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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 and the accompanying form of proxy 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)*

**MAJOR TRANSACTION****INVESTMENT IN A BEIJING PROPERTY INTEREST BY THE  
PROPOSED ACQUISITION OF RAINBOW DAY INVESTMENTS LIMITED  
AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

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A notice convening a special general meeting of Celestial Asia Securities Holdings Limited to be held at 9:30 am on 9 February 2004 at 21/F The Center, 99 Queen's Road Central, Hong Kong is set out on pages 95 to 96 of this circular. Whether or not you are 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 later 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.

21 January 2004

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## DEFINITIONS

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

“Acquisition”	acquisition by the Purchaser of the entire equity interest of Rainbow Day pursuant and subject to the terms and conditions of the Agreement
“Agreement”	the conditional sale and purchase agreement entered into between the Vendor and the Purchaser dated 19 December 2003 for the sale and purchase of the entire equity interest of Rainbow Day
“Announcement”	the announcement made by the Company on 19 December 2003 in respect of, among other things, the Acquisition
“Board”	the board of Directors of the Company
“Business Day”	a day (excluding Saturday) on which commercial banks are generally open for banking business in Hong Kong
“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
“Company”	Celestial Asia Securities Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of SEHK
“Conditions”	all the conditions precedent for the completion of the Agreement including those set out in the section headed “Conditions” in this circular
“Consideration Shares”	113,100,000 new Shares to be issued by the Company as part payment of the consideration for the Acquisition
“Directors”	the directors of the Company

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## DEFINITIONS

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“GEM”	Growth Enterprise Market of SEHK
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	\$1.00 per Share, being the issue price of the Consideration Shares
“Latest Practicable Date”	15 January 2004 being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Lease”	the lease agreement dated 3 July 1997 between the Lessor Company and the Lessee in relation to certain parts of the Property
“Lessee”	Hua Tang Yokado Commercial Co., Ltd (華糖洋華堂商業有限公司), the lessee of the Property under the Lease and an independent third party not connected with the connected persons (as defined under the Listing Rules) of the Company or its subsidiaries or their respective associates
“Lessor Company”	Beijing Jing Gang Properties Resources Development Co., Ltd (北京京港物業發展有限公司) the current owner of the Property, an independent third party not connected with the connected persons (as defined under the Listing Rules) of the Company or its subsidiaries or their respective associates
“Listing Rules”	Rules Governing the Listing of Securities on the SEHK
“Mortgage(s)”	mortgage(s) of the Property as security for loans of approximately and not more than RMB372,000,000 on terms acceptable to the Purchaser
“PRC”	the People’s Republic of China
“Pricerite”	Pricerite Group Limited, a company incorporated in Bermuda with limited liability and which shares are listed on the main board of SEHK and is a non-wholly owned subsidiary of the Company

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## DEFINITIONS

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“Property”	the property in PRC currently held by the Lessor Company and situate at No.3 Shilipu, Chaoyang Road, Chaoyang District, Beijing, PRC (中國北京市朝陽區朝陽路十里堡甲3號) comprising a 5-storey building and 3 levels of basement with an aggregate gross floor area of about 43,843 square meters together with the car parking spaces on the 2nd and 3rd basements (other than such car parking spaces which have already been sold) of no less than 180 car parking spaces and the land use right thereof
“Property Acquisition Agreement”	外銷商品房買賣契約, the agreement dated 19 December 2003 entered into between the Lessor Company as transferor and Rainbow Day as transferee in respect of the transfer of the Property
“Purchaser”	Cheer Forever Limited, a wholly-owned subsidiary of the Company
“Rainbow Day”	Rainbow Day Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which the Vendor is the sole shareholder and director
“RMB”	Renminbi, the lawful currency of the PRC
“SEHK”	The Stock Exchange of Hong Kong Limited
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	special general meeting of the Company
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of \$0.10 each in the capital of the Company
“Vendor”	Mr. John Rui Ming Long, an individual, not being a connected person of the Company or its subsidiaries or their respective associates (as defined under the Listing Rules) and did not hold any Shares as at the Latest Practicable Date
“\$”	Hong Kong dollar(s)

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## LETTER FROM THE BOARD

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### CELESTIAL ASIA SECURITIES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

*Executive Directors*

KWAN Pak Hoo Bankee  
LAW Ping Wah Bernard  
CHAN Yau Ching Bob  
KWOK Oi Kuen Joan Elmond  
LAW Ka Kin Eugene  
LI Yuen Cheuk Thomas  
MIAO Wen Hao Felix  
WONG Kin Yick Kenneth

*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

*Independent Non-executive Directors*

WONG Chuk Yan  
CHAN Hak Sin  
LEUNG Ka Kui Johnny

21 January 2004

*To Shareholders of the Company*

Dear Sir/Madam,

### **MAJOR TRANSACTION**

### **INVESTMENT IN A BEIJING PROPERTY INTEREST BY THE PROPOSED ACQUISITION OF RAINBOW DAY INVESTMENTS LIMITED AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

#### **INTRODUCTION**

On 19 December 2003, the Board announced through the Announcement that the Agreement was entered into between the Vendor and the Purchaser.

The Agreement constitutes a major transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with further details of the Acquisition and to give you notice for convening the SGM at which necessary resolutions will be proposed to seek your approval.

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## LETTER FROM THE BOARD

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### AGREEMENT

- Date : 19 December 2003
- Vendor : Mr. John Rui Ming Long, an independent third party not being a connected person of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules)
- Purchaser : Cheer Forever Limited, a wholly-owned subsidiary of the Company
- Asset to be acquired : entire equity interest in Rainbow Day
- Consideration : The consideration of \$233,740,000 (equivalent to RMB248,000,000) which is determined between the Vendor and the Purchaser on an arm's length basis and will be paid in the following manner:-
- (1) an amount of \$7,540,000 (equivalent to RMB8,000,000) shall be paid to the Purchaser's solicitor as stakeholder as a refundable deposit within three Business Days after (A) the Purchaser being satisfied, by way of a legal opinion from a reputable firm of PRC lawyers and/or documentary evidence from the PRC governmental authorities that the Lessor Company has the legal and beneficial title of the Property, the condition of which has been fulfilled as of the date of the legal opinion; (B) the Lessor Company having obtained the written confirmation from the Lessee pursuant to which the Lessee (a) consents to the transfer of the Property from the Lessor Company to Rainbow Day contemplated under the Property Acquisition Agreement; and (b) waives its right of first refusal to acquire the Property; and (C) the receipt by the Purchaser of the consent from all the mortgagees of the Property for the release and/or the transfer of the Property;
  - (2) an amount of \$113,100,000 (equivalent to RMB120,000,000) by the issue of the Consideration Shares at completion of the Acquisition; and

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## LETTER FROM THE BOARD

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- (3) an amount of \$113,100,000 (equivalent to RMB120,000,000) payable in the following manner:–
- (i) as to the interest at the rate of 7% per annum accrued for year 2004 thereon from the date of completion of the Acquisition to 31 December 2004, on or before 31 December 2004;
  - (ii) as to the interest at the rate of 7% per annum accrued for year 2005 thereon from 1 January 2005 to 31 December, 2005, on or before 31 December 2005; and
  - (iii) as to the principal of \$113,100,000 (equivalent to RMB120,000,000 together with the interest at the rate of 7% per annum accrued for year 2006 from 1 January 2006 to 31 December, 2006, on or before 31 December 2006.

Completion : On the 3rd Business Day following the date on which all Conditions are fulfilled or waived (as the case may be) which is expected to be in late April 2004 or any other later date as may be agreed between the Vendor and the Purchaser.

### CONDITIONS

Completion of the Acquisition shall be subject to, inter alia:–

- (i) the Shareholders voting at the SGM convened for the purpose of approving the entering into of the Agreement and the transactions contemplated therein, in accordance with the requirements of the Listing Rules;
- (ii) SEHK having granted the listing of, and permission to deal in, the Consideration Shares;
- (iii) the receipt by the Purchaser of a legal opinion from a reputable firm of British Virgin Islands lawyers confirming, inter alia, the due establishment and good standing of Rainbow Day (such legal opinion to be in form and substance acceptable to the Purchaser);



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## LETTER FROM THE BOARD

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- (iv) the receipt by the Purchaser of the original of a letter from the Lessee to the Lessor Company and Rainbow Day providing, inter alia, its consent to the transfer of the Property from the Lessor Company to Rainbow Day and its waiver regarding the first right of refusal to purchase the Property from the Lessor Company pursuant to the terms of the Lease in form and substance acceptable to the Purchaser;
- (v) the Purchaser being satisfied with the results of the due diligence review conducted on the Property, the Lease, the Lessor Company and Rainbow Day;
- (vi) the receipt by the Purchaser of certified true copies of the consents from all the mortgagee(s) of the Property for the transfer of the Property and/or the release of the Mortgage(s) registered against the Property in form and substance acceptable to the Purchaser;
- (vii) the receipt by the Purchaser of a legal opinion from a reputable firm of PRC lawyers confirming, inter alia, (a) the validity of the transfer of the Property from the Lessor Company to Rainbow Day and (b) the validity of the land use right certificates and other title documents in respect of the Property issued by the relevant PRC authorities to Rainbow Day; and
- (viii) all necessary consents being granted by third parties (including governmental or official authorities) and no statute, regulation or decision which would prohibit, restrict or materially delay the Acquisition having been proposed, enacted or taken by any governmental or official authority in form and substance acceptable to the Purchaser.

If any of the Conditions is not fulfilled or waived (other than condition precedent (ii)), as applicable, on or before 30 June 2004, or such later date as the Vendor and the Purchaser may agree, the Agreement shall lapse.

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## LETTER FROM THE BOARD

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### ISSUE OF THE CONSIDERATION SHARES

The Consideration Shares to be issued to the Vendor upon completion of the Acquisition will rank pari passu in all respects with the Shares then in issue. The Consideration Shares shall represent about 30.9% of the existing issued share capital of the Company and about 23.6% of the issued share capital of the Company as enlarged by the Consideration Shares. The Issue Price represents (i) a premium of about 38.9% over the closing price per Share as quoted on SEHK on 18 December 2003 of \$0.72 per Share; (ii) a premium of about 54.3% over the average of the closing prices of the Shares as quoted on SEHK for the 10 trading days up to and including 18 December 2003 of \$0.648 per Share; and (iii) a premium of about 58.7% over the average of the closing prices of the Shares as quoted on SEHK for the 30 trading days up to and including the Latest Practicable Date of \$0.63 per Share. Based on the closing price of HK\$0.72 per Share as quoted on SEHK on 18 December 2003, the aggregate value of the consideration for the Acquisition, which comprises the Consideration Shares and cash consideration of \$120,640,000 amounts to \$202,072,000.

The Vendor has given an undertaking in the Agreement that he or his nominee or trustee holding in trust for him the Consideration Shares shall not for a period of one year commencing from the completion of the Acquisition sell, transfer or otherwise dispose of any of the Consideration Shares without the prior written consent of the Purchaser.

### BUSINESS OF THE COMPANY AND THE GROUP

The principal activity of the Company is investment holding. The principal activities of the Group consist of (a) financial services provided via CFSG including online and traditional brokerage and trading of securities, futures, commodities and options, margin financing and corporate finance, (b) retailing of furniture and household items provided via Pricerite, (c) technology development projects, and (d) investment holding including property investment.

### SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of the Latest Practicable Date, there were 365,483,827 Shares in issue and there were 20,500,000 outstanding options which entitle the holders thereof to subscribe for a total of 20,500,000 Shares. Other than the said 20,500,000 options, there were no securities in issue which were convertible into Shares as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The following table sets out the shareholding structure of the Company as at the date of the Latest Practicable Date and immediately after completion of the Acquisition:–

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Acquisition (assuming the outstanding options of the Company have not been exercised)		Immediately after completion of the Acquisition (assuming the outstanding options of the Company have been fully exercised)	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Cash Guardian Limited*	156,952,376	42.94	156,952,376	32.80	156,952,376	31.45
Directors**	10,693,775	2.93	10,693,775	2.23	28,193,775	5.65
Vendor	–	–	113,100,000	23.63	113,100,000	22.66
Public	197,837,676	54.13	197,837,676	41.34	200,837,676	40.24
	<u>365,483,827</u>	<u>100.00</u>	<u>478,583,827</u>	<u>100.00</u>	<u>499,083,827</u>	<u>100.00</u>

\* Cash Guardian Limited is ultimately owned by a family trust of Mr Kwan Pak Hoo Bankee, details of which are set out in section headed “Substantial Shareholders” in Appendix IV to this circular

\*\* “Directors” include Mr Law Ping Wah Bernard, Mr Li Yuen Cheuk Thomas, Mr Law Ka Kin Eugene, Ms Kwok Oi Kuen Joan Elmond, Mr Chan Yau Ching Bob

The Vendor is a merchant with many years of experience in property development, investment and management in PRC. The Vendor will neither participate in the management of the Group nor will he or any person as his nominee or representative be appointed as a member of the Board upon completion of the Acquisition. Further, the Board does not anticipate that there will be any change in the company strategy as a result of the Acquisition.

### RAINBOW DAY

Rainbow Day is a company incorporated in the British Virgin Islands and is engaged in property investment. Rainbow Day was established by the Vendor to hold the Property together with Mortgage(s) of approximately and not more than RMB372 million (equivalent to about \$350.6 million), which will be transferred, assigned and/or novated, subject to the consent of the mortgagees, from the Lessor Company, a company controlled by the Vendor, to Rainbow Day pursuant to the Property Acquisition Agreement. The Property was valued by independent professional valuers at about RMB621 million (equivalent to about \$585.3 million) as at 31 December 2003. Upon completion of the Acquisition, Rainbow Day will become a wholly-owned subsidiary of the Group and its principal asset will be the Property with net assets of about RMB249 million (equivalent to

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## LETTER FROM THE BOARD

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about \$234.7 million). The Property is currently held by the Lessor Company and is situated at No. 3 Shilipu, Chaoyang Road, Chaoyang District, Beijing, PRC (中國北京市朝陽區朝陽路十里堡甲3號). The Property comprises a 5-storey building and 3 levels of basement with an aggregate gross floor area of about 43,843 square meters together with the car parking spaces on the 2nd and 3rd basements (other than such car parking spaces which have already been sold) of no less than 180 car parking spaces. The Property is situated on a piece of land with land use right certificate granted to the Lessor Company for a term of about 35 years from 22 July 1998 to 4 June 2033 which will also be transferred to Rainbow Day upon completion of the Acquisition. The Property other than its level 5 is currently leased to the Lessee which uses the Property as a Japanese department store for a term of 20 years from 3 July 1997. The Lessee and the Lessor Company can terminate the Lease from the fifteenth year after 3 July 1997 with one year's prior written notice. Level 5 of the Property is currently subject to the lease agreement dated 21 July 2002 between the Lessor Company and Beijing Jia Lin Men Trade Development Co., Ltd (北京嘉臨門經貿發展有限公司) for a term of 15 years. The aggregate gross rental income from the Property for the year ended 31 December 2002 amounted to about RMB50 million. There have been no audited accounts of Rainbow Day since its incorporation on 18 August 2003.

### REASONS FOR THE ACQUISITION

The Board takes the view that the PRC property market is promising and the Property is very well located in Beijing. To diversify and expand the Group's investment portfolio with reasonably good return under its existing business of property investment holding, the Group entered into the Agreement. The Property is now mainly leased to the Lessee under the Lease with a yearly rental of about RMB50 million and an annual rental return rate of approximately 8%. The Board further believes that the Property which is subject to the Lease will generate stable and recurring income to the Group and the earning base of the Group will thus be substantially enhanced after the Acquisition.

### GENERAL

The entering into the Agreement constitutes a major transaction for the Company under the Listing Rules and is conditional upon, among other things, approval from the Shareholders at the SGM. Since no Shareholder has any interest in the Acquisition other than through the holding of Shares, no Shareholder shall be required to abstain from voting at the SGM. The Company is required to issue and despatch this circular to the Shareholders to provide further information of the Acquisition.

Application will be made to SEHK for the listing of, and permission to deal in, the Consideration Shares.

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## LETTER FROM THE BOARD

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### INCREASE IN AUTHORISED SHARE CAPITAL

In order to facilitate the issue of the Consideration Shares, an ordinary resolution will be proposed at the SGM to increase the authorised share capital of the Company from \$50,000,000 to \$100,000,000 by the creation of an additional 500,000,000 Shares.

### THE SGM

Set out on pages 95 to 96 of this circular is a notice convening the SGM to be held at 21/F The Center, 99 Queen's Road Central, Hong Kong at 9:30 am on 9 February 2004 at which ordinary resolutions will be proposed to be considered and, if thought fit, be passed by the Shareholders for, inter alia, approving the entering into of the Agreement and the increase of the authorised share capital of the Company.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are 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 later 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 at the SGM should you so wish.

### RECOMMENDATION

The Directors are of the view that the Acquisition is in the interest of the Company and its Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the SGM.

### ADDITIONAL INFORMATION

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

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

**1. STATEMENT OF THE PRO FORMA ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP UPON COMPLETION OF THE ACQUISITION**

The following is a statement of the pro forma adjusted unaudited consolidated net tangible assets of the enlarged Group immediately following the completion of the Acquisition. It is based on the audited consolidated net assets of the Group as at 31 December 2002, adjusted to reflect, inter alia, the effect of the proposed Acquisition pursuant to the Agreement.

	\$'000	\$'000
Net assets per the audited consolidated balance sheet of the Company as at 31 December 2002		375,805
<i>Less:</i> Goodwill		(55,260)
Intangible assets		(12,752)
		<u>307,793</u>
<i>Add:</i> Net proceeds from the issue of 60 million new Shares (transaction was completed and details of which were disclosed in the announcement of the Company dated 22 May 2003)		16,094
<i>Add:</i> Amortisation of intangible assets and goodwill for the six months ended 30 June 2003		2,800
<i>Less:</i> Increase in goodwill resulting from the partial conversion of convertible notes issued by CFSG		(14,575)
<i>Less:</i> Unaudited loss as set out in the interim report of the Group for the six months ended 30 June 2003		(32,479)
		<u>279,633</u>
<i>Add:</i> Proceeds from disposals and placing of approximately 11 million shares in CFSG (transaction was completed and details of which were disclosed in the announcement of CFSG dated 19 September 2003)	12,332	
Net assets of the shares of CFSG disposed of	(3,885)	
Amount of goodwill attributable to the shares of CFSG disposed of	(2,123)	6,324
		<u>285,957</u>

	\$'000	\$'000
<i>Add:</i> Net proceeds from rights shares issued by CFSG (transaction was completed and details of which were disclosed in the announcement of CFSG dated 29 September 2003)	62,000	
The Group's 51.27% interest in CFSG	<u>(31,787)</u>	<u>30,213</u>
Net tangible assets of the Group immediately before the completion of the Acquisition		316,170
<i>Add:</i> Net tangible assets of Rainbow Day		234,700
<i>Less:</i> Consideration for the Acquisition by way of:		
Cash		(7,540)
3-year term loan given by the Vendor		<u>(113,100)</u>
Pro forma net tangible assets of the Group immediately after completion of the Acquisition		<u><u>430,230</u></u>

## 2. STATEMENT OF INDEBTEDNESS

### **Borrowing**

As at 30 November 2003, the Group had total outstanding borrowings of approximately \$234.9 million, comprising secured bank loans of \$124.0 million, trust receipt loans of \$48.2 million, secured bank overdrafts of \$62.2 million and obligation under finance leases of \$0.5 million.

Most of these bank loans were used in back-to-back margin financing for the clients of CFSG.

### **Capital commitments**

As at 30 November 2003, the Group did not have any material capital commitment.

### **Foreign exchange risk**

As at 30 November 2003, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

**Contingent liabilities**

As at 30 November 2003, leasehold properties at their carrying value of approximately HK\$30.9 million, bank deposits of HK\$20.8 million and listed investment securities valued at HK\$91.7 million were pledged to secure a bank term loan and general banking facilities granted to three subsidiaries.

Save as aforesaid, the Group had no other material contingent liabilities as at 30 November 2003.

**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 30 November 2003.

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 30 November 2003.

**3. WORKING CAPITAL**

The Directors are of the opinion that, upon completion of the transactions contemplated in this circular and after taking into account the enlarged Group's existing cash and bank balances as well as the present available banking facilities, the enlarged Group will have sufficient working capital to satisfy its present requirements in the absence of unforeseen circumstances.

**4. 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 2002, the date to which the latest published audited financial statements of the Group were made up.



**5. UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2003**

The following is an extract of the unaudited financial statement of the Group from its interim report for the six months ended 30 June 2003.

		<b>Unaudited</b>	
		<b>six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	<b>445,112</b>	578,687
Other revenue	5	<b>26,500</b>	59,573
Changes in inventories of finished goods		<b>(248,871)</b>	(292,133)
Salaries, allowances and commission		<b>(91,536)</b>	(144,574)
Depreciation and amortisation		<b>(28,329)</b>	(30,462)
Other operating and administrative and selling expenses		<b>(138,461)</b>	(153,310)
Finance costs		<b>(1,797)</b>	(3,151)
Share of losses of associates		–	(7,665)
Allowance for doubtful receivable		–	(6,000)
Impairment loss on property and equipment		<b>(1,580)</b>	(25,135)
Loss before taxation		<b>(38,962)</b>	(24,170)
Taxation	6	–	–
Loss before minority interests		<b>(38,962)</b>	(24,170)
Minority interests		<b>6,483</b>	13,295
Net loss attributable to shareholders		<b><u>(32,479)</u></b>	<b><u>(10,875)</u></b>
Loss per share	7		
– Basic		<b><u>(10.3) cents</u></b>	<b><u>(3.4) cents</u></b>
– Diluted		<b><u>(10.3) cents</u></b>	<b><u>(3.4) cents</u></b>

*Notes:*

**(1) Basis of preparation**

The unaudited interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

**(2) Adoption of SSAP and change in accounting policy**

The accounting policies and methods of computation used in preparation of these unaudited consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2002, except as described below:

***Income Taxes***

In the current period, the Group has adopted, for the first time, the SSAP 12 (Revised) “Income Taxes”. Under SSAP 12 (Revised), the principal effect is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method. Pursuant to the method, a liability was recognised in respect of timing difference arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## (3) Turnover

	Unaudited	
	six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Fees and commission income	60,764	96,697
Interest income	782	19,318
Loss on trading of securities, options and futures	(7,801)	(4,998)
Information technology advisory income and sale of computer accessories products	1,888	1,679
Sales of furniture and household goods, net of discounts and returns	388,316	465,991
Wholesale and retailing of cosmetic and skin care products	1,163	–
	445,112	578,687

## (4) Income statement by business and geographical segments

*Business segments*

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

Principal activities are as follows:

Financial services	Broking, financing, proprietary trading and corporate finance services
Retailing	Sales of furniture and household goods
Information technology	Providing information technology advisory services and sale of computer accessories products
Investment holding	Strategic investment

Segment information about these businesses for the six months ended 30 June 2003 and 30 June 2002 is presented below:

**Income statement for the six months ended 30 June 2003**

	<b>Financial services HK\$'000</b>	<b>Retailing HK\$'000</b>	<b>Information technology HK\$'000</b>	<b>Investment holding HK\$'000</b>	<b>Consolidated HK\$'000</b>
Turnover	<u>55,757</u>	<u>385,529</u>	<u>1,888</u>	<u>1,938</u>	<u>445,112</u>
Segment (loss) profit	<u>(11,632)</u>	<u>(14,378)</u>	<u>(1,893)</u>	<u>1,938</u>	<u>(25,965)</u>
Unallocated corporate expenses					(31,434)
Partial reversal of allowance for a loan to an associate					26,500
Impairment loss of property and equipment					<u>(1,580)</u>
Loss before taxation					(32,479)
Taxation credit					<u>-</u>
Net loss attributable to shareholders					<u>(32,479)</u>

## Income statement for the six months ended 30 June 2002

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

*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.

