CELESTIAL ASIA SECURITIES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code #1049)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of Celestial Asia Securities Holdings Limited ("Company" or "CASH") and its subsidiaries ("Group") for the six months ended 30 June 2005 together with the comparative figures for the last corresponding period are as follows:

		Unaudited six months ended 30 June	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(restated)
Continuing operations			
Turnover	*(2)*	**95,755**	128,540
Cost of sales		**–**	(5,574)
Salaries, allowances and commission		**(56,069)**	(72,618)
Other operating, administrative and selling expenses		**(46,788)**	(36,484)
Depreciation and amortisation		**(712)**	(12,199)
Net realised and unrealised loss on financial assets at fair value through profit or loss		**(4,378)**	–
Loss on trading of securities, options, futures and leveraged foreign exchange contracts		–	(10,057)
Loss on deemed disposal of CASH Retail Management Group Limited and its subsidiaries ("CRMG Group")	*(7)*	**(974)**	–
Share of profit in associates		**5,197**	–
Finance costs		**(2,212)**	(2,464)
Write back of bad and doubtful debts		**–**	3,013
Loss before taxation		**(10,181)**	(7,843)
Taxation	*(5)*	**(150)**	(250)
Loss for the period from continuing operations		**(10,331)**	(8,093)
Discontinued operation			
Loss for the period from discontinued operation	*(7)*	**(10,507)**	(21,372)
Loss for the period		**(20,838)**	(29,465)
Attributable to shareholders:			
Equity holders of the Company		**(18,762)**	(35,856)
Minority interest		**(2,076)**	6,391
		(20,838)	(29,465)
Loss per share	*(6)*		
From continuing and discontinued operations:			
– Basic		**(4.3) cents**	(9.8) cents
– Diluted		**(4.3) cents**	(9.8) cents
Loss per share	*(6)*		
From continuing operations:			
– Basic		**(2.6) cents**	(5.8) cents
– Diluted		**(2.6) cents**	(5.8) cents

CONSOLIDATED BALANCE SHEET

	30 June 2005 (Unaudited)	31 December 2004 (Audited)
	HK$'000	*HK$'000*
Non-current assets		
Property and equipment	**15,937**	149,120
Interests in associates	**128,886**	–
Investments	**10,800**	10,800
Goodwill	**17,992**	57,199
Intangible assets	**8,177**	9,092
Other assets	**12,283**	13,346
Loans receivable	**16,200**	19,334
	210,275	258,891
Current assets		
Inventories	**–**	59,013
Accounts receivable	**405,260**	365,047
Loans receivable	**19,059**	20,623
Prepayments, deposits and other receivables	**13,792**	44,020
Financial assets at fair value through profit or loss	**25,063**	–
Investments	**–**	64,700
Bank deposits under conditions	**16,968**	52,784
Bank balances – trust and segregated accounts	**306,385**	433,156
Bank balances (general accounts) and cash	**102,459**	236,147
	888,986	1,275,490
Current liabilities		
Accounts payable	**504,964**	784,990
Accrued liabilities and other payables	**68,203**	97,901
Taxation payable	**734**	729
Obligations under finance leases - amount due within one year	**146**	93
Amount due to an associate	**5,540**	–
Bank borrowings – amount due within one year	**166,453**	181,777
	746,040	1,065,490
Net current assets	**142,946**	210,000
	353,221	468,891
Equity		
Capital and reserves attributable to the Company's shareholders		
Share capital	**43,748**	43,748
Reserves	**154,719**	176,091
	198,467	219,839
Minority interests	**118,690**	167,100
Total equity	**317,157**	386,939
Non-current liabilities		
Bank borrowings – amount due after one year	**–**	41,452
Convertible notes	**–**	40,500
Obligations under finance leases – amount due after one year	**233**	–
Financial liability of a convertible note	**35,831**	–
	36,064	81,952
	353,221	468,891

Notes:

(1) Basis of preparation and significant accounting policies

The unaudited interim financial statements of the Group have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting.

The accounting policies used in the unaudited interim financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2004 except as described below.

The Hong Kong Institute of Certified Public Accountants ("HKICPA", formerly the Hong Kong Society of Accountants) has undertaken to converge by 1 January 2005 all Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects.

