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If you have sold or transferred all your shares in CASH Financial Services Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **CASH FINANCIAL SERVICES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 510)**

### **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE PROPOSED ISSUE OF CONVERTIBLE NOTE(S) – PROPOSED ACQUISITION OF HONG KONG RETAIL BUSINESS**

#### **CONTINUING CONNECTED TRANSACTIONS – PROPOSED INTRA-GROUP ACTIVITIES**

**AND**

#### **NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**Grand Vinco Capital Limited**

*Wholly-owned subsidiary of Vinco Financial Group Limited*

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A notice convening a special general meeting of CASH Financial Services Group Limited to be held at 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong on 11 June 2009 (Thursday) at 9:00 am is set out on pages 190 to 192 of this circular. A letter from the Independent Financial Adviser (as defined herein) containing its advice to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) in relation to, inter alia, the S&P Agreement (as defined herein), the Convertible Note(s) (as defined herein) and the Agreements (as defined herein) is set out on pages 43 to 61 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the meeting should you so wish.

26 May 2009

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## DEFINITIONS

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

“Accountants”	Deloitte Touche Tohmatsu, Certified Public Accountants and auditor of the Company
“Adjustment”	the adjustment, notwithstanding up or down to a maximum of HK\$100 million, to the final Consideration for sale and purchase of the Interest and the remaining 40% of the Equity Interest to an amount equivalent to 10 times the Audited Net Profits of the Retail Group for the year ending 31 December 2008 as per the Audited Accounts 2008 of the Retail Group, and the rounding up of the adjusted Consideration to the nearest thousand figures pursuant to the S&P Agreement, as more particularly described in the sub-heading of “Adjustment” under the heading of “The S&P Agreement” in the section of “Letter from the Board”. An upward adjustment of HK\$10,340,000 to the Consideration of HK\$300 million as set out in the First Announcement has been made in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date
“Agreement(s)”	the First Agreement, the Second Agreement and the Third Agreement, details of which are set out under the heading of “The Agreements and non-exempt continuing connected transactions on the First Completion” in the section of “Letter from the Board”
“Associates”	has the same meaning ascribed in the Listing Rules
“Audited Accounts 2008”	the consolidated audited accounts of the Retail Group for the year ending 31 December 2008 prepared in accordance with the HKFRS and as agreed by both CGL and the Company. The Audited Accounts 2008 have been prepared as at the Latest Practicable Date
“Audited Net Profits”	the audited consolidated net profits (after taxation, minority interest and extraordinary items) of the Retail Group for the financial year ending 31 December 2008 as shown on the Audited Accounts 2008. The Audited Net Profits is HK\$31,034,000 in accordance with the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date
“Board”	the board of Directors

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## DEFINITIONS

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“CASH”	Celestial Asia Securities Holdings Limited (stock code: 1049), a company incorporated in Bermuda with limited liability and listed on the main board of the Stock Exchange, and is the controlling Shareholder and a connected person of the Company (as defined under the Listing Rules)
“CASH Group”	CASH and its subsidiaries
“CFT”	CASH Frederick Taylor Limited, a company incorporated in Hong Kong with limited liability, and is currently an indirect wholly-owned subsidiary of the Company. It engages in wealth management business. Its name has been changed to CASH Wealth Management Limited with effect from 21 May 2009
“CGL” or “Vendor”	CASH Group Limited, a company incorporated in the British Virgin Islands with limited liability, and is currently a wholly-owned subsidiary of CASH
“CIGL”	Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability, and is currently a wholly-owned subsidiary of CASH
“Company” or “Purchaser”	CASH Financial Services Group Limited (stock code: 510), a company incorporated in Bermuda with limited liability and listed on the main board of the Stock Exchange, and is currently a non-wholly-owned subsidiary of CASH
“Completion”	the First Completion and the Second Completion
“Conditions”	the conditions of the S&P Agreement as set out in the sub-heading of “Conditions” under the heading of “The S&P Agreement” in the section of “Letter from the Board”
“Consideration”	the consideration of approximately HK\$300 million (subject to Adjustment) for the sale and purchase of the Interest and the remaining 40% of the Equity Interest pursuant to the S&P Agreement as set out in the sub-headings of “Consideration” and “Adjustment” under the heading of “The S&P Agreement” in the section of “Letter from the Board”. The final Consideration has been fixed at HK\$310,340,000 as adjusted in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date
“Conversion Price”	HK\$1.482 per Conversion Share (as adjusted from HK\$1.15 per Conversion Share as set out in the First Announcement with effect from 19 March 2009 due to the Rights Issue) and subject to further adjustments, if any
“Conversion Share(s)”	the new Share(s) issuable upon the conversion of any part of the Convertible Note(s)

