

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 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 of Hong Kong Limited ("Stock Exchange"). Its ultimate holding company is Celestial Asia Securities Holdings Limited ("CASH"), a company incorporated in Bermuda with its shares being listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 12.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

### SSAP 12 (Revised) Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The adoption of SSAP 12 (Revised) has had no effect on the results for the current or prior accounting years. The effect of the adoption of SSAP 12 (Revised) as at 1 January 2002 are summarised below:

	As originally stated HK\$'000	Adjustment HK\$'000	As restated HK\$'000
Deferred tax liabilities	–	(3,441)	(3,441)
Deferred tax assets	–	3,441	3,441
Total effect on accumulated losses	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### **Basis of consolidation**

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

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

### **Investments in subsidiaries**

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

### **Property and equipment**

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

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property and equipment (continued)

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

Leasehold land	Over the lease terms
Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	4 to 7 years
Motor vehicles	5 years

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

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

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 terms.

### Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

### 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.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange 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 scheme are charged as an expense as they fall due.

## 4. TURNOVER AND SEGMENTAL INFORMATION

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 5. LOSS FROM OPERATING ACTIVITIES

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Allowance for inventory obsolescence and write off of inventories (included in cost of sales)	6,493	4,990
Allowance for bad and doubtful debts (included in other operating expenses)	–	3,990
Amortisation of goodwill (included in other operating expenses)	–	3,093
Auditors' remuneration	736	677
Compensation for early termination of tenancy agreements and investment project	–	7,004
(Surplus) Deficit on revaluation of leasehold land and buildings	(5,733)	8,658
Depreciation and amortisation of property and equipment:		
Owned assets	29,511	27,856
Leased assets	205	126
	29,716	27,982
Interest income	(611)	(951)
Loss (Gain) on disposal of property and equipment	577	(591)
Loss on trading of securities	2,051	3,712
Net foreign exchange (gain) loss	(372)	2
Operating lease rentals in respect of land and buildings:		
Minimum lease payments	106,702	105,702
Contingent rents	2,390	5,179
	109,092	110,881
Staff costs (including Directors' remuneration):		
Wages and salaries	90,642	83,445
Contributions to retirement benefits scheme	3,893	4,005
	94,535	87,450
Unrealised loss on trading of securities	2,396	2,486

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 6. FINANCE COSTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	2,771	692
Finance leases	31	42
	<b>2,802</b>	<b>734</b>

## 7. DIRECTORS' REMUNERATION

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive Directors	–	–
Independent non-executive Directors	100	–
Other remuneration paid to Executive Directors:		
Salaries, allowances and other benefits	2,087	1,418
Contributions to retirement benefits scheme	43	31
Performance related incentive payments	21	53
Total remuneration	<b>2,251</b>	<b>1,502</b>

The remuneration of Directors fell within the following bands:

	THE GROUP	
	2003 Number of Directors	2002 Number of Directors
Nil – HK\$1,000,000	12	11

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 8. EMPLOYEES' REMUNERATION

The five highest paid employees included three (2002: two) Directors of the Company, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2002: three) individuals for the year are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	1,907	1,094
Contributions to retirement benefits scheme	34	31
Performance related incentive payments	–	103
	<b>1,941</b>	<b>1,228</b>

Their remuneration were within the following band:

	2003 Number of Employees	2002 Number of employees
Nil to HK\$1,000,000	2	3

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

### 9. TAXATION

No provision for Hong Kong Profits Tax was made in the financial statements as the Group had no assessable profits for both years.