The unaudited consolidated results of the Group have been prepared in accordance with the accounting principles generally accepted in Hong Kong. In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowings Costs
HKAS 24	Related Party Disclosure
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets held for Sale and Discontinued Operation

The following new and revised HKFRSs adopted by the Group during the period have resulted in changes in the Group's accounting policies which will have effects on the results of the Group for the current or prior accounting period:

HKAS 1	Presentation of Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets held for Sale and Discontinued Operation

HKAS 1 has impacted the presentation of the following notable elements in the Group's condensed accounts:

– minority interests are presented within equity on the face of the condensed consolidated balance sheet while it was presented outside of equity previously;

– movement of minority interests is included in the consolidated statement of changes in equity while this was not required previously; and

– allocation of profit (loss) attributable to minority interests and equity holders of the Company are disclosed on the face of the condensed consolidated profit and loss account after profit for the period while the allocation to minority interests was previously disclosed as a separate line item before arriving at profit attributable to the equity holders of the Company.

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to the adoption, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date was amortised over the subsequent relevant vesting period.

However, the adoption of the HKFRS 2 has no material effect on the results for current nor prior accounting periods. Accordingly, no prior period adjustment is required.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to the adoption, goodwill was:

– amortised on a straight-line basis over a period of not exceeding 20 years; and

– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 January 2005;

– accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and

– from the year ending 31 December 2005 onwards, goodwill will be tested annually for impairment, as well as when there are indications of impairment.

As this new accounting standard has no retrospective effect, no prior period adjustment is required. The adoption of this new accounting standard reduced the amortisation of goodwill of approximately HK$2,258,000 during current period as compared with the same period last year.

Pursuant to HKFRS 5, the Company's interests in CRMG were classified as discontinued operation subsequent to the completion of share placement as detailed in note 4 below. The adoption of HKFRS 5 has resulted in the following changes in the accounts:

– a single amount on the face of the income statements comprising the aggregate of the post-tax loss of discontinued operation and the post-tax loss recognised on the disposal of interest in CRMG; and

– an analysis of the single amount into the revenue, expense, pre-tax loss of discontinued operations.

In addition, the comparative figures of the retailing operation engaged by CRMG are re-classified to conform with the current period's presentation.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Before 1 January 2005, short-term investments of the Group were presented as other investments and were stated in the balance sheet at fair value, and the convertible loans were stated as liabilities in the balance sheet at their principal amount and the liability and equity components of the convertible notes were not classified and presented separately.

The adoption of HKAS 39 has no retrospective effect but has resulted the following changes:

– redesignated all short-term investments into financial assets and such redesignation has no financial effect on the current and prior accounting periods except the changes in presentation;

– reclassified and presented separately the liability and equity components of the convertible notes; and

– remeasured those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised value. The remeasurement of the convertible notes at fair value has increased the finance costs of the convertible notes for current period by approximately HK$397,000.

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies which will affect the result of the Group, but certain presentation and disclosures will be affected in this announcement and the 2005 annual report.

The new accounting policies adopted in the preparation of the result of the Group for the current period are:

Employee benefit costs

For share options granted under the share options scheme (the scheme approved by an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002), the fair value of the employee services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

When the options are exercised, the proceeds received will be credited to share capital (nominal value) and share premium.

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 is recognised as an asset and evaluated at least annually for impairment.

On disposal of a subsidiary, the attributable amount of goodwill will be included in the determination of the profit or loss on disposal.

Intangible assets

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

Intangible assets are evaluated annually for impairment and reassessed for the useful life of such intangible assets.

Loans receivable and accounts receivable

Loans receivable and accounts receivable are stated at their nominal value as reduced by appropriate allowance for irrecoverable amounts.

Investments

With effect from 1 January 2005, investments of the Group are classified to financial assets at fair value through profit or loss. This category comprises financial assets held for trading if they are acquired principally for the purpose of selling in short term.

Investments under this category are stated at their fair value. Unrealised gains and losses arising from changes in fair value are included in the profit and loss account in the period in which they arise.

Accounts payable

Accounts payable are stated at their nominal value.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the convertible note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in the shareholders' equity, net of income tax effects.