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## DEFINITIONS

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“Convertible Note(s)”	the proposed convertible note(s) of approximately HK\$240 million (subject to maximum adjustment amount, notwithstanding up or down, for HK\$100 million), in aggregate, to be issued at the First Completion and the Second Completion (assuming the Purchaser Call Option is exercised) pursuant to the S&P Agreement. The principal amount of Convertible Note(s), in aggregate, to be issued at the First Completion and the Second Completion has been adjusted to HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion, as more particularly described in the heading of “Adjustment to the Consideration” in the section of “Letter from the Board”) as at the Latest Practicable Date
“CRM(HK)”	CASH Retail Management (HK) Limited, a company incorporated in the British Virgin Islands with limited liability, and is currently a wholly-owned subsidiary of CASH. It is the holding company of the Retail Group to be transferred under the S&P Agreement
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group including the Retail Group after the completion of the Proposed Transfer
“Equity Interest”	the entire equity shareholding interest in CRM(HK) which is currently owned by CGL
“First Agreement”	the agreement dated 19 December 2008 entered into among the Company, CASH and CRM(HK) relating to the provision of guarantee by the Company and CASH to the Retail Group upon the First Completion
“First Announcement”	the joint announcement made by the Company and CASH on 19 December 2008 relating to the Transactions
“First Completion”	the completion of the S&P Agreement by which the Interest will be transferred from CGL to the Company, the Purchaser Call Option will be issued by CGL to the Company and the Convertible Note(s) of approximately HK\$124 million (subject to Adjustment) will be issued by the Company to CGL or its nominee. The principal amount of Convertible Note(s) to be issued on the First Completion has been adjusted to HK\$109,816,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion, as more particularly described in the heading of “Adjustment to the Consideration” in the section of “Letter from the Board”) as at the Latest Practicable Date

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## DEFINITIONS

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“Game Group”	Netfield Technology Limited and its subsidiaries, which operate online game business and has been disposed by the Group to CASH Group on 1 June 2007
“Group”	the Company and its subsidiaries
“HKFRS”	the accounting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely Mr Cheng Shu Shing Raymond, Mr Lo Kwok Hung John and Mr Lo Ming Chi Charles
“Independent Shareholder(s)”	holder(s) of the Share(s) (other than CIGL and its Associates)
“Interest”	60% of the Equity Interest and the Loan
“Latest Practicable Date”	22 May 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	being all of the interest-free shareholder’s loan due from the Retail Group to CGL, if any, as at the date of the First Completion. The amount of the Loan as at 31 December 2008 and the Latest Practicable Date is both nil
“Model Code”	the required standards of dealings regarding securities transactions by Directors or the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules
“P/E Ratio”	price to earnings ratio
“PRC”	the People’s Republic of China
“Prime Rate”	the prime lending rate being offered by The Hongkong and Shanghai Banking Corporation Limited from time to time
“Proposed Transactions”	the transactions contemplated under the Agreements
“Proposed Transfer”	the acquisition by the Company and the sale by CGL of the Interest, the grant of Purchaser Call Option by CGL to the Company to acquire from CGL the remaining 40% of the Equity Interest (including the exercise of the Purchaser Call Option, if any) and the issue of the Convertible Note(s) pursuant to the S&P Agreement