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(29,925)	(96,856)
Tax at income tax rate of 17.5% (2002: 16%)	(5,237)	(15,497)
Tax effect of tax losses not recognised	4,829	8,097
Tax effect of expenses not deductible for tax purpose	1,519	7,821
Tax effect of income not taxable for tax purpose	(1,111)	(421)
Tax expense for the year	–	–

The following is the major deferred tax liabilities and assets recognised and the movements thereon during the current and the prior reporting years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised) (Note 2)	(3,441)	3,441	–
– as restated	(3,441)	3,441	–
(Credit) Charge to income statement	(276)	276	–
At 31 December 2002 and 1 January 2003	(3,717)	3,717	–
Charge (Credit) to income statement	2,236	(2,236)	–
Effect of change in tax rate	(348)	348	–
At 31 December 2003	(1,829)	1,829	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 9. TAXATION (continued)

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

At the balance sheet date, the Group has unused estimated tax losses of HK\$92,227,000 (2002: HK\$77,413,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$10,451,000 (2002: HK\$23,231,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$81,776,000 (2002: HK\$54,182,000) due to the unpredictability of future profit streams.

## 10. LOSS PER SHARE

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

	2003 HK\$'000	2002 HK\$'000
Loss for the purpose of basic and diluted loss per share	(29,925)	(96,856)
Weighted average number of ordinary shares for the purpose of basic loss per share	519,194,250	519,194,250
Effect of dilutive potential ordinary shares assumed exercise of share options	N/A	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	519,194,250	519,194,250

The weighted average number of ordinary shares for the year ended 31 December 2002 for the purpose of basic and diluted loss per share has been adjusted for share consolidation which took effect on 6 May 2003.

Subsequent to the balance sheet date, the Company's issued shares of HK\$0.10 each was subdivided into 5 new shares of HK\$0.02 each. The share subdivision took effect on 2 March 2004. The weighted average number of ordinary shares for both years for the purposes of basic and diluted loss per share have been adjusted accordingly.

The calculation of diluted loss per share for both years did not assume the exercise of the Company's outstanding share options as the exercise price of those options were higher than the average market price of shares.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 11. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST OR VALUATION</b>					
At 1 January 2003	46,600	83,741	133,428	4,579	268,348
Surplus on revaluation	4,400	–	–	–	4,400
Additions	–	4,231	5,063	250	9,544
Disposal of a subsidiary	–	(539)	(248)	–	(787)
Disposals	(15,000)	(3,486)	(2,054)	(1,278)	(21,818)
At 31 December 2003	36,000	83,947	136,189	3,551	259,687
<b>ACCUMULATED DEPRECIATION AND AMORTISATION AND IMPAIRMENT</b>					
At 1 January 2003	–	48,850	81,926	2,534	133,310
Provided during the year	1,384	13,024	14,821	487	29,716
Written back on revaluation	(1,333)	–	–	–	(1,333)
Eliminated on disposal of a subsidiary	–	(258)	(115)	–	(373)
Eliminated on disposals	(51)	(3,294)	(1,328)	(992)	(5,665)
At 31 December 2003	–	58,322	95,304	2,029	155,655
<b>NET BOOK VALUES</b>					
At 31 December 2003	36,000	25,625	40,885	1,522	104,032
At 31 December 2002	46,600	34,891	51,502	2,045	135,038
<b>Analysis of cost or valuation:</b>					
At cost	–	83,947	136,189	3,551	223,687
At valuation	36,000	–	–	–	36,000
	36,000	83,947	136,189	3,551	259,687

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 11. PROPERTY AND EQUIPMENT (continued)

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:

	2003 HK\$'000	2002 HK\$'000
Long leases	–	15,000
Medium-term leases	<b>36,000</b>	31,600
	<b>36,000</b>	46,600

The leasehold land and buildings held by the Group have been pledged to banks to secure general banking facilities granted to the Group.

The medium-term leasehold land and buildings were revalued on 31 December 2003 at HK\$36,000,000 by Knight Frank, independent professional valuers, on an open market existing use basis. The resulting surplus of HK\$5,733,000 arising from the revaluation was credited to the income statement.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and amortisation, their carrying value would have been approximately HK\$66,450,000 (2002: HK\$76,350,000).