(2) Turnover

	Unaudited six months ended 30 June 2005 *HK$'000*	2004 *HK$'000* (restated)
Continuing operations		
Fees and commission income	**95,726**	124,935
Interest income	**29**	44
Information technology advisory income and sale of computer accessories products	**–**	3,561
	95,755	128,540
Discontinued operation		
Sales of furniture and household goods, net of discounts and returns	**369,414**	415,262
Wholesale and retailing of branded household products	**4,882**	2,019
	374,296	417,281

In the prior period, loss on trading of securities, options and futures was classified as one of the items in turnover. The Directors consider that it is the common practice of the industry to show the results on trading of securities, options, futures and leveraged foreign exchange contracts as other operating income or expense in the income statement in order to be more informative to the readers. Accordingly, the comparative figure of the loss on trading of securities, options, futures and leveraged foreign exchange contracts was reclassified to conform with the current period's presentation.

In addition, subsequent to completion of share placements on 6 April 2005 and 19 May 2005, the Company's interest in CRMG was reduced from 66.53% as at 31 December 2004 to 44.69% at the end of the review period. Accordingly, the retailing operation engaged by CRMG was reclassified as discontinued operation under HKFRS 5 and had not been included in the turnover for the period. The comparative figures were reclassified to conform with the current period presentation.

(3) Income statement by business and geographical segments

Business segments

For management purposes, the Group is currently organised into three main operating divisions, namely, financial services, investment holding and other. 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
Investment holding	Strategic investments
Other	Business solutions

Segment information about these businesses for the six months ended 30 June 2005 and 30 June 2004 is presented below:

Income statement for the six months ended 30 June 2005

	Continuing operations			
	Financial services *HK$'000*	Investment holding *HK$'000*	Other *HK$'000*	Consolidated *HK$'000*
Turnover	95,726	–	29	95,755
Segment (loss) profit	11,208	–	29	11,237
Net realised and unrealised loss on financial assets at fair value through profit or loss				(4,378)
Loss on deemed disposal of CRMG Group				(974)
Share of profit in associates				5,197
Unallocated corporate expense				(21,263)
Loss before taxation				(10,181)
Taxation				(150)
Loss for the period from continuing operations				(10,331)
Loss for the period from discontinued operation				(10,507)
Loss after taxation and before minority interest				(20,838)

Income statement for the six months ended 30 June 2004

	Continuing operations			
	Financial services *HK$'000* (restated)	Investment holding *HK$'000*	Other *HK$'000* (restated)	Consolidated *HK$'000* (restated)
Turnover	129,975	(4,996)	3,561	128,540
Segment (loss) profit	25,368	(4,996)	(9,328)	11,044
Loss on trading of securities, options, futures and leveraged foreign exchange contracts				10,547
Unallocated corporate expense				(29,434)
Loss before taxation				(7,843)
Taxation				(250)
Loss for the period from continuing operations				(8,093)
Loss for the period from discontinued operation				(21,372)
Loss after taxation and before minority interest				(29,465)

Geographical segments

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

(4) Share of profit in associates

After the issue of the subscription shares and the placing shares by CRMG respectively during the period, the Group's interest in CRMG was reduced from 66.53% as at 31 December 2004 to 44.69% at the end of the review period. CRMG has ceased to be a subsidiary of our Group and is equity accounted for by our Group as an associate company. CRMG had been the only retail business in our Group before its ceasing as a subsidiary during the period. Accordingly, the operation of CRMG had been recognised and accounted for as a discontinued operation in the accounts for the period ended 30 June 2005.

(5) Taxation

	Unaudited six months ended 30 June 2005 HK$'000	2004 HK$'000
Continuing operations:		
Hong Kong Profit tax:		
Current period	**150**	250
Share of taxation of associates	**–**	–
	150	250
Discontinued operation:		
Tax for the current period	**–**	–

Hong Kong profits tax for both periods has been provided at the rate of 17.5% on the estimated assessable profits for the Group companies after offsetting the respective tax losses brought forward.

No deferred tax asset in respect of tax losses has been recognised in the financial statements due to the unpredictability of future taxable profit streams.