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## DEFINITIONS

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“Purchaser Call Option”	the option granted by the Vendor in favour of the Purchaser upon the First Completion in respect of the option to acquire 40% of the Equity Interest, exercisable at the discretion of both the Company or its nominee or CGL, at the Consideration of approximately HK\$116 million (subject to Adjustment) at any time from the date of the First Completion up to 31 December 2011, as more particularly described in the sub-heading of “Purchaser Call Option” under the heading of “The S&P Agreement” in the section of “Letter from the Board”. The final Consideration for acquisition of 40% of the Equity Interest has been adjusted to HK\$124,136,000 as at the Latest Practicable Date
“Retail Group”	CRM(HK) and its subsidiaries which mainly engage in the retail business of retailing of furniture and household items in Hong Kong
“Rights Issue”	the issue of a total of 205,702,702 rights shares at a subscription price of HK\$0.45 each by the Company (as set out in its prospectus dated 19 March 2009) on 17 April 2009
“S&P Agreement”	the sale and purchase agreement entered into between CGL and the Company on 19 December 2008 as supplemented by the Supplemental Agreement in relation to the sale and purchase of the Interest and the remaining 40% of the Equity Interest
“Second Agreement”	the agreement dated 19 December 2008 entered into between CASH and CRM(HK) relating to the lease arrangement between CASH Group and the Retail Group upon the First Completion
“Second Announcement”	the joint announcement made by the Company and CASH on 21 May 2009 relating to the entering into the Supplemental Agreement
“Second Completion”	the completion of the transfer of the remaining 40% of the Equity Interest from the Vendor to the Company upon exercise of the Purchaser Call Option pursuant to the S&P Agreement, by which 40% of the Equity Interest will be transferred from CGL to the Company and the Convertible Note(s) of approximately HK\$116 million (subject to Adjustment) will be issued by the Company to CGL or its nominee. The principal amount of Convertible Note(s) to be issued on the Second Completion has been adjusted to HK\$124,136,000 as at the Latest Practicable Date

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held on 11 June 2009 at 9:00 am to approve the Transactions, notice of which is set out on pages 190 to 192 of this circular
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement entered into between CGL and the Company, being the same parties to the S&P Agreement, on 21 May 2009 in relation to the amendment of the terms of the S&P Agreement with regard to the exercise right of the Purchaser Call Option
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Third Agreement”	the agreement dated 19 December 2008 entered into among the Company, CASH and CRM(HK) relating to the provision of services by the Retail Group to the CASH Group (excluding the Group) and the Group (excluding the Retail Group) upon the First Completion
“Transactions”	the Proposed Transfer, the issue of the Convertible Note(s) and the Proposed Transactions
“Vinc Capital” or “Independent Financial Adviser”	Grand Vinc Capital Limited, a wholly-owned subsidiary of Vinc Financial Group Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

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## LETTER FROM THE BOARD

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### CASH FINANCIAL SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 510)**

***Board of Directors:***

*Executive:*

KWAN Pak Hoo Bankee  
CHAN Chi Ming Benson  
LAW Ping Wah Bernard  
CHENG Man Pan Ben  
YUEN Pak Lau Raymond

*Independent non-executive:*

CHENG Shu Shing Raymond  
LO Kwok Hung John  
LO Ming Chi Charles

***Registered office:***

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

***Head office and principal place of business:***

21/F Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

26 May 2009

*To Shareholders*

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION  
INVOLVING THE PROPOSED ISSUE OF CONVERTIBLE NOTE(S)  
– PROPOSED ACQUISITION OF HONG KONG RETAIL BUSINESS**

**AND**

**CONTINUING CONNECTED TRANSACTIONS  
– PROPOSED INTRA-GROUP ACTIVITIES**

**INTRODUCTION**

On 19 December 2008, the Board made the First Announcement relating to the Transactions entered on 19 December 2008. On 21 May 2009, the Board made the Second Announcement relating to the Supplemental Agreement. Details of the Transactions are as follows:–

- (a) the Proposed Transfer which constituted a very substantial acquisition and connected transaction of the Company under the Listing Rules:–
  - (i) The Company shall, subject to the Conditions, acquire from CGL (a wholly-owned subsidiary of CASH) the Interest (being 60% of the Equity Interest in CRM(HK) and the Loan due from the Retail Group to CGL, if any) at the Consideration of approximately HK\$184 million (as adjusted to HK\$186,204,000 as at the Latest Practicable Date as more particularly described in the heading of “Adjustment to the Consideration” in this section); and

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## LETTER FROM THE BOARD

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- (ii) CGL, subject to the Conditions, will grant to the Company the Purchaser Call Option (upon the First Completion) to acquire the remaining 40% of the Equity Interest in CRM(HK) at the Consideration of approximately HK\$116 million (as adjusted to HK\$124,136,000 as at the Latest Practicable Date as more particularly described in the heading of “Adjustment to the Consideration” in this section) at any time from the date of the First Completion up to 31 December 2011. The Purchaser Call Option is exercisable at the discretion of both the Company or its nominee or CGL.

