Celestial Asia Securities Holdings Limited

2003 Interim Results

CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of Celestial Asia Securities Holdings Limited ("Company" or "CASH") and its subsidiaries ("Group") for the six months ended 30 June 2003 together with the comparative figures for the last corresponding period are as follows:

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

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2003 (Unaudited) HK$'000	31 December 2002 (Audited) HK$'000
Non-current assets			
Property and equipment		163,633	190,301
Investments		15,000	–
Goodwill		67,950	55,260
Intangible assets		11,837	12,752
Other assets		29,114	31,191
Loans receivable		586	2,217
		288,120	291,721
Current assets			
Inventories		69,398	65,391
Accounts receivable	8	263,873	172,591
Loans receivable		1,800	1,200
Prepayments, deposits and other receivable		92,829	77,271
Investments		28,093	52,534
Taxation recoverable		6	6
Pledged bank deposits		17,757	26,890
Bank balances – trust and segregated accounts		298,697	285,020
Bank balances (general) and cash		157,656	257,651
		930,109	938,554
Current liabilities			
Accounts payable	9	497,717	490,026
Accrued liabilities and other payables		72,340	84,515
Taxation payable		271	279
Obligations under finance leases – amount due within one year		383	681
Bank borrowings		184,491	205,542
		755,202	781,043
Net current assets		174,907	157,511
		463,027	449,232

	Notes	30 June 2003 (Unaudited) HK$'000	31 December 2002 (Audited) HK$'000
Capital and reserve			
Share capital	10	36,548	30,548
Reserves	11	322,872	345,257
		359,420	375,805
Minority interests		80,786	72,674
Non-current liabilities			
Bank borrowings – amount due after one year		22,500	–
Obligations under finance leases – amount due after one year		321	753
		463,027	449,232

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 30 June 2003 HK$'000	2002 HK$'000 (restated)
Net cash (used in) from operating activities	(113,018)	(27,078)
Net cash (used in) investing activities	(12,923)	(59,111)
Net cash from (used in) financing activities	25,946	(53,936)
Net decrease in cash and cash equivalents	(99,995)	(140,125)
Cash and cash equivalents at beginning of period	257,651	355,320
Cash and cash equivalents at end of period	157,656	215,195
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in 2002 interim report		118,159
Effect of reclassification of pledge deposits		(38,349)
Effect of reclassification of bank borrowing		135,385
Cash and cash equivalents as restated		215,195

STATEMENT OF CHANGES IN EQUITY

	Notes	Unaudited six months ended 30 June 2003 HK$'000	2002 HK$'000
At 1 January		375,805	902,571
Repurchase of shares		–	(26,718)
Shares issued upon exercise of bonus warrants		–	3
Gain realised on expiry of placing warrants	5	–	(59,573)
Issue of new shares	12	16,500	–
Share issue expenses	12	(406)	–
Net loss for the period		(32,479)	(10,875)
At 30 June		359,420	805,408

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

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

Income statement for the six months ended 30 June 2002

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

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 HK$'000	2002 HK$'000
Gain realised on expiry of placing warrants (W580) ("Placing Warrants")	–	59,573
Partial reversal of allowance for a loan to an associate	26,500	–
	26,500	59,573

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:

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

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

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

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

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

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

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

(9) Accounts payable

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

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:

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

(10) Share capital

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

(11) Reserves

		Unaudited six months ended 30 June						
		2003						2002
	Notes	Share premium HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Other reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Total HK$'000	Total 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		278,942	16,424	1,160	12,314	14,032	322,872	774,860

Notes:

(a) Please refer to note 12 to the consolidated balance sheet 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.

DIVIDEND

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

REVIEW AND OUTLOOK

Financial Review

For the six months ended 30 June 2003, our Group recorded a 23.1% decrease in turnover to HK$445.1 million when compared with the same period last year. During the period under review, the Group had faced the most severe economic owes in these years as the outbreak of Severe Acute Respiratory Syndrome ("SARS") had caused disastrous impacts on different business sectors across the city for a period of more than three months. The economic doldrums had made both investment and consumer sentiments hit rock bottom during the period. Our Group's financial services business suffered a 50.2% decrease in turnover as the local securities market had been hibernating since the beginning of this year and the turnover in securities trading had further shrunk to a record low level in the wake of SARS outbreak in March. The 16.7% decrease in sales of the Group's furniture and household products speaks of the tough environment for the entire retail sector which had long been plagued by the ever-rising unemployment rates to record high and by the years-long deflationary pressure on the local economy. The SARS outbreak, lasting for more than three months from end of March to end of June, had further dampened already weak consumer market as the highly contagious disease had scared away consumers from the crowded shopping outlets and entertainment complex. To reduce the adverse effects brought about by SARS on sales, the Group operated on a discounted pricing strategy by lowering profit margins during the period to encourage more customer traffic. The SARS outbreak, the first of its kind in the Hong Kong's history, had further exacerbated our non-performing results and the Group suffered a net loss attributable to shareholders of HK$32.5 million for the period.