## (5) Other revenue

	Unaudited six months ended 30 June	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Gain realised on expiry of placing warrants (W580) ("Placing Warrants")	–	59,573
Partial reversal of allowance for a loan to an associate	<u>26,500</u>	<u>–</u>
	<u>26,500</u>	<u>59,573</u>

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

**(6) Taxation**

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for each of the above periods.

The net deferred tax asset has not been recognised in the financial statements due to the unpredictability of future taxable profit streams.

At the balance sheet date, the components of the unprovided deferred taxation assets (liabilities) were as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Tax effect of timing difference because of:		
Estimated tax losses	<b>82,871</b>	78,344
Excess of tax allowances over depreciation	<b>(11,452)</b>	(11,796)
	<b>71,419</b>	66,548

The amounts of unprovided deferred taxation credit (charge) for the period/year were as follows:

	<b>For the six months ended 30 June 2003 (Unaudited) HK\$'000</b>	For the year ended 31 December 2002 (Audited) HK\$'000
Tax effect of timing difference because of:		
Estimated tax losses arising	<b>1,768</b>	18,774
Shortfall (Excess) of tax allowances over depreciation	<b>455</b>	(1,619)
Effect of change in tax rate	<b>6,326</b>	–
	<b>8,549</b>	17,155

## (7) Loss per share

The calculation of basic and diluted loss per share for the six months ended 30 June 2003 together with the comparative figures for 2002 is based on the following data:

	<b>Unaudited</b>	
	<b>six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Loss for the purpose of basic and diluted loss per share calculation	<b>(32,479)</b>	(10,875)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>314,765,595</b>	318,467,629

The computation of diluted loss per share for the above two periods does not assume the exercise of the Company's outstanding share options as the exercise price of these options was higher than the average market price of shares for both periods.

## (8) Accounts receivable

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing house, brokers and dealers	<b>20,873</b>	5,254
Cash clients	<b>24,561</b>	29,433
Margin clients	<b>157,510</b>	100,467
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	<b>29,451</b>	36,887
Trade debtors	<b>31,478</b>	550
	<b>263,873</b>	172,591

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 above balances 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.

Included in accounts receivable from margin clients arising from the business of dealing in securities is an amount of approximately HK\$9,318,000 (At 31 December 2002: HK\$8,862,000) due from company controlled by Kwan Pak Hoo Bankee. The amount is 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. The maximum amount outstanding therefrom during the period was HK\$9,318,000 (For the year ended 31 December 2002: HK\$28,575,000).

The aged analysis of trade debtors is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
0 – 30 days	<b>30,165</b>	326
31 – 60 days	<b>464</b>	120
61 – 90 days	<b>773</b>	76
Over 90 days	<b>76</b>	28
	<b>31,478</b>	550

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

**(9) Accounts payable**

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Cash clients	<b>209,416</b>	158,188
Margin clients	<b>42,635</b>	28,053
Accounts payable to clients arising from the business of dealing in futures and options	<b>115,385</b>	149,549
Trade creditors	<b>130,281</b>	154,236
	<b>497,717</b>	490,026



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The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts 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 are margin deposits received from clients for their trading of futures and options. The excess 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 the Directors, the aged analysis does not give additional value in view of the nature of business of futures and options dealing.

The aged analysis of trade creditors is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
0 – 30 days	<b>30,350</b>	40,785
31 – 60 days	<b>30,569</b>	29,813
61 – 90 days	<b>31,670</b>	33,516
Over 90 days	<b>37,692</b>	50,122
	<b>130,281</b>	154,236

**(10) Share capital**

	<i>Notes</i>	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
<b>AUTHORISED</b>			
Ordinary shares of HK\$0.10 each at 1 January 2003 and 30 June 2003		500,000	50,000
<b>ISSUED AND FULLY PAID</b>			
Ordinary shares of HK\$0.10 each at 1 January 2003		305,484	30,548
Issue of new shares	<i>12</i>	60,000	6,000
Ordinary shares of HK\$0.10 each at 30 June 2003		365,484	36,548

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# FINANCIAL INFORMATION

## (11) Reserves

	Unaudited six months ended 30 June						2002
	2003						
	Share premium	Contributed surplus	General reserve	Other reserve	(Accumulated losses)/ Retained profits	Total	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of the six months period	268,848	457,461	1,160	12,314	(394,526)	345,257	263,136
Increase due to capital reduction	-	-	-	-	-	-	607,464
Shares issued upon exercise of bonus warrants	-	-	-	-	-	-	3
Gain realised on expiry of placing warrants	-	-	-	-	-	-	(59,573)
Premium arising from issue of new shares/ (repurchase of shares)	(a) 10,094	-	-	-	-	10,094	(25,295)
Amount transferred to write off accumulated losses	(b) -	(441,037)	-	-	441,037	-	-
Net loss for the period	-	-	-	-	(32,479)	(32,479)	(10,875)
End of the six months period	<u>278,942</u>	<u>16,424</u>	<u>1,160</u>	<u>12,314</u>	<u>14,032</u>	<u>322,872</u>	<u>774,860</u>

Notes:

(a) Please refer to note 12 below.

(b) Pursuant to the minutes of a directors' meeting held on 5 May 2003, an amount of HK\$441,037,091 was transferred from the contributed surplus account to set off against the accumulated losses of the Company as at 31 December 2002.

## (12) Top-up placing of shares

Pursuant to a placing and top-up agreement dated 22 May 2003, 60,000,000 existing shares of HK\$0.10 each held by Cash Guardian Limited ("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 the top-up placing. The proceeds, after expenses of approximately HK\$406,000, totalled HK\$16.1 million was intended to be used by the Company as general working capital.

## (13) Interim dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

## 6. AUDITED FINANCIAL STATEMENTS

The following is an extract of the audited financial statements of the Group from its annual reports for the two years ended 31 December 2002 together with notes thereto.

**Consolidated Income Statement**

*For the year ended 31 December*

	Notes	Year ended 31 December		
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	4	<b>1,097,028</b>	973,560	472,836
Other revenue	6	–	2,351	195,224
Changes in inventories of finished goods		<b>(572,018)</b>	(467,741)	–
Salaries, allowances and commission	7	<b>(236,810)</b>	(239,791)	(206,127)
Loss on discontinued operations	8	–	(43,659)	–
Other operating, administrative and selling expenses		<b>(380,168)</b>	(329,076)	(293,967)
Depreciation and amortisation		<b>(61,834)</b>	(54,725)	(20,596)
Finance costs	9	<b>(5,162)</b>	(10,735)	(13,102)
Allowance for bad and doubtful debts		<b>(95,687)</b>	(44,918)	–
Impairment loss recognised in respect of club membership	21	<b>(1,330)</b>	–	–
Impairment loss recognised in respect of goodwill	19	<b>(27,209)</b>	–	(438,118)
Impairment loss recognised in respect of investments	18	<b>(57,000)</b>	(228,900)	(15,600)
Impairment loss recognised in respect of property and equipment	15	<b>(64,153)</b>	(7,527)	–
		<b>(404,343)</b>	(451,161)	(319,450)
Gain on expiry of warrants		<b>59,573</b>	–	–
Allowance for loan to an associate		<b>(219,828)</b>	–	–
Loss on disposal of an associate		–	(25,457)	–
Share of losses of associates		–	(4,758)	(57,994)
Loss before taxation	12	<b>(564,598)</b>	(481,376)	(377,444)
Taxation credit	13	<b>1,779</b>	152	1,428
Loss before minority interests		<b>(562,819)</b>	(481,224)	(376,016)
Minority interests		<b>122,236</b>	27,188	39,665
Net loss attributable to shareholders		<b>(440,583)</b>	(454,036)	(336,351)
Distribution		–	–	87,042
Loss per share	14			
– Basic		<b>HK\$ (1.4)</b>	HK\$(1.4)	HK\$(1.32)
– Diluted		<b>HK\$(1.4)</b>	HK\$(1.4)	HK\$(1.32)

**APPENDIX I****FINANCIAL INFORMATION****Consolidated Balance Sheet***At 31 December*

		<b>2002</b>	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property and equipment	15	<b>190,301</b>	236,453
Interests in associates	17	–	164,466
Investments	18	–	57,000
Goodwill	19	<b>55,260</b>	88,604
Intangible assets	20	<b>12,752</b>	14,582
Other assets	21	<b>31,191</b>	54,067
Loans receivable	22	<b>2,217</b>	42,646
		<hr/> <b>291,721</b>	<hr/> 657,818
<b>Current assets</b>			
Inventories	23	<b>65,391</b>	53,983
Accounts receivable	24	<b>172,591</b>	290,872
Loans receivable	22	<b>1,200</b>	24,470
Prepayments, deposits and other receivables		<b>77,271</b>	89,619
Investments	18	<b>52,534</b>	33,502
Taxation recoverable		<b>6</b>	173
Pledged bank deposits	25	<b>26,890</b>	43,745
Bank balances – trust and segregated accounts		<b>285,020</b>	362,634
Bank balances (general) and cash		<b>257,651</b>	355,320
		<hr/> <b>938,554</b>	<hr/> 1,254,318
<b>Current liabilities</b>			
Accounts payable	26	<b>490,026</b>	548,046
Accrued liabilities and other payables		<b>84,515</b>	106,212
Taxation payable		<b>279</b>	2,071
Obligations under finance leases			
– amount due within one year	27	<b>681</b>	1,988
Bank borrowings	28	<b>205,542</b>	155,589
		<hr/> <b>781,043</b>	<hr/> 813,906
<b>Net current assets</b>		<hr/> <b>157,511</b>	<hr/> 440,412
		<hr/> <b>449,232</b>	<hr/> <b>1,098,230</b>

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**APPENDIX I****FINANCIAL INFORMATION**

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	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	29	<b>30,548</b>	639,435
Reserves	30	<b>345,257</b>	263,136
		<hr/>	<hr/>
		<b>375,805</b>	902,571
		<hr/>	<hr/>
Minority interests		<b>72,674</b>	194,910
<b>Non-current liabilities</b>			
Obligations under finance leases			
– amount due after one year	27	<b>753</b>	749
		<hr/>	<hr/>
		<b>449,232</b>	1,098,230
		<hr/> <hr/>	<hr/> <hr/>

**Notes to the Financial Statements***For the year ended 31 December 2002***1. General**

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Stock Exchange. Its ultimate holding company is Cash Guardian, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 16.

**2. Adoption of Statements of Standard Accounting Practice**

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in changes in the format of presentations of cash flow statement and the statement of changes in equity, and in the adoption of the following new and revised accounting policies but has had no effect on the results for the current or prior accounting years.

***Cash flow statements***

Under SSAP 15 (Revised) “Cash Flow Statements”, cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

***Discontinuing operations***

SSAP 33 “Discontinuing Operations” is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”. Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. Details of the Group’s discontinued operations in previous year are disclosed at note 8.

***Employee benefits***

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefits plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

**3. Significant Accounting Policies**

The financial statements 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 dates 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 acquisitions 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 acquisitions 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.

***Interests in associates***

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates 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.

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.

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, as follows:

Leasehold land and buildings	over the lease terms
Leasehold improvements	the shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 years

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 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 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.

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

#### ***Taxation***

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

*Foreign currencies*

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars 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.