The Consideration has been settled as to HK\$60 million in cash upon signing of the S&P Agreement, and part of the Consideration will be settled by the issue of the Convertible Note(s) as set out in (b) below.

- (b) the proposed issue of the Convertible Note(s) by the Company

The Convertible Note(s) shall be issued by the Company for settlement of balance of the Consideration at principal value of approximately HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion as more particularly described in the heading of “Adjustment to the Consideration” in this section). Assuming the Convertible Note(s) are issued at principal amount of HK\$233,952,000 and the conversion of the Convertible Note(s) at the Conversion Price of HK\$1.482 per Conversion Share (as adjusted after the First Announcement due to the Rights Issue) (subject to adjustment to the initial Conversion Price) is exercised in full, an aggregate of 157,862,348 new Shares will be issued. The Conversion Shares represent about 25.58% and 20.37%, respectively of the Company’s existing issued share capital and its issued share capital as enlarged by the issue of the Conversion Shares.

- (c) the Proposed Transactions relating to certain intra-group activities which constituted continuing connected transactions of the Company under the Listing Rules

Upon the First Completion, the Company, CASH and CRM(HK) will conduct certain intra-group activities relating to provision of guarantee, leasing arrangement and provision of services, which are to be made in the their usual and ordinary course of businesses and on normal commercial terms, subject to conditions. The Proposed Transactions are conditional upon (among other things) the approval by the Independent Shareholders at the SGM.

Under the Listing Rules, the Proposed Transfer constituted a very substantial acquisition and a connected transaction for the Company, and the Proposed Transactions constituted non-exempt continuing connected transactions for the Company under the Listing Rules. Accordingly, the Transactions are conditional upon, among other things, the approval of the Independent Shareholders at the SGM.

CIGL is a wholly-owned subsidiary and an Associate of CASH. As at the Latest Practicable Date, CIGL controls over the voting rights in respect of 298,156,558 Shares (approximately 48.32%) they entitled to as disclosed in the heading of “Shareholding Structure” in this section. CIGL and its Associates who have material interests in the Transactions will abstain from voting at the SGM pursuant to the Listing Rules and the voting at the SGM must be taken by poll.

The Independent Board Committee has been established to advise the Independent Shareholders as to the terms of the Transactions. Grand Vinco Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with Transactions.

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## LETTER FROM THE BOARD

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The purpose of this circular is to give you further information regarding the S&P Agreement, the principal terms and conditions of the Convertible Note(s), the Agreements and the notice of the SGM at which ordinary resolutions will be proposed to approve the S&P Agreement, the issue of the Convertible Note(s) and the Agreements.

### THE S&P AGREEMENT

- Vendor : CGL, a wholly-owned subsidiary of CASH, is a connected person of the Company (as defined under the Listing Rules).
- Purchaser : the Company, a non-wholly-owned subsidiary of CASH owned as to 48.32% by CASH as at the Latest Practicable Date.
- Transaction : the Company shall, subject to the Conditions, acquire from CGL the Interest (being 60% of the Equity Interest and the Loan) at the Consideration of approximately HK\$184 million (*Note (1)*) (subject to Adjustment), and the Company will be granted the Purchaser Call Option (upon the First Completion) to acquire from CGL the remaining 40% of the Equity Interest at the Consideration of approximately HK\$116 million (*Note (1)*) (subject to Adjustment).
- Purchaser Call Option : CGL shall grant to the Company upon the First Completion an option to acquire the remaining 40% of the Equity Interest at the Consideration of approximately HK\$116 million (*Note (1)*) (subject to Adjustment).

The Purchaser Call Option is exercisable, in whole or in part (in a multiple of HK\$1 million), at any time from the date of the First Completion up to 31 December 2011. The exercise of the Purchaser Call Option is at the discretion of both the Purchaser or its nominee (ie its right of exercise) or CGL (ie its right to request the Purchaser or its nominee to exercise) by serving on the other party the exercise notice (in the case of the Purchaser or its nominee) or the request notice (in the case of CGL) (*Note (4)*).

The Purchaser Call Option is not transferable to any third party (save for the wholly-owned subsidiaries of the Company).