The Group's total shareholders' equity amounted to HK$359.4 million on 30 June 2003 as compared to HK$375.8 million at the end of the last year. The mild decrease in equity was direct result of the reported loss for the period.

On 30 June 2003, our cash and bank balances stood at HK$474.1 million as compared to HK$569.6 million on 31 December 2002. The reduction in cash balances was mainly due to the drastic increase in margin financing to our clients as the investment activities began to pick up amid the improving sentiment near the end of the reporting period. Despite the mild reduction in cash balances, our liquidity ratio remained healthy at 1.23 times on 30 June 2003 as compared to 1.20 times on 31 December 2002.

Our total bank borrowings on 30 June 2003 slightly increased to HK$207.0 million from HK$205.5 million on 31 December 2002. The ample banking facilities had allowed the Group to secure greater purchase discounts during the SARS period by managing accelerated payments to our vendors. During the period, the ratio of the total banking borrowings to shareholders' equity was 0.58 as compared to 0.55 on 31 December 2002. We are confident that the gearing was maintained at a prudent level, especially when the majority of our banking borrowings were used in back-to-back margin financing for the clients of CASH Financial Services Group Limited ("CFSG").

All of the Group's borrowings are either in HK dollar or US dollar, with the interest rates priced at close to banks' funding costs. By using effective instrument to hedge any adverse changes in interest rates, the Group's exposure to both foreign currency and interest rate fluctuation was insignificant. On 30 June 2003, the Group's listed investment securities were valued at HK$28.1 million and a loss on investment of HK$7.8 million was recorded for the period, reflecting the extremely poor investment sentiment in the SARS-stricken stock market.

As at 30 June 2003, leasehold properties at their carrying value of approximately HK$30.9 million, bank deposits of HK$17.8 million and listed investment securities valued at HK$56.7 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 at the period end.

Our Group did not make any material acquisitions or disposals during the six months ended 30 June 2003. There was no significant investment held during the period. We do not have any future plans for material investments or capital assets.

Industry Review

The prolonged economic hardships in Hong Kong remained unabated in the first half of 2003. Consumer spending and investment sentiment were further aggravated by the outbreaks of SARS and the US-Iraqi War, deepening both the global and local depressions.

The average daily turnover for the first six months of 2003 at the main board of the Stock Exchange was HK$6,956 million; down from HK$7,341 million during the same period in 2002. The first quarter of the year was most characterised with uncertainties, with the Hang Seng Index recorded year-on-year drops by 14%, 13% and 22% respectively in January, February and March. Notwithstanding these backdrops, the April 1 removal of minimum commissions did not trigger major price war in the market, which helped clear some market uncertainties in the second quarter.

The retail environment in the first half of 2003 was tougher than ever. The retail sales during the period declined by 6.7% in value or 4.2% in volume; while in June 2003, the value of total retail sales decreased by 6.4% as compared with June 2002. The record high unemployment rate of 8.6% in April to June of 2003, as well as the protracted payroll cuts and employment vacancies reductions exacerbated the already poor consumer sentiment. The total number of personal bankruptcies in the first half of 2003 amounted to 15,665, an almost 54% increase over the same period last year. The Composite Consumer Price Index declined by 2.2% in the first half of 2003, with prices of durable goods registered the largest year-on-year decline of 7.9% in June 2003, putting more downward pressure on local economy.

Business Review

For CFSG

As discussed in CFSG's previous reports, we anticipated the depressed investment sentiment and deteriorating market environment, we have therefore been focusing on maintaining our cost leadership to ensure our good stand for the future. During the period under review, we rationalised our branch network and maintained a lean operating structure to include two customer service centres and our headquarters at the Millennium Plaza in Central, so as to continue to service our high net worth clients with personalised professional service over a wide range of investment products. As a result, our operating costs in the first six months decreased by 44.8% to HK$60.8 million, as compared with the same period last year.

