	<u>234,776</u>

5. Finance costs

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Interest on:			
Bank overdrafts and loans wholly			
repayable within five years	4,989	7,550	11,376
Finance leases	173	43	22
	<u>5,162</u>	<u>7,593</u>	<u>11,398</u>

6. Directors' remuneration

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Fees:			
Executive Directors	–	–	–
Independent non-executive Directors	–	200	200
Other remuneration paid to Executive Directors:			
Salaries, allowances and other benefits	7,247	7,376	10,073
Contributions to retirement benefits schemes	271	315	362
Performance related incentive payment	239	–	–
Total remuneration	<u>7,757</u>	<u>7,891</u>	<u>10,635</u>

The remuneration of the Directors fell within the following bands:

	Year ended 31 December		
	2002	2003	2004
	Number of directors	Number of directors	Number of directors
HK\$1,000,000 or less	6	8	7
HK\$1,000,001 to HK\$1,500,000	4	3	2
HK\$1,500,001 to HK\$2,000,000	–	–	1
HK\$3,000,001 to HK\$3,500,000	–	–	1
	<u>10</u>	<u>11</u>	<u>11</u>

During the Relevant Periods, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the Relevant Periods.

7. Employees' remuneration

The five highest paid employees included:

	Year ended 31 December		
	2002	2003	2004
Number of directors (<i>Note</i>)	2	1	2
Number of employees	<u>3</u>	<u>4</u>	<u>3</u>

Note: Details of the directors' remuneration are set out in note 6 above.

Details of the remuneration of remaining individual employees are as follows:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,998	5,597	4,301
Contributions to retirement benefits schemes	160	219	118
Performance related incentive payments	158	–	182
	<u>4,316</u>	<u>5,816</u>	<u>4,601</u>

Their remuneration were within the following bands:

	Year ended 31 December		
	2002	2003	2004
	Number of employees	Number of employees	Number of employees
HK\$1,000,001 to HK\$1,500,000	3	2	2
HK\$1,500,001 to HK\$2,000,000	–	2	1

8. Loss before taxation

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging (crediting):			
Advertising and promotion expenses	51,119	44,906	40,194
Allowance for inventory obsolescence and write-off of inventories (included in cost of sales)	4,990	7,195	19,041
Amortisation of intangible assets (included in depreciation and amortisation)	1,830	1,830	1,830
Amortisation of goodwill (included in depreciation and amortisation)	6,135	4,351	6,928
Auditors' remuneration	2,070	2,400	2,680
Compensation for early termination of tenancy agreements	7,004	–	–
Depreciation and amortisation of property and equipment			
Owned assets	52,283	49,370	44,558
Leased assets	1,586	395	358
	53,869	49,765	44,916
Loss on disposal of property and equipment	6,081	1,941	4,746
Operating lease rentals in respect of land and buildings			
Minimum lease payments	128,567	126,133	125,912
Contingent rents	5,179	2,390	3,233
	133,746	128,523	129,145
Net foreign exchange gain	(706)	(8,339)	(3,560)
Dividends from investments	–	–	(1,015)
Deemed gain on partial disposal of interest in Pricerite	–	–	(769)
Gain on partial disposal of interest in CFSG	–	(6,321)	–

9. Taxation credit (charge)

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax:			
Provision for the year	–	(134)	(350)
Over(under)provision in prior year	1,779	–	(6)
	<u>1,779</u>	<u>(134)</u>	<u>(356)</u>

Hong Kong Profits Tax is calculated at 16%, 17.5% and 17.5% on the estimated assessable profits for year ended 31 December 2002, 2003 and 2004 respectively.

The taxation credit (charge) for the year can be reconciled to the loss before taxation per the consolidated income statements as follows:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Loss before taxation	<u>(564,598)</u>	<u>(50,975)</u>	<u>(161,416)</u>
Taxation at the domestic income tax rate	90,336	8,921	28,248
Tax effect of estimated tax losses not recognised	(33,339)	(15,115)	(16,385)
Tax effect of expenses not deductible for tax purpose	(68,549)	(5,402)	(17,745)
Tax effect of income not taxable for tax purpose	11,552	6,080	988
Tax effect of utilisation of estimated tax losses previously not recognised	–	6,101	4,532
Over (under) provision in prior years	1,779	–	(6)
Others	–	(719)	12
Taxation credit (charge) for the year	<u>1,779</u>	<u>(134)</u>	<u>(356)</u>

APPENDIX I**ACCOUNTANTS' REPORT OF THE GROUP**

The following are the major deferred tax liabilities and assets recognised and the movements thereon during the Relevant Periods:

	Accelerated tax depreciation	Estimated tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002	(10,177)	10,177	–
Credit (Charge) to income statement	1,605	(1,605)	–
At 31 December 2002 and 1 January 2003	(8,572)	8,572	–
Credit (Charge) to income statement	4,786	(4,786)	–
Effect of change in tax rate	(803)	803	–
At 31 December 2003 and 1 January 2004	(4,589)	4,589	–
Credit (Charge) to income statement	95	(95)	–
At 31 December 2004	<u>(4,494)</u>	<u>4,494</u>	<u>–</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in Statement of Standard Accounting Practice 12 (Revised).

At 31 December 2002, 2003 and 2004, the Group has unused estimated tax losses of HK\$495,913,000, HK\$520,070,000 and HK\$587,250,000 respectively available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$53,575,000, HK\$26,223,000 and HK\$25,680,000 of such losses respectively. No deferred tax asset has been recognised in respect of the remaining estimated tax losses HK\$442,338,000, HK\$493,847,000 and HK\$561,570,000 respectively due to the unpredictability of future profit streams.

10. Loss per share

The calculation of basic and diluted loss per share is based on the following data:

	Year ended 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic and diluted loss per share	<u>(440,583)</u>	<u>(51,629)</u>	<u>(144,166)</u>
Weighted average number of ordinary shares for the purpose of basic loss per share	311,921,618	340,333,142	384,959,237
Effect of dilutive potential ordinary shares assumed exercise of share options	N/A	N/A	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>311,921,618</u>	<u>340,333,142</u>	<u>384,959,237</u>

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 the Company's shares.

The calculation of diluted loss per share for year ended 31 December 2003 and 2004 did not:

- (i) adjust the share result of subsidiaries as the exercise prices of the outstanding share options of the subsidiaries were higher than the average market price of the subsidiaries' shares; and
- (ii) assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market price of the shares.

11. Property and equipment

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

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST						
At 1 January 2003	70,000	10,000	98,090	185,272	5,830	369,192
Additions	–	–	4,435	5,233	250	9,918
Arising on acquisitions of subsidiaries	–	–	–	484	–	484
Disposals	(15,000)	–	(5,555)	(4,601)	(2,720)	(27,876)
At 31 December 2003	55,000	10,000	96,970	186,388	3,360	351,718
ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1 January 2003	21,142	10,000	37,135	108,825	1,789	178,891
Provided for the year	1,477	–	21,570	25,455	1,263	49,765
Reversal of impairment loss previously recognised in the income statement	(900)	–	–	–	–	(900)
Eliminated on disposals	(51)	–	(4,817)	(3,144)	(2,098)	(10,110)
At 31 December 2003	21,668	10,000	53,888	131,136	954	217,646
NET BOOK VALUE						
At 31 December 2003	33,332	–	43,082	55,252	2,406	134,072

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST						
At 1 January 2004	55,000	10,000	96,970	186,388	3,360	351,718
Additions	39,380	–	9,863	17,908	–	67,151
Disposals	–	–	(12,848)	(11,248)	(220)	(24,316)
At 31 December 2004	<u>94,380</u>	<u>10,000</u>	<u>93,985</u>	<u>193,048</u>	<u>3,140</u>	<u>394,553</u>
ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1 January 2004	21,668	10,000	53,888	131,136	954	217,646
Provided for the year	3,197	–	18,079	22,497	1,143	44,916
Impairment loss recognised in the income statement	–	–	899	1,161	–	2,060
Eliminated on disposals	–	–	(10,214)	(8,892)	(83)	(19,189)
At 31 December 2004	<u>24,865</u>	<u>10,000</u>	<u>62,652</u>	<u>145,902</u>	<u>2,014</u>	<u>245,433</u>
NET BOOK VALUE						
At 31 December 2004	<u><u>69,515</u></u>	<u><u>–</u></u>	<u><u>31,333</u></u>	<u><u>47,146</u></u>	<u><u>1,126</u></u>	<u><u>149,120</u></u>

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

During the year ended 31 December 2002, the Directors have reassessed the recoverable amount of the medium-term leasehold land and buildings and recognised an impairment loss of approximately HK\$886,000 which was determined with reference to the market price.

During the year ended 31 December 2002, the Group entered into an agreement with a landlord pursuant to which several shops' tenancy agreements would be early terminated. The Directors have reassessed the recoverable amount of the assets amounting to approximately HK\$2,867,000 in these shops and recognised an impairment loss of approximately HK\$2,867,000.

Due to the cessation of the personal loan financing activity during the year ended 31 December 2002, the Directors have reassessed the recoverable amount of the assets of construction in progress amounting to approximately HK\$10,000,000 for this activity and recognised an impairment loss of approximately HK\$10,000,000 in the income statement.

During the year ended 31 December 2002, the Group acquired a software of HK\$40,000,000 through acquisition of a subsidiary for the purpose of a proposed project for the development of a smart community. However, the proposed project was aborted and the Directors recognised an impairment loss of HK\$40,000,000 in the financial statements.

During the year ended 31 December 2004, the Directors reassessed the recoverable amount of the property and equipment of those shops of which their tenancy agreements would be expired in 2005 and would not be renewed and recognised an impairment loss of approximately HK\$2,060,000.

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

	As at 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Long leases	14,516	–	–
Medium-term leases	34,342	33,332	69,515
	<u>48,858</u>	<u>33,332</u>	<u>69,515</u>

The leasehold land and buildings with a net book value of approximately HK\$44,858,000, HK\$29,425,000 and HK\$65,705,000 held by the Group as at 31 December 2002, 2003 and 2004 respectively were pledged to secure general banking facilities granted to the Group.

The net book values of furniture, fixtures and equipment included an amount of HK\$227,000, HK\$142,000 and HK\$83,000, as at 31 December 2002, 2003 and 2004 respectively in respect of assets held under finance leases.

The net book values of motor vehicles included an amount of HK\$2,970,000, HK\$772,000 and HK\$334,000 as at 31 December 2002, 2003 and 2004 respectively in respect of assets held under finance leases.

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
COST			
At 1 January 2002 and 31 December 2002	8,426	11,130	19,556
ACCUMULATED DEPRECIATION			
At 1 January 2002	4,280	9,526	13,806
Provided for the year	1,538	1,593	3,131
At 31 December 2002	5,818	11,119	16,937
NET BOOK VALUE			
At 31 December 2002	<u>2,608</u>	<u>11</u>	<u>2,619</u>
COST			
At 1 January 2003 and 31 December 2003	8,426	11,130	19,556
ACCUMULATED DEPRECIATION			
At 1 January 2003	5,818	11,119	16,937
Provided for the year	1,288	11	1,299
At 31 December 2003	7,106	11,130	18,236
NET BOOK VALUE			
At 31 December 2003	<u>1,320</u>	<u>–</u>	<u>1,320</u>
COST			
At 1 January 2004 and 31 December 2004	8,426	11,130	19,556
ACCUMULATED DEPRECIATION			
At 1 January 2004	7,106	11,130	18,236
Provided for the year	768	–	768
At 31 December 2004	7,874	11,130	19,004
NET BOOK VALUE			
At 31 December 2004	<u>552</u>	<u>–</u>	<u>552</u>

12. Investments in subsidiaries

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	60,793	60,793	60,793
Impairment loss recognised	(60,793)	(60,793)	(60,793)
	<u>—</u>	<u>—</u>	<u>—</u>

13. Interests in associates

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Share of net assets	—	—	—
Loan to an associate	219,828	—	—
Allowance for loan to an associate	(219,828)	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

The loan to an associate is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of Directors, the loan to the associate as at 31 December 2002 would not be recoverable and accordingly an allowance of approximately HK\$219,828,000 had been made.

14. Investments

	Investment securities			Other investments			Total		
	As at 31 December			As at 31 December			As at 31 December		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
Equity securities:									
Non-current									
Unlisted, at cost	301,500	317,000	312,200	—	—	—	301,500	317,000	312,200
Impairment loss recognised	(301,500)	(301,500)	(301,400)	—	—	—	(301,500)	(301,500)	(301,400)
	<u>—</u>	<u>15,500</u>	<u>10,800</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,500</u>	<u>10,800</u>
Current									
Listed in Hong Kong, at market value	—	—	—	52,534	61,200	64,700	52,534	61,200	64,700
	<u>—</u>	<u>15,500</u>	<u>10,800</u>	<u>52,534</u>	<u>61,200</u>	<u>64,700</u>	<u>52,534</u>	<u>76,700</u>	<u>75,500</u>

During the year ended 31 December 2002, in response to the deterioration of the global information technology business environment, the Group had assessed the recoverable amounts of its investment securities. The Directors, having taken into account the revenues generated from these companies, the prevailing uncertain and sluggish economic condition and the estimated future cash flows generated from these companies, recognised an impairment loss of approximately HK\$57,000,000 in respect of the investment securities.

During the year ended 31 December 2004, due to continuous losses incurred by the investee companies, the Director reassessed the recoverable amount of investment securities and recognised an impairment loss of HK\$15,500,000.

15. Goodwill

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1 January 2002 and at 31 December 2002	91,601
AMORTISATION AND IMPAIRMENT	
At 1 January 2002	2,997
Charged for the year	6,135
Impairment loss recognised (<i>note (ii)</i>)	27,209
At 31 December 2002	36,341
NET BOOK VALUE	
At 31 December 2002	<u>55,260</u>
COST	
At 1 January 2003	91,601
Arising on acquisitions of subsidiaries	6,142
Arising on acquisition of additional interest in CFSG	15,880
Eliminated on partial disposal of interest in CFSG	(2,123)
At 31 December 2003	111,500
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	36,341
Charged for the year	4,351
At 31 December 2003	40,692
NET BOOK VALUE	
At 31 December 2003	<u>70,808</u>

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2004	111,500
Arising on additional payment for acquisition of a subsidiary (<i>note (iii)</i>)	1,400
Arising on subscription of CFSG's rights shares	1,919
	<hr/>
At 31 December 2004	114,819
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	40,692
Charged for the year	6,928
Impairment loss recognised (<i>note (iv)</i>)	10,000
	<hr/>
At 31 December 2004	57,620
	<hr/>
NET BOOK VALUE	
At 31 December 2004	57,199
	<hr/> <hr/>

Notes:

- (i) The amortisation period adopted for goodwill is from 3 to 20 years.
- (ii) Due to cessation of the business of the subsidiaries principally engaged in retailing of discounted products and continuous losses incurred by those subsidiaries principally engaged in wholesale and retailing of cosmetic and skin care products, the Directors having taken into account the economic condition and the changes in the business environment in the wholesale and retailing business at that time, recognised an impairment loss of HK\$27,209,000 in respect of goodwill arising from the acquisition of these subsidiaries during the year ended 31 December 2002.
- (iii) Pursuant to the sales and purchase agreement relating to the sale and purchase of 700,000 shares in the issued capital of CASH Frederick Taylor entered into between the Group and the vendors dated 1 July 2003, the Group undertook to pay the vendors an additional amount of HK\$1,400,000 if certain conditions could be fulfilled in 2004. As these conditions were fulfilled during the year ended 31 December 2004, the Group paid a total amount of HK\$1,400,000 to the vendors. Accordingly, the consideration for the acquisition of CASH Frederick Taylor was adjusted.
- (iv) Due to continuous losses incurred by the subsidiaries principally engaged in wholesale and retailing of furniture and household goods, the Directors reassessed the recoverable amount of the goodwill arising on acquisition of these subsidiaries and recognised an impairment loss of approximately HK\$10,000,000 for the year ended 31 December 2004 which was determined with reference to the estimated amount obtainable from the sale of these subsidiaries less cost of disposal.