In case the exercise of the Purchaser Call option is at the discretion of the Company or its nominee, the Company will comply with the relevant requirements under rule 14A.70(2) of the Listing Rules on exercise of the Purchaser Call Option.

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## LETTER FROM THE BOARD

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Consideration : The Consideration for the Interest and the remaining 40% of the Equity Interest shall be approximately HK\$300 million (*Note (2)*) (subject to Adjustment), which will be adjusted to an amount equivalent to P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ending 31 December 2008 in accordance with the Audited Accounts 2008 of the Retail Group.

The Consideration will be settled in the following manner:

- (1) For acquisition of the Interest at the Consideration of approximately HK\$184 million (*Note (1)*) (subject to Adjustment):
  - (a) HK\$60 million refundable deposit in cash as paid upon the signing of the S&P Agreement; and
  - (b) the balance will be settled in full by issue of the Convertible Note(s); and
- (2) For acquisition of the remaining 40% of the Equity Interest under the Purchaser Call Option of approximately HK\$116 million (*Note (1)*) (subject to Adjustment):
  - (a) 100% will be settled in full by the issue of the Convertible Note(s) on completion of transfer of the 40% Equity Interest.

The deposit paid on signing of the S&P Agreement is financed by the Group from internal resources and the balance of the Consideration will be settled by the issue of the Convertible Note(s).

The Consideration is arrived at after arm's length negotiations between the parties and being a price acceptable to the parties with reference to P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ending 31 December 2008 which is determined after arm's length negotiations by reference to prospective P/E Ratio for the year 2008 of various companies listed in Hong Kong engaging in the retail business. In determining the Consideration, the Directors have conducted researches and compared the P/E Ratio of 16 comparable companies listed in Hong Kong engaging in the retail business and the mean value of P/E Ratio for such companies is approximately 9.6 times. The Board has also taken into account the reputable brand name of "Pricerite", the corporate image, the established supply chain management platform, the efficient logistic system, the extensive retail networks in Hong Kong, the profit track record, the continuous growth in operating profits, the various revamps of retail business for recent years of the Retail Group.

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## LETTER FROM THE BOARD

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The Directors considered that P/E Ratio is one of the common approaches used to value the fairness of the Consideration. The Directors noted that, as set out in the section of “Letter from Vinco Capital”, the Independent Financial Adviser has also identified 9 comparable companies listed in Hong Kong engaging in the retail business and the mean value of P/E Ratio for such companies is 12.12 times. Accordingly, it further demonstrates that the Consideration of 10 times of the P/E Ratio is comparable to the market.

The Consideration was determined after arm’s length negotiations and has also taken into account all the above factors. In view of the above, although there is significant disparity between the Consideration and the net asset value of the Retail Group, the Board is of the opinion that the Consideration is fair and reasonable and on normal commercial terms.

Adjustment : The Consideration for the Interest and the remaining 40% of the Equity Interest was determined at approximately HK\$300 million (*Note (2)*), which will be adjusted (up or down), on a dollar-to-dollar basis, to an amount equivalent to P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ending 31 December 2008 as per the Audited Accounts 2008 of the Retail Group and then be round up to the nearest thousand figures. However, the adjustment amount for the Consideration for the Interest and the remaining 40% of the Equity Interest, notwithstanding up or down, shall not be more than HK\$100 million in aggregate.

The final Consideration for acquisition of the Interest will be the aggregate of (i) 60% of the above adjusted Consideration after deducting the actual amount of the Loan, and (ii) the actual amount of the Loan. The final Consideration for acquisition of the remaining 40% Equity Interest under the Purchaser Call Option will be 40% of the above adjusted Consideration after deducting the actual amount of the Loan.

The final consideration has been fixed at HK\$310,340,000 as adjusted in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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- Conditions : Completion for the Transactions is conditional upon, among other things:–
- (1) the approval by the shareholders of CASH at the special general meeting of CASH for the S&P Agreement, the Agreements and the transactions contemplated thereunder;
  - (2) the approval by the Independent Shareholders at the SGM for the S&P Agreement, the Agreements and the transactions contemplated thereunder including but not limited to the issue of the Convertible Note(s) and the allotment and issue of the Conversion Shares;
  - (3) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares;
  - (4) the receipt of the Audited Accounts 2008 for the Retail Group by the Company in form and content satisfactory to the Company; and
  - (5) the obtaining of all relevant consents, which are necessary in connection with the execution and performance of the S&P Agreement, the Agreements and the transactions contemplated thereunder.