**4. Turnover**

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of furniture and household goods, net of discounts and returns	<b>889,918</b>	748,633
Fees and commission income	<b>182,810</b>	200,973
Interest income	<b>28,039</b>	52,936
Loss on trading of securities, options and futures	<b>(5,600)</b>	(30,502)
Information technology advisory income in Hong Kong	<b>1,861</b>	1,520
	<b><u>1,097,028</u></b>	<u>973,560</u>

**5. Business and Geographical Segments***Business segments*

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

Principal activities are as follows:

Financial services	Broking, financing, proprietary trading and corporate finance services
Retailing	Sales of furniture and household goods
Information technology	Providing information technology advisory services
Investment holding	Strategic investments

**APPENDIX I**
**FINANCIAL INFORMATION**
**Income statement for the year ended 31 December 2002**

	<b>Financial services HK\$'000</b>	<b>Retailing HK\$'000</b>	<b>Information technology HK\$'000</b>	<b>Investment holding HK\$'000</b>	<b>Consolidated HK\$'000</b>
Turnover	<u>196,334</u>	<u>889,918</u>	<u>1,861</u>	<u>8,915</u>	<u>1,097,028</u>
Segment loss	<u>(106,573)</u>	<u>(96,856)</u>	<u>(5,869)</u>	<u>(135,206)</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>

**Balance sheet as at 31 December 2002**

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

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**FINANCIAL INFORMATION**
**Other information for the year ended 31 December 2002**

	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property and equipment	9,717	48,942	147	40,000	1,478	100,284
Allowance for bad and doubtful debts	63,726	3,990	182	27,789	–	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 2001**

	Continuing operations			Discontinued operations		
	Financial services <i>HK\$'000</i>	Retailing <i>HK\$'000</i>	Information technology business in Hong Kong <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Information technology business in the United States of America <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>223,407</u>	<u>748,633</u>	<u>1,520</u>	<u>–</u>	<u>–</u>	<u>973,560</u>
Segment (loss) profit	<u>(136,914)</u>	<u>14,616</u>	<u>(3,846)</u>	<u>(228,919)</u>	<u>(43,659)</u>	(398,722)
Unallocated corporate expenses						(54,790)
Gain on deemed disposal of investments in subsidiaries						<u>2,351</u>
Loss from operating activities						(451,161)
Loss from associates						<u>(30,215)</u>
Loss before taxation						(481,376)
Taxation credit						<u>152</u>
Loss after taxation and before minority interests						<u>(481,224)</u>

# APPENDIX I

# FINANCIAL INFORMATION

## Balance sheet as at 31 December 2001

	Continuing operations				Consolidated HK\$'000
	Financial services HK\$'000	Retailing HK\$'000	Information technology HK\$'000	Investment holding HK\$'000	
	<b>ASSETS</b>				
Segment assets	<u>932,359</u>	<u>545,750</u>	<u>6,344</u>	<u>397,611</u>	1,882,064
Unallocated corporate assets					<u>30,072</u>
Consolidated total assets					<u>1,912,136</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>605,817</u>	<u>178,335</u>	<u>17,592</u>	<u>–</u>	801,744
Unallocated corporate liabilities					<u>12,911</u>
Consolidated total liabilities					<u>814,655</u>

## Other information for the year ended 31 December 2001

	Continuing operations					Discontinued operations	Consolidated HK\$'000
	Financial services HK\$'000	Retailing HK\$'000	Information technology business in Hong Kong HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Information technology business in the United States of America HK\$'000	
Additions of property and equipment	21,106	162,943	143	–	10,216	–	194,408
Allowance for bad and doubtful debts	43,561	–	–	1,357	–	–	44,918
Depreciation and amortisation	23,934	24,721	11	–	6,059	–	54,725
Impairment losses recognised in income statement	2,073	–	–	228,900	5,454	–	236,427
Loss on disposal of property and equipment	<u>–</u>	<u>1,081</u>	<u>–</u>	<u>–</u>	<u>7,892</u>	<u>11,170</u>	<u>20,143</u>

*Geographical segments*

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

**6. Other Revenue**

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Gain on deemed disposal of interests in Pricerite and its subsidiaries	<u>–</u>	<u>2,351</u>

**7. Salaries, Allowances and Commission**

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and commission represents the amounts paid and payable to the Directors and employees and comprises of:		
Salaries, allowances and commission	<b>230,071</b>	230,514
Contributions to retirement benefits schemes	<b>6,739</b>	9,277
	<u><b>236,810</b></u>	<u>239,791</u>

**8. Loss on Discontinued Operations**

In response to the rapid deterioration of the global information technology business environment, the Group commenced a restructuring plan during the year ended 31 December 2001 for its Technology Development Group ("TDG"). The plan included the downsizing and consolidating of some operations of TDG to preserve resources only on those technology projects with the most promising potentials. As part of the plan, the Group closed its information technology business in the United States of America in July 2001.

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The results of the discontinued operation for the period from 1 January 2001 to the date of discontinuance, which have been included in the consolidated financial statements, are as follows:

	<b>The Group</b>
	2001
	<i>HK\$'000</i>
Turnover	–
Write-off of property and equipment	11,170
Redundancy costs	32,489
	<hr/>
Loss before taxation	43,659
Taxation	–
	<hr/>
	<b>43,659</b>
	<hr/> <hr/>

During the year ended 31 December 2001, TDG utilised approximately HK\$32,489,000 to the Group's net operating cash flows.

**9. Finance Costs**

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank overdrafts and loans wholly repayable within five years	<b>4,989</b>	10,426
Finance leases	<b>173</b>	309
	<hr/>	<hr/>
	<b>5,162</b>	10,735
	<hr/> <hr/>	<hr/> <hr/>

**10. Directors' Remuneration**

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive Directors	–	–
Independent Non-executive Directors	–	–
Other emoluments paid to Executive Directors:		
Salaries, allowances and other benefits	<b>7,247</b>	7,940
Contributions to retirement benefits schemes	<b>271</b>	284
Performance related incentive payment	<b>239</b>	3,449
	<hr/>	<hr/>
Total remuneration	<b>7,757</b>	11,673
	<hr/> <hr/>	<hr/> <hr/>

The remuneration of the Directors fell within the following bands:

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>Number of Directors</i>	<i>Number of Directors</i>
Nil – HK\$1,000,000	6	3
HK\$1,000,001 – HK\$1,500,000	4	–
HK\$1,500,001 – HK\$2,000,000	–	3
HK\$2,000,001 – HK\$2,500,000	–	3
	<u>10</u>	<u>9</u>

During the year, no emoluments were 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 emoluments during the year.

#### 11. Employees' Emoluments

The five highest paid employees included two (2001: five) Directors of the Company, details of whose remuneration are included in note 10 above. The details of the remuneration of the remaining three (2001: nil) individual are as follows:

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	3,998	–
Contributions to retirement benefits schemes	160	–
Performance related incentive payment	158	–
	<u>4,316</u>	<u>–</u>

Their emoluments were within the following band:

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>Number of employees</i>	<i>Number of employees</i>
HK\$1,000,001 to HK\$1,500,000	<u>3</u>	<u>–</u>



## 12. Loss Before Taxation

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation has been arrived at after charging (crediting):		
Advertising and promotion expenses	51,119	36,949
Allowance for inventory obsolescence and write-off of inventories (included in the changes in inventories of finished goods)	4,990	6,795
Amortisation of intangible assets (included in depreciation and amortisation)	1,830	1,830
Amortisation of goodwill (included in depreciation and amortisation)	6,135	2,997
Auditors' remuneration	2,070	1,723
Compensation for early termination of tenancy agreements and investment project	7,004	–
Depreciation and amortisation of property and equipment:		
Owned assets	52,283	48,084
Leased assets	1,586	1,814
	53,869	49,898
Loss on disposal of property and equipment	6,081	20,143
Loss on disposal of subsidiaries	–	1,023
Operating lease rentals in respect of land and buildings		
Minimum lease payments	128,567	98,821
Contingent rents	5,179	9,906
	133,746	108,727
Net foreign exchange gain	(706)	(47)

## 13. Taxation Credit

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax:		
Provision for the year	–	(200)
Overprovision in prior years	1,782	352
Underprovision in prior years	(3)	–
	1,779	152
Taxation attributable to the Company and its subsidiaries		

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

Hong Kong Profits Tax was calculated at 16% on the Group's estimated assessable profits arising in Hong Kong for the year ended 31 December 2001.

Details of the Group's unprovided deferred taxation are set out in note 34.

#### 14. Loss Per Share

The calculation of basic and diluted loss per share for the year ended 31 December 2002 together with the comparative figures for 2001 are calculated as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Loss for the purpose of basic loss per share	<b>(440,583)</b>	(454,036)
Adjustment to the share of result of subsidiaries based on dilution of their earnings per share	<b>N/A</b>	(8)
Loss for the purpose of diluted loss per share	<b><u>(440,583)</u></b>	<b><u>(454,044)</u></b>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b><u>311,921,618</u></b>	<b><u>314,680,405</u></b>

The calculation of diluted loss per share does not:

- (i) adjust the share of result of subsidiaries as the subsidiaries incurred losses for the year; and
- (ii) assume the exercise of the Company's outstanding share options and warrants as the exercise price of those options and warrants were higher than the average market price of shares for both years.

The weighted average number of ordinary shares for the year ended 31 December 2001 for the purpose of basic and diluted loss per share has been adjusted for the share consolidation which took effect on 26 April 2002.

## 15. 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>
<b>THE GROUP</b>						
<b>COST</b>						
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
Acquired 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	<u>70,000</u>	<u>10,000</u>	<u>98,090</u>	<u>185,272</u>	<u>5,830</u>	<u>369,192</u>
<b>ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT</b>						
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	<u>21,142</u>	<u>10,000</u>	<u>37,135</u>	<u>108,825</u>	<u>1,789</u>	<u>178,891</u>
<b>NET BOOK VALUES</b>						
At 31 December 2002	<u>48,858</u>	<u>–</u>	<u>60,955</u>	<u>76,447</u>	<u>4,041</u>	<u>190,301</u>
At 31 December 2001	<u>78,000</u>	<u>10,000</u>	<u>54,564</u>	<u>89,917</u>	<u>3,972</u>	<u>236,453</u>

During the year, the Group entered into a provisional sale and purchase agreement with a third party under which the Group agree 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 is recognised in the income statement.

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, 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.

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Due to the cessation of the personal loan financing activity, 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, 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.

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:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Long leases	<b>14,516</b>	25,400
Medium-term leases	<b>34,342</b>	52,600
	<b>48,858</b>	78,000

The leasehold land and buildings with a net book value of approximately HK\$44,858,000 (2001: HK\$71,000,000) held by the Group were pledged to secure general banking facilities granted to the Group.

The net book values of furniture, fixtures and equipment of HK\$76,447,000 and motor vehicles of HK\$4,041,000 include an amount of HK\$227,000 (2001: HK\$1,740,000) and HK\$2,970,000 (2001: HK\$2,764,000) respectively in respect of assets held under finance leases.

	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Furniture, fixtures and equipment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE COMPANY</b>			
<b>COST</b>			
At 1 January 2002 and at 31 December 2002	8,426	11,130	19,556
<b>ACCUMULATED DEPRECIATION</b>			
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
<b>NET BOOK VALUES</b>			
At 31 December 2002	<u>2,608</u>	<u>11</u>	<u>2,619</u>
At 31 December 2001	<u>4,146</u>	<u>1,604</u>	<u>5,750</u>

## 16. Investments in Subsidiaries

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	60,793	60,793
Impairment loss recognised	(60,793)	(60,793)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

The following table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place/ Country of incorporation	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Halo Solutions Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology advisory services
CASH Financial Services Group Limited ("CFSG")	Bermuda	Ordinary HK\$10,075,941	50.08	Investment holding
CASH E-Trade Limited	Hong Kong	Ordinary HK\$4,000,000	50.08	Provision of management services
CASH Payment Services Limited	Hong Kong	Ordinary HK\$2	50.08	Provision of payment gateway services
Celestial Capital Limited	Hong Kong	Ordinary HK\$17,000,000	50.08	Provision of corporate finance services
Celestial Commodities Limited	Hong Kong	Ordinary HK\$10,000,000	50.08	Futures and options broking and trading
Celestial Finance Limited	Hong Kong	Ordinary HK\$30,000,002 Non-voting deferred* HK\$10,000,000	50.08	Provision of share margin financing

Name	Place/ Country of incorporation	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Celestial (International) Securities & Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred* HK\$10,000,000	50.08	Money lending
Celestial Securities Limited	Hong Kong	Ordinary HK\$50,000,000	50.08	Securities and equity options broking and trading
Pricerite Group Limited	Bermuda	Ordinary HK\$207,677,700	68.35	Investment holding
Pricerite Stores Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred** HK\$5,000,000	68.35	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	68.35	Retailing of furniture and household goods through a website
Cosmos Global Limited	Hong Kong	Ordinary HK\$2	68.35	Wholesale and retailing of cosmetic and skin care products

\* The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards income, the holders thereof are not entitled to any dividend unless the relevant company determines to distribute in respect of any financial year distributable profits in excess of HK\$1 trillion to which the holders of the non-voting deferred shares are collectively entitled to one half of the said profits in excess of the said HK\$1 trillion; and
- (c) as regards capital, on a return of assets on winding-up or otherwise the assets of the company to be returned, the holders of such non-voting deferred shares are collectively entitled to one half of the surplus assets of the company in excess of HK\$500 trillion.