16. Intangible assets

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2002 and 31 December 2002	18,235
AMORTISATION	
At 1 January 2002	3,653
Charged for the year	1,830
At 31 December 2002	5,483
NET BOOK VALUE	
At 31 December 2002	<u>12,752</u>
COST	
At 1 January 2003 and 31 December 2003	18,235
AMORTISATION	
At 1 January 2003	5,483
Charged for the year	1,830
At 31 December 2003	7,313
NET BOOK VALUE	
At 31 December 2003	<u>10,922</u>
COST	
At 1 January 2004 and 31 December 2004	18,235
AMORTISATION	
At 1 January 2004	7,313
Charged for the year	1,830
At 31 December 2004	9,143
NET BOOK VALUE	
At 31 December 2004	<u>9,092</u>

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

17. Other assets

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Club memberships	4,258	3,929	3,929
Statutory and other deposits	5,379	5,016	6,617
Prepayment for advertising and telecommunication services	33,013	19,744	8,531
Less: Prepayment for advertising and telecommunication services classified as a current asset and included in prepayments, deposits and other receivables	(11,459)	(7,185)	(5,731)
	<u>31,191</u>	<u>21,504</u>	<u>13,346</u>

At 31 December 2002, the Directors reassessed the recoverable amount of the club membership and recognised an impairment loss of approximately HK\$1,330,000 which was determined by reference to the market price.

18. Loans receivable

The maturity of the loans receivable is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Matured within 180 days	600	700	17,039
Matured between 181 days to 365 days	600	–	3,584
	<u>1,200</u>	<u>700</u>	<u>20,623</u>
Matured within one year	1,200	700	20,623
Matured over one year	2,217	–	19,334
	<u>3,417</u>	<u>700</u>	<u>39,957</u>

At 31 December 2004, loans receivable with an aggregate carrying value of approximately HK\$22,968,000 are secured by pledged marketable securities.

19. Inventories

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Finished goods held for sale	65,391	61,295	59,013

Finished goods of approximately HK\$2,607,000, HK\$564,000 and nil are carried at net realisable value for year ended 31 December 2002, 2003 and 2004 respectively.

20. Accounts receivable

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Accounts receivable arising from the business of dealing in securities and equity options:			
Clearing houses, brokers and dealers	5,254	93,675	16,168
Cash clients	28,699	49,975	86,935
Margin clients	100,467	285,895	183,287
Accounts receivable arising from the business of dealing in futures and options:			
Clearing houses, brokers and dealers	36,887	56,045	72,989
Commission receivable from brokerage of mutual funds and insurance-linked investment plans and products	–	2,909	3,302
Accounts receivable arising from the business of provision of corporate finance services	734	1,058	510
Trade debtors	550	8,171	1,856
	<u>172,591</u>	<u>497,728</u>	<u>365,047</u>

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

Except for the loans to margin clients as mentioned below, all the accounts receivable arising from the businesses of dealing in securities and equity options aged within 30 days.

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

APPENDIX I

ACCOUNTANTS' REPORT OF THE GROUP

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

Name of company	As at				Maximum amount outstanding during the year ended 31 December		
	1.1.2002	As at 31 December			2002	2003	2004
	HK\$'000	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash Guardian Limited ("Cash Guardian")	–	8,862	9,732	10,178	28,575	10,106	10,590
Suffold Resources Limited ("Suffold")	25,220	–	–	–	25,385	–	–
	<u>25,220</u>	<u>8,862</u>	<u>9,732</u>	<u>10,178</u>			

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

In respect of the commission receivable from brokerage of mutual funds and insurance-linked investment plans and products, accounts receivable arising from the business of provision of corporate finance services and trade debtors, the Group allows a credit period of 30-90 days. The aged analysis is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	551	8,666	4,167
31 – 60 days	170	332	619
61 – 90 days	126	484	307
Over 90 days	437	2,656	575
	<u>1,284</u>	<u>12,138</u>	<u>5,668</u>

21. Bank deposits under conditions

THE GROUP	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Other bank deposits (<i>Note (a)</i>)	–	15,808	16,018
Pledged bank deposits (<i>Notes (b) and (c)</i>)	26,890	20,757	36,766
	<u>26,890</u>	<u>36,565</u>	<u>52,784</u>

Notes:

- (a) Pursuant to a letter of undertaking given by the Group to a bank, the Group covenant to maintain deposits of not less than HK\$15,000,000 with a bank as a condition precedent to an overdraft facility granted by the bank.
- (b) At 31 December 2002, bank deposits of HK\$611,000 and HK\$26,279,000 were pledged to banks to secure the forward foreign exchange facilities granted to a subsidiary and general banking facilities granted to a subsidiary as well as an associate respectively.
- (c) The Group's bank deposits of HK\$20,757,000 and HK\$36,766,000 were pledged to banks to secure general banking facilities granted to subsidiaries at 31 December 2003 and 2004.

22. Accounts payable

	As at 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP			
Accounts payable arising from the business of dealing in securities and equity options:			
Cash clients	158,188	373,929	353,113
Margin clients	28,053	69,289	64,168
Clearing houses, brokers and dealers	–	–	39,875
Accounts payable to clients arising from the business of dealing in futures and options	149,549	120,644	156,151
Accounts payable to clients arising from the business of dealing in leveraged foreign exchange contracts	–	–	3,599
Trade creditors	154,236	175,617	168,084
	<u>490,026</u>	<u>739,479</u>	<u>784,990</u>

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

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

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

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

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	40,785	63,016	94,520
31 – 60 days	29,813	44,563	40,880
61 – 90 days	33,516	42,449	21,203
Over 90 days	50,122	25,589	11,481
	<u>154,236</u>	<u>175,617</u>	<u>168,084</u>

23. Obligations under finance leases

	Minimum lease payments as at 31 December			Present value of minimum lease payments as at 31 December		
	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Amounts payable under finance leases						
Within one year	717	518	96	681	504	93
In the second to fifth year inclusive	772	128	–	753	126	–
	<u>1,489</u>	<u>646</u>	<u>96</u>	<u>1,434</u>	<u>630</u>	<u>93</u>
Less: Future finance charges	55	16	3	–	–	–
Present value of lease obligations	<u>1,434</u>	<u>630</u>	<u>93</u>	1,434	630	93
Less: Amount due for payment within one year						
				681	504	93
Amount due for payment after one year				<u>753</u>	<u>126</u>	<u>–</u>

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

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and are secured by guarantees given by a subsidiary.

24. Bank borrowings

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Bank overdrafts	77,104	68,460	40,132
Bank loans	75,900	212,500	125,897
Trust receipt loans	52,538	60,982	57,200
	<u>205,542</u>	<u>341,942</u>	<u>223,229</u>
Unsecured	10,820	1,850	–
Secured	<u>194,722</u>	<u>340,092</u>	<u>223,229</u>
	<u>205,542</u>	<u>341,942</u>	<u>223,229</u>

The maturity profile of the above loans and overdrafts is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
On demand or within one year	205,542	322,442	181,777
More than one year, but not exceeding two years	–	6,000	6,634
More than two years, but not exceeding five years	–	13,500	34,818
	<u>205,542</u>	<u>341,942</u>	<u>223,229</u>
Less: Amount due within one year shown under current liabilities	<u>(205,542)</u>	<u>(322,442)</u>	<u>(181,777)</u>
Amount due after one year	<u>–</u>	<u>19,500</u>	<u>41,452</u>

The bank borrowings bear interest at commercial rates. These borrowings are used to finance the financing business and the retail business of the Group.

At 31 December 2002, 2003 and 2004, the Group's bank borrowings of HK\$194,722,000, HK\$340,092,000 and HK\$223,229,000 respectively were secured by:

- (a) corporate guarantees from certain subsidiaries of the Company and the Company;
- (b) marketable securities of the Group's clients (with clients' consent);
- (c) pledge of the Group's certain leasehold land and buildings;

- (d) pledge bank deposits of HK\$9,111,000, HK\$20,757,000 and HK\$36,766,000 at 31 December 2002, 2003 and 2004 respectively; and
- (e) listed shares of a subsidiary with an aggregate market value of approximately HK\$129,320,000, HK\$108,650,000 and nil at 31 December 2002, 2003 and 2004 respectively.

In addition, pursuant to a letter of undertaking given by the Group to a bank, the Group covenant to maintain deposits of not less than HK\$15,000,000 with a bank as a condition precedent to an overdraft facility granted by the bank at 31 December 2003 and 2004.

25. Share capital

	<i>Notes</i>	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
<i>Authorised:</i>			
At 1 January 2002		10,000,000	1,000,000
Reduced due to share consolidation	<i>(a)(i)</i>	(9,500,000)	–
Reduced due to capital reduction	<i>(a)(ii)</i>	–	(950,000)
Cancellation of unissued share capital	<i>(a)(iii)</i>	(180,283)	(18,028)
Increase during the year	<i>(a)(iii)</i>	180,283	18,028
		<hr/>	<hr/>
At 31 December 2002, 1 January 2003, 31 December 2003 and 1 January 2004		500,000	50,000
Increase during the year	<i>(b)</i>	500,000	50,000
		<hr/>	<hr/>
At 31 December 2004		<u>1,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>			
At 1 January 2002		6,394,354	639,435
Reduced due to share consolidation	<i>(a)(i)</i>	(6,074,637)	–
Reduced due to capital reduction	<i>(a)(ii)&(iv)</i>	–	(607,464)
Shares repurchased and cancelled	<i>(c)</i>	(14,242)	(1,424)
Exercise of warrants	<i>(d)</i>	9	1
		<hr/>	<hr/>
At 31 December 2002 and 1 January 2003		305,484	30,548
Issue of new shares	<i>(e)</i>	60,000	6,000
		<hr/>	<hr/>
At 31 December 2003 and 1 January 2004		365,484	36,548
Issue of new shares	<i>(f)</i>	72,000	7,200
		<hr/>	<hr/>
At 31 December 2004		<u>437,484</u>	<u>43,748</u>

Notes:

- (a) Pursuant to the special resolution passed on 25 April 2002, the Company:
- (i) consolidated every 20 issued and unissued shares of HK\$0.10 each into one share of HK\$2.00 each ("Consolidated Share(s)") ("Share Consolidation");
 - (ii) reduced the issued share capital by cancelling paid up capital to the extent of HK\$1.90 on each of the Consolidated Shares in issue ("Capital Reduction");
 - (iii) cancelled all of the authorised but unissued share capital and forthwith upon such cancellation, increased the authorised share capital to HK\$50,000,000 by the creation of additional new shares of HK\$0.10 each; and
 - (iv) transferred the credit amount arising from the Capital Reduction of approximately HK\$607,464,000 to the contributed surplus account.

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

- (b) Pursuant to an ordinary resolution passed on 9 February 2004, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$100,000,000 by the creation of an additional 500,000,000 shares of HK\$0.10 each.
- (c) During the year ended 31 December 2002, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
May 2002	1,126,000	1.96	1.87	2,141,420
June 2002	13,116,000	1.99	1.00	24,447,040
	<u>14,242,000</u>			<u>26,588,460</u>

The above shares were cancelled upon repurchase.

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

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

- (e) Pursuant to a placing and a top-up agreement dated 22 May 2003, 60,000,000 existing shares of HK\$0.10 each held by Cash Guardian were placed to various independent investors at a price of HK\$0.275 on 27 May 2003 ("Top-up Placing") and 60,000,000 new shares of HK\$0.10 each were issued to Cash Guardian at the same price on 3 June 2003 upon completion of the Top-up Placing. The proceeds, after expenses of approximately HK\$406,000 (of which HK\$330,000 was paid to a subsidiary of the Company), totalled approximately HK\$16,094,000 was intended to be used by the Company as general working capital.
- (f) Pursuant to an agreement dated 19 August 2004, 72,000,000 new shares of HK\$0.10 each were issued to Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR"), an independent third party, at the subscription price of HK\$0.330 per share upon completion of the agreement on 24 September 2004. The proceeds of approximately HK\$23,760,000 was used as to approximately HK\$20,000,000 for the development of the international business while the balance as the general working capital of the Group.

26. Reserves

		Share premium	Contributed surplus	General reserve	Other reserve	Accumulated losses	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
At 1 January 2002		294,035	519,500	1,160	71,887	(623,446)	263,136
Capital Reduction		–	607,464	–	–	–	607,464
Amount transferred to write off accumulated losses	(c)	–	(669,503)	–	–	669,503	–
Issue of shares upon exercise of warrants		108	–	–	–	–	108
Premium arising from repurchase of shares		(25,295)	–	–	–	–	(25,295)
Gain on expiry of warrants recognised in the income statement		–	–	–	(59,573)	–	(59,573)
Net loss for the year		–	–	–	–	(440,583)	(440,583)
At 31 December 2002 and 1 January 2003	(a)	268,848	457,461	1,160	12,314	(394,526)	345,257
Impairment loss recognised in respect of goodwill	(b)	–	300	–	–	–	300
Issue of shares		10,500	–	–	–	–	10,500
Share issue expenses		(76)	–	–	–	–	(76)
Amount transferred to write off accumulated losses	(c)	–	(441,037)	–	–	441,037	–
Net loss for the year		–	–	–	–	(51,629)	(51,629)
At 31 December 2003 and 1 January 2004	(a)	279,272	16,724	1,160	12,314	(5,118)	304,352
Issue of new shares		16,560	–	–	–	–	16,560
Share issue expenses		(655)	–	–	–	–	(655)
Net loss for the year		–	–	–	–	(144,166)	(144,166)
At 31 December 2004	(a)	295,177	16,724	1,160	12,314	(149,284)	176,091

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

	<i>Note</i>	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2002		291,997	580,593	59,573	(669,503)	262,660
Capital Reduction		–	607,464	–	–	607,464
Amount transferred to write off accumulated losses	<i>(c)</i>	–	(669,503)	–	669,503	–
Issue of shares upon exercise of warrants		108	–	–	–	108
Premium arising from repurchase of shares		(25,295)	–	–	–	(25,295)
Gain on expiry of warrants recognised in the income statement		–	–	(59,573)	–	(59,573)
Net loss for the year		–	–	–	(441,037)	(441,037)
<hr/>						
At 31 December 2002 and 1 January 2003		266,810	518,554	–	(441,037)	344,327
Issue of shares		10,500	–	–	–	10,500
Share issue expenses		(406)	–	–	–	(406)
Amount transferred to write off accumulated losses	<i>(c)</i>	–	(441,037)	–	441,037	–
Net loss for the year		–	–	–	(51,596)	(51,596)
<hr/>						
At 31 December 2003 and 1 January 2004		276,904	77,517	–	(51,596)	302,825
Issue of shares		16,560	–	–	–	16,560
Share issue expenses		(655)	–	–	–	(655)
Net loss for the year		–	–	–	(144,069)	(144,069)
<hr/>						
At 31 December 2004		<u>292,809</u>	<u>77,517</u>	<u>–</u>	<u>(195,665)</u>	<u>174,661</u>

Notes:

(a)	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2002, the reserves attributable to:						
Company and subsidiaries	268,848	457,461	1,160	12,314	(86,489)	653,294
Associates	–	–	–	–	(308,037)	(308,037)
	<u>268,848</u>	<u>457,461</u>	<u>1,160</u>	<u>12,314</u>	<u>(394,526)</u>	<u>345,257</u>

At 31 December 2003 and 2004, all the reserves of the Group are attributable to the Company and its subsidiaries.

- (b) Due to continuous losses incurred by the subsidiaries, the Directors recognised an impairment loss of HK\$300,000 in respect of goodwill arising from the acquisition of these subsidiaries. At 31 December 2003, there was no goodwill held in the contributed surplus account or other reserves of the Group.
- (c) Pursuant to the minutes of a directors' meeting held on 16 May 2002, an amount of approximately HK\$669,503,000 was transferred from contributed surplus account to set off the accumulated losses of the Company at 31 December 2001.
- Pursuant to the minutes of a directors' meeting held on 5 May 2003, an amount of approximately HK\$441,037,000 was transferred from contributed surplus account to set off the accumulated losses of the Company at 31 December 2002.
- (d) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 1994 and the nominal value of the issued share capital of the Company issued in exchange thereof, and the net amount arising from the reduction of share premium account, capital reduction and the amounts transferred to write-off accumulated losses.
- (e) The other reserve of the Group represent the reserve arising from the distribution of shares of CASH on-line Limited (now renamed CFSG) in year 2000.
- (f) The contributed surplus of the Company represents the difference between the consolidated net asset value of the subsidiaries acquired in 1994 when its entire issued share capital was acquired by the Company pursuant to the group reorganisation, and the nominal amount of the Company's share issued in consideration for such acquisition, and the net amount arising from the reduction of share premium account, capital reduction and amounts transferred to write-off the accumulated losses.
- (g) Under the Companies Act 1981 of Bermuda, the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

- (h) Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
 - (ii) the realisable value of the company's assets would thereby less than the aggregate of its liabilities and its issued share capital and share premium accounts.