The S&P Agreement and the Agreements are inter-conditional. The Conditions are required to be fulfilled on or before 31 August 2009, or such later date as may be agreed between CGL and the Company. If the Conditions are not fulfilled by such date, the S&P Agreement shall terminate and any part of the Consideration having been paid prior to such termination shall be refunded to the Company and no party to the S&P Agreement should have any claim against the other party save and except the rights of any such party in respect of any antecedent breaches.

As at the Latest Practicable Date, save as the Condition (4) listed above which has been fulfilled, all of the Conditions are subject to fulfilment.

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## LETTER FROM THE BOARD

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The First Completion : The S&P Agreement shall be completed within 7 business days (or any other date as agreed between CGL and the Company) after the S&P Agreement becoming unconditional.

The Second Completion : The transfer of the remaining 40% of the Equity Interest shall be completed within 7 business days (or any extended period as agreed between CGL and the Company) after the date of receipt of the notice of exercise by CGL from the Company.

Upon the Second Completion, the Company shall issue to CGL or its nominee the Convertible Note(s) with principal amount of the final Consideration for acquisition of the remaining 40% of the Equity Interest.

*Notes:*

- (1) The above Consideration of approximately HK\$184 million and HK\$116 million respectively have been adjusted to HK\$186,204,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion, as particularly described in the heading of “Adjustment to the Consideration” in this section below) and HK\$124,136,000 in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date.
- (2) The final Consideration, in aggregate, has been adjusted to HK\$310,340,000 in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date.
- (3) Details of the adjustment to the Consideration are set out in the heading of “Adjustment to the Consideration” in this section below.
- (4) The exercise right of the Purchaser Call Option has been amended from at the discretion of the Purchaser only to at the discretion of both the Purchaser or its nominee or CGL pursuant to the Supplemental Agreement.

### CONVERTIBLE NOTE(S)

#### Principal terms

The principal terms of the Convertible Note(s) proposed to be issued are set out below.

Consideration : Approximately HK\$240 million (*Note (5)*) (subject to maximum adjustment amount, notwithstanding up or down, of HK\$100 million), as part payment for the Consideration upon the First Completion and full payment for the Consideration upon the Second Completion.

Principal amount : The principal amount of the Convertible Note(s) shall be the same as the Consideration for the Proposed Transfer.

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## LETTER FROM THE BOARD

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Conversion Price : HK\$1.15 (*Note (6)*) per Conversion Share (subject to adjustments). The Conversion Price was determined on an arm's length basis between the Company and the Vendor, being:

- about 30.7% premium over the closing price of HK\$0.88 per Share on 18 December 2008 (the last trading day prior to the date of the First Announcement);
- about 23.7% premium over the average closing price of about HK\$0.93 per Share based on the closing prices as quoted on the Stock Exchange for the 5 trading days ended on 18 December 2008;
- about 23.7% premium over the average closing price of about HK\$0.93 per Share based on the closing prices as quoted on the Stock Exchange for the 10 trading days ended on 18 December 2008;
- about 45.5% discount to the latest unaudited net asset value of HK\$2.11 per Share based on the unaudited net asset value of the Company as at 30 June 2008; and

The adjusted Conversion Price of HK\$1.482 as at the Latest Practicable Date represents:–

- about 11.8% discount to the latest audited net asset value of HK\$1.68 per Share based on the audited net asset value of the Company as at 31 December 2008; and
- about 124.5% premium over the closing price of HK\$0.66 per Share on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The initial Conversion Price may be adjusted upon occurrence of events for (i) share consolidation, (ii) share subdivision, (iii) capitalisation of profits or reserves, (iv) capital distributions in cash or specie, (v) rights issues, (vi) issue of any securities which are convertible or exchangeable into Shares for cash at an effective price which is less than 90% of the market price at the date of announcement of terms of issue of such securities, (vii) the effective price of Shares receivable from the rights of conversion, exchange or subscription of such securities are modified to be less than 90% of the market price at the date of announcement of the proposed modification, (viii) issue of Shares at a price which is less than 90% of the market price at the date of the announcement of the terms of such issue, (ix) issue Shares for the acquisition of assets at an effective price which is less than 90% of the market price at the date of the announcement of the terms of such issue, and will in any event not be adjusted below the par value of a Share. The adjustment, when it takes place, will in appropriate circumstances be reviewed by approved merchant bank or financial adviser or auditor of the Company, and will be disclosed in the relevant announcement or annual report of the Company (as consider appropriate by the Board).