\*\* The rights and restrictions attaching to such non-voting deferred shares are summarised as follows:

- (a) as regards voting, the non-voting deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the relevant company;
- (b) as regards dividends, the holders thereof are not entitled to any dividend unless the net profits of the relevant company available for dividend (as certified by its auditors) as earned in the year in respect of which a dividend is declared exceed HK\$100 billion, in which case the holders of the non-voting deferred shares are collectively entitled to one thousandth of one per cent of the amount of the profits so available which exceed HK\$100 billion; and
- (c) as regards capital, on a return of assets or a winding-up, the holders of such non-voting deferred shares are entitled out of the surplus assets of the relevant company to a return of capital paid on such non-voting deferred shares held by then after a total of HK\$1,000 billion has been distributed in such winding-up in respect of each of the issued ordinary shares in the relevant company.

The principal place of operation of the subsidiaries is Hong Kong. All the subsidiaries shown above are indirectly held by the Company.

#### 17. Interests in Associates

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	–	–
Loan to an associate	<b>219,828</b>	164,466
Allowance for loan to an associate	<b>(219,828)</b>	–
	<u>–</u>	<u>164,466</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 will not be recoverable and accordingly an allowance of approximately HK\$219,828,000 has been made.

At 31 December 2002, the Group had interests in the following principal associates:

Name	Place of incorporation	Form of business structure	Provision of nominal value of issued ordinary capital held by the Group %	Principal activities
Transtech Services Group Limited	Hong Kong	Incorporated	46.25	Investment holding
Transtech Photonics Limited	Hong Kong	Incorporated	46.25	Producing of photonics products and system but had not yet commenced production during the year

Transtech Photonics Limited is a wholly-owned subsidiary of Transtech Services Group Limited.

The principal place of operation of these companies is Hong Kong.

The following details have been extracted from the consolidated management accounts of Transtech Services Group Limited.

	2002 HK\$'000	2001 HK\$'000
Non-current assets	397,494	327,506
Current assets	4,483	9,825
Non-current liabilities	440,198	328,932
Current liabilities	15,165	35,845
Net liabilities	<u>(53,386)</u>	<u>(27,446)</u>
Net loss for the year	<u>25,910</u>	<u>28,449</u>



## 18. Investments

	Investment securities		The Group Other investments		Total	
	2002	2001	2002	2001	2002	2001
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Equity securities:						
Non-current						
Unlisted, at cost	301,500	301,500	–	–	301,500	301,500
Impairment loss recognised	(301,500)	(244,500)	–	–	(301,500)	(244,500)
	–	57,000	–	–	–	57,000
Current						
Listed in Hong Kong, at market value	–	–	52,534	33,502	52,534	33,502
	–	57,000	52,534	33,502	52,534	90,502

In response to the deterioration of the global information technology business environment during the year, the Group has 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 (2001: HK\$228,900,000) in respect of the investment securities.

## 19. Goodwill

	The Group HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	91,601
AMORTISATION	
At 1 January 2002	2,997
Charged for the year	6,135
Impairment loss recognised	27,209
At 31 December 2002	36,341
NET BOOK VALUES	
At 31 December 2002	55,260
At 31 December 2001	88,604

The amortisation period adopted for goodwill is from 10 to 20 years.

Due to cessation of the business of the subsidiaries principally engaging in retailing of discounted products and continuous losses incurred by those subsidiaries principally engaging in wholesale and retailing of cosmetic and skin care products, the Directors having taken into account the current economic condition and the changes in the business environment in the wholesale and retailing business, recognised an impairment loss of HK\$27,209,000 in respect of goodwill arising from the acquisition of these subsidiaries.

## 20. Intangible Assets

	<b>The Group</b> <i>HK\$'000</i>
COST	
At 1 January 2002 and at 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 VALUES	
At 31 December 2002	<u>12,752</u>
At 31 December 2001	<u>14,582</u>

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

## 21. Other Assets

	<b>The Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Club memberships	5,588	5,588
Prepayment for advertising and tele-communication services	21,554	–
Statutory and other deposits	5,379	9,479
Deposits for long term investments/projects	–	39,000
	<u>32,521</u>	54,067
Impairment loss recognised in respect of club membership	(1,330)	–
	<u>31,191</u>	<u>54,067</u>

At the balance sheet date, 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.

**22. Loans Receivable**

The maturity of the loans receivable is as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Matured within 180 days	<b>600</b>	22,770
Matured between 181 days to 365 days	<b>600</b>	1,700
	<hr/>	<hr/>
Matured within one year	<b>1,200</b>	24,470
Matured over one year	<b>2,217</b>	42,646
	<hr/>	<hr/>
	<b>3,417</b>	67,116
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**23. Inventories**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Finished goods held for sale	<b>65,391</b>	53,983
	<hr/> <hr/>	<hr/> <hr/>

Finished goods of approximately HK\$2,607,000 (2001: HK\$8,479,000) are carried at net realisable value.

**24. Accounts Receivable**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Accounts receivable arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	<b>5,254</b>	10,928
Cash clients	<b>29,433</b>	11,817
Margin clients	<b>100,467</b>	221,456
Accounts receivable arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	<b>36,887</b>	43,674
Trade debtors	<b>550</b>	2,997
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	<b>172,591</b>	290,872
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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 above balances 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.

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

<b>Name of company</b>	<b>Balance at 31.12.2002 HK\$'000</b>	<b>Balance at 1.1.2002 HK\$'000</b>	<b>Maximum amount outstanding during the year HK\$'000</b>
Cash Guardian	8,862	–	28,575
Suffold Resources Limited (“Suffold”)	–	25,220	25,385
	<u>8,862</u>	<u>25,220</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.

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

	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
0 – 30 days	326	2,609
31 – 60 days	120	388
61 – 90 days	76	–
Over 90 days	28	–
	<u>550</u>	<u>2,997</u>

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

**25. Pledged Bank Deposits***The Group*

At the balance sheet date, the Group's bank deposits of HK\$611,000 and HK\$26,279,000 were pledged to banks to secure the forward foreign exchange facilities and general banking facilities granted to a subsidiary and an associate respectively.

At 31 December 2001, the Group's bank deposits of HK\$42,868,000 were pledged to banks to secure the general banking facilities granted to subsidiaries and an associate, and to secure foreign exchange margin trading facilities granted to a subsidiary. In addition, the Group's bank deposit of HK\$877,000 was pledged to secure a bank guarantee of HK\$877,000 given to one of the Group's landlords.

**26. Accounts Payable**

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:		
Cash clients	<b>158,188</b>	243,866
Margin clients	<b>28,053</b>	52,575
Accounts payable to clients arising from the business of dealing in futures and options	<b>149,549</b>	119,826
Trade creditors	<b>154,236</b>	131,779
	<b><u>490,026</u></b>	<u>548,046</u>

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts 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 are margin deposits received from clients for their trading of futures and options. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of futures and options dealing.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 30 days	40,785	35,671
31 – 60 days	29,813	30,784
61 – 90 days	33,516	24,989
Over 90 days	50,122	40,335
	<u>154,236</u>	<u>131,779</u>

## 27. Obligations Under Finance Leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	717	2,033	681	1,988
In the second to fifth year inclusive	772	893	753	749
	<u>1,489</u>	<u>2,926</u>	<u>1,434</u>	<u>2,737</u>
Less: Future finance charges	55	189	–	–
Present value of lease obligations	<u>1,434</u>	<u>2,737</u>	<u>1,434</u>	<u>2,737</u>
Less: Amount due for payment within one year			<u>681</u>	<u>1,988</u>
Amount due for payment after one year			<u>753</u>	<u>749</u>

It is the Group's policy to lease 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 an amount of HK\$919,000 (2001: HK\$599,000) is secured by guarantees given by a subsidiary.

## 28. Bank Borrowings

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts	77,104	10,248
Bank loans	75,900	127,000
Trust receipt loans	52,538	18,341
	<u>205,542</u>	<u>155,589</u>
Unsecured	10,820	496
Secured	194,722	155,093
	<u>205,542</u>	<u>155,589</u>

The bank borrowings bear interest at commercial rates and are repayable on demand or within one year. These borrowings are used to finance the financing business and the retail business of the Group.

At 31 December 2002, the Group's bank borrowings of HK\$194,722,000 (2001: HK\$155,093,000) were secured by:

- (a) corporate guarantees from two subsidiaries 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 of HK\$9,111,000 (2001: HK\$8,500,000) bank deposits; and
- (e) a subsidiary's listed shares with an aggregate market value of approximately HK\$129,320,000 at 31 December 2002.

## 29. Share Capital

	<i>Notes</i>	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2001		<b>8,000,000</b>	800,000
Increase during the year		<b>2,000,000</b>	200,000
<hr/>			
At 31 December 2001 and at 1 January 2002		<b>10,000,000</b>	1,000,000
Reduced due to share consolidation	<i>(a)(i)</i>	<b>(9,500,000)</b>	–
Reduced due to capital reduction	<i>(a)(ii)</i>	–	(950,000)
Cancellation of unissued share capital	<i>(a)(iii)</i>	<b>(180,283)</b>	(18,028)
Increase during the year	<i>(a)(iii)</i>	<b>180,283</b>	18,028
<hr/>			
At 31 December 2002		<b>500,000</b>	50,000
<hr/>			
Issued and fully paid:			
At 1 January 2001		<b>5,923,898</b>	592,390
Issued as consideration to acquire 78.44% of the issued capital of Pricerite	<i>(b)</i>	<b>507,654</b>	50,765
Issued as consideration for general offer related to the acquisition of Pricerite	<i>(b)</i>	<b>164</b>	16
Shares repurchased and cancelled	<i>(c)</i>	<b>(37,362)</b>	(3,736)
<hr/>			
At 31 December 2001 and at 1 January 2002		<b>6,394,354</b>	639,435
Reduced due to share consolidation	<i>(a)(i)</i>	<b>(6,074,637)</b>	–
Reduced due to capital reduction	<i>(a)(ii) &amp; (iv)</i>	–	(607,464)
Shares repurchased and cancelled	<i>(c)</i>	<b>(14,242)</b>	(1,424)
Exercise of warrants	<i>(d)</i>	<b>9</b>	1
<hr/>			
At 31 December 2002		<b>305,484</b>	30,548
<hr/>			

*Notes:**(a) Share consolidation and capital reduction*

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) *Acquisition of majority interests in Pricerite*

On 9 February 2001, the Company entered into agreements with Miliway Resources Limited (“Miliway”) and Joyplace Inc (“Joyplace”), pursuant to which the Company agreed to purchase or procure the purchase of 320,000,000 and 115,132,000 shares of HK\$0.10 each in Pricerite respectively from Miliway and Joyplace at a consideration of HK\$112,000,000 and HK\$40,296,200 respectively. The considerations were settled by the issue and allotment of 373,333,333 and 134,320,667 shares of HK\$0.10 each in the Company.

Following the completion of the agreements with Miliway and Joyplace, the Company made unconditional general offers for all the issued shares in Pricerite on the basis of one share in Pricerite for HK\$0.35 or six shares in Pricerite for seven shares in the Company, and the outstanding options which entitle the holders to subscribe for shares in Pricerite on the basis of each option for HK\$0.0001. During the period of the general offers, the Company issued 164,605 shares of HK\$0.10 each in the Company to acquire 141,096 shares of HK\$0.10 each in Pricerite.

(c) *Shares repurchased*

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid (before expenses) HK\$
		Highest	Lowest	
		HK\$	HK\$	
May	1,126,000	1.96	1.87	2,141,420
June	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) *Warrants*

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, a total amount of approximately HK\$109,000 bonus warrants were exercised by warrantholders to subscribe for a total number of 8,422 ordinary shares in the Company at the adjusted subscription price of HK\$13 per share.