27. Convertible notes

The convertible note was issued by CFSG and is payable to ARTAR, an independent third party. It bears interest at a rate of 3% per annum and is matured on 31 December 2006 or any other date mutually agreed between the Group and ARTAR. The holder of the note does not have the right to demand for repayment of any principal amount of the note prior to its maturity and the accrued interest of the note prior to the interest payment date, and is not entitled to vote at general meetings of CFSG. CFSG has the right to repay early part or all of the amount and the accrued interest of the note at any time prior to the maturity date. The note is transferable to persons who are not a connected person of the Group with the consent of the Group provided that such consent is not required for transfer to the wholly-owned subsidiaries of ARTAR. At 31 December 2004, the outstanding amount of the convertible note was HK\$40,500,000 convertible into a total number of 150,000,000 shares of CFSG at the initial conversion price of HK\$0.27 (subject to adjustment).

28. Acquisitions of subsidiaries

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
NET ASSETS ACQUIRED			
Property and equipment	40,450	484	–
Accounts receivable	–	1,083	–
Prepayments, deposits and other receivables	160	236	–
Bank balances and cash	–	8,201	–
Accrued liabilities and other payables	(10)	(4,990)	–
Taxation payable	–	(100)	–
Minority interests	–	(149)	–
	<u>40,600</u>	<u>4,765</u>	<u>–</u>
Goodwill	–	6,142	–
	<u>40,600</u>	<u>10,907</u>	<u>–</u>
SATISFIED BY			
Cash	<u>40,600</u>	<u>10,907</u>	<u>–</u>
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration	(40,600)	(10,907)	–
Bank balances and cash acquired	–	8,201	–
	<u>(40,600)</u>	<u>(2,706)</u>	<u>–</u>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries			

The subsidiary acquired during the year ended 31 December 2002 contributed nil to the Group's turnover and a loss of HK\$40,000,000, and made no significant contribution to the cash flows for the period between the date of acquisition and the balance sheet date.

The subsidiary acquired during the year ended 31 December 2003 contributed HK\$6,510,000 to the Group's turnover, and a profit of HK\$70,000 to the Group's loss before taxation.

29. Major non-cash transactions

- (a) Pursuant to an agreement entered into between the Group and a third party, the third party agreed to procure its group companies to provide advertising and telecommunication services to the Group. The fee for these services will be used to offset the prepayment for advertising and telecommunication services which the Group paid. The Group utilised advertising and telecommunication services amounting to approximately HK\$5,746,000, HK\$13,269,000 and HK\$11,213,000 for the year ended 31 December 2002, 2003 and 2004 respectively.
- (b) During the year ended 31 December 2002, the Group entered into finance lease in respect of assets with a total capital value at the inception of the finance leases of approximately HK\$1,241,000.

30. Contingent liabilities

- (a) Cheung Yiu Wing (“Cheung”), the former chairman and a shareholder of King Pacific International Holdings Limited (“KPI”), filed a statement of claim against the Company alleging that the Company had orally agreed to purchase from Cheung 50 million shares of KPI at a price of HK\$1.90 per share and seeking relief against the Company for, inter alia, damages. No discussions had been made between the Company and Cheung in relation to any purchase or intention to purchase the said shares as claimed by Cheung and no agreement of whatever nature, oral or written, had been entered into between the Company and Cheung. Relying on the advice from counsel, the Directors does not envisage the claim by Cheung will be held valid. Accordingly, no provision was made in the financial statements.
- (b) During the year ended 31 December 2003, Bates Hong Kong Limited (“Bates HK”) filed a statement of claim against, inter alia, CASH Assets Limited (“CAL”) and PSL, alleging that CAL and PSL had agreed to appoint Bates HK as its advertising agent with monthly retainer fee in the sum of HK\$320,000 payable to Bates HK. PSL had not appointed Bates HK as its advertising agent and no agreement of whatever nature, oral or written, had been entered into among CAL, PSL and Bates HK to such effect. The Directors do not envisage the claim by Bates HK being will be held valid. Accordingly, no provision was made in the financial statements.
- (c) During the year ended 31 December 2003, Bates China Limited (“Bates China”) filed a statement of claim against, inter alia, CAL and Pricerite, alleging that CAL and Pricerite had agreed to appoint Bates China as its advertising agent with monthly retainer fee in the sum of HK\$150,500 payable to Bates China. Pricerite had not appointed Bates China as its advertising agent and no agreement of whatever nature, oral or written, had been entered into among CAL, Pricerite and Bates China to such effect. The Directors do not envisage the claim by Bates China will be held valid. Accordingly, no provision was made in the financial statements.
- (d) During the year ended 31 December 2003, Pang Po King Cannie (“Pang”) filed a statement of claim against CSL, alleging that CSL, without knowledge or authority of or instructions from Pang, had misused the account opened by Pang with CSL to buy 1,046,000 shares of Takson Holdings Limited. The subject transactions were made with knowledge and authority of Pang. The Directors do not envisage the claim by Pang will be held to be valid. Accordingly, no provision was made in the financial statements.
- (e) During the year ended 31 December 2003, Chan Pit Wah (“Chan”) filed a statement of damages against the PSL alleging that a forklift truck of PSL rolled over Chan’s right foot and he has claimed for damages of approximately HK\$1,780,000 with interest and costs thereof. During the year ended 31 December 2004, the Group made a provision of HK\$570,000. No provision was made for the remaining amount as in the opinion of the legal advisor, it is not practicable at this stage to determine with certainty the amount of damages to be awarded to the plaintiff.
- (f) During the year ended 31 December 2004, Innovision Products Limited (“Innovision”) filed a statement of claim against PSL alleging that PSL owed Innovision of approximately HK\$520,000 in respect of goods supplied to PSL and the interest on the said amount. An amount of approximately HK\$249,000 has been recognised in the financial statements. No provision for the remaining amount has been made in the financial statements as in the opinion of the Directors, the amount of the potential liability is not significant.
- (g) The Company has given guarantees to bank in respect of general facilities granted to its subsidiary. The extent of such facilities utilised by the subsidiaries at 31 December 2002, 2003 and 2004 amounted to approximately HK\$39,335,000, HK\$39,606,000 and HK\$26,848,000 respectively.

31. Operating lease commitments

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

	THE GROUP			THE COMPANY		
	As at 31 December			As at 31 December		
	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	121,480	121,505	95,833	10,210	6,544	5,059
In the second to fifth year inclusive	174,673	152,706	117,775	7,930	19,631	21,267
After five years	4,279	2,873	–	–	–	–
	<u>300,432</u>	<u>277,084</u>	<u>213,608</u>	<u>18,140</u>	<u>26,175</u>	<u>26,326</u>

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

32. Share Option Schemes

(A) Share option schemes of the Company

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

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

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any employee or director of any member of the Group.
- (iii) The maximum number of shares in respect of which options might be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.
- (v) A grantee was required to hold an option for a minimum of 6 months before the option became exercisable.

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

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT OF THE GROUP

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year ended 31 December 2002:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options				
					outstanding as at 1.1.2002	adjusted on 25.4.2002	granted in 2002	lapsed in 2002 (Note 6)	outstanding as at 31.12.2002
Directors									
Old Option Scheme	4.10.1999	0.59	8.4.2000 – 7.4.2002		120,000,000	–	–	(120,000,000)	–
	4.10.1999	0.59	8.4.2000 – 7.4.2002	(2)	8,750,000	–	–	(8,750,000)	–
	1.6.2000	7.00	1.12.2000 – 30.11.2002	(1) & (3)	10,000,000	(9,500,000)	–	(500,000)	–
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (3)	30,000,000	(28,500,000)	–	–	1,500,000
	31.8.2001	2.60	1.3.2002 – 28.2.2004	(1) & (3)	30,000,000	(28,500,000)	–	–	1,500,000
New Option Scheme	2.5.2002	1.32	2.5.2002 – 30.4.2003	(5)	–	–	16,500,000	–	16,500,000
	2.5.2002	1.32	1.11.2002 – 31.10.2003	(3) & (5)	–	–	600,000	–	600,000
					<u>198,750,000</u>	<u>(66,500,000)</u>	<u>17,100,000</u>	<u>(129,250,000)</u>	<u>20,100,000</u>
Employees									
Old Option Scheme	13.5.1999	4.60	13.11.2000 – 12.5.2002	(1)	750,000	(712,500)	–	(37,500)	–
	4.10.1999	0.59	8.4.2000 – 7.4.2002	(2)	23,810,000	–	–	(23,810,000)	–
	15.11.1999	0.61	1.11.2000 – 31.10.2002	(4)	10,000,000	–	–	(10,000,000)	–
	10.1.2000	16.00	10.1.2001 – 9.1.2003	(1)	10,000,000	(9,500,000)	–	–	500,000
	10.1.2000	16.00	11.7.2000 – 10.7.2002	(1) & (2)	500,000	(475,000)	–	(25,000)	–
	1.6.2000	7.00	1.12.2000 – 30.11.2002	(1) & (3)	45,000,000	(42,750,000)	–	(2,250,000)	–
	28.7.2000	9.80	1.2.2001 – 31.1.2003	(1) & (2)	1,000,000	(950,000)	–	–	50,000
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (3)	20,000,000	(19,000,000)	–	–	1,000,000
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (2)	6,000,000	(5,700,000)	–	–	300,000
	2.2.2001	4.80	16.8.2001 – 15.8.2003	(1) & (2)	6,000,000	(5,700,000)	–	–	300,000
	31.8.2001	2.60	1.3.2002 – 28.2.2004	(1) & (3)	60,000,000	(57,000,000)	–	–	3,000,000
New Option Scheme	2.5.2002	1.32	2.5.2002 – 30.4.2003	(5)	–	–	3,000,000	–	3,000,000
	2.5.2002	1.32	1.11.2002 – 31.10.2003	(3) & (5)	–	–	2,000,000	–	2,000,000
					<u>183,060,000</u>	<u>(141,787,500)</u>	<u>5,000,000</u>	<u>(36,122,500)</u>	<u>10,150,000</u>
					<u>381,810,000</u>	<u>(208,287,500)</u>	<u>22,100,000</u>	<u>(165,372,500)</u>	<u>30,250,000</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. The exercise price per share before share consolidation was HK\$0.35, HK\$0.27, HK\$0.13, HK\$0.23, HK\$0.80, HK\$0.80, HK\$0.35, HK\$0.49, HK\$0.27, HK\$0.27, HK\$0.24 and HK\$0.13 respectively.
- (2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (4) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.
- (5) The closing price of the share immediately before the date of grant was HK\$1.32.
- (6) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (7) No option was exercised or cancelled during the year ended 31 December 2002.
- (8) The exercise in full of the outstanding 30,250,000 share options at 31 December 2002 would result in the issue of 30,250,000 additional shares for a total cash consideration, before expenses, of approximately HK\$65,922,000.
- (9) Total consideration received during the year ended 31 December 2002 from the Directors and the employees for taking up the options granted amounted to HK\$20.
- (10) No charge is recognised in the income statement in respect of the value of options granted during the year ended 31 December 2002.

APPENDIX I

ACCOUNTANTS' REPORT OF THE GROUP

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year ended 31 December 2003:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options				
					outstanding as at 1.1.2003	reclassified in 2003	granted in 2003	lapsed in 2003	outstanding as at 31.12.2003
Directors									
Old Option Scheme	10.1.2000	16.000	10.1.2001 – 9.1.2003	(1)	-	500,000	-	(500,000)	-
	6.11.2000	5.400	16.5.2001 – 15.5.2003	(3)	1,500,000	-	-	(1,500,000)	-
	31.8.2001	2.600	1.3.2002 – 28.2.2004	(3)	1,500,000	-	-	-	1,500,000
New Option Scheme	2.5.2002	1.320	2.5.2002 – 30.4.2003		16,500,000	-	-	(16,500,000)	-
	2.5.2002	1.320	1.11.2002 – 31.10.2003	(3)	600,000	500,000	-	(1,100,000)	-
	2.12.2003	0.502	2.12.2003 – 30.11.2005	(4)	-	-	16,000,000	-	16,000,000
					<u>20,100,000</u>	<u>1,000,000</u>	<u>16,000,000</u>	<u>(19,600,000)</u>	<u>17,500,000</u>
Employees									
Old Option Scheme	10.1.2000	16.000	10.1.2001 – 9.1.2003	(1)	500,000	(500,000)	-	-	-
	28.7.2000	9.800	1.2.2001 – 31.1.2003	(2)	50,000	-	-	(50,000)	-
	6.11.2000	5.400	16.5.2001 – 15.5.2003	(3)	1,000,000	-	-	(1,000,000)	-
	6.11.2000	5.400	16.5.2001 – 15.5.2003	(2)	300,000	-	-	(300,000)	-
	2.2.2001	4.800	16.8.2001 – 15.8.2003	(2)	300,000	-	-	(300,000)	-
	31.8.2001	2.600	1.3.2002 – 28.2.2004	(3)	3,000,000	-	-	-	3,000,000
New Option Scheme	2.5.2002	1.320	2.5.2002 – 30.4.2003		3,000,000	-	-	(3,000,000)	-
	2.5.2002	1.320	1.11.2002 – 31.10.2003	(3)	2,000,000	(500,000)	-	(1,500,000)	-
					<u>10,150,000</u>	<u>(1,000,000)</u>	<u>-</u>	<u>(6,150,000)</u>	<u>3,000,000</u>
					<u>30,250,000</u>	<u>-</u>	<u>16,000,000</u>	<u>(25,750,000)</u>	<u>20,500,000</u>

Notes:

- (1) Reclassification of options was due to appointment of director.
- (2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.

- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (4) The closing price of the share immediately before the date of grant was HK\$0.51.
- (5) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (6) No option was exercised or cancelled during the year ended 31 December 2003.
- (7) The exercise in full of the outstanding 20,500,000 share options at 31 December 2003 would result in the issue of 20,500,000 additional shares for a total cash consideration, before expenses, of approximately HK\$19,732,000.
- (8) Total consideration received during the year ended 31 December 2003 from the Directors and the employees for taking up the options granted amounted to HK\$8.
- (9) No charge is recognised in the income statement in respect of the value of options granted during the year ended 31 December 2003.

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year ended 31 December 2004:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Note	Number of options		
					outstanding as at 1.1.2004	lapsed in 2004 (Note 2)	outstanding as at 31.12.2004
Directors							
Old Option Scheme	31.8.2001	2.600	1.3.2002 – 28.2.2004	(1)	1,500,000	(1,500,000)	–
New Option Scheme	2.12.2003	0.502	2.12.2003 – 30.11.2005		16,000,000	(1,000,000)	15,000,000
					17,500,000	(2,500,000)	15,000,000
Employees							
Old Option Scheme	31.8.2001	2.600	1.3.2002 – 28.2.2004	(1)	3,000,000	(3,000,000)	–
					20,500,000	(5,500,000)	15,000,000

Notes:

- (1) 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.

- (2) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (3) No option was granted, exercised or cancelled during the year ended 31 December 2004.
- (4) The exercise in full of the outstanding 15,000,000 share options at 31 December 2004 would result in the issue of 15,000,000 additional shares for a total cash consideration, before expenses, of approximately HK\$7,530,000.

(B) Share option schemes of CFSG

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

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

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

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

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

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

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

- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CFSG.
- (viii) The exercise price of an option must be the highest of:
- the closing price of the shares on the date of grant which day must be a trading day;
 - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of the share.
- (ix) The life of the CFSG New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

The following table discloses details of the share options granted by CFSG and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2002:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options			
					outstanding as at 1.1.2002	adjusted on 25.4.2002	lapsed in 2002	outstanding as at 31.12.2002
Directors								
CFSG Old Option Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	45,000,000	(42,750,000)	–	2,250,000
Employees								
CFSG Old Option Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	55,000,000	(52,250,000)	–	2,750,000
	27.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	24,100,000	(21,945,000)	(1,510,000)	645,000
					79,100,000	(74,195,000)	(1,510,000)	3,395,000
					<u>124,100,000</u>	<u>(116,945,000)</u>	<u>(1,510,000)</u>	<u>5,645,000</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. The exercise price per share before share consolidation was HK\$0.11.
- (2) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.