The Conversion Price was determined by the Company and CGL with reference to the recent market closing prices of the Shares. The Board is of the opinion that the Conversion Price is fair and reasonable and in the interests of the Company and Shareholders as a whole.

- Interest rate : 2% per annum on the outstanding principal amount of the Convertible Note(s), payable on a quarterly basis.
- Redemption rights : At the discretion of the Company only, in whole or in part of integral multiple of HK\$1 million, at any time during the conversion period (as described below).

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## LETTER FROM THE BOARD

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Conversion right and restrictions : At the discretion of both the Company (ie its right to request CGL or its nominee to exercise its right of conversion) or CGL (ie its right of conversion) or its nominee by serving on the other party the request notice (in the case of the Company) or the conversion notice (in the case of CGL or its nominee) (in each case shall be in an amount of integral multiple of HK\$1 million) for conversion of the Convertible Note(s) into Conversion Shares issued in the name of CGL or its nominee, provided that:–

- (i) the Company shall not request CGL or its nominee to or CGL or its nominee shall not exercise its right of conversion if the then trading price of the Share as quoted on the Stock Exchange is lower than the Conversion Price; and
- (ii) the Company shall not request CGL or its nominee to or CGL or its nominee shall not exercise the right of conversion if immediately following such exercise there will be insufficient public float for the Shares (as required by the Listing Rules).

As CIGL and parties acting in concert with it are already holding more than 50% of the shareholding interest in the Company, the Company and CGL are not aware of any general offer implications, which will arise under the Takeovers Code as a consequence of the exercise of the Convertible Note(s) in full.

Conversion period : Any time after the expiry of 6 months from the issue date of the Convertible Note(s) and ending on the maturity date (as described below).

Maturity date : 3 years from the issue date of the Convertible Note(s), or any other date mutually agreed between the Company and CGL, on which all outstanding principal amount of the Convertible Note(s) shall be fully repaid.

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## LETTER FROM THE BOARD

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Transferability : The Convertible Note(s) should not be transferable except with the written consent of the Company (save for the wholly-owned subsidiaries of CGL or CASH, which shall not require the consent of the Company).

*Notes:*

- (5) The above Consideration of approximately HK\$240 million has been adjusted to HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion, as particularly described in the heading of "Adjustment to the Consideration" in this section below) in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date.
- (6) The Conversion Price has been adjusted from HK\$1.15 to HK\$1.482 per Conversion Share with effect from 19 March 2009 due to the Rights Issue and subject to further adjustments, if any, as at the Latest Practicable Date.

### **Conversion Shares to be issued upon conversion**

The Conversion Shares to be issued upon conversion of the Convertible Note(s) will rank pari passu in all respects with the Shares then in issue at the relevant dates of conversion. There are no pre-emptive rights for the Conversion Shares nor there is other restriction, which applies to the subsequent sale of such Conversion Shares under the terms of the Convertible Note(s).

Assuming that the Convertible Note(s) are issued at principal amount of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion), in aggregate, and full conversion of the Convertible Note(s) at the Conversion Price of HK\$1.482 per Conversion Share, 157,862,348 Conversion Shares, representing approximately 25.58% of the existing issued share capital of the Company, and approximately 20.37% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, will be issued by the Company.

The Conversion Shares will be issued by the Company under a specific mandate to be sought at the SGM.

### **Voting rights of the holder of the Convertible Note(s)**

The holder of the Convertible Note(s) will not have any right to vote at the general meetings of the Company by virtue of its being the holder of the Convertible Note(s).

### **Listing of the Convertible Note(s)**

No listing of the Convertible Note(s) will be sought on the Stock Exchange or any other stock exchange. However, the Company has applied for the listing on the Stock Exchange of the Conversion Shares issuable upon the conversion of the Convertible Note(s).