On the other hand, we have also been active in diversifying our income stream from pure equities broking. During the period under review, our major business attributes were broking, financing and corporate finance, which contributed to 82.4%, 6.6% and 11.0% of the consolidated turnover respectively in the period.

The mediocre performance of our stock broking business during the period was in line with the market doldrums. Thanks to our early moves to reduce reliance on equities broking, our commodities broking business (included in the brokerage income above) recorded an almost three-fold increase in revenues as compared to the same period last year.

Our corporate finance and financial advisory business has also been steady. During the period under review, we sponsored and underwrote IPOs for our clients in Hong Kong. Further, we acted as the financial advisor or independent financial advisor to several listed companies on the main board or GEM board in Hong Kong, and advised them on their corporate finance transactions including rights issue, connected transactions and fund raising exercises as placing. In addition, we continued to be the sponsor of a number of GEM-listed companies.

For Pricerite Group Limited ("Pricerite")

Despite the economic difficulties, we continued to sharpen our business edges to provide the best value and quality lifestyle and basic home improvement solutions to customers.

Fast and Timely Response to Customer Needs

During the early SARS period, we envisaged the importance of on-line shopping so that customers can avoid going to crowded area. We therefore timely promote our on-line shopping channel, *www.pricerite.com.hk*, to boost sales. Our online sales were therefore increased substantially in the first half of 2003. Further, in just a short period time, we managed to flexibly expand the product items in cleaning, sterilising and mosquito repelling products.

Enriching our Product Mix

New products were introduced to every section of our merchandise groupings, providing our customers with valued products to take care of the various aspects of their home and family members. We also saw an increasing trend in product specialisation and hence we opened the IT Corner and the Kids' Corner, in addition to the existing SOHO (Small Office, Home Office) Corner in our flagship stores. Experienced customer service officers were trained to provide personalised, professional and tailored advice to respective customers. We will be exploring other areas of specialisation so as to provide lifestyle solution to customers in addition to their basic needs.

Strengthening our Brand with the Relationship of our Customers

To further associate our brand with our "customer-caring" motto, we continued with the "product promotion" strategy to timely provide quality products to meet with customers needs. In view of the prevalent economic predicament, we worked with other merchants and credit card companies, such as the Bank of China, the Standard Chartered Bank, Epson, MacDonald's and KFC, with an aim to provide greater offers to customers and hence stimulate consumer spending. Furthermore, to instil more "lifestyle" element into our "value for money" products, we launched a new corporate identity in June 2003 to further strengthen our brand power.

Enhancing our Customer Service

With an aim to constantly improve our customer service, we launched the Interactive Voice Recording System (IVRS) in April 2003 to further facilitate customer enquiry on our products and services. To better equip our staff and to enhance their morale, we continued to invest in the "Service with Hearts" training. Approximately 100 man-hours a month were used to improve the skills of our staff and to increase their sense of ownership in our brand.

Details of our Customer Relations Management ("CRM") programme was finalised during the first half of 2003, we target to launch it in the second half of 2003.

Improving Customers' Shopping Experience

In the first half of 2003, we started reviewing our store network to include a mix of flagship stores and community stores in order to yield an optimal overall performance of our store network. Further, we finalised our specifications and planning in the Planogram, which will allow visual planning of retail space utilisation and in turn maximise its efficiency. Several successful trial runs of Planogram were made in the first half of 2003 and we target to launch it in the second half of the year.

We enhanced our store hygiene during the SARS period, and henceforth we made it as a company policy to regularly sterilise all stores during business hours, in addition to those after business hours. All frontline staff was required to wear masks during the SARS period to maximise the hygiene level and to reinsure customers' confidence. Last but not least, we also installed the Octopus payment system in all of our stores to offer customers convenience in their payment.

Pricerite China

Our first store in Guangzhou, China recorded satisfactory results in the first half of 2003. Similar to other retailers in Guangzhou, business was adversely affected by SARS in the first quarter. However, such influence had been temporary. As the SARS outbreak became contained, the business of our shop had quickly returned to normal. Overall, we had seen an increase in transaction count and a continual expansion in our customer base.

We have been constantly gathering data to fine-tune our China business model so as to provide our customers with the best products, pricing, and services. We had reviewed the product mix and introduced enhancements in the shopping environment. Such changes had been positively received by our customers.