(6) Loss per share

The calculation of basic and diluted loss per share for the six months ended 30 June 2005 together with the comparative figures for 2004 is based on the following data:

	Unaudited six months ended 30 June 2005 HK$'000	2004 HK$'000
Continuing operations		
Loss for the purpose of basic and diluted loss per share	**(11,247)**	(21,178)
Discontinued operation		
Loss for the purpose of basic loss per share	**(7,515)**	(14,678)
Adjustment to the share of result of a subsidiary based on dilution of its earnings per share	**N/A**	(3)
Loss for the purpose of diluted loss per share	**(7,515)**	(14,681)
Continuing and discontinued operations		
Loss for the purpose of basic loss per share	**(18,762)**	(35,856)
Loss for the purpose of diluted loss per share	**(18,762)**	(35,859)
Weighted average number of ordinary shares for the purpose of basic loss per share	**437,483,827**	365,483,827
Effect of dilutive potential ordinary shares assumed exercise of share options	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	**437,483,827**	365,483,827
Loss per share		
Continuing operations		
Basic and diluted loss per share	**(2.6) cents**	(5.8) cents
Discontinued operation		
Basic loss per share	**(1.7) cents**	(4.0) cents
Diluted loss per share	**(1.7) cents**	(4.0) cents
Continuing and discontinued operations		
Basic loss per share	**(4.3) cents**	(9.8) cents
Diluted loss per share	**(4.3) cents**	(9.8) cents

The calculation of diluted loss per share for the period of 2005 did not:

(i) adjust the share of 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.

The calculation of diluted loss per share for the period of 2004 did not:

(i) adjust the share of result of a subsidiary as the subsidiary incurred loss; and

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

(7) Discontinued operation

Please refer to note 4 above of share of profit in associates for details.

The loss for the period from discontinued operation is analysed as follows:

		Unaudited five months ended 31 May 2005 HK$'000	Unaudited six months ended 30 June 2004 HK$'000
Loss of discontinued operation for the period		**(10,507)**	(21,372)
Profit on deemed disposal of discontinued operation	*Note*	**373**	–
		(10,134)	(21,372)

The results of the discontinued operation for the interim reporting period are as follows:

	Unaudited five months ended 31 May 2005 HK$'000	Unaudited six months ended 30 June 2004 HK$'000
Revenue	**374,296**	417,281
Cost of sales	**(248,565)**	(265,885)
Other operating, administrative and selling expenses	**(123,963)**	(156,933)
Depreciation and amortisation	**(10,019)**	(14,351)
Finance costs	**(2,256)**	(1,484)
Loss before taxation	**(10,507)**	(21,372)
Taxation	**–**	–
Loss for the period	**(10,507)**	(21,372)

Note: The profit on deemed disposal of discontinued operation is calculated as follows:

	At 31 May 2005 (Unaudited) HK$'000	The Group's interest	HK$'000
The net assets of CRMG at the date of deemed disposal	162,999	59.17%	96,447
The net assets of CRMG after the date of the deemed disposal	235,735	44.69%	105,350
			8,903
Less: Attributable goodwill to the deemed disposal			(8,530)
Profit on deemed disposal			373
Net cash outflow arising from deemed disposal			98,569

The loss on deemed disposal of CRMG Group of approximately HK$974,000 included the loss on deemed disposal of approximately HK$1,347,000 upon completion of subscription of 83,000,000 new shares in CRMG in April 2005 and the profit on deemed disposal of approximately HK$373,000 (as shown above) upon completion of the placement of 223,000,000 new shares of CRMG in May 2005.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

REVIEW AND OUTLOOK

Financial Review

For the six months ended 30 June 2005, our Group ceased to consolidate the sales and operating results of our retailing business group consequent upon CASH Retail Management Group Limited ("CRMG") ceasing as a subsidiary of our Group during the period.

Our Group's financial service division ("CFSG") recorded a turnover of HK$97.9 million for the period, as compared to HK$125.8 million the same period last year. The decrease was in part a reflection of a directionless market environment throughout the first half of the year and in part a result of a change in accounting treatment for brokerage commission rebate. After the abolition of the minimum commission requirement, a significant portion of our commission rebates has been changed from a gross to a net basis. While this has technically reduced turnover, it did not have an actual impact on net profit.

