### (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.