For Halo Group Limited ("Halo")

Halo, our information technology (IT) strategic investment, enjoyed satisfactory progress during the period under review. Despite the fact that the overall IT industry was hard hit by the SARS epidemic, Halo had been able to sustain our core IT solution business, maintaining ourselves in a strong position for possible future rebound.

Halo continued to expand its client base in the IT solution service provision, from government and non-government organisations, to commercial companies, including small and medium enterprises. In the first half of 2003, we successfully launched an "application service provider (ASP)" service for a supply chain management (SCM) in the retail industry.

In the first half of 2003, we further extend our business to the marketing and trading of IT products, including personal computers, computer accessories and peripherals. Leveraging on our strong industry presence, knowledge and experience, coupled with the strength of Pricerite's retail network, our IT products marketing business recorded steady and healthy growth.

Outlook

With diminishing SARS effects, 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 the investment market, the average daily turnover by volume at the main board of the Stock Exchange in June recorded a 25% year-on-year increase.

For the retail market, analysts have been forecasting that the Hong Kong economy will be slowly recovering from SARS and would probably return to the pre-SARS economic environment at end of 2003 or early 2004. Nevertheless, the Composite CPI in July 2003 continued to record a year-on-year decrease of 4.0%, with durable goods recording a large decrease of 7.1% in July 2003. This was mainly due to price cuts amongst retailers to generate sales volume, creating even tougher operating environment.

For CFSG

We are confident that CFSG's existing cost structure has reached an optimal level to help us weather the forthcoming challenging environment and to empower us to grow even stronger. Our foremost priority will remain in preserving our capital strength and maintaining our cost leadership, which allow us to capitalise on the possible market recovery.

We will also continue to diversify and explore other financial services related incomes. With China and Hong Kong signing the Closer Economic Partnership Arrangement (CEPA) protocol, we believe it will further facilitate our development into China. We have been teaming up with Mainland partners in developing the brokerage, corporate finance and financial advisory businesses. We will continue to leverage on our strength in assisting quality mid- to smaller-cap companies to raise funds in Hong Kong. We will also leverage on our financial services expertise to create synergies with our Mainland partners, so as to capitalise on the vast development potentials in China.

As we have been emphasising the importance of diversifications, we acquired an independent financial advisory consultancy in July 2003 – Frederick Taylor, to further establish ourselves as the financial services house of choice for our clients. We will continue to expand our product range and customer base through enhancing the cross-selling synergies of our products and services. We started establishing our foothold in this low-penetrated financial planning market so as to tap its huge market potentials. Recent figures from the Hong Kong Investment Fund Association showed that only 9.5% of the adult population in Hong Kong in 2002 engaged in investments in mutual funds, as compared to 50-65% in the western countries. Moreover, as the aging population in Hong Kong further intensifies, people would inevitably start planning for their short- and long-term capital requirements to fulfill their financial needs in various life stages, e.g. children's education, medical plans, retirement plans. With details of CEPA further reveals, we will also be keeping our eyes on the Mainland market to capture its vast potentials in fulfilling people's investment needs.

In addition to expanding our product range, customer base and markets, we will also continue to improve our services. One of the service enhancements was the launch of combined statement in July 2003. We consolidated the asset statements of our wide spectrum of financial services into one single user-friendly status report to show client's current asset allocation with us, allowing clients to check their financial portfolio at a glance and plan their asset allocation at ease. Clients can even choose between receiving hard copies of asset statements or in the form of e-mails.

As we further diversify our business, we will continue to grow our core brokerage business so as to gain greater market share. We believe that our current lean operations, together with effective cost control measures, will further strengthen ourselves, enabling us to capitalise on any possible market recovery.

For Pricerite

We will continue to increase our competitiveness through enhancements in our business practices in order to catch up with the potential economic recovery.

In the latter half of 2003, we plan to launch a new look of our e-commerce platform, further facilitating on-line shopping, which we believe is a trend in future.

Subsequent to the period under review, we opened four more community stores after careful considerations. These stores are in high traffic areas in Tsuen Wan, Tin Shui Wai, Quarry Bay and Lam Tin. We will also continue to revamp existing flagship stores with Pricerite's fresh image and visual merchandising strategy.