The following table discloses details of the share options granted by CFSG and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2003:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options					
					outstanding as at 1.1.2003	reclassified in 2003	lapsed in 2003	adjusted on 4.11.2003	granted in 2003	outstanding as at 31.12.2003
Directors										
CFSG Old Option Scheme	26.3.2001	1.08	1.10.2001 – 30.9.2004	(1) & (2)	2,250,000	1,750,000	-	4,160,000	-	8,160,000
CFSG New Option Scheme	3.11.2003	0.60	3.11.2003 – 31.10.2004		-	-	-	-	8,750,000	8,750,000
	2.12.2003	0.44	2.12.2003 – 30.11.2005		-	-	-	-	19,600,000	19,600,000
					<u>2,250,000</u>	<u>1,750,000</u>	<u>-</u>	<u>4,160,000</u>	<u>28,350,000</u>	<u>36,510,000</u>
Employees										
CFSG Old Option Scheme	26.3.2001	1.08	1.10.2001 – 30.9.2004	(1) & (2)	2,750,000	(1,750,000)	-	1,040,000	-	2,040,000
	27.3.2001	1.08	1.10.2001 – 30.9.2004	(1) & (2)	645,000	-	(275,000)	384,800	-	754,800
CFSG New Option Scheme	3.11.2003	0.60	3.11.2003 – 31.10.2004		-	-	-	-	3,750,000	3,750,000
	2.12.2003	0.44	1.6.2004 – 31.5.2006	(2)	-	-	-	-	17,750,000	17,750,000
					<u>3,395,000</u>	<u>(1,750,000)</u>	<u>(275,000)</u>	<u>1,424,800</u>	<u>21,500,000</u>	<u>24,294,800</u>
					<u>5,645,000</u>	<u>-</u>	<u>(275,000)</u>	<u>5,584,800</u>	<u>49,850,000</u>	<u>60,804,800</u>

Notes:

- (1) The number and the exercise price of options which remained outstanding on 27 October 2003 have been adjusted due to rights issue of shares in CFSG with effect from 4 November 2003. The exercise price per share before rights issue was HK\$2.20.
- (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) Reclassification of options was due to appointment of director.

The following table discloses details of the share options granted by CFSG and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2004:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options			
					outstanding as at 1.1.2004	adjusted on 24.4.2004	lapsed in 2004	outstanding as at 31.12.2004
Directors								
CFSG Old Option Scheme	26.3.2001	0.83	1.10.2001 – 30.9.2004	(1) & (2)	8,160,000	2,448,000	(10,608,000)	–
CFSG New Option Scheme	3.11.2003	0.46	3.11.2003 – 31.10.2004	(1)	8,750,000	2,625,000	(11,375,000)	–
	2.12.2003	0.34	2.12.2003 – 30.11.2005	(1)	19,600,000	5,880,000	(3,185,000)	22,295,000
					<u>36,510,000</u>	<u>10,953,000</u>	<u>(25,168,000)</u>	<u>22,295,000</u>
Employees								
CFSG Old Option Scheme	26.3.2001	0.83	1.10.2001 – 30.9.2004	(1) & (2)	2,040,000	612,000	(2,652,000)	–
	27.3.2001	0.83	1.10.2001 – 30.9.2004	(1) & (2)	754,800	220,320	(975,120)	–
CFSG New Option Scheme	3.11.2003	0.46	3.11.2003 – 31.10.2004	(1)	3,750,000	1,125,000	(4,875,000)	–
	2.12.2003	0.34	1.6.2004 – 31.5.2006	(1) & (2)	17,750,000	5,115,000	(1,675,000)	21,190,000
					<u>24,294,800</u>	<u>7,072,320</u>	<u>(10,177,120)</u>	<u>21,190,000</u>
					<u>60,804,800</u>	<u>18,025,320</u>	<u>(35,345,120)</u>	<u>43,485,000</u>

Notes:

- (1) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in CFSG with effect from 24 April 2004. The exercise prices per share before rights issue were HK\$1.08, HK\$0.60, HK\$0.44, HK\$1.08, HK\$1.08, HK\$0.60 and HK\$0.44 respectively.
- (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.

(C) *Share option schemes of Pricerite*

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

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

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

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

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

- (i) The purpose was to provide incentives to:
 - award and retain the participants who have made contributions to the CASH Group; or
 - attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the Pricerite New Option Scheme must not exceed 10% of the issued share capital of Pricerite as at the date of approval of the Pricerite New Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Pricerite New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the Pricerite New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of Pricerite and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors of Pricerite upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to Pricerite.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the Pricerite New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

The following table discloses details of the share options granted by Pricerite and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2002:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options			
					outstanding as at 1.1.2002	granted in 2002	lapsed in 2002	outstanding as at 31.12.2002
Directors								
Pricerite Old Option Scheme	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1)	18,000,000	–	(18,000,000)	–
	12.6.2001	0.21	16.6.2001 – 15.6.2003	(2)	28,800,000	–	(7,200,000)	21,600,000
	17.1.2002	0.21	1.2.2002 – 31.1.2004		–	72,000,000	(13,000,000)	59,000,000
					<u>46,800,000</u>	<u>72,000,000</u>	<u>(38,200,000)</u>	<u>80,600,000</u>
Employees								
Pricerite Old Option Scheme	12.6.2000	0.32	13.6.2000 – 12.6.2003	(1) & (3)	4,437,000	–	(918,000)	3,519,000
	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1) & (4)	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>(4,518,000)</u>	<u>46,019,000</u>
					<u>54,837,000</u>	<u>114,500,000</u>	<u>(42,718,000)</u>	<u>126,619,000</u>

Notes:

- (1) The initial exercise price was HK\$0.58. On 23 November 2001, the exercise price was adjusted to HK\$0.32 due to the rights issue.
- (2) The initial exercise price was HK\$0.39. On 23 November 2001, the exercise price was adjusted to HK\$0.21 due to the rights issue.

- (3) The options are vested in 3 tranches as to (i) 1/3 exercisable from the commencement of the exercise period; (ii) 1/3 exercisable from the expiry of 12 months from the commencement of the exercise period; and (iii) 1/3 exercisable from the expiry of 24 months from the commencement of the exercise period.
- (4) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.

The following table discloses details of the share options granted by Pricerite and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2003:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options				
					outstanding as at 1.1.2003	adjusted on 6.5.2003	lapsed in 2003	granted in 2003	outstanding as at 31.12.2003
Directors									
Pricerite Old Option Scheme	12.6.2001	4.20	16.6.2001 – 15.6.2003	(2)	21,600,000	(20,520,000)	(1,080,000)	–	–
	17.1.2002	4.20	1.2.2002 – 31.1.2004	(2)	59,000,000	(56,050,000)	(1,000,000)	–	1,950,000
Pricerite New Option Scheme	2.12.2003	1.79	2.12.2003 – 30.11.2004		–	–	–	3,000,000	3,000,000
	2.12.2003	1.79	1.12.2004 – 30.11.2005		–	–	–	1,000,000	1,000,000
					<u>80,600,000</u>	<u>(76,570,000)</u>	<u>(2,080,000)</u>	<u>4,000,000</u>	<u>5,950,000</u>
Employees									
Pricerite Old Option Scheme	12.6.2000	6.40	13.6.2000 – 12.6.2003	(1) & (3)	3,519,000	(3,035,250)	(483,750)	–	–
	17.1.2002	4.20	1.2.2002 – 31.1.2004	(2)	42,500,000	(38,000,000)	(2,750,000)	–	1,750,000
Pricerite New Option Scheme	2.12.2003	1.79	2.12.2003 – 30.11.2004		–	–	–	2,800,000	2,800,000
	2.12.2003	1.79	1.12.2004 – 30.11.2005		–	–	–	3,500,000	3,500,000
					<u>46,019,000</u>	<u>(41,035,250)</u>	<u>(3,233,750)</u>	<u>6,300,000</u>	<u>8,050,000</u>
					<u>126,619,000</u>	<u>(117,605,250)</u>	<u>(5,313,750)</u>	<u>10,300,000</u>	<u>14,000,000</u>

Notes:

- (1) The number and the exercise price of options which remained outstanding on 6 May 2003 have been adjusted due to share consolidation of Pricerite for 20 shares into 1 share with effect from 6 May 2003. The exercise price per share before the share consolidation was HK\$0.32.
- (2) The number and the exercise price of options which remained outstanding on 6 May 2003 have been adjusted due to share consolidation of Pricerite for 20 shares into 1 share with effect from 6 May 2003. The exercise price per share before the share consolidation was HK\$0.21.

- (3) The options are vested in 3 tranches as to (i) 1/3 exercisable from the commencement of the exercise period; (ii) 1/3 exercisable from the expiry of 12 months from the commencement of the exercise period; and (iii) 1/3 exercisable from the expiry of 24 months from the commencement of the exercise period.

The following table discloses details of the share options granted by Pricerite and held by the Directors and the employees of the CASH Group and movements in such holdings during the year ended 31 December 2004:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options						
					outstanding as at 1.1.2004	adjusted on 2.3.2004	adjusted on 11.9.2004	exercised during the year	cancelled during the year	lapsed in 2004	outstanding as at 31.12.2004
Directors											
Pricerite Old Option Scheme	17.1.2002	4.200	1.2.2002 – 31.1.2004		1,950,000	-	-	-	-	(1,950,000)	-
Pricerite New Option Scheme	2.12.2003	0.316	2.12.2003 – 30.11.2004	(1) & (2)	3,000,000	12,000,000	2,000,000	(200,000)	(5,466,666)	(11,333,334)	-
	2.12.2003	0.316	1.12.2004 – 30.11.2005	(1) & (2)	1,000,000	4,000,000	666,666	-	-	-	5,666,666
					<u>5,950,000</u>	<u>16,000,000</u>	<u>2,666,666</u>	<u>(200,000)</u>	<u>(5,466,666)</u>	<u>(13,283,334)</u>	<u>5,666,666</u>
Employees											
Pricerite Old Option Scheme	17.1.2002	4.200	1.2.2002 – 31.1.2004		1,750,000	-	-	-	-	(1,750,000)	-
Pricerite New Option Scheme	2.12.2003	0.316	2.12.2003 – 30.11.2004	(1) & (2)	2,800,000	-	-	(2,800,000)	-	-	-
	2.12.2003	0.316	1.12.2004 – 30.11.2005	(1) & (2)	3,500,000	14,000,000	2,333,334	-	-	-	19,833,334
					<u>8,050,000</u>	<u>14,000,000</u>	<u>2,333,334</u>	<u>(2,800,000)</u>	<u>-</u>	<u>(1,750,000)</u>	<u>19,833,334</u>
					<u>14,000,000</u>	<u>30,000,000</u>	<u>5,000,000</u>	<u>(3,000,000)</u>	<u>(5,466,666)</u>	<u>(15,033,334)</u>	<u>25,500,000</u>

Notes:

- (1) The number and the exercise price of options which remained outstanding have been adjusted due to share subdivision of Pricerite for 1 share into 5 shares with effect from 2 March 2004. The exercise price per share was adjusted from HK\$1.79 to HK\$0.358.
- (2) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in Pricerite with effect from 11 September 2004. The exercise price was adjusted from HK\$0.358 to HK\$0.316.

33. Retirement benefits schemes

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

The employer's contributions to the retirement benefits schemes charged to the income statement amounted to approximately HK\$8,619,000, HK\$6,360,000 and HK\$8,052,000 and the forfeited voluntary contributions credited to the income statements amounted to approximately HK\$1,880,000, HK\$828,000 and HK\$223,000 respectively for the year ended 31 December 2002, 2003 and 2004.

34. Commitments*(a) Capital commitments*

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

	As at 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure commitment in respect of the acquisition of property and equipment contracted for but not provided in the financial statements	10,630	216	–
Capital expenditure commitment in respect of the acquisition of a subsidiary whose principal asset is a property in Beijing contracted for but not provided in financial statements	–	233,740	–
	<u>10,630</u>	<u>233,956</u>	<u>–</u>

(b) Forward foreign exchange contracts

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

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
Buying of Euro	825	107	–
Buying of USD	15,600	–	–
Buying of Japanese yen	–	77	–
Selling of Japanese yen	9,700	77	–
	26,125	261	–
	26,125	261	–

(c) Interest rate swap

At 31 December 2003 and 2004, the Group had an outstanding Hong Kong dollar interest rate swap agreement with a bank under which the Group agreed to pay the bank a fixed interest on the contract sum of HK\$27,000,000 and HK\$21,000,000 respectively as set out in the agreement. In return, the bank agreed to pay the Group an interest at HIBOR rate.

(d) Underwriting commitment

At 31 December 2004, the Group had a underwriting commitment of HK\$27,200,000 in respect of the subscription of 40,000,000 shares of Emperor (China Concept) Investments Limited under the requirement of a corporate finance business. The deal was completed on 21 January 2005. The underwriting commitment of the Group was then fully discharged.

(e) Other commitment

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

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Contracted commitment in respect of advertising expenditure	3,306	–	–
Contracted commitment in respect of an agency fee for the acquisition of a subsidiary whose principal asset is a property in Beijing contracted for but not provided in financial statements	–	5,012	–
	3,306	5,012	–
	3,306	5,012	–

35. Related Party Transactions

The Group had the following related party transactions:

- (a) During the year ended 31 December 2002, the Group pledged bank deposits of HK\$17,779,000 to secure general banking facilities granted to an associate by a bank, for which no charge is made. At 31 December 2002, the associate did not utilise such banking facilities.
- (b) During the year ended 31 December 2002, 2003 and 2004, the Group received interest from margin financing of approximately HK\$1,473,000, HK\$870,000 and HK\$736,000 respectively from Cash Guardian, in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. The interest was calculated at commercial rates which were similar to the rates offered to other margin clients.
- (c) During the year ended 31 December 2003, 60,000,000 existing shares of HK\$0.10 each held by Cash Guardian were placed to various independent investors at a price of HK\$0.275 on 27 May 2003 and 60,000,000 new shares of HK\$0.10 each were issued to Cash Guardian at the same price on 3 June 2003 upon completion of a top up agreement dated 22 May 2003.

36. Post Balance Sheet Events

- (a) On 23 November 2004, the Group entered into a provisional sale and purchase agreement with a third party to dispose of a residential property in Hong Kong at a consideration of HK\$45,000,000. The sale was completed on 13 January 2005.
- (b) On 23 March 2005, Pricerite and two subscribers entered into agreements pursuant to which the subscribers agreed to subscribe for a total of 83,000,000 new ordinary shares of HK\$0.02 each at the subscription price of HK\$0.28 per share. The net proceeds of approximately HK\$23.2 million will be used as general working capital for Pricerite. The subscription of 83,000,000 new ordinary shares of Pricerite was completed on 6 April 2005. On 4 April 2005, Pricerite and the placing agent entered into an agreement pursuant to which Pricerite agreed to issue and the placing agent agreed to procure placees to subscribe for a maximum of 223,000,000 new ordinary shares of HK\$0.02 each at the placing price of HK\$0.30 per share. The net proceeds of approximately HK\$65.7 million will be used for the expansion of the retail business of Pricerite in China and as general working capital for Pricerite. The placement of 223,000,000 new ordinary shares of Pricerite was completed on 19 May 2005. After the issue of the subscription shares and the placing shares of Pricerite as mentioned above and due to the issue of shares upon exercise of share option of Pricerite, the Company's interest in Pricerite was decreased from 66.52% as at 31 December 2004 to 44.69%.

37. Financial Information of the Pricerite Group

On 23 March 2005, Pricerite and two subscribers entered into agreements pursuant to which the subscribers agreed to subscribe for a total of 83,000,000 new ordinary shares of Pricerite at the subscription price of HK\$0.28 per share. On 4 April 2005, Pricerite and the placing agent entered into an agreement pursuant to which Pricerite agreed to issue and the placing agent agreed to procure placees to subscribe for a maximum of 223,000,000 new ordinary shares of Pricerite at the placing price of HK\$0.30 per share. The subscription of 83,000,000 new ordinary shares of Pricerite and placement of 223,000,000 new ordinary shares of Pricerite were completed on 6 April 2005 and 19 May 2005 respectively. After the issue of the subscription shares and the placing shares of Pricerite as mentioned above and due to the issue of shares upon exercise of share option of Pricerite, the Company's interest in Pricerite was decreased from 66.52% as at 31 December 2004 to 44.69%.

In preparing following information relating to the Pricerite Group for the Relevant Periods ("Pricerite Report"), we have examined the audited financial statements of Pricerite issued by us for the Relevant Periods and made adjustments for accounting policies alignment. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" recommended by the HKICPA.