The net book value of motor vehicles of HK\$1,522,000 include an amount of HK\$641,000 (2002: HK\$1,132,000) in respect of assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 11. PROPERTY AND EQUIPMENT (continued)

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
COST OR VALUATION			
At 1 January 2003	31,600	2,540	34,140
Surplus on revaluation	4,400	–	4,400
At 31 December 2003	36,000	2,540	38,540
ACCUMULATED DEPRECIATION AND AMORTISATION			
At 1 January 2003	–	982	982
Provided during the year	1,333	127	1,460
Written back on revaluation	(1,333)	–	(1,333)
At 31 December 2003	–	1,109	1,109
NET BOOK VALUES			
At 31 December 2003	36,000	1,431	37,431
At 31 December 2002	31,600	1,558	33,158
Analysis of cost or valuation:			
At cost	–	2,540	2,540
At valuation	36,000	–	36,000
	36,000	2,540	38,540

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	32,607	32,607
Impairment loss recognised	(26,000)	(26,000)
	<b>6,607</b>	6,607
Amounts due from subsidiaries	247,579	248,433
Allowance for amounts due from subsidiaries	(113,000)	(76,000)
	<b>134,579</b>	172,433
	<b>141,186</b>	179,040

The balances with subsidiaries are unsecured and interest-free. In the opinion of the Directors, the amounts will not be repaid in the next twelve months.

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

### 12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Pricerite Stores Limited ("PSL")	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$5,000,000 *	100%	Retailing of furniture and household goods
Pricerite.com.hk Limited	Hong Kong	Ordinary HK\$2	100%	Retailing of furniture and household goods through a website

\* 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 them 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 showed above are indirectly held by the Company.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 13. OTHER ASSETS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Prepayment for advertising and telecommunication services	12,358	21,312
Less: Amount classified as current assets and included in prepayments, deposits and other receivables	(5,000)	(7,500)
	7,358	13,812

## 14. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Finished goods held for sale	58,507	65,391

Finished goods of approximately HK\$564,000 (2002: HK\$2,607,000) are carried at net realisable value.

## 15. ACCOUNTS RECEIVABLE

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

The aged analysis of accounts receivable at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	5,808	218
31 – 60 days	103	120
61 – 90 days	5	76
Over 90 days	32	28
	5,948	442

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Equity trading securities listed on the Stock Exchange, at market value	12,565	41,006

## 17. PLEDGED BANK DEPOSITS

### The GROUP

The bank deposits were pledged to secure general banking facilities granted to a subsidiary.

## 18. ACCOUNTS PAYABLE

The aged analysis of accounts payable at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	66,118	40,785
31 – 60 days	42,636	29,813
61 – 90 days	41,761	33,516
Over 90 days	22,089	50,122
	172,604	154,236

# NOTES TO THE FINANCIAL STATEMENTS

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## 19. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases				
Within one year	321	445	310	410
In the second to fifth year inclusive	71	525	70	509
	392	970	380	919
Less: Future finance charges	12	51	–	–
Present value of lease obligations	380	919	380	919
Less: Amount due for payment within one year			310	410
Amount due for payment after one year			70	509

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 20. BANK BORROWINGS, SECURED

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts	1,698	6,353
Trust receipt loans	60,982	52,538
Bank loan	25,500	–
	<b>88,180</b>	<b>58,891</b>

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
On demand or within one year	68,680	58,891
More than one year, but not exceeding two years	6,000	–
More than two years, but not exceeding five years	13,500	–
	<b>88,180</b>	<b>58,891</b>
Less: Amount due within one year shown under current liabilities	<b>(68,680)</b>	<b>(58,891)</b>
Amount due after one year	<b>19,500</b>	<b>–</b>

The bank borrowings bear interest at commercial rates.

At 31 December 2003, the Group's bank borrowings and other banking facilities of the Group are secured by:

- (i) pledge of the Group's leasehold land and buildings;
- (ii) pledge of HK\$20,000,000 (2002: HK\$8,500,000) bank deposits; and
- (iii) guarantees given by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 21. SHARE CAPITAL

	Note	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2002 and 1 January 2003		3,000,000	300,000
Reduced due to share consolidation	(a)	(2,850,000)	–
Reduced due to capital reduction	(a)	–	(285,000)
Cancellation of unissued share capital	(a)	(46,161)	(4,616)
Increase during the year	(a)	46,161	4,616
		150,000	15,000
At 31 December 2003			
Issued and fully paid:			
At 1 January 2002 and 1 January 2003		2,076,777	207,678
Reduced due to share consolidation	(a)	(1,972,938)	–
Reduced due to capital reduction	(a)	–	(197,294)
		103,839	10,384
At 31 December 2003			

Note:

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

Pursuant to the special resolution passed on 5 May 2003, 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\$15,000,000 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\$197,294,000 to the contributed surplus account.