We aim at launching the Planogram in the second half of 2003, which we believe will further enhance our operating efficiencies. Further advancements in our logistics strength, data-mining and data-warehousing will be conducted in associate with the Planogram. We believe that these improvements in our infrastructure will bring greater operating efficiencies in our product delivery and hence bringing a more favourable shopping experience to our customers.

CEPA will further facilitate our development into China. Our management teams in China and Hong Kong are working to build new programs to cater for the increasing flow of visitors from China to Hong Kong and the business opportunities that emerge. Our medium to long-term commitment in China remains unchanged. We will continue to leverage on the operation enhancements in Hong Kong to share the supply chain management structure with our operations in China.

For Halo

As for Halo, we will continue to expand the customer base for our business solution service and extend the ASP service to clients in other industries.

Halo, with our sound foundation, is in best position to capture opportunities arising from CEPA. We are planning to establish our presence in the Guangdong area to provide IT consulting and business solution service to PRC, local and overseas enterprises.

For the marketing of IT products, Halo will aim to consolidate on our early success to further develop our product ranges and retail channels.

All in all, the CASH Group remains optimistic yet cautious in the future market development. In the past year, the Group has implemented measures to review and optimise our cost base, operating efficiency, product offering and customer service quality. These measures lay firm foundations for the Group to weather uncertainty in the market as well as to capture opportunities as they emerge.

Entering the second half of 2003, the Group believes that the low-point in business is already behind us. During the downturn of the business cycle we had retained and built strength in our balance sheet, management process, and the talent and commitment of our employees. There are signs that the U.S. economy is on a steady pace of recovery. Furthermore, the general business environment and investment sentiment in Hong Kong are expected to improve following the closer economic ties between China and Hong Kong. As the general business conditions continue to improve, we are confident that the Group will be in a good position to move forward to a healthy growth path.

EMPLOYEE INFORMATION

At 30 June 2003, the Group had 1,123 employees, of which 147 were at CFSG Group and 918 at Pricerite Group. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options, performance bonus and sales commission. The total amount of remuneration cost of employees of the Group for the six months under review was approximately HK$74.8 million. We continue to organise training to employees in areas such as mandatory professional development programmes required by regulatory bodies, product knowledge, customer services, selling techniques, problem solving, language training, time management, train-the-trainers and coaching, etc.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2003, 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 Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

A. The Company

1. Long positions in the shares

Name	Capacity	Number of shares: Personal	Family	Other interest	Shareholding (%)
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. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

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

Name	Date of grant	Exercise period	Exercise price per share (HK$)	Notes	Number of options outstanding as at 1 January 2003	lapsed during the period (Note 2)	outstanding as at 30 June 2003	Percentage to issued shares as at 30 June 2003 (%)
Kwan Pak Hoo Bankee	2/5/2002	2/5/2002 – 30/4/2003	1.32	(4)	3,000,000	(3,000,000)	–	–
Law Ping Wah Bernard	2/5/2002	2/5/2002 – 30/4/2003	1.32		3,000,000	(3,000,000)	–	–
Chan Yau Ching Bob	6/11/2000	16/5/2001 – 15/5/2003	5.40	(1)	250,000	(250,000)	–	–
	31/8/2001	1/3/2002 – 28/2/2004	2.60	(1)	1,500,000	–	1,500,000	0.41
	2/5/2002	2/5/2002 – 30/4/2003	1.32		1,500,000	(1,500,000)	–	–
Kwok Oi Kuen Joan Elmond	6/11/2000	16/5/2001 – 15/5/2003	5.40	(1)	750,000	(750,000)	–	–
	2/5/2002	2/5/2002 – 30/4/2003	1.32		3,000,000	(3,000,000)	–	–
Law Ka Kin Eugene	6/11/2000	16/5/2001 – 15/5/2003	5.40	(1)	500,000	(500,000)	–	–
	2/5/2002	2/5/2002 – 30/4/2003	1.32		3,000,000	(3,000,000)	–	–
Li Yuen Cheuk Thomas	2/5/2002	2/5/2002 – 30/4/2003	1.32		3,000,000	(3,000,000)	–	–
Wong Chuk Yan	2/5/2002	1/11/2002 – 31/10/2003	1.32	(1)	200,000	–	200,000	0.05
Chan Hak Sin	2/5/2002	1/11/2002 – 31/10/2003	1.32	(1)	200,000	–	200,000	0.05
Leung Ka Kui Johnny	2/5/2002	1/11/2002 – 31/10/2003	1.32	(1)	200,000	–	200,000	0.05
					20,100,000	(18,000,000)	2,100,000	0.56

Notes:

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

(2) The lapsed options were due to expiry.