Consolidated income statements of the Pricerite Group

	Notes	Year ended 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	(a)	889,918	836,006	876,896
Cost of sales		(572,018)	(540,524)	(593,557)
Gross profit		317,900	295,482	283,339
Other operating income		6,253	13,305	5,677
Selling and distribution costs		(298,246)	(278,469)	(299,674)
Administrative expenses		(64,262)	(52,994)	(58,722)
Other operating expenses		(38,355)	(22,676)	(69,380)
Impairment loss recognised in respect of property and equipment		(17,775)	(4,447)	(6,270)
Impairment loss recognised in respect of goodwill		(12,783)	–	(2,060)
		(27,209)	–	(1,863)
Loss from operating activities	(b)	(96,122)	(27,123)	(79,573)
Finance costs	(c)	(734)	(2,802)	(3,038)
Loss before taxation		(96,856)	(29,925)	(82,611)
Taxation		–	–	(6)
Net loss attributable to shareholders		(96,856)	(29,925)	(82,617)

Consolidated balance sheet of the Pricerite Group

	Notes	As at 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Non-current assets				
Property and equipment		135,038	104,032	98,990
Other assets		13,812	7,358	1,760
Rental and utility deposits		12,521	12,159	7,018
		161,371	123,549	107,768
Current assets				
Inventories	(d)	65,391	58,507	59,013
Accounts receivable	(e)	442	5,948	1,856
Prepayments, deposits and other receivables		42,450	33,131	24,043
Investments in securities		41,006	12,565	19,083
Amounts due from fellow subsidiaries	(f)	2,400	15,366	6,920
Pledged bank deposits	(g)	8,500	20,000	36,002
Bank balances and cash		138,615	197,895	163,232
		298,804	343,412	310,149
Current liabilities				
Accounts payable	(h)	154,236	172,604	168,084
Accrued liabilities and other payables		32,959	23,265	21,002
Amount due to ultimate holding company		713	–	–
Taxation payable		200	200	145
Obligations under finance leases				
– amount due within one year	(i)	410	310	30
Bank borrowings, secured	(j)	58,891	68,680	62,495
		247,409	265,059	251,756
Net current assets		51,395	78,353	58,393
		212,766	201,902	166,161
Capital and reserves				
Share capital	(k)	207,678	10,384	13,334
Reserves	(l)	4,579	171,948	136,962
		212,257	182,332	150,296
Non-current liabilities				
Bank borrowings, secured	(j)	–	19,500	15,865
Obligations under finance leases				
– amount due after one year	(i)	509	70	–
		509	19,570	15,865
		212,766	201,902	166,161

Consolidated statement of changes in equity of the Pricerite Group

	Total equity <i>HK\$'000</i>
At 1 January 2002	309,113
Net loss for the year	(96,856)
At 31 December 2002 and 1 January 2003	212,257
Net loss for the year	(29,925)
At 31 December 2003 and 1 January 2004	182,332
Issue of shares due to rights issue	46,655
Exercise of share options	5,075
Share issue expenses	(1,149)
Net loss for the year	(82,617)
At 31 December 2004	<u>150,296</u>

Consolidated cash flow statement of the Pricerite Group

	Year ended 31 December		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Operating activities			
Loss from operating activities	(96,122)	(27,123)	(79,573)
Adjustments for:			
Interest income	(951)	(611)	(73)
Reversal of impairment loss previously recognised in respect of property and equipment	(1,258)	(5,733)	(2,658)
Advertising and telecommunication services expense	3,688	8,954	9,427
Allowance for inventory obsolescence and write-off of inventories	4,990	6,493	19,041
Allowance for amounts due from trade debtors	–	–	1,224
Allowance for amounts due from other debtors	–	–	5,046
Amortisation of goodwill	3,093	–	–
Depreciation and amortisation of property and equipment	27,982	29,716	26,305
Impairment loss recognised in respect of goodwill	27,209	–	1,863
Impairment loss recognised in respect of property and equipment	12,783	–	2,060
(Gain) loss on disposal of property and equipment	(591)	577	4,646

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP

	Year ended 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	(19,177)	12,273	(12,692)
Decrease in rental and utility deposits	1,677	362	5,141
Increase in inventories	(16,398)	(1,291)	(13,664)
Decrease (increase) in accounts receivable	2,555	(6,438)	4,550
Decrease in prepayments, deposits and other receivables	13,185	6,267	3,625
(Increase) decrease in investments in securities	(8,120)	28,441	(6,518)
(Increase) decrease in amounts due from fellow subsidiaries	(2,400)	(12,966)	6,753
Increase (decrease) in accounts payable	22,457	21,493	(10,793)
Increase (decrease) in accrued liabilities and other payables	6,890	(9,317)	(2,399)
Increase (decrease) in amount due to ultimate holding company	713	(713)	–
	<u>1,382</u>	<u>38,111</u>	<u>(25,997)</u>
Cash generated from (used in) operations			
Hong Kong Profits Tax Paid	166	–	(61)
	<u>1,548</u>	<u>38,111</u>	<u>(26,058)</u>
Net cash generated from (used in) operating activities			
Investing activities			
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	–	78	–
Interest received	951	611	73
Proceeds from disposal of property and equipment	14,410	15,576	129
Increase in pledged bank deposits	–	(11,500)	(16,002)
Purchases of property and equipment	(47,251)	(9,544)	(20,026)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(600)	–	(10,152)
Payment for advertising and telecommunication services	(25,000)	–	–
	<u>(57,490)</u>	<u>(4,779)</u>	<u>(45,978)</u>
Net cash used in investing activities			
Financing activities			
Increase (decrease) in bank overdrafts	4,397	(4,655)	(1,675)
Increase (decrease) in trust receipt loans	34,197	8,444	(3,782)
New bank loan raised	–	25,500	22,000
Interest paid	(734)	(2,802)	(3,038)
Repayments of obligations under finance leases	(322)	(539)	(350)
Proceeds on issue of shares	–	–	51,730
Repayment of bank loan	–	–	(26,363)
Share issue expenses	–	–	(1,149)
	<u>37,538</u>	<u>25,948</u>	<u>37,373</u>
Net cash from financing activities			
Net (decrease) increase in cash and cash equivalents	(18,404)	59,280	(34,663)
Cash and cash equivalents at beginning of year	157,019	138,615	197,895
	<u>138,615</u>	<u>197,895</u>	<u>163,232</u>
Cash and cash equivalents at end of year			
Being:			
Bank balances and cash	<u>138,615</u>	<u>197,895</u>	<u>163,232</u>

Notes to financial information of the Pricerite Group**(a) Turnover and segmental information**

Turnover represents the invoiced value of sales of furniture and household goods, net of discounts and returns.

The Group's turnover is substantially derived from the retailing activity carried out in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

(b) Loss from operating activities

Loss from operating activities has been arrived at after charging (crediting):

	Year ended 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Allowance for amounts due from trade debtors (included in other operating expenses)	–	–	1,224
Allowance for amounts due from other debtors (included in other operating expenses)	–	–	5,046
Allowance for bad and doubtful debts (included in other operating expenses)	3,990	–	–
Amortisation of goodwill (included in other operating expenses)	3,093	–	–
Allowance for inventory obsolescence and write-off of inventories (included in cost of sales)	4,990	6,493	19,041
Auditors' remuneration	677	736	850
Compensation for early termination of tenancy agreements and investment project	7,004	–	–
Reversal of impairment loss previously recognised in respect of property and equipment	(1,258)	(5,733)	(2,658)
Depreciation and amortisation of property and equipment:			
Owned assets	27,856	29,511	26,137
Leased assets	126	205	168
	27,982	29,716	26,305
(Gain) loss on disposal of property and equipment	(591)	577	4,646
Loss on trading of securities	3,712	2,051	–
Operating lease rentals in respect of land and buildings:			
Minimum lease payments	105,702	106,702	109,140
Contingent rents	5,179	2,390	3,233
	110,881	109,092	112,373
Staff costs:			
Wages and salaries	83,445	90,642	89,050
Redundancy costs	–	–	2,000
Contributions to retirement benefits scheme	4,005	3,893	3,917
	87,450	94,535	94,967
Net realised and unrealised loss (gain)			
loss on trading of securities	–	4,447	(523)
Interest income	(951)	(611)	(73)
Net foreign exchange loss (gain)	2	(372)	(7)

(c) Finance costs

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Interest on:			
Bank loans and overdrafts wholly repayable within five years	692	2,771	3,028
Finance leases	42	31	10
	<u>734</u>	<u>2,802</u>	<u>3,038</u>

(d) Inventories

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Finished goods held for sale	<u>65,391</u>	<u>58,507</u>	<u>59,013</u>

Finished goods of approximately HK\$2,607,000, HK\$564,000 and nil at 31 December 2002, 2003 and 2004 were carried at net realisable value.

(e) Accounts receivable

The Group allows an average credit period of 30 – 90 days to trade debtors.

The aged analysis of accounts receivable is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	218	5,808	985
31 – 60 days	120	103	430
61 – 90 days	76	5	144
Over 90 days	28	32	297
	<u>442</u>	<u>5,948</u>	<u>1,856</u>

(f) Amounts due from fellow subsidiaries

Amounts are due from CASH Group which are unsecured, non-interest bearing and have no fixed terms of repayment.

(g) Pledged bank deposits

The bank deposits were pledged to banks to secure general banking facilities granted to the subsidiaries of Pricerite.

(h) Accounts payable

The aged analysis of accounts payable is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	40,785	66,118	94,520
31 – 60 days	29,813	42,636	40,880
61 – 90 days	33,516	41,761	21,203
Over 90 days	50,122	22,089	11,481
	<u>154,236</u>	<u>172,604</u>	<u>168,084</u>

(i) Obligations under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:						
Within one year	445	321	32	410	310	30
In the second to fifth year inclusive	525	71	–	509	70	–
	<u>970</u>	<u>392</u>	<u>32</u>	<u>919</u>	<u>380</u>	<u>30</u>
Less: Future finance charges	51	12	2	–	–	–
Present value of lease obligations	<u>919</u>	<u>380</u>	<u>30</u>	919	380	30
Less: Amount due for payment within one year				410	310	30
Amount due for payment after one year				<u>509</u>	<u>70</u>	<u>–</u>

Pricerite Group leased certain of its motor vehicles under finance leases. The average lease term is 3 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Obligations under finance leases of Pricerite Group are secured by the lessor's charge over the leased assets and are secured by guarantees given by a subsidiary.

(j) *Bank borrowings, secured*

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	6,353	1,698	23
Trust receipt loans	52,538	60,982	57,200
Bank loan	–	25,500	21,137
	58,891	88,180	78,360
	58,891	88,180	78,360

The maturity profile of the above loans and overdrafts is as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
On demand or within one year	58,891	68,680	62,495
More than one year, but not exceeding two years	–	6,000	5,440
More than two years, but not exceeding five years	–	13,500	10,425
	58,891	88,180	78,360
<i>Less:</i> Amount due within one year shown under current liabilities	(58,891)	(68,680)	(62,495)
Amount due after one year	–	19,500	15,865
	–	19,500	15,865

The bank borrowings bear interest at commercial rates.

The bank borrowings and other banking facilities of the Pricerite Group are secured by:

- (i) pledge of the Pricerite Group's leasehold land and buildings at 31 December 2002, 2003 and 2004;
- (ii) pledge of approximately HK\$8,500,000, HK\$20,000,000 and HK\$36,002,000 bank deposits at 31 December 2002, 2003 and 2004 respectively; and
- (iii) guarantees given by Pricerite at 31 December 2003 and 2004.

(k) Share capital

	<i>Notes</i>	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
<i>Issued and fully paid:</i>		
At 1 January 2002, 31 December 2002, 1 January 2003		207,678
Reduced due to capital reduction	<i>(a)</i>	<u>(197,294)</u>
At 31 December 2003 and 1 January 2004		10,384
Issue of shares due to rights issue	<i>(b)</i>	2,666
Exercise of share options	<i>(c)</i>	<u>284</u>
Ordinary shares of HK\$0.02 each at 31 December 2004		<u><u>13,334</u></u>

Notes:

- (a) Pursuant to the special resolution passed on 5 May 2003, Pricerite:
- (i) consolidated every 20 issued and unissued shares of HK\$0.10 each into one share of HK\$2.00 each ("Pricerite Consolidated Share(s)");
 - (ii) reduced the issued share capital by cancelling paid up capital to the extent of HK\$1.90 on each of the Pricerite Consolidated Shares in issue ("Pricerite Capital Reduction"); and
 - (iii) transferred the credit amount arising from the Pricerite Capital Reduction of approximately HK\$197,294,000 to the contributed surplus account.
- Pricerite Capital Reduction took effect on 6 May 2003.
- (b) Pursuant to an ordinary resolution passed on 1 March 2004, the issued and unissued shares of HK\$0.10 each of Pricerite were subdivided into 5 new shares of HK\$0.02 each.
- On 30 September 2004, 133,298,562 shares of HK\$0.02 each were issued by way of a rights issue at a subscription price of HK\$0.35 per share.
- (c) (i) In January 2004, 2,800,000 share options were exercised at the exercise price of HK\$1.79 per share, resulting in the issue of 2,800,000 shares of Pricerite of HK\$0.10 each for a total consideration (before expenses) of HK\$5,012,000 on 19 January 2004.
- (ii) In October 2004, 200,000 share options were exercised at the exercise price of HK\$0.316 per share, resulting in the issue of 200,000 shares of Pricerite of HK\$0.02 each for a total consideration (before expenses) of HK\$63,200 on 8 November 2004.

APPENDIX I
ACCOUNTANTS' REPORT OF THE GROUP
(1) Reserves

	Share premium	Contributed surplus	Capital reserve	Retained profits (Accumulated losses)	Total
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note c)</i>		
At 1 January 2002	80,764	–	6,055	14,616	101,435
Reduction of share premium transferred to write-off accumulated losses	(30,253)	–	–	30,253	–
Net loss for the year	–	–	–	(96,856)	(96,856)
At 31 December 2002 and 1 January 2003	50,511	–	6,055	(51,987)	4,579
Reduction of share premium transferred to contributed surplus	(50,511)	50,511	–	–	–
Amount transferred to write off accumulated losses	–	(76,863)	–	76,863	–
Pricerite Capital Reduction	–	197,294	–	–	197,294
Net loss for the year	–	–	–	(29,925)	(29,925)
At 31 December 2003 and 1 January 2004	–	170,942	6,055	(5,049)	171,948
Issue of rights shares	43,989	–	–	–	43,989
Issue of new shares due to exercise of share options	4,791	–	–	–	4,791
Share issue expenses	(1,149)	–	–	–	(1,149)
Net loss for the year	–	–	–	(82,617)	(82,617)
At 31 December 2004	47,631	170,942	6,055	(87,666)	136,962

Notes:

- (a) Pursuant to a special resolution passed on 5 May 2003, the share premium account was reduced by an amount of approximately HK\$50,511,000 and such amount was transferred to the contributed surplus account of Pricerite.
- (b) Pursuant to the minutes of a directors' meeting held on 5 May 2003, an amount of approximately HK\$76,863,000 was transferred from the contributed surplus account to set off against the accumulated losses of Pricerite at 31 December 2002.
- (c) The capital reserve of the Group represents the difference between the nominal value of the shares capital of Pricerite BVI Limited acquired pursuant to the group reorganisation and the nominal value of the issued share capital of the Company issued in exchange thereof.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries or associates have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review for the year ended 31 December 2002

The turnover of the Group for the year under review was HK\$1,102.6 million, an increase of 9.8% as compared with last year. The net loss attributable to shareholders for the year was HK\$440.6 million as compared with HK\$454.0 million last year.

Even though the Group reported an increase in turnover over prior year, deteriorating economic conditions in Hong Kong hit our Group severely as most of our Group's revenue was derived from the territory. Our CFSG Group providing diversified financial services to its clients recorded a decrease of 12.1% in revenue as the local securities market had been worst hit by the prolonged recession and the unfavorable investment environment. Deterioration of employment market, deflationary pressure, sluggish property market together with the weak demand in local consumer market had seriously impacted the Pricerite Group's retail business for the whole year. Cut-throat pricing reduction prevailing in the retail market amid the economic downturn had exerted great pressure on our retail prices, further squeezing the already thin gross margins of its retail goods. Forced dumping the optical fibre at deep discounts by the international giant players as a result of the rapid deterioration in the global telecommunication business environment had caused the selling prices of the fibre products in the market to fall below the production costs. The Group's optical fibre joint venture had inevitably suffered from the unexpectedly hard times in the telecommunication industry. The plant completed trial runs in the first half of the year but the productions came to a halt in the second half in the light of the dire business environment. These, together with one-off provision for all technology investments, including our interest in the optical fiber plant, and elimination of the goodwill for previously acquired businesses, held in hand, the Group recorded a net loss attributable to shareholders for the year. After the provision, our Group's investment in Internet-related business had been fully provided.

CFSG Group

The turnover of the CFSG Group for the year under review was HK\$195.7 million, an increase of 118.6% as compared with last year. This was mainly attributable to the consolidation of the whole year turnover of offline financial services business which was acquired in September 2001. The net loss attributable to shareholders for the year was HK\$207.2 million as compared with HK\$58.6 million last year.

The continuing weak investment sentiment that plagued the CFSG Group since the third quarters of the year triggered it to take pre-emptive precautionary measures to keep its operating cost at a relatively low level. Subsequent to these measures, the number of its branches was reduced to 6 whereas its staff headcount were reduced by 32% at the year end.

During the first quarter of 2002 the global economy showed a brief recovery, but investment appetite continued to be weak as fallouts such as the Enron debacle and poor corporate results from last year's recession continued to undermine investors' confidence. Locally, the poor market environment in 2001 led to the consolidation of pure Internet securities brokerages beginning the first quarter of 2002.