Share Consolidation and Capital Reduction took effect on 6 May 2003.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 22. RESERVES

	Notes	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
				(Note c)		
<b>THE GROUP</b>						
At 1 January 2002		80,764	–	6,055	14,616	101,435
Reduction of share premium transferred to write off accumulated losses		(30,253)	–	–	30,253	–
Net loss for the year		–	–	–	(96,856)	(96,856)
At 31 December 2002 and 1 January 2003		50,511	–	6,055	(51,987)	4,579
Reduction of share premium transferred to contributed surplus	(a)	(50,511)	50,511	–	–	–
Amount transferred to write off accumulated losses	(b)	–	(76,863)	–	76,863	–
Capital Reduction		–	197,294	–	–	197,294
Net loss for the year		–	–	–	(29,925)	(29,925)
At 31 December 2003		–	170,942	6,055	(5,049)	171,948

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 22. RESERVES (continued)

Notes	Share premium HK\$'000 (Note e)	Contributed surplus HK\$'000 (Note d)	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1 January 2002	80,764	31,029	(30,253)	81,540
Reduction of share premium transferred to contributed surplus	(30,253)	30,253	–	–
Reduction of contributed surplus transferred to write off accumulated losses	–	(30,253)	30,253	–
Net loss for the year	–	–	(76,863)	(76,863)
<hr/>				
At 31 December 2002 and 1 January 2003	50,511	31,029	(76,863)	4,677
Reduction of share premium transferred to contributed surplus	(a) (50,511)	50,511	–	–
Amount transferred to write off accumulated losses	(b) –	(76,863)	76,863	–
Capital Reduction	–	197,294	–	197,294
Net loss for the year	–	–	(33,420)	(33,420)
<hr/>				
At 31 December 2003	–	201,971	(33,420)	168,551

Notes:

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*

## **22. RESERVES (continued)**

- (d) The contributed surplus of the Company represents the difference between the consolidated net asset value of Pricerite BVI Limited on 21 January 1994 when its entire issued share capital was acquired by the Company pursuant to the group reorganisation, and the nominal amount of the Company's share issued in consideration for such acquisition, and the net amount arising from the reduction of share premium account, Capital Reduction and amounts transferred to write off the accumulated losses.
- (e) Under the Companies Act 1981 of Bermuda, the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.
- (f) Under the Companies Act 1981 of Bermuda, the contributed surplus of a company is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
  - (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
  - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 23. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
NET ASSETS DISPOSED OF		
Property and equipment	414	–
Inventories	1,682	–
Accounts receivable	932	–
Prepayments, deposits and other receivables	552	–
Bank balances and cash	14	–
Accounts payable	(3,125)	–
Accrued liabilities and other payables	(377)	–
Total consideration	92	–
SATISFIED BY		
Cash	92	–
NET CASH INFLOW ARISING ON DISPOSAL		
Cash consideration	92	–
Bank balances and cash disposed of	(14)	–
	78	–

The subsidiaries disposed of during the year contributed approximately HK\$914,000 to the Group's turnover and approximately HK\$2,608,000 to the Group's loss from operating activities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 24. ACQUISITION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	–	450
Prepayments, deposits and other receivables	–	160
Accrued liabilities and other payables	–	(10)
Total consideration	–	600
SATISFIED BY		
Cash	–	600
CASH OUTFLOW ARISING ON ACQUISITION		
Cash consideration	–	600

## 25. SHARE OPTION SCHEMES

### (A) Share option schemes of the Company

#### (a) Share option scheme adopted on 21 January 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 full-time employee or executive director of any member of the Group.
- (iii) The maximum number of shares in respect of which options may 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 may 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) No minimum period for which an option must be held before it became exercisable was required.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (A) Share option schemes of the Company (continued)