(3) No option was granted, exercised or cancelled during the period.

(4) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

B. Associated corporations (within the meaning of SFO)

1. CFSG

(a) Long positions in the shares

Name	Capacity	Number of shares Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	75,463,239*	60.01

* The shares were held 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 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 (HK$)	Notes	Number of options outstanding as at 1 January 2003 and 30 June 2003	Percentage to issued shares as at 30 June 2003 (%)
Law Ping Wah Bernard	26/3/2001	1/10/2001 – 30/9/2004	2.20	(1)	1,000,000	0.80
Law Ka Kin Eugene	26/3/2001	1/10/2001 – 30/9/2004	2.20	(1)	1,250,000	0.99
					2,250,000	1.79

Notes:

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

(2) No option was granted, exercised or cancelled during the period.

2. Pricerite

(a) Long positions in the shares

Name	Capacity	Number of shares Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	70,971,614*	68.35

* The shares were held by CIGL and its subsidiaries. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

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

					Number of options				Percentage to issued shares
Name	Date of grant	Exercise period	Exercise price per share (Note 1) (HK$)	Notes	outstanding as at 1 January 2003	adjusted on 6 May 2003 (Note 1)	lapsed during the period (Note 2)	outstanding as at 30 June 2003	as at 30 June 2003 (%)
Kwan Pak Hoo Bankee	17/1/2002	1/2/2002 – 31/1/2004	4.20	(4)	20,000,000	(19,000,000)	–	1,000,000	0.96
Law Ping Wah Bernard	12/6/2001	16/6/2001 – 15/6/2003	4.20		7,200,000	(6,840,000)	(360,000)	–	–
	17/1/2002	1/2/2002 – 31/1/2004	4.20		13,000,000	(12,350,000)	–	650,000	0.63
Kwok Oi Kuen Joan Elmond	17/1/2002	1/2/2002 – 31/1/2004	4.20		20,000,000	(19,000,000)	(1,000,000)	–	–
Li Yuen Cheuk Thomas	12/6/2001	16/6/2001 – 15/6/2003	4.20		14,400,000	(13,680,000)	(720,000)	–	–
	17/1/2002	1/2/2002 – 31/1/2004	4.20		6,000,000	(5,700,000)	–	300,000	0.29
					80,600,000	(76,570,000)	(2,080,000)	1,950,000	1.88

Notes:

(1) The number and the exercise price of options which remained outstanding on 6 May 2003 have been adjusted due to share consolidation of Pricerite for 20 shares into 1 share with effect from the close of business on 6 May 2003.

(2) The lapsed options were due to expiry or cessation of employment of participants with the Group.

(3) No option was granted, exercised or cancelled during the period.

(4) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company.

Save as disclosed above, as at 30 June 2003, 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).

SHARE OPTION SCHEMES

The Company

Details of share options to subscribe for shares in the Company granted to participants under the share option schemes of the Company during the six months ended 30 June 2003 were as follows:

				Number of options		
Date of grant	Exercise price per share (HK$)	Exercise period	Notes	outstanding as at 1 January 2003	lapsed during the period (Note 4)	outstanding as at 30 June 2003
Directors						
6/11/2000	5.40	16/5/2001 – 15/5/2003	(1)	1,500,000	(1,500,000)	–
31/8/2001	2.60	1/3/2002 – 28/2/2004	(1)	1,500,000	–	1,500,000
2/5/2002	1.32	2/5/2002 – 30/4/2003	(1)	16,500,000	(16,500,000)	–
2/5/2002	1.32	1/11/2002 – 31/10/2003	(1)	600,000	–	600,000
				20,100,000	(18,000,000)	2,100,000
Employees						
10/1/2000	16.00	10/1/2001 – 9/1/2003		500,000	(500,000)	–
28/7/2000	9.80	1/2/2001 – 31/1/2003	(3)	50,000	(50,000)	–
6/11/2000	5.40	16/5/2001 – 15/5/2003	(2)	1,000,000	(1,000,000)	–
6/11/2000	5.40	16/5/2001 – 15/5/2003	(3)	300,000	(300,000)	–
2/2/2001	4.80	16/8/2001 – 15/8/2003	(3)	300,000	–	300,000
31/8/2001	2.60	1/3/2002 – 28/2/2004	(2)	3,000,000	–	3,000,000
2/5/2002	1.32	2/5/2002 – 30/4/2003		3,000,000	(3,000,000)	–
2/5/2002	1.32	1/11/2002 – 31/10/2003	(2)	2,000,000	(100,000)	1,900,000
				10,150,000	(4,950,000)	5,200,000
				30,250,000	(22,950,000)	7,300,000

Notes:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".