In 2002, CFSG continued its efforts to secure the position as a multiple financial services provider and investment services house of choice. It extended our core brokerage capabilities and offerings as well as further diversified its financial services offerings.

CFSG commenced the integration of our online and offline retail presence and extended our service coverage for our electronic trading clients by rolling out electronic trading stations into our entire traditional branch network. Simultaneously, it finalised its corporate restructuring and rationalisation effort by closing our two cyber cafe demonstration outlets to reduce overlap in its geographic network coverage.

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 US. However, by the second quarter, market sentiments were weighed down by concern over rising unemployment and an uncertain business outlook. Consumer spending remained subdued, amidst record high unemployment rate and wage restraint. Investment sentiments, with concerns about job security, income uncertainty and protracted weakness in the asset markets, continued to be subdued. The global and regional economic environment also remained severe and indeterminate during the first half of 2002.

With China's accession into WTO, it focused significant efforts during the year to develop its expertise and business reach within the Mainland. Its Mainland reach together with the teams under development in its Shanghai liaison office will spearhead its Mainland business strategy.

The austere global and regional economic environment and local market uncertainties continued unabated throughout the second half of 2002.

Pricerite Group

The turnover of the Pricerite Group for the year under review was HK\$889.9 million as compared to HK\$748.6 million for the nine months period ended 31 December 2001. The net loss attributable to shareholders for the year was HK\$96.9 million as compared to a profit attributable to shareholders of HK\$14.6 million in the corresponding period of the prior year.

Even though the Pricerite Group reported an increase in turnover over prior year, deteriorating economic conditions in Hong Kong hit it severely as most of its revenue was derived from the territory. Deterioration of employment market, deflationary pressure, sluggish property market together with the weak demand in local consumer market had seriously impacted its retail business for the whole year. Cut-throat pricing reduction prevailing in the retail market amid the economic downturn had exerted great pressure on its retail prices, further squeezing the already thin gross margins of its retail goods. Taking into account of full provision for goodwill, impairment loss in respect of property and pre-operating expenses for set-up of its first store in Guangzhou, China, the Pricerite Group recorded a net loss attributable to shareholders for the year.

In terms of its product mix, furniture and household products accounted for HK\$335.1 million or 37.7% and HK\$554.8 million or 62.3% respectively of our total sales of HK\$889.9 million for the year under review. The five largest product categories by sales value for its household products were (1) Ready to Assembled Furniture, (2) Small Electrical Appliances, (3) Bathroom, Laundry and Cleaning, (4) DIY Products, and (5) Home Fashion. According to a recent market survey conducted by ACNielsen, our (1) Sofas, (2) Dining Tables or Chairs, (3) Guest Room Cabinets, (4) Tools, (5) Racks, (6) Movable Storage Accessories, and (7) Washroom Products enjoyed leading market share in terms of value in Hong Kong. In particular, its market share in Movable Storage Accessories is over 40%, which is almost 3 times of the follower in the 2nd rank.

During the year under review, it opened 5 new retail outlets in strategic locations at Metro Plaza, Carnarvon Plaza, Olympian City, Sau Mau Ping and Yau Oi. It conducted in-depth research to confirm high customer traffic. Its network was covered by a total of 48 outlets in Hong Kong at year end. It also opened its first retail outlet in Guangzhou in September, marking its first venture outside of the Hong Kong territory.

It continued to develop and operate its business according to the five key weapons for the retail world: brand power, product mix, logistic strength, customer service and shopping environment.

Liquidity and Financial Resources

Our Group's total shareholders' equity amounted to HK\$375.8 million on 31 December 2002 as compared to HK\$902.6 million at the end of prior year. The decrease was attributable to the net loss reported for the year and the share repurchases made during the year.

On 31 December 2002, our cash and bank balances totaled HK\$569.6 million, representing a reduction of HK\$192.1 million as compared with the prior year. The reduction was primarily a result of the loss incurred during the year by the Group and start-up investment of retailing business in China. On 31 December 2002, the Group's listed investment securities were valued at HK\$52.5 million. With a decline in the investment sentiment, the Group recorded a loss on the listed investment of HK\$5.6 million. The future performance of the listed securities investment is still clouded by the growing deficit, the recent tax rises across all sectors and rising unemployment. However, the liquidity ratio remained healthy at 1.2 times on 31 December 2002 as compared to 1.5 times on 31 December 2001. Despite the economic ordeal in 2002, our Group remained financially sound.

Our total bank borrowings increased to HK\$205.5 million on 31 December 2002 from HK\$155.6 million on 31 December 2001. This increase in bank borrowings was one of the effects brought into being when we adjusted our merchandising strategy to extend our sourcing origin to Eastern China. During the year, the ratio of the total bank borrowings to shareholders' equity reached 54.7% on 31 December 2002 from 17.2% on 31 December 2001. We are confident that the gearing was maintained at a prudent level, especially when the majority of our borrowings were used to finance the margin trading clients of CFSG while the inventory turn of Pricerite was in line with other Hong Kong retailers. We were therefore able to comfortably set-off client borrowings against our bank financing together with a net interest margin earned from our margin book. As such, we were not exposed to material interest rate risk during 2002.

As both our borrowings and operating revenue were mainly in Hong Kong dollar, our exposure to foreign currency mismatch during the year was limited. However, we entered into US\$/HK\$ forward contract to address the increasing concern from market on the peg rate triggered by the Budget Deficit. Together with the currency future entered for hedging Yen exposure, the aggregate contractual value amounted to HK\$26.1 million at the end of 2002.

On 31 December 2002, the following assets were pledged to secure general banking facilities granted to two subsidiaries and an associate:

- (1) leasehold properties at their carrying value of approximately HK\$44.8 million;
- (2) cash and bank balances of approximately HK\$26.9 million; and
- (3) listed investment securities valued at HK\$129.3 million.

At the end of the year, our Group had contingent liabilities amounted to approximately HK\$17.8 million, which included a guarantee given to a bank for general banking facilities granted to an associate.

In December 2002, our Group entered the provisional sales and purchase agreement to dispose the leasehold properties at the consideration of HK\$15 million. The disposal transaction was subsequently completed in March 2003. Other than that, we do not have any future plans for material investments or capital assets during the year.

Employee and Remuneration Policy

At 31 December 2002, the Group had 1,185 employees, of which 176 were at CFSG Group and 946 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. We continue to organise training to employees in areas such as mandatory professional development programmes required by regulatory bodies, computer application, product knowledge, customer services, selling techniques, problem solving, Putonghua training, time management, train-the-trainer and coaching, etc.

B. Business Review for the year ended 31 December 2003

The turnover of the Group for the year under review was HK\$1,033.8 million as compared to HK\$1,102.6 million in the previous year. The net loss attributable to shareholders was HK\$51.6 million as compared with HK\$440.6 million last 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 CFSG Group managed to contain the decline in turnover to 5.0% and ended the year with a profit of HK\$10.7 million. The Pricerite 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, the Group managed to contain our net loss for the year to HK\$51.6 million from HK\$440.6 million a year ago.

CFSG Group

The turnover of the CFSG Group for the year under review was HK\$191.1 million, which was 2.4% marginally lower than that of 2002. During the year under review, the CFSG Group recorded a net profit attributable to shareholders of HK\$10.7 million as compared with a loss of HK\$207.2 million in the year before. Notwithstanding an austere business environment prevailing during much of the first half of the year, and a resulting significant drop in the CFSG Group's turnover in the first half (46.7% as compared with the corresponding period in 2002), the CFSG Group has managed to turn back into positive profit territory for the full year.

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, 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.

Pricerite Group

The turnover of the Pricerite Group for the year under review was HK\$836.0 million as compared to HK\$889.9 million the year before, reflecting the level of difficulties its encountered in 2003. The net loss attributable to shareholders for the year was substantially reduced to HK\$29.9 million from HK\$96.9 million for the year before.

Under the austere economic conditions, sales for the first half of the year dropped by 16.7% compared with the corresponding period of the previous year. As the retail market gradually recovered in the second half of the year, the Pricerite Group's retail business also benefited and narrowed the gap resulting from the decline in the sales during the outbreak of SARS at the beginning of the year to a slight decline of 6.1% in sales for the whole year. To remain competitive in the market amid the difficult business environment, it pursued our cost leadership strategy by implementing appropriate cost reduction measures and by seeking concessions from suppliers. With these combined efforts against the difficult business environments, the net loss for the year was substantially reduced.

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.

Liquidity and Financial Resources

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 property 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 has been cancelled in May 2004 as agreed by the parties to the agreement. 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 has been completed in April 2004. Other than that, we do not have any future plans for material investments or capital assets.

Employee and Remuneration Policy

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 schemes, 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\$154.5 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.

C. Business Review for the year ended 31 December 2004

The turnover of the Group for the year under review was HK\$1,124.4 million as compared to HK\$1,033.8 million in the previous year. The net loss attributable to shareholders was HK\$144.2 million as compared with HK\$51.6 million last year.

The increase in turnover reflected the market recovery in domestic financial sector and retail sectors. In 2004, continuous resumption in confidence of both domestic investors and consumers drove our turnover in financial services and retailing business to reach HK\$240.0 million and HK\$873.4 million respectively. Accompanied with record-high trading volume in domestic securities market, there seen an amazing growth in both turnover and the net profit in the CFSG Group's financial service division by 25.6% and 100.6% respectively. The Pricerite Group's retail business also benefited from the economic recovery and reversed the slide in turnover since 2002. The sales of our retail business in 2004 rose slightly by 4.5% amid the steady recovery in property market, apparently lagged behind other retail sectors such as motor cars, jewellery and watches. However, the additional costs incurred in overhauling our retail network and the household product ranges together with the transitional change from domestic retailing to international franchising post us in a challenging situation to report loss for the Pricerite Group for the year. For the whole fiscal year, net loss of our Group was increased.

CFSG Group

The turnover of the CFSG Group for the year under review was HK\$240.0 million, an increase of 25.6% as compared with last year. For the year under review, the CFSG Group recorded a net profit attributable to shareholders of HK\$21.3 million as compared with HK\$10.7 million in the previous year. The marked increase was attributed to the continuously positive sentiment in domestic stock market and the synergy effect resulting from the acquisition of wealth management business.

Notwithstanding an increase in business transaction volume under the buoyant market environment, the CFSG Group remained focused on cost rationalisation. Taking into account of the consolidation of a subsidiary acquired in the second half of 2003, its operating overhead moderately increased by 13.5% to HK\$178.1 million. The cost leadership approach of CFSG Group has enabled it to quickly capitalise on the market recovery in 2004 to achieve profitability and to be well prepared for future growth.

During the year, it remained committed to solidifying our cost leadership position in the industry. While profit margin squeeze due to minimum commission abolition has impacted its operating revenue, its enhanced cost efficiency throughout the CFSG Group has allowed it to maintain its profit margin. It is now in a position to process the same amount of orders at a lower cost.

The global investment environment continued to improve in 2004. Despite concerns over rising commodity prices and geopolitical tensions, major equity markets saw their 2003 broad-based rally continue into 2004 and finished the year stronger on the back of continued global economic growth and low interest rates. The Hang Seng Index was particularly strong in the fourth quarter and closed 2004 at 14,230, or a sequential growth of 13.2%.

Against this increasingly favorable economic and investment backdrop, it met both new and existing opportunities with a focus on diversifying our revenue and product mix, and continuing to strengthen our pillar businesses in brokerage, wealth management, and investment banking. As part of its constant effort to enhance its clients' product choices and experience, it re-launched the foreign exchange trading business in May in anticipation of a growing need for this service.

Echoing its wealth management and brokerage integration initiatives, it upgraded its Causeway Bay Client Service Centre to a Wealth Management Centre in March and opened up a new location in Hunghom in May to strengthen our local presence in this attractive district.

As a technology leader and a client-focused service provider, it has expanded its technology capabilities to better serve clients who have real-time trading needs. In December, it launched the 3G trading platform for the technology-savvy on-the-road clients.

The wealth management business, introduced in 2003 as part of the product and income diversification strategy, continued to experience double-digit growth in headcount and revenue during the year. This wealth management business, which presents an enormous opportunity to drive its future growth, accounted for approximately 11.5% of CFSG's overall revenue in 2004.

In investment banking, it has taken steps to ensure it is competitively-positioned to provide medium-sized corporate clients with a full breadth of services including corporate finance, financial advisory, underwriting, and financial re-engineering. During the year, its investment banking division was very active in broadening and deepening client relationships and has recently entered into agreements with a few PRC clients to sponsor their listings in 2005. The Division has also raised its profile through its participation in major primary and secondary offerings in Hong Kong in 2004.

Pricerite Group

The turnover of the Pricerite Group for the year under review was HK\$876.9 million as compared to HK\$836.0 million in the previous year, reflecting the improvement in domestic consumption sentiments. The net loss attributable to shareholders for the year was HK\$82.6 million as compared to HK\$29.9 million in prior year.

Although there noted the recovery in domestic retail market, the recovery magnitude varied with retailing sectors. Taking advantage of the recovery in properties market, the sales of its retail business rose slightly by 4.9%, apparently lagged behind other retail sectors such as motor cars, jewellery and watches. The overall improvement in the domestic retail market has, however, imposed tougher business environments on the Pricerite Group as the break-the-neck pace of upturn in shop rentals has further eroded the already thin profit margin. Seeing the varying recovery magnitudes across the retail sectors and the strong growth in the retailing business of digital products, especially the high-end audio and video consumer products, its Board envisaged a need for changes in its business model. As such, it has constantly reviewed the existing retail network strategy and its product mix and closed 7 non-performing stores in the last year, thus reducing the number of stores to 38 at the year end. It also suspended carrying the slow-moving stock items of small ticket-sizes which could not enable it to earn reasonably decent profit margins. Revising the current store network and the stock items does not mean the Pricerite Group will slow the business growth. To capture the rising sales in the high season during the Christmas and New Year holidays, the Pricerite Group opened 4 stores under a new brand name of 3C Digital selling the aforesaid trendy digital products in December last year. Also, its international business had been in good progress and purchase orders had been received from our partner in Saudi Arabia. Facing the rapidly changing environments, the Pricerite Group had managed to fine tune its existing business model, which inevitably led to some restructuring costs incurred. Furthermore, in order to remain competitive in the market amid the difficult business environment, it continued a number of cost reduction measures for domestic retailing section. With these combined efforts against the difficult business environments, a net loss of HK\$82.6 million of Pricerite Group was reported for the year.

Liquidity and Financial Resources

Our Group's total shareholders' equity stood at HK\$219.8 million on 31 December 2004 as compared to HK\$340.9 million at the end of the previous year. The net decrease in equity was attributable to the loss reported for and net of capital raised during the year. In August 2004, 72 million of new shares were issued to ARTAR, a prominent investment conglomerate in Saudi Arabia, raising total net proceeds of HK\$23.7 million for development of international business and general working capital.

On 31 December 2004, our cash and bank balances were HK\$722.1 million as compared to HK\$664.5 million on 31 December 2003. 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 2004 remained healthy at 1.2 times, virtually unchanged from 2003.

Our total bank borrowings on 31 December 2004 decreased to HK\$223.2 million from HK\$341.9 million on 31 December 2003. The decrease in bank borrowings were mainly due to the fall in demand of margin financing from our clients.

In August, CFSG entered into a convertible note agreement with ARTAR for a consideration of HK\$40.5 million. Together with this convertible note of HK\$40.5 million, our ratio of our interest bearing borrowings to shareholders' equity was 1.2 on 31 December 2004 as compared to 1.0 on 31 December 2003. 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 in HK 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 2004, the Group was holding a portfolio of listed and unlisted investment with a total value of approximately HK\$75.5 million. During the year, a loss of HK\$23.8 million on trading of listed securities and commodities was recorded and an impairment loss in respect of non-performing investment of HK\$15.5 million was provided for the whole year.

As at 31 December 2004, leasehold properties at their carrying value of approximately HK\$65.7 million and bank deposits of HK\$36.8 million were pledged to secure a bank term loan and general banking facilities granted to the Group.

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

In November 2004, our Group entered into a provisional sale and purchase agreement to sell an investment property located in Hong Kong at a consideration of HK\$45.0 million. The transaction was completed in March 2005. Save as aforesaid, our Group did not make any material acquisitions or disposals during the year ended 31 December 2004. There was no significant investment held during the year. We do not have any future plans for material investments or capital assets.

Subsequent to year end, Pricerite issued 83 million of new shares to two investors and total net proceeds of HK\$23.2 million were raised in April 2005 for its general working capital. In April 2005, Pricerite entered into a placing agreement, pursuant to which 223 million of new shares were issued to investors upon completion in May 2005 and a total net proceeds of approximately HK\$65.7 million for the expansion of the retail business of Pricerite in China and as its working capital were raised.