## 30. Reserves

	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>
<b>THE GROUP</b>						
At 1 January 2001	196,221	500,992	1,160	71,887	(169,410)	600,850
Issue of shares	101,564	–	–	–	–	101,564
Share issue expenses	(816)	–	–	–	–	(816)
Premium arising from repurchase of shares	(2,934)	–	–	–	–	(2,934)
Goodwill reversed on disposal of an associate	–	18,508	–	–	–	18,508
Net loss for the year	–	–	–	–	(454,036)	(454,036)
At 31 December 2001 and 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	–	(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	<u>268,848</u>	<u>457,461</u>	<u>1,160</u>	<u>12,314</u>	<u>(394,526)</u>	<u>345,257</u>
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>

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	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>					
At 1 January 2001	194,183	580,593	59,573	(23,595)	810,754
Issue of shares	101,564	–	–	–	101,564
Share issue expenses	(816)	–	–	–	(816)
Premium arising from repurchase of shares	(2,934)	–	–	–	(2,934)
Net loss for the year	–	–	–	(645,908)	(645,908)
At 31 December 2001 and 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	–	(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)
At 31 December 2002	<u>266,810</u>	<u>518,554</u>	<u>–</u>	<u>(441,037)</u>	<u>344,327</u>

The contributed surplus of the Group arose as a result of the group reorganisation in 1994 and represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

At 1 January 2001, goodwill arising from acquisition of an associate of approximately HK\$18,503,000 was included in the Group's contributed surplus account. This goodwill was reversed on disposal of the associate in 2001.

The contributed surplus of the Company arose as a result of the group reorganisation in 1994 and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefore.

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:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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.

## 31. Acquisition of Subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET ASSETS ACQUIRED		
Property and equipment	40,450	142,370
Prepayments, deposits and other receivables	160	33,807
Inventories	–	52,637
Taxation recoverable	–	125
Bank balances and cash	–	68,538
Pledged bank deposits	–	8,500
Accounts payable	–	(107,820)
Accrued liabilities and other payables	(10)	(21,989)
Bank borrowings	–	(42,120)
Minority interests	–	(28,666)
	<u>40,600</u>	<u>105,382</u>
Goodwill on consolidation	–	100,596
	<u><b>40,600</b></u>	<u><b>205,978</b></u>
SATISFIED BY		
Shares allotted	–	152,345
Cash	40,600	53,633
	<u><b>40,600</b></u>	<u><b>205,978</b></u>
NET CASH INFLOW (OUTFLOW) ARISING ON ACQUISITION		
Cash consideration	(40,600)	(53,633)
Bank balances and cash acquired	–	26,418
	<u><b>(40,600)</b></u>	<u><b>(27,215)</b></u>

The subsidiaries acquired during the year contributed zero revenue 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 subsidiaries acquired during the year ended 31 December 2001 contributed HK\$749,000,000 revenue and HK\$15,000,000 of profit before taxation for the period between the date of acquisition and 31 December 2001. During the period since acquisitions during the year ended 31 December 2001, the subsidiaries acquired have contributed approximately HK\$40,000,000 to the Group's net operating cash flows, contributed approximately HK\$157,000,000 in respect of financing activities and utilised approximately HK\$91,000,000 for investing activities.

**32. Disposal of Subsidiaries**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET ASSETS DISPOSED OF		
Investments	–	20,651
Accounts payable	–	(28)
	<u>–</u>	<u>20,623</u>
Loss on disposal	–	(1,023)
	<u>–</u>	<u>19,600</u>
Total consideration	<u>–</u>	<u>19,600</u>
SATISFIED BY		
Cash	<u>–</u>	<u>19,600</u>
NET CASH INFLOW ARISING ON DISPOSAL		
Cash	<u>–</u>	<u>19,600</u>

The subsidiaries sold during the year ended 31 December 2001 contributed HK\$30,248,000 to the Group's net operating cash outflow.

The subsidiaries disposed of during the year ended 31 December 2001 contributed HK\$28,803,000 to the Group's loss before taxation.

**33. Major Non-cash Transactions**

Pursuant to an agreement entered into between the Company and a third party, the third party agreed to procure its group companies to provide advertising and tele-communication services to the Company and its subsidiaries. The fee for these services will be used to offset the deposits which the Group paid and was previously classified as deposits for long term investments/projects in the financial statements. Thus, an amount of HK\$39,000,000 was transferred from deposits for long term investments/projects account to prepayment for advertising and tele-communication services account. During the year, the Group utilised advertising and tele-communication services amounting to approximately HK\$5,746,000.

During the year, 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 (2001: HK\$1,220,000).

During the year ended 31 December 2001, the Company acquired 435,132,000 shares of HK\$0.10 each in Pricerite at a consideration of approximately HK\$152,296,200. The consideration was satisfied by the issue and allotment of 507,654,000 shares in the Company. During the period of the general offers made by the Company, the Company acquired 141,096 shares of HK\$0.10 each in Pricerite by issue of 164,605 shares in the Company.

**34. Deferred Taxation**

At the balance sheet date, the components of the unprovided deferred taxation assets (liabilities) were as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences				
because of:				
Estimated tax losses	78,344	59,570	–	–
Excess of tax allowances				
over depreciation	(11,796)	(10,177)	–	–
	<u>66,548</u>	<u>49,393</u>	<u>–</u>	<u>–</u>

A net deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future assessable profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

The amount of unprovided deferred taxation credit (charge) for the year were as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing difference				
because of:				
Estimated tax losses arising (utilising)	18,774	(15,714)	–	–
Excess of tax allowances over				
depreciation	(1,619)	(2,809)	–	(107)
	<u>17,155</u>	<u>(18,523)</u>	<u>–</u>	<u>(107)</u>

**35. Contingent Liabilities**

- (a) Mr. 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 the material specific performance thereof. The Directors confirmed that 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 in whatever nature, oral or written, had been entered into between the Company and Cheung. Relying on the advice from a legal counsel, the Directors does not envisage the claim by Cheung being held to be valid. Accordingly, no provision was made in the financial statements.

- (b) The Group has given a guarantee to a bank in respect of general facilities granted to an associate. The extent of such facilities utilised by the associate at 31 December 2002 amounted to nil (2001: HK\$18,450,000).
- (c) The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2002 amounted to approximately HK\$39,335,000 (2001: HK\$55,774,000).

### 36. 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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	121,480	94,529	10,210	8,155
In the second to fifth year inclusive	174,673	157,615	7,930	2,269
After five years	4,279	10,527	–	–
	<u>300,432</u>	<u>262,671</u>	<u>18,140</u>	<u>10,424</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.

### 37. 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 and its subsidiaries (“Pricerite Group”) (altogether “Three Groups”); or
  - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (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. The maximum number of shares was 31,971,740 shares, representing 10.47% of the issued share capital of the Company as at the date of the Annual



Report. 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.

The following table discloses details of the Company's share options held by the Directors and the employees of the Three Groups and movements in such holdings during the year:

Name of scheme	Date of grant	Exercise price		Notes	Number of options							
		per share	Exercise period		outstanding as at 1.1.2001	granted in 2001	lapsed in 2001	outstanding as at 31.12.2001 and 1.1.2002	adjusted on 25.4.2002	granted in 2002	lapsed in 2002	outstanding as at 31.12.2002
<b>Directors</b>												
Old Option Scheme	13.5.1999	0.23	13.5.2000 – 12.11.2001		2,500,000	-	(2,500,000)	-	-	-	-	-
	4.10.1999	0.59	8.4.2000 – 7.4.2002		120,000,000	-	-	120,000,000	-	-	(120,000,000)	-
	4.10.1999	0.59	8.4.2000 – 7.4.2002	(2)	8,750,000	-	-	8,750,000	-	-	(8,750,000)	-
	1.6.2000	7.00	1.12.2000 – 30.11.2002	(1) & (3)	10,000,000	-	-	10,000,000	(9,500,000)	-	(500,000)	-
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (3)	30,000,000	-	-	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	-	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
					171,250,000	30,000,000	(2,500,000)	198,750,000	(66,500,000)	17,100,000	(129,250,000)	20,100,000
<b>Employees</b>												
Old Option Scheme	13.5.1999	4.60	13.11.2000 – 12.5.2002	(1)	750,000	-	-	750,000	(712,500)	-	(37,500)	-
	4.10.1999	0.59	8.4.2000 – 7.4.2002	(2)	28,490,000	-	(4,680,000)	23,810,000	-	-	(23,810,000)	-
	15.11.1999	0.61	1.11.2000 – 31.10.2002	(4)	10,000,000	-	-	10,000,000	-	-	(10,000,000)	-
	10.1.2000	16.00	10.1.2001 – 9.1.2003	(1)	10,000,000	-	-	10,000,000	(9,500,000)	-	-	500,000
	10.1.2000	16.00	11.7.2000 – 10.7.2002	(1) & (2)	500,000	-	-	500,000	(475,000)	-	(25,000)	-
	1.6.2000	7.00	1.12.2000 – 30.11.2002	(1) & (3)	45,000,000	-	-	45,000,000	(42,750,000)	-	(2,250,000)	-
	28.7.2000	9.80	1.2.2001 – 31.1.2003	(1) & (2)	11,000,000	-	(10,000,000)	1,000,000	(950,000)	-	-	50,000
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (3)	20,000,000	-	-	20,000,000	(19,000,000)	(1) & (3)	-	1,000,000
	6.11.2000	5.40	16.5.2001 – 15.5.2003	(1) & (2)	6,500,000	-	(500,000)	6,000,000	(5,700,000)	-	-	300,000
	2.2.2001	4.80	16.8.2001 – 15.8.2003	(1) & (2)	-	6,000,000	-	6,000,000	(5,700,000)	-	-	300,000
	31.8.2001	2.60	1.3.2002 – 28.2.2004	(1) & (3)	-	60,000,000	-	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
					132,240,000	66,000,000	(15,180,000)	183,060,000	(141,787,500)	5,000,000	(36,122,500)	10,150,000
					<u>303,490,000</u>	<u>96,000,000</u>	<u>(17,680,000)</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:**

- 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.
- 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 (2001: HK\$0.295 and HK\$0.152 respectively).
- (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.

The exercise in full of the outstanding 30,250,000 share options at 31 December 2002 would, under the present capital structure of the Company, result in the issue of 30,250,000 additional shares for a total cash consideration, before expenses, of approximately HK\$65,922,000.

Total consideration received during the year from the Directors and the employees for taking up the options granted amounted to HK\$20 (2001: HK\$5).

No charge is recognised in the income statement in respect of the value of options granted during the year.

**(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. No option has been granted under the CFSG New Option Scheme since its adoption on 19 February 2002. 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 Three Groups;  
or
  - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.
- (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 Three Groups and movements in such holdings during the year:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options						
					outstanding as at 1.1.2001	granted in 2001	lapsed in 2001	outstanding as at 31.12.2001 and 1.1.2002	adjusted on 25.4.2002	lapsed in 2002	outstanding as at 31.12.2002
<b>Directors</b>											
CFSG Old Option											
Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	-	45,000,000	-	45,000,000	(42,750,000)	-	2,250,000
<b>Employees</b>											
CFSG Old Option											
Scheme	26.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	-	55,000,000	-	55,000,000	(52,250,000)	-	2,750,000
Scheme	27.3.2001	2.20	1.10.2001 – 30.9.2004	(1) & (2)	-	26,300,000	(2,200,000)	24,100,000	(21,945,000)	(1,510,000)	645,000
					-	81,300,000	(2,200,000)	79,100,000	(74,195,000)	(1,510,000)	3,395,000
					-	126,300,000	(2,200,000)	124,100,000	(116,945,000)	(1,510,000)	5,645,000

*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.

**(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 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. No option has been granted under the Pricerite New Option Scheme since its adoption on 19 February 2002. 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 Three Groups; or
  - attract potential candidates to serve the Three Groups for the benefit of the development of the Three Groups.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Three Groups.