(2) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.

(3) The 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; (ii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (ii) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.

(4) The lapsed options were due to expiry or cessation of employment of participants with the Group.

(5) No option was granted, exercised or cancelled during the period.

The subsidiaries

Details of share options to subscribe for shares in CFSG and Pricerite granted to participants under the share option schemes of CFSG and Pricerite respectively during the six months ended 30 June 2003 were as follows:

1. CFSG

Date of grant	Exercise price per share (HK$)	Exercise period	Notes	Number of options: outstanding as at 1 January 2003	lapsed during the period (Note 3)	outstanding as at 30 June 2003
Directors						
26/3/2001	2.20	1/10/2001 – 30/9/2004	(1)	2,250,000	–	2,250,000
				2,250,000	–	2,250,000
Employees						
26/3/2001	2.20	1/10/2001 – 30/9/2004	(2)	2,750,000	–	2,750,000
27/3/2001	2.20	1/10/2001 – 30/9/2004	(2)	645,000	(225,000)	420,000
				3,395,000	(225,000)	3,170,000
				5,645,000	(225,000)	5,420,000

Notes:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".

(2) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.

(3) The lapsed options were due to cessation of employment of participants with the Group.

(4) No option was granted, exercised or cancelled during the period.

2. Pricerite

				Number of options			
Date of grant	Exercise price per share (Note 2) (HK$)	Exercise period	Notes	outstanding as at 1 January 2003	adjusted on 6 May 2003 (Note 2)	lapsed during the period (Note 4)	outstanding as at 30 June 2003
Directors							
12/6/2001	4.20	16/6/2001 – 15/6/2003	(1)	21,600,000	(20,520,000)	(1,080,000)	–
17/1/2002	4.20	1/2/2002 – 31/1/2004	(1)	59,000,000	(56,050,000)	(1,000,000)	1,950,000
				80,600,000	(76,570,000)	(2,080,000)	1,950,000
Employees							
12/6/2000	6.40	13/6/2000 – 12/6/2003	(3)	3,519,000	(3,035,250)	(483,750)	–
17/1/2002	4.20	1/2/2002 – 31/1/2004		42,500,000	(38,000,000)	(2,500,000)	2,000,000
				46,019,000	(41,035,250)	(2,983,750)	2,000,000
				126,619,000	(117,605,250)	(5,063,750)	3,950,000

Notes:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".

(2) The number and the exercise price of options which remained outstanding on 6 May 2003 have been adjusted due to share consolidation of Pricerite for 20 shares into 1 share with effect from the close of business on 6 May 2003.

(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 lapsed options were due to expiry or cessation of employment of participants with the Group.

(5) No option was granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the persons/companies, other than a Director or chief executive of the Company, who had notified the Company of the interests or short positions in the shares and underlying shares of the Company 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 (Note 1)	Trustee of a discretionary trust	156,952,376	42.94
Cash Guardian (Note 1)	Interest in a controlled corporation	156,952,376	42.94
Lin Che Chu (Note 2)	Interest in a controlled corporation	24,630,000	6.74

Notes:

(1) This refers to the same number of shares held by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc ("Jeffnet")). Jeffnet held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to 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 in securities" above.

(2) The shares were held by Mr Lin Che Chu as to 4,900,000 shares personally and as to 19,730,000 shares by two limited companies 100% beneficially owned by Mr Lin. Pursuant to the SFO, Mr Lin was deemed to be interested in all the shares held by the said two limited companies.

Save as disclosed above, as at 30 June 2003, 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.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonable indicate that the Company is not, or was not for any part of the accounting period from 1 January 2003 to 30 June 2003, in compliance with Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange, save that the Independent Non-executive Directors of the Company were not appointed for specific terms but subject to retirement by rotation at annual general meeting as specified by the Company's bye-laws.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities.

On behalf of the Board
Bankee P Kwan
Chairman & CEO

Hong Kong, 16 September 2003