CRMG's retailing business had benefited from the recent recovering economy and recorded a 5.4% increase in sales for the period. With the fine-tuning of its retail network by closing the non-performing and non-strategically fit stores, CRMG has been in a better shape to pursue the cost effectiveness measures by further streamlining store operations and strengthening retail management. With the lean cost base brought about by the network rationalisation, its operating costs for the period decreased by 4.1% even after investing the heavy advertising costs spent on building up the brand awareness of 3C Digital, the new chain stores selling the trendy digital products. Taking into account the revaluation surplus from leasehold properties, CRMG had recorded a turnaround profit for the period from the loss for the last corresponding period.

The loss attributable to shareholders of our Group had been greatly reduced to HK$18.8 million for the period under review from HK$35.9 million for the last corresponding period.

Our Group's total shareholders' equity stood at HK$198.5 million on 30 June 2005 as compared to HK$219.8 million at the end of last year. The net decrease in equity was attributed to the loss reported for the period.

On 30 June 2005, our cash and bank balances were HK$425.8 million as compared to HK$722.1 million on 31 December 2004. The decrease in cash balances was mainly due to the cessation of consolidating the cash and bank balances of CRMG. Our liquidity ratio on 30 June 2005 remained healthy at 1.2 times, virtually unchanged from 31 December 2004.

Our total bank borrowings on 30 June 2005 decreased to HK$166.5 million from HK$223.2 million on 31 December 2004. The decrease in bank borrowings was mainly due to the cessation of consolidating the bank borrowings of CRMG as well as the fall in demand of margin financing from our clients. Most of these bank borrowings were collateralised by our margin clients' securities pledged to us for the purposes of securing financing from us. Apart from these, which were largely of a back-to-back nature, we had no other bank borrowings as at the end of the period as we exercised prudence to ensure that our financial resources would not be strained.

During the period under review, our Group made an early partial repayment of convertible note in the amount of HK$4.0 million, reducing the outstanding face value of the convertible note to HK$36.5 million at the end of the period. Together with this convertible note, the ratio of our interest bearing borrowings to shareholders' equities was 1.0 on 30 June 2005 as compared to 1.2 on 31 December 2004. 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 our Group's borrowings are in HK dollar, with the interest rates priced at close to banks' funding costs. By using effective instrument to hedge any adverse changes in foreign exchange and interest rates, our exposure to both foreign currency and interest rate fluctuation was insignificant. On 30 June 2005, our Group was holding a portfolio of listed and unlisted investment with a total value of approximately HK$35.9 million. During the period, a loss of HK$5.9 million on trading of listed securities and commodities was recorded.

As at 30 June 2005, pursuant to a letter of undertaking provided by our Group to a bank, our Group covenanted 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. Save as aforesaid, our Group had no other material contingent liabilities at the period end.

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

On 23 March 2005, CRMG Group and two subscribers entered into agreements pursuant to which the subscribers agreed to subscribe for a total of 83 million new ordinary shares in CRMG at the subscription price of HK$0.28 per share. On 4 April 2005, CRMG and a placing agent entered into an agreement pursuant to which CRMG agreed to issue and the placing agent agreed to procure placees to subscribe for a maximum of 223 million new ordinary shares in CRMG at the placing price of HK$0.30 per share. The subscription of 83 million and the placement of 223 million new ordinary shares in CRMG were completed on 6 April 2005 and 19 May 2005 respectively. After the issue of the subscription shares and the placing shares by CRMG as mentioned above and due to the issue of shares upon exercise of share options of CRMG, the Company's interest in CRMG was reduced from 66.53% as at 31 December 2004 to 44.69% at the end of the review period. CRMG has ceased to be a subsidiary of our Group and is equity accounted for by our Group as an associate company. CRMG had been the only retail business in our Group before ceasing to be its subsidiary during the period. Accordingly, the operation of CRMG had been recognised and accounted for as a discontinued operation in the accounts for the period ended 30 June 2005.

On 23 May 2005, the CRMG Group entered into a cooperation agreement with AustChina Information Technology Pyt Limited ("AustChina") to jointly develop retail business in the PRC. Pursuant to the agreement, AustChina will be responsible for providing or procuring investors to provide funds of up to A$100 million and the CRMG Group will be responsible for identifying investment opportunities and projects for retail business in the PRC. Once the detailed terms relating to the investment and amount of the investment are mutually agreed by the parties, AustChina or the investors identified by AustChina will provide the fund for investment of up to A$100 million.