#### (a) Share option scheme adopted on 21 January 1994 ("Old Option Scheme") (continued)

- (vi) The exercise period of an option shall be any period determined by the board of Directors 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 the Company.
- (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 Old Option Scheme was originally effective for 10 years until 20 January 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 CASH and its subsidiaries, including the Group and CASH Financial Services Group Limited ("CFSG") and its subsidiaries ("CFSG Group") (together "CASH Group"); or
  - attract potential candidates to serve the Group for the benefit of the development of the CASH Group.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (A) Share option schemes of the Company (continued)

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

- (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 10,383,885 shares, representing 9.74% 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (A) Share option schemes of the Company (continued)

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

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options							
					outstanding as at 1/1/2002	granted in 2002	lapsed in 2002 (note 6)	outstanding as at 31/12/2002 and 1/1/2003	adjusted on 6/5/2003	lapsed in 2003 (note 6)	granted in 2003	outstanding as at 31/12/2003
<b>Directors</b>												
Old Option Scheme	12/6/2000	0.32	13/6/2000-12/6/2002		18,000,000	-	(18,000,000)	-	-	-	-	-
	12/6/2000	0.32	13/6/2000-12/6/2002	(4)	3,600,000	-	(3,600,000)	-	-	-	-	-
	12/6/2001	4.20	16/6/2001-15/6/2003	(2)	28,800,000	-	(7,200,000)	21,600,000	(20,520,000)	(1,080,000)	-	-
	17/1/2002	4.20	1/2/2002-31/1/2004	(2)	-	84,500,000	(13,000,000)	71,500,000	(65,550,000)	(3,750,000)	-	2,200,000
New Option Scheme	2/12/2003	1.79	2/12/2003-30/11/2004	(5)	-	-	-	-	-	-	3,000,000	3,000,000
	2/12/2003	1.79	1/12/2004-30/11/2005	(5)	-	-	-	-	-	-	3,000,000	3,000,000
					50,400,000	84,500,000	(41,800,000)	93,100,000	(86,070,000)	(4,830,000)	6,000,000	8,200,000
<b>Employees</b>												
Old Option Scheme	12/6/2000	6.40	13/6/2000-12/6/2003	(1)&(3)	4,437,000	-	(918,000)	3,519,000	(3,035,250)	(483,750)	-	-
	17/1/2002	4.20	1/2/2002-31/1/2004	(2)	-	30,000,000	-	30,000,000	(28,500,000)	-	-	1,500,000
New Option Scheme	2/12/2003	1.79	2/12/2003-30/11/2004	(5)	-	-	-	-	-	-	2,800,000	2,800,000
	2/12/2003	1.79	1/12/2004-30/11/2005	(5)	-	-	-	-	-	-	1,500,000	1,500,000
					4,437,000	30,000,000	(918,000)	33,519,000	(31,535,250)	(483,750)	4,300,000	5,800,000
					54,837,000	114,500,000	(42,718,000)	126,619,000	(117,605,250)	(5,313,750)	10,300,000	14,000,000

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (A) Share option schemes of the Company (continued)

- (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.
- (5) The closing price of a share of the Company immediately before the date of grant was HK\$1.80.
- (6) The lapsed options were due to expiry or cessation of directorship or employment of participants with the Group.
- (7) No option was exercised or cancelled during the year.

The exercise in full of the outstanding 14,000,000 share options at 31 December 2003 would, under the present capital structure of the Company, result in the issue of 14,000,000 additional shares for a total cash consideration, before expenses, of approximately HK\$33,977,000.

Total consideration received during the year from the Directors and the employees for taking up the options granted is amounted to HK\$14 (2002: HK\$10).