- (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 Three Groups and movements in such holdings during the year:

Name of scheme	Date of grant	Exercise price		Notes	Number of options								
		per share	Exercise period		outstanding				outstanding				outstanding
					as at 1.1.2001	granted in 2001	exercised in 2001	lapsed in 2001	adjusted due to right issue	as at 31.12.201 and 1.1.2002	granted in 2002	lapsed in 2002	
<b>Directors</b>													
Pricerite Old	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1)	10,000,000	-	-	-	8,000,000	18,000,000	-	(18,000,000)	-
Option	12.6.2001	0.21	16.6.2001 – 15.6.2003	(2)	-	16,000,000	-	-	12,800,000	28,800,000	-	(7,200,000)	21,600,000
Scheme	17.1.2002	0.21	1.2.2002 – 31.1.2004		-	-	-	-	-	-	72,000,000	(13,000,000)	59,000,000
					<u>10,000,000</u>	<u>16,000,000</u>	<u>-</u>	<u>-</u>	<u>20,800,000</u>	<u>46,800,000</u>	<u>72,000,000</u>	<u>(38,200,000)</u>	<u>80,600,000</u>
<b>Employees</b>													
Pricerite Old	12.6.2000	0.32	13.6.2000 – 12.6.2003	(1) & (3)	4,495,000	-	(590,000)	(1,608,000)	2,140,000	4,437,000	-	(918,000)	3,519,000
Option	12.6.2000	0.32	13.6.2000 – 12.6.2002	(1) & (4)	4,000,000	-	-	(2,000,000)	1,600,000	3,600,000	-	(3,600,000)	-
Scheme	12.6.2000	0.32	13.6.2000 – 12.6.2002		10,000,000	-	-	(10,000,000)	-	-	-	-	-
	17.1.2002	0.21	1.2.2002 – 31.1.2004		-	-	-	-	-	-	42,500,000	-	42,500,000
					<u>18,495,000</u>	<u>-</u>	<u>(590,000)</u>	<u>(13,608,000)</u>	<u>3,740,000</u>	<u>8,037,000</u>	<u>42,500,000</u>	<u>(4,518,000)</u>	<u>46,019,000</u>
					<u>28,495,000</u>	<u>16,000,000</u>	<u>(590,000)</u>	<u>(13,608,000)</u>	<u>24,540,000</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.

**38. 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 and the forfeited voluntary contributions credited to the income statements amounted to approximately HK\$8,619,000 (2001: HK\$9,278,000) and HK\$1,880,000 (2001: HK\$515,000) respectively for the year ended 31 December 2002.

**39. Commitments***(a) Capital commitments*

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

	<b>2002</b>	2001
	<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	<b><u>10,630</u></b>	<u>8,000</u>

*(b) Other commitments*

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

	<b>2002</b>	2001
	<i>HK\$’000</i>	<i>HK\$’000</i>
Contracted commitment in respect of advertising expenditure	<b><u>3,306</u></b>	<u>7,398</u>

*(c) Forward foreign exchange contracts*

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

	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Buying of Euro	<b>825</b>	–
Buying of USD	<b>15,600</b>	–
Selling of Yen	<b>9,700</b>	2,972
	<u><b>26,125</b></u>	<u>2,972</u>

**40. Related Party Transactions**

During the year, the Group had the following related party transactions:

- (a) The Group received interest from margin financing of approximately HK\$1,473,000 (2001: nil) and nil (2001: HK\$1,942,000) from Cash Guardian and Suffolk respectively, 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.
- (b) The Group pledged bank deposits of HK\$17,779,000 (2001: HK\$34,000,000) to secure general banking facilities granted to an associate by a bank, for which no charge is made. At 31 December 2002, the associate had utilised nil (2001: HK\$18,450,000) of these banking facilities.

During the year ended 31 December 2001, the Company acquired 320,000,000 shares of HK\$0.10 each in Pricerite from Miliway at a consideration of HK\$112,000,000 pursuant to the agreement entered into between the parties dated 9 February 2001. The consideration was settled by the issue and allotment of 373,333,333 shares of HK\$0.10 each in the Company. Miliway is ultimately wholly-owned by a discretionary trust established for the benefits of the family members of Kwan Pak Hoo Bankee.

**德勤·關黃陳方會計師行**

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**Deloitte  
Touche  
Tohmatsu**

21 January 2004

The Directors

Celestial Asia Securities Holdings Limited  
21/F The Center  
99 Queen's Road Central  
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Rainbow Day Investments Limited ("Rainbow Day") for the period from 18 August 2003 (date of incorporation of Rainbow Day) to 30 November 2003 ("Period") for inclusion in the circular dated 21 January 2004 issued by Celestial Asia Securities Holdings Limited ("Company") in relation to the major transaction of the Company relating to the investment in a Beijing property interest by the proposed acquisition of Rainbow Day ("Circular").

Rainbow Day was incorporated in the British Virgin Islands on 18 August 2003 with limited liability under the International Business Companies Act, Cap. 291. During the Period, Rainbow Day was inactive and did not carry out any activity.

No audited financial statements have been prepared for Rainbow Day since its incorporation as Rainbow Day did not commence business up to 30 November 2003. For the purpose of this report, we have examined the management accounts of Rainbow Day for the Period in accordance with the Auditing Guideline No.3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The preparation of the management accounts of Rainbow Day are the responsibility of the directors of Rainbow Day. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the management accounts of Rainbow Day, to form an opinion on the financial information and to report our opinion to you.

In our opinion, the financial information together with the notes thereon give, a true and fair view of the state of affairs of Rainbow Day as at 30 November 2003.

## (A) FINANCIAL INFORMATION OF RAINBOW DAY

**Balance Sheet at 30 November 2003**

	<i>Note</i>	<i>US\$</i>
Current asset		
Cash on hand		<u>1</u>
Capital		
Share capital	5	<u>1</u>

**Statement of Changes in Equity**

	<b>Share capital</b>
	<i>US\$</i>
Issue of a share during the Period and at 30 November 2003	<u>1</u>

## (B) NOTES TO THE FINANCIAL INFORMATION OF RAINBOW DAY

**1. Principal accounting policy**

The financial information has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policy adopted is as follows:

***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 period. 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 income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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 except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference 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 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.

## **2. Segment information**

Rainbow Day has not commenced business and its asset is located in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

## **3. Directors' remuneration and five highest paid employees**

No remuneration was paid by Rainbow Day to the director or employees of Rainbow Day during the Period.

## **4. Income statement**

Rainbow Day had no income and expenses during the Period. Accordingly, no income statement has been prepared.

**5. Share capital**

US\$

Authorised:

50,000 shares of US\$1 each

50,000

Issued and fully paid:

1 share of US\$1 issued during the Period and  
at 30 November 2003

1

Rainbow Day was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. During the Period, 1 share of US\$1 was issued at par to the subscriber to provide the initial capital to Rainbow Day.

**6. Subsequent event**

Pursuant to 外銷商品房買賣契約 dated 19 December 2003 entered into between 北京京港物業發展有限公司 (“Lessor Company”) and Rainbow Day, Rainbow Day agreed to acquire a property situate in Beijing from the Lessor Company at a consideration to be agreed.

**(C) DIRECTORS' REMUNERATION**

Under the arrangement presently in force, Rainbow Day will not pay any remuneration to its director for the Period.

**(D) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of Rainbow Day have been prepared in respect of any period subsequent to 30 November 2003.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong



21 January, 2004

The Directors  
Celestial Asia Securities Holdings Limited  
21/F The Center  
99 Queen's Road Central  
Hong Kong

Dear Sirs,

In accordance with your instruction for us to carry out open market valuation of the property in the People's Republic of China ("PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you ("Company") with our opinion of the value of the property interest as at 31 December 2003 ("Date of Valuation").

Our valuation of the property interest represents its open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the Date of Valuation, assuming:–

- (a) a willing seller;
- (b) that, prior to the Date of Valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the Date of Valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and



- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the owners sell the property interest on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property interest.

In the course of our valuation of the property interest in the PRC, we have assumed that transferable land use rights in respect of the property interest for its specific term at nominal annual land use fees have been granted and that any land premium payable has already been fully settled. We have relied on the advice given by the Company regarding the title to the property and the interest in the property. We have assumed that the grantee or the user of the property interest has an enforceable title to the property and has free and uninterrupted rights to use or to assign or lease the property for the whole of the unexpired terms as granted.

In valuing the property interest, we have adopted Investment Approach by considering the capitalisation of the net rental income derived from the existing tenancies in respect of the property and with due allowance for the reversionary potential of the property.

We have been provided with some documents in relation to the title to the property interest. However, we have not searched the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. We have relied to a very considerable extent on the opinion of the Company’s PRC legal adviser, Plato, the Law Firm.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, completion date, identification of property, particulars of occupancy, site and floor areas, number of car parks, tenancy details and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. No on-site measurement has been carried out.

We have inspected the exterior and wherever possible, the interior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its values.

The amount stated in our valuation is Renminbi (RMB), the official currency of the PRC.

Our valuation certificate is hereby enclosed.

Yours faithfully,  
For and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Andrew K. F. Chan**  
*Registered Professional Surveyor*  
*MSc., M.R.I.C.S., M.H.K.I.S.*  
*Director*

*Note:* Mr. Andrew Chan is a registered professional surveyor with about 13 years of experience in valuation of properties in the PRC.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2003
Levels 1 to 5, Basements 1 to 3 (only 180 car parking spaces on Basements 2 & 3) Jinggang City Building Arcade situated at No. 3 Shilipu, Chaoyang Road, Chaoyang District, Beijing, the PRC	<p>Jinggang City Building Arcade is a 6-storey commercial building plus 3-levels of basement occupying a site area of 9,846.61 sq.m. (105,989 sq.ft.).</p> <p>The building was completed in 1996.</p> <p>The Property comprises Levels 1 to 5 and Basement 1 which are devoted for commercial use. The Property also comprises 180 car parking spaces on parts of Basements 2 and 3.</p> <p>According to Building Ownership Certificate, Levels 1 to 5, Basement 1 and whole of Basements 2 &amp; 3 have a total gross floor area of 43,843.35 sq.m. (471,930 sq.ft.).</p> <p>The land use rights of the property is granted for a term of 35 years from 22 July 1998 to 4 June 2033 for commercial use.</p>	<p>The building other than its Levels 5 and 6 is currently subject to tenancy for a term of 20 years from 3 July 1997. The Tenant and the Landlord can terminate the Lease from the 15th year after 3 July 1997 with one year's prior written notice.</p> <p>Level 5 is currently subject to a tenancy for a term of 15 years from 2002.</p> <p>Level 6 and the remaining car parking spaces on Basements 2 &amp; 3 are excluded from our valuation.</p>	RMB620,990,000

*Notes:*

(1) According to State-owned Land Use Rights Certificate No. (98) 00451 dated 22 July 1998:–

- (i) Land user : Beijing Jing Gang Properties Resources Development Co., Ltd.北京京港物業發展有限公司
- (ii) Site area : 9,846.61 sq.m.
- (iii) Location : No. 3 Shilipu, Chaoyang Road, Chaoyang District
- (iv) Uses : Commercial
- (v) Land use term : 35 years from 22 July 1998 to 4 June 2033

(2) According to Building Ownership Certificate No. 00273 dated 27 July 1998:–

- (i) Owner : Beijing Jing Gang Properties Resources Development Co., Ltd.
- (ii) Total gross floor area : 43,843.35
- (iii) The building ownership is subject to 4 mortgages in favour of 4 PRC banks with the latest expiry date on 4 June 2005.