As a first step of cooperation, on 23 May 2005, CRMG and AustChina entered into an agreement in relation to the proposed issue of a convertible note of an initial principal amount of HK$108,000,000. Subsequent to the period end, the agreement was completed and the convertible note was issued in August 2005. Upon full conversion of the convertible note, a maximum of 240 million shares in the share capital of CRMG will be issued and thereby further reducing our Group's interest in CRMG from 44.69% at the period end to 35.99%.

On 24 August 2005, the CRMG Group entered into two agreements including: (i) a sale and purchase agreement in relation to the proposed acquisition of all the issued shares and all shareholders' loan interest in Timecastle International Limited ("Timecastle") at a consideration of HK$500 million (subject to adjustment) which will be partly settled by the issue of a new convertible note at principal value of HK$180 million and partly financed by the proceeds from the placing of a maximum of 100 million new shares in CRMG ("Placing Shares"); and (ii) an agreement with a placing agent in relation to the proposed issue of the Placing Shares at a placing price of not less than HK$0.45 per placing share to raise a new fund of HK$45 million. Timecastle will be ultimately holding the beneficial interest in 東方銀座商業(北京)有限公司 (with English name "Oriental Kenzo (Beijing) Company Limited" for identification purpose only) after reorganization. The above proposals were subjected to the conditions and details of the proposals were set out in the CRMG's announcement dated 26 August 2005.

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 period ended 30 June 2005. There was no significant investment held during the period. We do not have any future plans for material investments or capital assets.

Industry Review

Despite the continued pick-up in the domestic economy, the Hong Kong stock market in the second quarter was lackluster and directionless as inflow of hot money speculating on the RMB revaluation seemed to have reversed on the back of narrowing interest rate differential between the US and Hong Kong.

On the other hand, notwithstanding a solid growth in the general economy with total retail sales in the first half of 2005 having grown by 7.9% in value, retail sales in the furniture and fixtures market, however, recorded a negative growth of 0.6%. The same was also reflected in the Consumer Price Index as overall consumer prices rose by 1.2% in June 2005, nonetheless durable goods prices continued its yearlong downward trend with a year-on-year 1.9% decline recorded for June 2005. The furniture and durable goods market is apparently lagging behind the general market recovery with certain margin pressure.

Business Review and Outlook

For CFSG

Taking advantage of the relatively slower market, we focused our resources in the last few months to upgrade CFSG's operating and sales systems to get prepared for the upturn of the market. On the marketing side, CFSG launched a series of campaigns to retain existing clients and attract new prospects. Feedback on these campaigns has been positive and encouraging.

Product diversification and cost leadership continued to be the primary drivers of CFSG's business strategy during the first half of the year.

At the same time, we continued to diversify CFSG's income stream through wealth management initiatives and expansion of investment banking activities. We continue to see a rising trend of income from both the wealth management and the investment banking divisions as a percent of the total revenue.

As part of the revenue and product diversification strategy, CFSG launched the asset management service in June this year to seize opportunities inherent in the high-net-worth market, and to complement our strategy of providing a full suite of services to clients. This newly added service allows us to continue to expand our customer base and to further leverage on the cross-selling synergy within CFSG.

Looking ahead, corporate profitability would likely come under pressure as competition from local and international players intensifies and funding costs are on the rise. While CFSG remains vigilant to keep its cost structure lean and effective, we persist to diversify CFSG's income mix through different businesses. Our goal is to position CFSG as clients' financial services house of choice with comprehensive product offerings that meet their diverse financial needs.

For Pricerite/CRMG

In anticipation of the market environment, we took initiatives since the fourth quarter of last year to consolidate and re-engineer CRMG's operations, with an aim to improve its operating efficiency and to further build upon its competitive advantages.

Consolidating Pricerite's Network

During the period, we completed the location review for Pricerite's network, which consisted of 30 stores in total as at the end of the review period. Each of the stores is contributing positively to CRMG's bottom line, and we are confident that on the back of a benign economic environment, Pricerite is operating from a low cost base to herald for any future possible network expansion. Nonetheless, in view of the current rampant retail rental market, we will take cautious approach in choosing new store locations that will maximise Pricerite's returns and enhance its cost and operating efficiencies.