Employee and Remuneration Policy

At 31 December 2004, the Group had 1,422 employees, of which 188 were at CFSG Group and 1,185 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 schemes, 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\$165.1 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, motivation and team building etc.

Financial and trading prospects

For CFSG Group, it will continue to maintain our leadership in cost management and control in 2005, and at the same time, further expand its efforts to diversify product mix and revenue sources. On the brokerage side, it will continue its strategy to accelerate the integration of its brokerage and wealth management businesses to achieve income growth as well as stability. Its goal is to perform well and outperform our peers across economic and market cycles.

The fast-growing wealth management business will remain as an integral part of its focus strategy to diversify its income streams. With a high savings-to-income ratio and a relatively low penetration of wealth management services in Hong Kong, business opportunity in wealth management is enormous. While competition seems to be intensifying, it is confident that it has established itself as a solid player in the industry through its strong brand recognition, extensive distribution coverage, and ability to provide a full array of financial products and services.

On the investment banking front, it expects to see fund-raising and financial advisory activities continue to grow. An increasing number of state-owned and private-sector enterprises in Mainland China have expressed interest to raise funds abroad and Hong Kong is still by far the preferred destination for international capital-raising. With a focus on medium-sized enterprises in Mainland China, its investment banking division has gained good presence in recent years and is now well-positioned to seize opportunities as they arise.

While there is cause for concern over the external economic environment such as a significant slowdown in the US and possibly in Mainland China, it remains cautiously optimistic on Hong Kong's economic resilience as well as its revenue and profit outlook. It is confident that it has built a strong platform over the past several years for moving our organisation forward. Its emphasis on a focused strategy as well as cost leadership in an increasing dynamic environment will, it believes, enable it to perform well across market cycles. At the same time, the steps it has taken to diversify its revenue sources will likely start to bear fruit in the years to come. With its commitment to excellence, dedication to servicing clients, and determination to create customer value, it is well-positioned to become the financial services house of choice for its clients through expanded product offerings, enhanced client experience, and cross-selling synergies.

For Pricerite Group, 2004 was a period in which the Pricerite Group strengthened its basic elements in management and steered the strategic direction towards a more internationally based operation platform. While the year 2004 represented an improvement in the operating environment for Hong Kong retailers, it also exemplified the limitations of the Hong Kong retail markets in locally consumed products.

In 2004, it conducted a comprehensive market analysis of recent retail market trend in local Hong Kong economy. In all, the improvement in retail landscape comprised of two elements: a rebound in consumer demand following the revival of economy, and a fundamental change in consumer behaviour of both Hong Kong people and inbound tourists.

The change in consumer behaviour implied that nowadays consumers are more selective and focused on well-chosen ranges of specialised goods. In view of this, it will continue to increase its efforts in re-engineering our merchandise, so as to provide well-chosen ranges of furniture and household products to enhance its customer satisfaction. On the other hand, to meet the ever-increasing demand of customers for quality digital products, it will continue to build coalitions with our vendors, so as to further develop value-added services, such as free-downloads and infotainment related services, to its customers. Joint marketing programmes with merchants and credit card companies will also be launched. It is planning to expand the retail network of 3C Digital into prime shopping areas in 2005.

Moreover, to capture the growing business opportunities emerged in the international arena, it will continue to re-engineer the Pricerite Group in order to migrate Pricerite into a global player in the furniture and household product supply chain market.

In its twenty years' of operation, Pricerite is well recognised as a leading retailer that delivers the best product selection and value. Down the road it will further its expertise in providing well-selected and value-for-money products to satisfy its customers' home improvement needs.

In order to offer the best value to its customers and at the same time to enhance its shareholder value, Pricerite will continue to streamline its operations and rationalise its operating costs. In the next five years, this will be achieved by consolidation of sourcing and back office support activities in its operations support centre in Shenzhen. Upon full function of its Shenzhen operations support centre by end of 2005, it will be able to further enhance its supply chain functions and smooth away operating wastage and non-essential cost elements. It will also be able to leverage on this operations support centre to further develop its international supply chain business.

The Pricerite Group is confident that it is well positioned to seize new growth opportunities on the path of Hong Kong's economic recovery as we continue to develop our core businesses and build on our healthy financial position.

A. UNAUDITED PRO FORMA FINANCIAL STATEMENTS**1. Unaudited pro forma consolidated income statement**

The following is the unaudited pro forma consolidated income statement of the Remaining Group assuming that the Deemed Disposal had been completed and the maximum number of 240,000,000 Conversion Shares at the Conversion Price of HK\$0.45 each under the Convertible Note had been issued at the commencement of the year ended 31 December 2004. The unaudited pro forma consolidated income statement was prepared based on the audited consolidated income statement of the Group for the year ended 31 December 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The unaudited pro forma consolidated income statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Group for the year ended 31 December 2004 or any future financial periods.

Unaudited pro forma consolidated income statement

	Audited consolidated income statement of the Group for the year ended 31 December 2004	Pro forma adjustments		Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>Notes</i>	<i>HK\$'000</i>
Turnover	1,124,389	(876,896)	(1)	247,493
Other operating income	11,599	(5,154)	(1)	6,445
Cost of sales	(598,895)	593,557	(1)	(5,338)
Salaries, allowances and commission	(234,776)	94,967	(1)	(139,809)
Other operating, administrative and selling expenses	(339,682)	239,782	(1)	(99,900)
Depreciation and amortisation	(53,674)	27,171	(4)	(26,503)
Loss on trading of securities, options, futures and leveraged foreign exchange contracts	(23,789)	(523)	(1)	(24,312)
Finance costs	(11,398)	3,038	(1)	(8,360)
Allowance for bad and doubtful debts	(7,630)	6,270	(1)	(1,360)
Impairment loss recognised in respect of investments	(15,500)			(15,500)
Impairment loss recognised in respect of goodwill	(10,000)			(10,000)
Impairment loss recognised in respect of property and equipment	(2,060)	2,060	(1)	–
Gain on deemed disposal of subsidiaries	–	768	(3)	768
Gain on disposal of a subsidiary	–	1,863	(5)	1,863
Share of results of associates	–	(40,008)	(2)	(40,008)
	(161,416)			(114,521)
Taxation	(356)	3	(1) & (2)	(353)
Loss before minority interest	(161,772)			(114,874)
Minority interest	17,606	(27,975)	(1)	(10,369)
Net loss attribute to shareholders	<u>(144,166)</u>			<u>(125,243)</u>

Notes:

- (1) The adjustment reflects the de-consolidation effect consequent upon Pricerite ceased to be a subsidiary of the Company, which represents the elimination of income, expenses, other operating income and minority interest of Pricerite Group for the year ended 31 December 2004 deemed disposed upon conversion of Convertible Note on 1 January 2004. Amounts of income, expenses and other operating income of Pricerite Group for the year ended 31 December 2004 are set out in the note 37 to the accountants' report on the Group in Appendix I to this circular and adjusted for certain reclassification for a consistent presentation to the Group.
- (2) The adjustment represents the share of results of 48.43% of Pricerite's loss before taxation and taxation of approximately HK\$40,008,000 and HK\$3,000 respectively, which are computed based on the consolidated financial information of Pricerite Group for the year ended 31 December 2004 as set out in the note 37 to the accountants' report on the Group in Appendix I to this circular.
- (3) The adjustment represents the gain on deemed disposal of 19.92% interest in Pricerite Group. The Group interest in Pricerite would decrease from 68.35% (the Group shareholding in Pricerite as at 1 January 2004) to 48.43% (the Group shareholding in Pricerite upon full conversion of the Convertible Note) assuming the Deemed Disposal had been completed at 1 January 2004. The shareholding at 1 January 2004 has been adjusted for the share subdivision of Pricerite took effect on 2 March 2004 and right issue of Pricerite completed on 30 September 2004. This amount is computed based on the net asset value of Pricerite Group as at 31 December 2003 as set out in the note 37 to the accountants' report on the Group in Appendix I to this circular and adjusted for the consideration of HK\$108,000,000 for conversion of Convertible Notes.
- (4) The adjustment represents the depreciation and amortisation of Pricerite Group for the year ended 31 December 2004 deemed disposed of and reversal of goodwill amortisation of the Pricerite Group amounting to HK\$26,305,000 and HK\$866,000 respectively. Reversal of goodwill amortisation is computed based on the carrying value of goodwill at 1 January 2004 and the attributed portion deemed disposed of.
- (5) The adjustment reflects the de-consolidation effect consequent upon Pricerite ceased to be a subsidiary of the Company, which represents gain on disposal of a subsidiary, Cosmos Global Limited, from the Group to Pricerite Group during the year ended 31 December 2004 restated.

2. Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group assuming that the Deemed Disposal had been completed and the maximum number of 240,000,000 Conversion Shares at the Conversion Price of HK\$0.45 each under the Convertible Note had been issued at 31 December 2004. The unaudited pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the Group as at 31 December 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The unaudited pro forma consolidated balance sheet was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group for any future financial periods.

Unaudited pro forma consolidated balance sheet

	Audited consolidated balance sheet of the Group as at 31 December 2004	Pro forma adjustments	<i>Notes</i>	Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Non-current assets				
Property and equipment	149,120	(98,990)	(3)	50,130
Interests in associates	–	155,193	(1)	155,193
Investments	10,800			10,800
Goodwill	57,199	(39,207)	(2)	17,992
Intangible assets	9,092			9,092
Other assets	13,346	(1,760)	(3)	11,586
Loans receivable	19,334			19,334
	<u>258,891</u>			<u>274,127</u>

	Audited consolidated balance sheet of the Group as at 31 December 2004	Pro forma adjustments	<i>Notes</i>	Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Current assets				
Inventories	59,013	(59,013)	(3)	–
Accounts receivable	365,047	(1,856)	(3)	363,191
Loans receivable	20,623			20,623
Prepayments, deposits and other receivables	44,020	(31,061)	(3)	12,959
Investments	64,700	(19,083)	(3)	45,617
Bank deposits under conditions	52,784	(36,002)	(3)	16,782
Bank balances – trust and segregated accounts	433,156			433,156
Bank balances (general accounts) and cash	236,147	(163,232)	(3)	72,915
	<u>1,275,490</u>			<u>965,243</u>
Current liabilities				
Account payables	784,990	(168,084)	(3)	616,906
Accrued liabilities and other payables	97,901	(21,002)	(3)	76,899
Amounts due to associates	–	6,920	(3)	6,920
Taxation payable	729	(145)	(3)	584
Obligations under finance leases – amount due within one year	93	(30)	(3)	63
Bank borrowings – amount due within one year	181,777	(62,495)	(3)	119,282
	<u>1,065,490</u>			<u>820,654</u>
Net current assets	<u>210,000</u>			<u>144,589</u>
	<u><u>468,891</u></u>			<u><u>418,716</u></u>

	Audited consolidated balance sheet of the Group as at 31 December 2004	Pro forma adjustments	<i>Notes</i>	Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Capital and reserves				
Share capital	43,748			43,748
Reserves	176,091	15,989	(4)	192,080
	<u>219,839</u>			<u>235,828</u>
Minority interests	167,100	(50,299)	(3)	116,801
Non-current liabilities				
Bank borrowings				
– amount due after one year	41,452	(15,865)	(3)	25,587
Convertible notes	40,500			40,500
	<u>81,952</u>			<u>66,087</u>
	<u>468,891</u>			<u>418,716</u>

Notes:

- (1) The amount represents the Group's share of 48.92% of the net assets of Pricerite Group of approximately HK\$126,364,000 and the attributable goodwill of HK\$28,829,000 of Pricerite Group. These amounts are computed based on the net asset value of Pricerite Group as at 31 December 2004 as set out in the note 37 to the accountants' report on the Group in Appendix I to this circular and adjusted for the consideration of HK\$108,000,000 for conversion of Convertible Note.
- (2) The adjustment represents goodwill arising from acquisition of Pricerite in prior years adjusted for the attributable portion to interests in associates and income statement of HK\$28,829,000 and HK\$10,378,000 respectively.
- (3) The adjustment reflects the de-consolidation effect consequent upon Pricerite ceased to be a subsidiary of the Company, which represents the elimination of assets, liabilities and minority interests of Pricerite Group deemed disposed upon conversion of Convertible Note. Amounts of assets and liabilities of Pricerite Group as at 31 December 2004 are set out in the note 37 to the accountants' report on the Group in Appendix I to this circular.
- (4) The adjustment represents the gain on deemed disposal of 17.61% interest in Pricerite Group which is computed based on the net asset value of Pricerite Group as at 31 December 2004 as set out in the note 37 to the accountants' report on the Group in Appendix I to this circular and adjusted for the consideration of HK\$108,000,000 for conversion of Convertible Note.

3. Unaudited pro forma consolidated cash flow statement

The following is the unaudited pro forma consolidated cash flow statement of the Remaining Group assuming that the Deemed Disposal had been completed and the maximum number of 240,000,000 Conversion Shares at the Conversion Price of HK\$0.45 each under the Convertible Note had been issued at the commencement of the year ended 31 December 2004. The unaudited pro forma consolidated cash flow statement was prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The unaudited pro forma consolidated cash flow statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Group for the year ended 31 December 2004 or any future financial periods.

Unaudited pro forma consolidated cash flow statement

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004	Pro forma adjustments	<i>Notes</i>	Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Operating activities				
Loss before taxation	(161,416)	46,895	(1)	(114,521)
Adjustments for:				
Advertising and telecommunication services expenses	11,213	(9,427)	(2)	1,786
Allowance for bad and doubtful debts	7,630	(6,270)	(2)	1,360
Allowance for inventory obsolescence and write-off of inventories	19,041	(19,041)	(2)	–
Amortisation of intangible assets	1,830			1,830
Amortisation of goodwill	6,928			6,928
Depreciation and amortisation of property and equipment	44,916	(27,171)	(3)	17,745
Deemed gain on partial disposal of interest in Pricerite	(769)			(769)

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004		Pro forma adjustments		Adjusted balances
	HK\$'000		HK\$'000	Notes	HK\$'000
Dividends from investments	(1,015)				(1,015)
Impairment loss recognised in respect of investments	15,500				15,500
Impairment loss recognised in respect of goodwill	10,000				10,000
Impairment loss recognised in respect of property and equipment	2,060	(2,060)	(2)		–
Interest expenses	11,398	(3,038)	(2)		8,360
Share of results of associates	–	40,008	(4)		40,008
Gain on deemed disposals of subsidiaries	–	(768)	(5)		(768)
Gain on disposal of a subsidiary	–	(1,863)	(6)		(1,863)
Loss on disposal of property and equipment	4,746	(4,646)	(2)		100
Operating cash flow before movements in working capital	(27,938)				(15,319)
Increase in inventories	(16,759)	13,664	(2)		(3,095)
Decrease in accounts receivable	131,457	(4,550)	(2)		126,907
Increase in loans receivable	(38,118)				(38,118)
Decrease in prepayments, deposits and other receivables	26,022	(8,766)	(2)		17,256
(Increase) decrease in investments	(3,500)	6,518	(2)		3,018
Increase in bank balances – trust and segregated accounts	(51,100)				(51,100)
Increase in accounts payable	45,511	10,793	(2)		56,304
Increase in accrued liabilities and other payables	25,254	2,399	(2)		27,653
Cash from operations	90,829				123,506
Hong Kong Profits Tax paid	(134)	61	(2)		(73)
Dividends received	1,015				1,015
Interest paid	(11,376)	3,028	(2)		(8,348)
Net cash from operating activities	80,334				116,100

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004	Pro forma adjustments		Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>Notes</i>	<i>HK\$'000</i>
Investing activities				
Additional payment for acquisition of a subsidiary	(1,400)			(1,400)
Acquisition of additional interests in Pricerite	–	(44,790)	(10)	(44,790)
Expenses paid for subscription of CFSG's rights shares	(800)			(800)
Proceeds from disposal of property and equipment	381	(129)	(2)	252
Purchase of property and equipment	(67,151)	20,026	(2)	(47,125)
Purchase of investments	(10,800)			(10,800)
Statutory and other deposits paid	(1,601)			(1,601)
Increase in advance to associates	–	(6,753)	(7)	(6,753)
Disposal of subsidiary (net of cash and cash equivalents disposed)	–	10,152	(6)	10,152
Deemed disposals of subsidiaries (net of cash and cash equivalents disposed)	–	(197,895)	(8)	(197,895)
Net cash used in investing activities	<u>(81,371)</u>			<u>(300,760)</u>
Financing activities				
Decrease in trust receipt loans	(3,782)	3,782	(2)	–
Increase in bank deposits under conditions	(16,219)	16,002	(2)	(217)
Decrease in bank loans	(86,603)	4,363	(2)	(82,240)
Decrease in bank overdrafts	(28,328)	1,675	(2)	(26,653)
Repayments of obligations under finance leases	(537)	350	(2)	(187)
Proceeds on issue of convertible notes	40,500			40,500
Proceeds on issue of shares	23,760			23,760
Share issue expenses	(655)			(655)
Contributions from minority shareholders	66,476	(6,940)	(10)	59,536

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004	Pro forma adjustments	<i>Notes</i>	Adjusted balances
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Interest paid on obligations under finance leases	(22)	10	(2)	(12)
Share issue expenses paid by CFSG and Pricerite	<u>(3,330)</u>	1,149	(2)	<u>(2,181)</u>
Net cash (used in) from financing activities	<u>(8,740)</u>			<u>11,651</u>
Net decrease in cash and cash equivalents	(9,777)			(173,009)
Cash and cash equivalents at beginning of year	<u>245,924</u>			<u>245,924</u>
Cash and cash equivalents at end of year	<u><u>236,147</u></u>			<u><u>72,915</u></u>
Being:				
Bank balances and cash	<u><u>236,147</u></u>	(163,232)	(9)	<u><u>72,915</u></u>

Notes:

- (1) Amount represents total proforma adjustments to the proforma income statement set out in Appendix III(A) to this circular.
- (2) The adjustment reflects the de-consolidation effect consequent upon Pricerite ceased to be a subsidiary of the Company, which represents the elimination of cash movements of Pricerite Group for the year ended 31 December 2004 deemed disposed upon conversion of Convertible Note on 1 January 2004. Amounts of these cash movements of Pricerite Group for the year ended 31 December 2004 are set out in the note 37 to the accountants' report on the Group in Appendix I to this circular and adjusted for certain reclassification for a consistent presentation to the Group.
- (3) The adjustment represents the depreciation and amortisation of Pricerite Group for the year ended 31 December 2004 deemed disposed of and reversal of goodwill amortisation of the Pricerite Group amounting to HK\$26,305,000 and HK\$866,000 respectively.
- (4) The adjustment represents the share of results of 48.43% of Pricerite's net loss before taxation which is computed based on the net loss of Pricerite Group for the year ended 31 December 2004 as set out in the note 37 to the accountants' report on the Group in Appendix I to this circular.