(3) According to the PRC legal opinion by Plato, the Law Firm:–

- (i) Beijing Jing Gang Properties Resources Development Co., Ltd. was established legally.
- (ii) The property, comprising Levels 1 to 5, Basements 1 to 3 (only 180 car parking spaces on Basements 2 & 3) of Jinggang City Building Arcade, is situated at No.3 Shilipu, Chaoyang Road, Chaoyang District, Beijing. The site area is 9,486.61 sq.m. The total gross floor area of Levels 1 to 5, Basement 1 and whole of Basements 2 & 3 is 43,843.35 sq.m.
- (iii) Beijing Jing Gang Properties Resources Development Co., Ltd. has obtained State-owned Land Use Rights Certificate and Building Ownership Certificate. The land use term is from 22 July 1998 to 4 June 2033 for commercial use. Beijing Jing Gang Properties Resources Development Co., Ltd. has the right to use, occupy and transfer the Property without payment of extra land premium.
- (iv) The building ownership is subject to 4 mortgages in favour of 4 PRC banks with the latest expiry date on 4 June 2005.
- (v) The tenancies in respect of the property are legal and valid.

Our valuation of the property is prepared according to the gross floor area of the Building Ownership Certificate No.00273 and on the existing tenancies in respect of such portion.

(4) We have based on the PRC legal opinion by Plato, the Law Firm and prepared our valuation on the following assumptions:–

- (i) Beijing Jing Gang Properties Resources Development Co., Ltd. is in possession of a proper legal title to the property interest and is entitled to transfer the property interest in its existing state and condition for the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;
- (ii) all land premium and costs of urban facilities have been settled in full;
- (iii) the design and construction of the development as set out in this valuation certificate is in compliance with the local planning regulations; and
- (iv) the property interest can be disposed of freely to third parties.

- (5) In accordance with the PRC legal opinion by Plato, the Law Firm and the information provided by the Company, the status of title and grant of major approvals and licences are as follows:-

State-owned Land Use Rights Certificate	Yes
Red-line Drawing (site plan)	Yes
Building Ownership Certificate	Yes

## 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. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company are as follows:

### Authorised:

\$	<i>Number of Shares</i>
<u>50,000,000.00</u>	<u>500,000,000</u>

### Issued and to be issued fully paid:

\$	<i>Number of Shares</i>	
36,548,382.70	365,483,827	presently in issue
<u>11,310,000.00</u>	<u>113,100,000</u>	to be issued under the Acquisition
<u>47,858,382.70</u>	<u>478,583,827</u>	to be in issue after the Acquisition

### 3. 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 SEHK 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			Shareholding (%)
		Personal	Family	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	–	156,952,376*	42.94
Law Ping Wah Bernard	Beneficial owner	5,096,200	–	–	1.39
Chan Yau Ching Bob	Beneficial owner and family interest	70,500	200,200	–	0.07
Kwok Oi Kuen Joan Elmond	Beneficial owner	2,700,000	–	–	0.74
Law Ka Kin Eugene	Beneficial owner	125,000	–	–	0.03
Li Yuen Cheuk Thomas	Beneficial owner	2,501,875	–	–	0.68

\* 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 (\$)	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	0.82
Law Ping Wah Bernard	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.82
Chan Yau Ching Bob	31/8/2001	1/3/2002 – 28/2/2004	2.600	1,500,000	0.41
	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.82
Kwok Oi Kuen Joan Elmond	2/12/2003	2/12/2003 – 30/11/2005	0.502	3,000,000	0.82
Law Ka Kin Eugene	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.27
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.27
Wong Kin Yick Kenneth	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.27
Miao Wen Hao Felix	2/12/2003	2/12/2003 – 30/11/2005	0.502	1,000,000	0.27
				17,500,000	4.77
				17,500,000	4.77



**B. Associated corporations (within the meaning of the SFO)****1. CFSG***(a) Long positions in the shares*

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	217,977,717*	57.78
Wong Kin Yick Kenneth	Beneficial owner	620,000	–	0.16

\* The shares were held as to 24,564,000 shares by Cash Guardian and as to 193,413,717 shares by Celestial Investment Group Limited (“CIGL”), a wholly-owned subsidiary of the Company. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian and 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 (\$)	Number of options outstanding	Percentage to issued Shares (%)
Kwan Pak Hoo Bankee	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
Law Ping Wah Bernard	26/3/2001	1/10/2001 – 30/9/2004	1.08	2,040,000	0.54
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
Chan Yau Ching Bob	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
Kwok Oi Kuen Joan Elmond	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
Law Ka Kin Eugene	26/3/2001	1/10/2001 – 30/9/2004	1.08	2,550,000	0.68
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65

Name	Date of grant	Exercise period	Exercise price per Share (\$)	Number of options outstanding	Percentage to issued Shares (%)
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
Wong Kin Yick Kenneth	26/3/2001	1/10/2001 – 30/9/2004	1.08	2,040,000	0.54
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
Miao Wen Hao Felix	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
	26/3/2001	1/10/2001 – 30/9/2004	1.08	1,530,000	0.40
	3/11/2003	3/11/2003 – 31/10/2004	0.60	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44	2,450,000	0.65
				36,510,000	9.67

## 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		71,451,614*	68.81

\* The shares were held as to 480,000 shares by Cash Guardian and as to 70,971,614 shares by CIGL and its subsidiaries. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian and in the Company through Cash Guardian as disclosed in the “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 (\$)	Number of options outstanding	Percentage to issued Shares (%)
Kwan Pak Hoo Bankee	17/1/2002	1/2/2002 – 31/1/2004	4.20	1,000,000	0.96
	2/12/2003	2/12/2003 – 30/11/2004	1.79	1,000,000	0.96
Law Ping Wah Bernard	17/1/2002	1/2/2002 – 31/1/2004	4.20	650,000	0.63
	2/12/2003	2/12/2003 – 30/11/2004	1.79	1,000,000	0.96
Chan Yau Ching Bob	2/12/2003	2/12/2003 – 30/11/2004	1.79	1,000,000	0.96
Li Yuen Cheuk Thomas	17/1/2002	1/2/2002 – 31/1/2004	4.20	300,000	0.29
	2/12/2003	1/12/2004 – 30/11/2005	1.79	500,000	0.48
Miao Wen Hao Felix	2/12/2003	1/12/2004 – 30/11/2005	1.79	500,000	0.48
				5,950,000	5.72

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).

#### 4. 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</i> )	Trustee of a discretionary trust	156,952,376	42.94
Cash Guardian ( <i>Note</i> )	Interest in a controlled corporation	156,952,376	42.94

*Note:* This refers to the same number of Shares held by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc (“Jeffnet”). Jeffnet held these Shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan and Jeffnet were deemed to be interested in the Shares held by Cash Guardian. The above interest has already been disclosed as other interest of Mr Kwan in the section headed “Directors’ interests” above.

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.

#### 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With diminishing SARS effect, the local consumption promotion efforts, and the gradual pick-up of the US market, both the investment sentiment and the local consumer spending showed signs of recovery since June 2003.

For CFSG, it will continue to diversify and explore other financial services related incomes. With PRC and Hong Kong signing the Closer Economic Partnership Arrangement (CEPA) protocol and in view of the vast development potential in PRC, it will further facilitate its development into PRC by teaming up with Mainland China partners in developing the brokerage, corporate finance and financial advisory businesses. It will also continue to leverage on its strength in assisting quality mid-to smaller-cap companies to raise funds in Hong Kong. In view of the aging population in Hong Kong, it will continue at a greater speed with the development of the low-penetrated financial planning market so as to tap its huge market potential.

For Pricerite, it will continue to increase its competitiveness through enhancements in its business practices in order to catch up with the economic recovery. Apart from launching a new look of its e-commerce platform which facilitated on-line shopping and the opening of four additional community stores in 2003, Pricerite will make further advancements in its logistics strength, data-mining and data-warehousing. In the long run, Pricerite will further facilitate its development into PRC.

As for Halo Group Limited, it will continue to expand the customer base for its business solution service and extend the ASP service to clients in other industries. It is planning to establish its presence in the Guangdong area to provide IT consulting and business solution service to PRC, local and overseas enterprises.

## **6. 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) a placing and top up subscription agreement dated 22 May 2003 among the Company, Cash Guardian and Celestial Capital Limited, a non-wholly owned subsidiary of the Company, in relation to the placing and top-up subscription of a maximum of 60 million Shares at the placing price of \$0.275 per Share with total proceeds of \$16.5 million;
- (b) 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 \$0.10 each at \$0.25 per right shares on the basis of two rights shares for every existing share held in CFSG; and
- (c) the Agreement.

## **7. SERVICE CONTRACT**

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.

## 8. LITIGATION

Cheung Yiu Wing (“Cheung”), a director and a shareholder of King Pacific International Holdings Limited (“KPI”), filed a statement of claim 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 \$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 had handed the case to senior counsel for handling. Based on the advice from senior counsel, the Board does not envisage any valid claim from Cheung. The trial of this case has been scheduled in June 2004.

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.

## 9. EXPERTS

- (a) The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:–

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountant
DTZ Debenham Tie Leung Limited	Registered Professional Surveyor
Plato, the Law Firm	PRC lawyer

- (b) As at the Latest Practicable Date, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited and Plato, the Law Firm have no beneficial shareholding in the Company or in any of their subsidiaries and do not have right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares or shares in other companies within the Group.
- (c) Since 31 December 2002, the date to which the latest published audited accounts of the Company have been made up, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited and Plato, the Law Firm have no direct or indirect interest in any assets which have been acquired, disposed of or by or leased to or which are proposed to be acquired by, disposed of or by or leased to, any member of the Group.

- (d) Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited and Plato, the Law Firm have given and have not withdrawn their 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.

**10. MISCELLANEOUS**

- (a) The joint secretaries of the Company are Ms Kwok Oi Kuen Joan Elmond, *ACIS* and Ms Luke Wing Sheung Suzanne, *ACIS*.
- (b) 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.
- (c) 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.
- (d) The English text of this circular shall prevail over the Chinese text.

**11. 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 9 February 2004:–

- (a) the memorandum of association and bye-laws of the Company;
- (b) the property valuation report dated 21 January 2004 issued by DTZ Debenham Tie Leung Limited, the text of which is set out on pages 78 to 83 of this circular;
- (c) the accountants' report on Rainbow Day from 18 August 2003 to 30 November 2003 as prepared by Deloitte Touche Tohmatsu, the text of which is set out on pages 74 to 77 of this circular;
- (d) the written consents referred to in the section headed "Experts" in this Appendix;
- (e) the material contracts, including the Agreement, referred to in section headed "Material Contracts" in this Appendix;

- (f) the audited financial statements of the Group for the two financial years ended 31 December 2002; and
- (g) the unaudited interim report of the Group for the six months ended 30 June 2003.



**CELESTIAL ASIA SECURITIES HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**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 9 February 2004, Monday, at 9:30 am for the purpose of considering and, if thought fit, passing the following resolutions as Ordinary Resolutions of the Company:

**ORDINARY RESOLUTIONS**

1. **“THAT** subject to the passing of ordinary resolution number 2 set out in this notice convening the Meeting at which this resolution forms part, the authorised share capital of the Company be and is hereby increased from HK\$50,000,000.00 to HK\$100,000,000.00 by the creation of an additional 500,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company.”
  
2. **“THAT**
  - (a) the conditional sale and purchase agreement (“Agreement”) dated 19 December 2003 entered into between Mr John Rui Ming Long as vendor (“Vendor”) and Cheer Forever Limited as purchaser pursuant to which the Vendor agreed to sell and Cheer Forever agreed to purchase the entire equity interest of Rainbow Day Investments Limited (“Acquisition”) subject to the terms and conditions of the Agreement, a copy of the Agreement marked “A” is tabled before the Meeting and signed for identification purpose by the Chairman of the Meeting, and all other transactions contemplated under the Agreement be and are hereby approved, ratified and confirmed;
  
  - (b) the allotment and issue to the Vendor of the 113,100,000 new shares in the Company as part payment of the consideration for the Acquisition by the Company upon and subject to the conditions set out in the Agreement be and is hereby approved; and

- (c) any one director of the Company be and is hereby authorised to do all such acts and things as he/she may in his/her absolute discretion considered necessary or expedient to implement and give effect the Agreement and all the transactions contemplated thereunder, and any other matter in connection with the Acquisition.”

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

Hong Kong, 21 January 2004

*Head office and principal place of  
business in Hong Kong:*

21/F The Center  
99 Queen’s Road Central  
Hong Kong

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Notes:*

1. A member entitled to attend and vote at the above meeting is entitled to appoint proxy 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.