Re-engineering Pricerite's Merchandise

During the period, we continued to consolidate Pricerite's product groupings to focus on expanding the depth of its core product categories that are highly recognised by customers, reduced carrying non-performing product categories, and streamlined inventory management. In a nutshell, we continued to better match customer preferences with our product offerings. We will continue to review Pricerite's product strategy on a regular basis, with an aim to provide our customers with a wide selection of quality merchandise at value-for-money prices.

Sharpening Our Tools

Subsequent to CRMG's previous efforts in revamping the IT infrastructure to provide a more accurate and robust system for our management and operations, we continued to carry out system enhancements to further provide efficient and effective support to CRMG's supply chain management. We will leverage on CRMG's competitive advantage of a single operating platform to support our multi-branded business and to further develop our retail business.

Building Strength in Greater Pearl River Basin

CRMG's operation support centre in Shenzhen, the PRC, gradually took shape in the past few months, providing efficient back-office support to Hong Kong and the Guangdong Province. Support functions include merchandising, inventory management, accounting, information technology, human resources, staff training and development, and logistics. Since the establishment of operation support centre, CRMG's operating cost was substantially reduced and improvement in operating efficiency was also recorded. This operation support centre will in time assume instrumental roles in our supply chain management, such as quality assurance and checking, product sourcing and procurement.

Enhancing Pricerite's Customer Service

To further enhance Pricerite's customer service standard, we started a new service culture programme early this year, indoctrinating a unique service culture into all level of staff. In all, the sense of belonging amongst staff was enhanced, the understanding and commitment in providing quality service was well embraced, and a stronger sense of unity was resulted. The presentation of the Outstanding Young Salesperson Awards to two of Pricerite's frontline staff by the Hong Kong Management Association in 2005 once again crowned our dedication to enhancing our customer service. This has been the second successive year we were awarded since our participation in the same event last year. We will continue our commitment in enhancing Pricerite's service standard by focusing resources in staff training and service culture development. More external professional consultancy programmes will be introduced to focus on pragmatic field coaching.

Improving Customers' Shopping Experience

During the period, renovations on "room setting" in-store display for large furniture section in all Pricerite stores were completed. The new arrangement was well received by our customers as it inspired their interior design ideas. These positive responses motivated us to start extending the "room setting" idea into the self-assembled furniture section in the second half of the year. We will further upgrade and standardise Pricerite's store layout, with an aim to constantly improve customers' shopping experience.

Strengthening Pricerite's Brand with the Relationship of Our Customers

We re-aligned Pricerite's advertising strategy to further instill the "value-for-money" image amongst our target customers. In general, Pricerite is perceived as the preferred and trustworthy brand that offers value-for-money products with value-added services. Other marketing communications channels were also re-launched to project a concerted and clear company image and positioning.

Strategically Positioned to Move Forward

To better reflect the business development of our retail operations, we changed the name of Pricerite Group Limited to CASH Retail Management Group Limited in July 2005. CRMG's mission is to become a leading retail services and management group, growing a diverse portfolio of brands that satisfy the lifestyle needs of customers from various strata. We are committed to offering customers with value-for-money products and services through blends of operating efficiencies, use of technology and human talents. We build our competitive advantage by achieving economies of scale through our single operating platform.

Over the past year, CRMG has conducted in-depth research in reviewing the lifestyle market. It is believed that as the economy is gradually recovering, there will see a rising trend in demand for lifestyle products as consumers are actively seeking to improve their living environment. As such, CRMG is planning to launch a new lifestyle brand in home furnishing, targeting at a different market segment than Pricerite. Flagship stores in Hong Kong are scheduled to open by end of the year, with plans to enter the Shanghai and Beijing markets next year upon completing our review in our current operations in China, consolidating our experience and re-modelling our PRC retail business. We believe that as PRC gradually migrates from an export-driven economy to a consumption-driven economy, there lies great potentials in her consumer market.

Catering for the Digital Market Boom

Coinciding with the buoyant demand for digital products and electrical appliances in Hong Kong in the first half of 2005, 3C Digital added two new shops to make a total of six outlets. In line with its location strategy, the two new shops are well located at high customer traffic areas in Shatin and Kwun Tong. In order to focus on targeting customers of the younger generations, a fresh new look was designed for the stores, and a new marketing campaign was launched to associate a young pop star as our spokesperson.