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

### (B) Share option schemes of CASH

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

The major terms of the CASH 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 CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the CASH Old Option Scheme must not exceed 10% of the issued share capital of CASH from time to time.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (B) Share option schemes of CASH (continued)

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

- (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 CASH Old Option Scheme, must not exceed 25% of the maximum shares issuable under the CASH 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 above mentioned minimum holding period or 28 March 2004, whichever is 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 CASH.
- (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 CASH Old Option Scheme was originally effective for 10 years until 28 March 2004. On 19 February 2002, the CASH Old Option Scheme was resolved by the shareholders of CASH to have been cancelled thereon. However, the options granted under the CASH Old Option Scheme are still exercisable in accordance with the terms of the CASH Old Option Scheme.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (B) Share option schemes of CASH (continued)

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

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

- (i) The purpose was to provide incentives to:
  - award and retain the participants who have made contributions to the CASH Group; or
  - attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the CASH New Option Scheme must not exceed 10% of the issued share capital of CASH as at the date of approval of the CASH 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 CASH 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 CASH 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 CASH and provided in the offer of grant of option.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (B) Share option schemes of CASH (continued)

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

- (vi) The exercise period should be any period fixed by the board of directors of CASH 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 CASH.
- (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 CASH New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (B) Share option schemes of CASH (continued)

The following table discloses details of the share options granted by CASH and held by the Directors and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options							
					outstanding as at 1/1/2002	adjusted on 25/4/2002 (note 1)	granted in 2002	lapsed in 2002	outstanding as at 31/12/2002 and 1/1/2003	granted in 2003	lapsed in 2003	outstanding as at 31/12/2003
CASH Old Option Scheme	4/10/1999	0.590	8/4/2000-7/4/2002		120,000,000	-	-	(120,000,000)	-	-	-	-
	4/10/1999	0.590	8/4/2000-7/4/2002	(2)	8,376,000	-	-	(8,376,000)	-	-	-	-
	6/11/2000	5.400	16/5/2001-15/5/2003	(1)&(3)	20,000,000	(19,000,000)	-	-	1,000,000	-	(1,000,000)	-
	31/8/2001	2.600	1/3/2002-28/2/2004	(1)&(3)	30,000,000	(28,500,000)	-	-	1,500,000	-	-	1,500,000
CASH New Option Scheme	2/5/2002	1.320	2/5/2002-30/4/2003		-	-	13,500,000	-	13,500,000	-	(13,500,000)	-
	2/5/2002	1.320	1/11/2002-31/10/2003	(3)	-	-	200,000	-	200,000	-	(200,000)	-
	2/12/2003	0.502	2/12/2003-30/11/2005		-	-	-	-	-	13,000,000	-	13,000,000
					178,376,000	(47,500,000)	13,700,000	(128,376,000)	16,200,000	13,000,000	(14,700,000)	14,500,000

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 CASH 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\$0.27 and HK\$0.13 respectively.
- (2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (C) 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 as 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (C) Share option schemes of CFSG (continued)

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

(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 CFSG to have been cancelled thereon. However, the options granted under the CFSG Old Option Scheme are still exercisable in accordance with the terms of the CFSG Old Option Scheme.

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

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

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to the CASH Group; or
- attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.

(ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (C) Share option schemes of CFSG (continued)

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

- (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 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 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 from 10 years from the date of adoption until 18 February 2012.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 25. SHARE OPTION SCHEMES (continued)

### (C) Share option schemes of CFSG (continued)

The following table discloses details of the share options granted by CFSG and held by the Directors and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options					
					outstanding as at 1/1/2002	adjusted on 25/4/2002	outstanding as at 31/12/2002 and 1/1/2003	adjusted on 4/11/2003	granted in 2003	outstanding as at 31/12/2003
CFSG Old Option Scheme	26/3/2001	1.08	1/10/2001-30/9/2004	(1),(2)&(3)	30,000,000	(28,500,000)	1,500,000	1,560,000	-	3,060,000
CFSG New Option Scheme	3/11/2003	0.60	3/11/2003-31/10/2004		-	-	-	-	3,750,000	3,750,000
	2/12/2003	0.44	2/12/2003-30/11/2005		-	-	-	-	9,800,000	9,800,000
	2/12/2003	0.44	1/6/2004-31/5/2006	(3)	-	-	-	-	1,000,000	1,000,000
					<u>30,000,000</u>	<u>(28,500,000)</u>	<u>1,500,000</u>	<u>1,560,000</u>	<u>14,550,000</u>	<u>17,610,000</u>