- (5) The adjustment represents the gain on deemed disposal of 19.92% interest in Pricerite Group.
- (6) The adjustment reflects the de-consolidation effect consequent upon Pricerite ceased to be a subsidiary of the Company, which represents disposal of a subsidiary, Cosmos Global Limited, from the Group to Pricerite Group during the year ended 31 December 2004 restated.
- (7) The adjustment represents increase in advance from the Group to Pricerite Group during the year ended 31 December 2004 restated.
- (8) The adjustment represents net cash and cash equivalent of Pricerite Group deemed disposed upon conversion of Convertible Note on 1 January 2004. Amount represents the cash and cash equivalent of Pricerite Group as at 1 January 2004.
- (9) The adjustment represents net cash and cash equivalent of Pricerite Group as at 31 December 2004.
- (10) The adjustment represents the payments of the Group and the minority shareholders of Pricerite for Pricerite's share subscription (being the rights issue in September 2004 and the exercise of options in 2004) amounting to HK\$44,790,000 and HK\$6,940,000 respectively.

B. REPORT FROM DELOITTE TOUCHE TOHMATSU

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤•關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

30 June 2005

The Directors
Celestial Asia Securities Holdings Limited

Dear Sirs,

We report on the pro forma financial information of Celestial Asia Securities Holdings Limited (“Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix III of the circular dated 30 June 2005 in connection with the possible very substantial disposal: deemed disposal (“Circular”), which has been prepared, for illustrative purposes only, to provide information about how the deemed disposal might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the basis set out in Appendix III of the Circular for illustrative purpose only and, because of its nature, it may not give an indicative financial position of the Group as at 31 December 2004 or any future date nor the results or cashflow of the Group for the year ended 31 December 2004 or any future period.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

C. STATEMENT OF INDEBTEDNESS**Borrowing**

As at 31 May 2005, the Group had convertible note with the outstanding amount of HK\$38.5 million. The convertible note was a liability to the Group with the maturity date on 31 December 2006.

As at 31 May 2005, the Group had total banking borrowings of approximately HK\$172.9 million, comprising bank loans of HK\$83.0 million, which were drawn to finance securities margin financing to our clients, general bank borrowings of HK\$19.0 million and trust receipt loans of HK\$70.9 million. The above bank loans of HK\$83.0 million were collateralised by our margin clients' securities pledged to us in turn by them for the purpose of securing their financing from us.

Capital commitments

As at 31 May 2005, the Group did not have any material capital commitment.

Foreign exchange risk

All of the Group's borrowings are in HK 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. As at 31 May 2005, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

Contingent liabilities

As at 31 May 2005, leasehold property at carrying value of approximately HK\$37.0 million and bank deposits of HK\$35.1 million of the Group were pledged to secure a bank term loan and general banking facilities granted to the Group. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the group covenant to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility granted by the bank. Therefore, a bank deposit of approximately HK\$16.0 million was held for this purpose.

Save as aforesaid, the Group had no other material contingent liabilities as at 31 May 2005.

Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any outstanding debt securities, term loans, bank overdrafts, liabilities under acceptance, acceptance credits, hire purchase commitments, mortgages and charges, at the close of business on 31 May 2005.

The Board has confirmed that, save as disclosed above, there has not been any material change in the indebtedness, commitments or contingent liabilities of the Group since 31 May 2005.

D. WORKING CAPITAL

The Directors are of the opinion that taking into account the Remaining Group's existing cash and bank balances as well as the present available banking facilities, the Remaining Group has sufficient working capital for its present requirements for the next twelve months in the absence of unforeseen circumstances.

E. MATERIAL ADVERSE CHANGES

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

A. The Company

1. Long positions in the Shares

Name	Capacity	Number of Shares		
		Personal	Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	164,028,376*	37.49
Law Ping Wah Bernard	Beneficial owner	5,096,200	–	1.16
Kwok Oi Kuen Joan Elmond	Beneficial owner	2,700,000	–	0.62
Li Yuen Cheuk Thomas	Beneficial owner	2,501,875	–	0.57
		<u>10,298,075</u>	<u>164,028,376</u>	<u>39.84</u>

* 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 section headed “Substantial Shareholders” below.

2. Long positions in the underlying Shares – options under share option schemes

Name	Date of grant	Exercise period	Exercise price per Share (HK\$)	Number of options outstanding	Percentage to issued Shares (%)
Kwan Pak Hoo Bankee	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.69
Law Ping Wah Bernard	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.69
Wong Kin Yick Kenneth	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.23
Miao Wen Hao Felix	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.23
Kwok Oi Kuen Joan Elmond	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.69
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.23
				<u>12,000,000</u>	<u>2.76</u>

B. Associated corporations (within the meaning of the SFO)

1. CFSG

(a) Long positions in the shares

Name	Capacity	Number of Shares		
		Personal	Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	397,827,434*	52.73
Wong Kin Yick Kenneth	Beneficial owner	1,620,000	–	0.21
		<u>1,620,000</u>	<u>397,827,434</u>	<u>52.94</u>

* The shares were held as to 11,000,000 shares by Cash Guardian and as to 386,827,434 shares by CIGL. Mr Kwan was deemed to be interested in all these shares as a result of his interests in the Company through Cash Guardian as disclosed in the section headed “Substantial Shareholders” below.

(b) *Long positions in the underlying shares – options under share option schemes*

Name	Date of grant	Exercise period	Exercise price per Share (HK\$)	Number of options outstanding	Percentage to issued Shares (%)
Kwan Pak Hoo Bankee	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
Law Ping Wah Bernard	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
Wong Kin Yick Kenneth	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
Miao Wen Hao Felix	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
Kwok Oi Kuen					
Joan Elmond	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.34	3,185,000	0.42
				19,110,000	2.52

2. *Pricerite*(a) *Long positions in the shares*

Name	Capacity	Number of shares	
		Shareholding	Other interest (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	446,572,587*	44.99

* The shares were held as to 3,000,000 shares by Cash Guardian and as to 443,572,587 shares by CIGL and its subsidiaries. Mr Kwan was deemed to be interested in all these shares as a result of his interests in the Company through Cash Guardian as disclosed in the “Substantial Shareholders” below.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Shareholding (%)
Jeffnet Inc (<i>Note 1</i>)	Trustee of a discretionary trust	164,028,376	37.49
Cash Guardian (<i>Note 1</i>)	Beneficial owner	164,028,376	37.49
Mr Al-Rashid, Abdulrahman Saad ("Mr Al-Rashid") (<i>Note 2</i>)	Interest in a controlled corporation	72,000,000	16.46
Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") (<i>Note 2</i>)	Beneficial owner	72,000,000	16.46

Notes:

- (1) 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 Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan and Jeffnet were deemed to be interested in the Shares held by Cash Guardian.
- (2) This refers to the same number of Shares were held by ARTAR, which was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in the Shares held by ARTAR.

Save as disclosed above, as at the Latest Practicable Date, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, no Director has a service contract with the Company in respect of his/her service to the Company in the capacity of a Director which is not expiring or determinable by the Company within one year without payment of compensation other than statutory compensation.

6. LITIGATION

Cheung Yiu Wing (“Cheung”), a director and a shareholder of King Pacific International Holdings Limited (“KPI”), filed a statement of claim for HK\$60,500,000 against the Company on 18 January 2000 claiming that the Company had orally agreed to purchase from Cheung 50 million shares in KPI at a price of HK\$1.90 per share. Cheung claimed against the Company for, inter alia, damages. The Board confirmed that no discussion had been made between the Company and Cheung in relation to any purchase or intention to purchase of the said shares as claimed and no agreement in whatever nature, oral or written, had ever been entered into between the Company and Cheung. The Board is of the view that message from the Company might have been misconceived and the claim of Cheung is not valid. The trial in June 2004 was over but, as at the Latest Practicable Date, the judgment has not yet been delivered.

Save as disclosed above, neither the Company nor any other company in the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against either the Company or any other company in the Group.

7. MATERIAL CONTRACTS

The following contracts are contracts that are or may be material, not being contracts entered into during the ordinary course of business, and have been entered into by the Company or its subsidiaries within two years preceding the Latest Practicable Date:

- (a) the underwriting agreement dated 29 September 2003 entered into between CFSG and the Company in relation to the underwriting for the rights issue of 251,518,816 rights shares of HK\$0.10 each at HK\$0.25 per right shares on the basis of two rights shares for every existing share held in CFSG;

- (b) the conditional sale and purchase agreement dated 19 December 2003 (“Agreement”) entered into between Mr John Rui Ming Long, as the vendor, and Cheer Forever Limited, a wholly-owned subsidiary of the Company, as purchaser for the sale and purchase of the entire equity interest of Rainbow Day Investments Limited. The vendor and the purchaser have subsequently entered into a cancellation agreement on 24 May 2004 to cancel the Agreement;
- (c) the underwriting agreement dated 18 March 2004 entered into between CFSG and the Company in relation to the underwriting for the balance of the rights shares not taken up by the controlling shareholders of HK\$0.10 each at HK\$0.27 per right share on the basis of 1 rights share for every 1 existing share held in CFSG;
- (d) the agreement dated 16 August 2004 entered into between CFSG and ARTAR in relation to the issue of a convertible note of the principal amount of HK\$40,500,000 at the initial conversion price HK\$0.27 by CFSG;
- (e) the agreement dated 16 August 2004 entered into between CFSG and CIGL, in relation to the proposed issue of 132,000,000 new subscription Shares at the subscription price of HK\$0.27 each by the Company;
- (f) the agreement dated 19 August 2004 entered into between the Company and ARTAR as subscriber in relation to the proposed issue of the 72,000,000 new subscription Shares at the subscription price of HK\$0.33 each in the Company;
- (g) the underwriting agreement dated 25 August 2004 entered into between Pricerite and Celestial Capital Limited, a non-wholly owned subsidiary of the Company, in relation to the underwriting for the rights issue of about 133,298,562 rights shares of HK\$0.02 each at HK\$0.35 per right share on the basis of 1 rights share for every 4 existing shares held in Pricerite;
- (h) the sale and purchase agreement dated 3 November 2004 entered into between CIGL and Pricerite in relation to the acquisition of the entire issued share capital of Cosmos Global Assets Limited and the shareholder’s loan by the Pricerite Group from CIGL at the consideration of HK\$9,678,092 to be settled in cash;

- (i) the sale and purchase agreement dated 23 November 2004 entered into between Excel Smart Profits Limited, a wholly-owned subsidiary of the Company, as vendor and Power Link Transportation Limited as purchaser in relation to the disposal of a residential property in Hong Kong at a consideration of HK\$45,000,000 to be settled in cash;
- (j) the two subscription agreements both dated 23 March 2005 entered into between Pricerite and respectively Mr Pun So and Ms Tin Yuen Sin Carol as subscribers in relation to the subscription of a total of 83,000,000 new shares in Pricerite at the subscription price of HK\$0.28 each;
- (k) the placing agreement dated 4 April 2005 entered into between Pricerite and Celestial Securities Limited, a non-wholly owned subsidiary of the Company, in relation to the placing of a maximum of 223,000,000 new shares in Pricerite at the placing price of HK\$0.30 each; and
- (l) the agreement dated 23 May 2005 entered into between Pricerite Development Limited, a non-wholly owned subsidiary of the Company, and AustChina in relation to the proposed cooperation to develop retail business in the PRC.

8. EXPERT

The following is the qualification of the expert who has given opinion or advice which are contained in this circular:–

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not interested beneficially in the Shares or shares in the Company or its subsidiaries and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares or shares in any members of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or its subsidiaries or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries since 31 December 2004, being the date up to which the latest published audited consolidated accounts of the Company were made up.

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and reference to their name in the form and context in which it appears.

9. MISCELLANEOUS

- (a) The qualified accountant of the Company is Mr Cheng Man Pan Ben, *a Certified Public Accountant*.
- (b) The joint secretaries of the Company are Ms Kwok Oi Kuen Joan Elmond, *a fellow member of the Institute of Chartered Secretaries and Administrators*, and Ms Luke Wing Sheung Suzanne, *an associate member of the Institute of Chartered Secretaries and Administrators*.
- (c) The head office and the principal place of business of the Company in Hong Kong is at 21/F The Center, 99 Queen's Road Central, Hong Kong. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The principal share registrars and transfer office of the Company in Bermuda is The Bank of Bermuda Limited at The Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda. The branch share registrars and transfer office of the Company in Hong Kong is Standard Registrars Limited at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 21/F The Center, 99 Queen's Road Central, Hong Kong during normal business hours on any day up to and including the date of the SGM:–

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in paragraph 7 above;

- (c) the accountants' report of the Group, the text of which is set out in Appendix I to this circular;
- (d) the letter from Deloitte Touche Tohmatsu in respect of the pro forma financial information of the Remaining Group as set out in Appendix III to this circular;
- (e) the letter of consent from Deloitte Touche Tohmatsu referred to in paragraph 8 above;
- (f) the audited financial statements of the Group for the two financial years ended 31 December 2004; and
- (g) the circular dated 25 April 2005 of the Company in relation to a discloseable transaction for deemed disposal arising from the issue of placing shares by Pricerite.

**CELESTIAL ASIA SECURITIES HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock code #1049)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting (“Meeting”) of Celestial Asia Securities Holdings Limited (“Company”) will be held at 21/F The Center, 99 Queen’s Road Central, Hong Kong on 18 July 2005, Monday, at 9:30 am for the purpose of considering and, if thought fit, passing the following resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the issue by Pricerite Group Limited (“Pricerite”), a non-wholly owned subsidiary of the Company, of shares of HK\$0.02 each in Pricerite (“Pricerite Share(s)”) upon the conversion of any part or the entire of the convertible note of principal amount of HK\$108,000,000.00 at the initial conversion price of HK\$0.45 per Pricerite Share (subject to adjustment) proposed to be issued by Pricerite to AustChina Information Technology Pyt Limited (“AustChina”) pursuant to and subject to the terms under the agreement entered into between Pricerite and AustChina on 23 May 2005, be and is hereby approved.”

By order of the Board
Luke Wing Sheung Suzanne
Joint Company Secretary

Hong Kong, 30 June 2005

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business:
21/F The Center
99 Queen’s Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote on his behalf. A proxy need not be a member of the Company. A form of proxy is also enclosed for the meeting.
2. In order to be valid, the form of proxy must be deposited at the principal place of business of the Company in Hong Kong at 21/F The Center, 99 Queen's Road Central, Hong Kong together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or other authority, not less than 48 hours before the time for holding the special general meeting or any adjournment thereof.