With a stronger network and a concerted promotion strategy, 3C Digital enjoyed remarkable growth in both sales and brand awareness. The encouraging market response has laid a good foundation for 3C Digital to carry on our network expansion plans in future.

Materialising Our International Business Model

Due to political instability in the Kingdom of Saudi Arabia, our Saudi business partner proposed to defer the project until first half of 2006 to ensure a sustainable economy on the back of a stable political environment. Nonetheless, shipment of products started in the first half of 2005 as scheduled and system establishment continued.

Looking ahead, we are cautiously optimistic about Hong Kong's economic outlook and will review closely the market development. We will continue to take cost leadership approach in rationalising our retail business and to secure our financial positions. At the same time, we are confident that CRMG's re-engineered operations will enable it to weather the prevalent market conditions and the forthcoming challenges.

EMPLOYEE INFORMATION

At 30 June 2005, the Group had 228 employees, of which 187 were at CFSG 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 period under review was approximately HK$35.6 million. We continue to organise training to employees in areas such as continuous professional training programmes required by regulatory bodies, product knowledge, language training, customer services, selling techniques, problem solving, time management, coaching, motivation, coaching and communication, etc. Meanwhile, we are also liaising with external consultants to conduct team building, service and selling training program.

CORPORATE GOVERNANCE

The Company on 1 June 2005 ("Adoption Date") adopted a set of code of corporate governance principles ("Principles") which aligns with or is more restrictive than all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. Since the adoption of the Principles, the CG Code has been duly complied. Before the Adoption Date, the summary of the major areas of deviations from the CG Code during the review period is as follows.

CG Code		Deviations
A.1.1	Full board meetings shall be convened to be held at least 4 times yearly at approximately quarterly intervals	• Before the Adoption Date, the Company convened to hold full Board meeting only twice for each financial year, and had not held a full Board meeting for the first quarter of 2005. • Since the Adoption Date, full Board meeting has been and will be convened to be held for each financial quarter.
A.2.1	The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual	• Before the Adoption Date, the Chairman and the CEO had been the same person during the initial period of the review period. • Since the Adoption Date, the defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all the Executive Directors. Since the Adoption Date, the Company has not maintained a CEO.
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election	• Before the Adoption Date, all the Independent-Non-executive Directors ("INEDs") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws. • With effect from or before the Adoption Date, the term of office for each existing INED has been fixed for one year commencing retrospectively from the date of the 2005 annual general meeting of the Company until the next annual general meeting of the Company, at which all of them shall retire, but be eligible for re-election.
A.4.2	Every director should be subject to retirement by rotation at least once every three years	• Before the Adoption Date, there were no fixed terms for all the Directors to retire at annual general meeting of the Company and the Chairman of the Board was not subject to retirement at annual general meeting of the Company in each year. • With effect from or before the Adoption Date, all Executive Directors or Non-executive Directors (including the Chairman of the Board) of the Company shall retire, but be eligible for re-election, at least once in every 3 financial years at annual general meeting of the Company.
A.6.1	Agenda and the board papers should be despatched at least 3 days before the meeting	• Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meeting and the Board meetings for approving the financial results. • Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles had not been violated.
B.1.1	A remuneration committee should be set up with majority members to be INEDs	• Before the Adoption Date, the Company had not set up a remuneration committee. • Since the Adoption Date, the Company has maintained a remuneration committee comprising 2 INEDs and an Executive Director.

All of the above deviations have been remedied and complied with before the end of the review period.

REVIEW OF RESULTS

The Group's unaudited consolidated results for the six months ended 30 June 2005 have not been reviewed by the auditors of the Company, but have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2005, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Bankee P Kwan
Chairman

Hong Kong, 29 August 2005

As at the date hereof, the executive directors are Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard, Mr Wong Kin Yick Kenneth, Mr Miao Wen Hao Felix, Ms Kwok Oi Kuen Joan Elmond, Mr Li Yuen Cheuk Thomas, the Independent Non-executive Directors are Mr Leung Ka Kui Johnny, Mr Wong Chuk Yan and Dr Chan Hak Sin.