Notes:

- (1) The number and 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 number and the exercise price of options which remained outstanding on 27 October 2003 have been adjusted due to rights issue of shares in CFSG with effect from 4 November 2003. The exercise price per share before rights issue was HK\$2.20.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 26. COMMITMENTS

### (a) Operating lease commitments

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	103,334	108,994
In the second to fifth year inclusive	122,930	172,847
After five years	252	4,279
	<b>226,516</b>	<b>286,120</b>

Operating lease payments represent rentals payable by the Group for its retail shops. Leases are 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.

### (b) Capital commitments

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of property and equipment contracted for but not provided in the financial statements	216	2,630

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 26. COMMITMENTS (continued)

### (c) Forward foreign exchange contracts

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Buying of Euro	107	825
Buying of United States dollars	–	15,600
Buying of Japanese yen	77	–
Selling of Japanese yen	77	–
	<b>261</b>	<b>16,425</b>

## 27. CONTINGENT LIABILITIES

- (a) Bates Hong Kong Limited (“Bates HK”) filed a statement of claim against, inter alia, PSL as a second defendant, alleging that PSL had agreed to appoint Bates HK as its advertising agent with monthly retainer fee in the sum of HK\$320,000 payable to Bates HK. PSL had not appointed Bates HK as its advertising agent and no agreement of whatever nature, oral or written, had been entered into between PSL and Bates HK to such effect. The Directors do not envisage the claim by Bates HK will be held valid. Accordingly, no provision was made in the financial statements.
- (b) Bates China Limited (“Bates China”) filed a statement of claim against, inter alia, the Company as a second defendant, alleging that the Company had agreed to appoint Bates China as its advertising agent with monthly retainer fee in the sum of HK\$150,500 payable to Bates China. The Company had not appointed Bates China as its advertising agent and no agreement of whatever nature, oral or written, had been entered into between the Company and Bates China to such effect. The Directors do not envisage the claim by Bates China will be held valid. Accordingly, no provision was made in the financial statements.
- (c) Chan Pit Wah (“Chan”) filed a statement of damages against PSL alleging that a forklift truck of PSL rolled over Chan’s right foot and he has claimed for damages of approximately HK\$1,780,000 with interest and costs thereof. In the opinion of the legal advisor, it is not practicable at this stage to determine with certainty the amount of damages to be awarded to the plaintiff. Accordingly, no provision was made in the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 27. CONTINGENT LIABILITIES (continued)

- (d) The Company had contingent liabilities in respect of guarantees given to banks to secure the banking facilities granted to a subsidiary amounting to approximately HK\$169,452,000 (2002: HK\$223,360,000). The extent of these banking facilities utilised by the subsidiary amounted to approximately HK\$87,209,000 (2002: HK\$58,371,000) at the balance sheet date.
- (e) The Company had contingent liabilities in respect of guarantees given to a landlord to secure the payments of rental by a subsidiary under the rental agreements. At the balance sheet date, the rental payable in the remaining term of the leases under these rental agreements amounted to HK\$11,321,000 (2002: HK\$20,973,000).

## 28. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. 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 Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employer's contributions to the retirement benefits scheme charged to the income statement amounted to approximately HK\$3,893,000 (2002: HK\$4,005,000) for the year ended 31 December 2003.

## 29. MAJOR NON-CASH TRANSACTIONS

- (a) Pursuant to the agreement entered into between CASH and a third party in 2002, the third party agreed to procure its group companies to provide advertising and telecommunication services to CASH and its subsidiaries, including the Group. The fee for these services will be used to offset the prepayment for advertising and telecommunication services which the Group paid. During the year, the Group utilised advertising and telecommunication services amounting to approximately HK\$8,954,000 (2002: HK\$3,688,000).
- (b) During the year ended 31 December 2002, the finance leases in respect of assets with a total capital value at the inception of the finance leases was approximately HK\$1,241,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

### 30. RELATED PARTY TRANSACTIONS

At the balance sheet date, the Group had amounts of approximately HK\$15,366,000 (2002: nil) due from CASH and its wholly-owned subsidiaries (2002: HK\$713,000 due to CASH and its wholly-owned subsidiaries) and nil (2002: HK\$2,400,000) due from the CFSG Group which were unsecured, non-interest bearing and had no fixed terms of repayment.

In addition, during the year, the Group entered into the following transactions with related parties:

	Notes	2003 HK\$'000	2002 HK\$'000
CASH and its wholly-owned subsidiaries:			
Advertising fee received	(i)	990	–
Store display income	(ii)	1,000	–
Sponsorship fee received	(iii)	1,000	–
Promotion fee received	(iv)	300	–
Services fees received	(v)	2,251	–
Sales of goods	(vi)	1,108	–
Sales of cash coupons	(vii)	2,780	1,200
Sales of cash coupons issued by a third party	(viii)	3,750	–
Transfer of prepayment for advertising and telecommunication services	(ix)	990	–
Disposal of a subsidiary	(x)	92	–
Services fees paid	(xi)	–	311
Directors' remuneration paid	(xii)	2,251	1,502
Purchase of goods	(xiii)	2,883	–
Agency fee paid	(xiv)	56	–
The CFSG Group:			
Rental income	(xv)	960	2,400
Purchase of a motor vehicle	(xvi)	250	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 30. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The Group received advertising income from a wholly owned-subsiary of CASH. The amount was charged at a price agreed between the parties.
- (ii) The Group received store display income from a wholly-owned subsidiary of CASH. The amount was charged at a price agreed between the parties.
- (iii) The Group received sponsorship fee from a wholly-owned subsidiary of CASH. The amount was charged at a price agreed between the parties.
- (iv) The Group received promotion fee from a wholly-owned subsidiary of CASH. The amount was charged at a price agreed between the parties.
- (v) A subsidiary of the Group performed certain sales and marketing services to wholly-owned subsidiaries of CASH for which services fees were charged, being an allocation of costs incurred by the Group.
- (vi) The Group sold goods at cost to a wholly-owned subsidiary of CASH.
- (vii) The Group sold cash coupons issued by PSL to a wholly-owned subsidiary of CASH at their face values.
- (viii) The Group sold cash coupons issued by a third party to a wholly-owned subsidiary of CASH at their face values.
- (ix) The Group transferred prepayment for advertising and telecommunication services to a wholly-owned subsidiary of CASH at a consideration of HK\$990,000. The amount was charged at a price agreed between the party.
- (x) The Group disposed of 100% of the issued share capital of and the shareholder's loan to Cosmos Global Limited of approximately HK\$92,000 at a total cash consideration of HK\$92,000 in accordance with the agreement dated 15 April 2003 entered into between the Group and a wholly-owned subsidiary of CASH.
- (xi) CASH and its subsidiaries performed certain administrative services for the Group for which services fees were charged, being an allocation of costs incurred by the administration, accounting, company secretarial and information technology departments of CASH.
- (xii) Directors' remuneration was charged to the Group by the CASH Group based on the estimated time spent by the Directors on the management of the Group.
- (xiii) The Group purchased goods from a wholly-owned subsidiary of CASH. The amount was charged at a price agreed between the parties.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*

### **30. RELATED PARTY TRANSACTIONS (continued)**

- (xiv) The Group paid agency fee to a wholly-owned subsidiary of CASH. The amount was charged at 1% on the selling price of goods in accordance with the agency agreement entered into between the Group and the wholly-owned subsidiary of CASH.
- (xv) The Group received rental income from the CFSG Group. The amount was at a price agreed between the parties.
- (xvi) The Group purchased a motor vehicle from CFSG Group. The amount was at a price agreed between the parties.

### **31. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, the Company's issued and unissued shares of HK\$0.10 each were subdivided into 5 new shares of HK\$0.02 each.