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## LETTER FROM THE BOARD

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### SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company does not have any existing convertible note in issue. The shareholding structures of the Company as at the Latest Practicable Date and after the full conversion of the Convertible Note(s) (assuming the Convertible Note(s) are issued at principal amount of HK\$233,952,000, in aggregate, at the adjusted Conversion Price of HK\$1.482 per Conversion Share) are as follows:

Shareholders	As at the Latest Practicable Date		After the Proposed Transfer, assuming the Convertible Note(s) are issued at principal amount of HK\$233,952,000, in aggregate, and full conversion of the Convertible Note(s)	
	No. of Shares	Approximate %	No. of Shares	Approximate %
CIGL ( <i>Note 1</i> ) and Associates	298,156,558	48.32	456,018,906	58.84
Cash Guardian Limited ("Cash Guardian") and parties acting in concert with it ( <i>Note 2</i> )	17,076,647	2.77	17,076,647	2.20
Directors of CASH				
Mr Kwan Pak Hoo Bankee	8,168,000	1.32	8,168,000	1.05
Mr Law Ping Wah Bernard	13,771,120	2.23	13,771,120	1.78
Mr Lin Che Chu George	5,913,600	0.96	5,913,600	0.76
Directors and Associates (other than those who are also directors of CASH)				
Mr Chan Chi Ming Benson	10,000,000	1.62	10,000,000	1.29
Mr Cheng Man Pan Ben	5,334,000	0.86	5,334,000	0.69
Mr Yuen Pak Lau Raymond	5,010,000	0.81	5,010,000	0.65
Mr Lo Kwok Hung John	169,000	0.03	169,000	0.02
Sub-total	<u>363,598,925</u>	<u>58.92</u>	<u>521,461,273</u>	<u>67.28</u>
Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") ( <i>Note 3</i> )	<u>64,372,480</u>	<u>10.43</u>	<u>N/A (<i>Note 3</i>)</u>	<u>N/A (<i>Note 3</i>)</u>
Public ( <i>Note 3</i> )	<u>189,136,702</u>	<u>30.65</u>	<u>253,509,182</u>	<u>32.72</u>
Total	<u><u>617,108,107</u></u>	<u><u>100.00</u></u>	<u><u>774,970,455</u></u>	<u><u>100.00</u></u>

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## LETTER FROM THE BOARD

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*Notes:*

- (1) CIGL is a wholly-owned subsidiary and an Associate of CASH. As at the Latest Practicable Date, CIGL controls over the voting rights in respect of 298,156,558 Shares (approximately 48.32%) they entitled to as disclosed above. CIGL and its Associates have material interests in the Transactions and will abstain from voting at the SGM pursuant to the Listing Rules.
- (2) Cash Guardian is a company controlled by Mr Kwan Pak Hoo Bankee, the chairman of the Company. The parties acting in concert with Cash Guardian are close relatives of Mr Kwan Pak Hoo Bankee.
- (3) ARTAR is a substantial Shareholder and not a public Shareholder as at the Latest Practicable Date. However, when the Convertible Note(s) are converted in full, the shareholding interest of ARTAR in the Company will be diluted to below 10%. ARTAR will be regarded as a public Shareholder and the 64,372,480 Shares held by ARTAR will be counted as part of the Shares held by the public.

The Board anticipates that the Proposed Transfer and the issue of the Convertible Note(s) will not result in a change of control of the Group.

### **ADJUSTMENT TO THE CONSIDERATION**

Pursuant to the terms of the S&P Agreement as set out in the First Announcement, the Consideration for the sale and purchase of the Interest and the remaining 40% of the Equity Interest shall be approximately HK\$300 million, which will be adjusted (up or down to a maximum amount of HK\$100 million), on a dollar-to-dollar basis, to an amount equivalent to P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ending 31 December 2008 as per the Audited Accounts 2008 of the Retail Group to be prepared and then be round up to the nearest thousand figures.

As at the Latest Practicable Date, the Audited Accounts 2008 have been prepared and the Audited Net Profits as shown in the Audited Accounts 2008 is HK\$31,034,000. Therefore, the final Consideration has been fixed at HK\$310,340,000, being 10 times of the Audited Net Profits, as at the Latest Practicable Date, and an upward adjustment of HK\$10,340,000 has been made to the Consideration of HK\$300 million as set out in the First Announcement. Based on the balance sheet in the accountants' report of the Retail Group as set out in Appendix II to this circular, as at 31 December 2008, there were amounts due from CASH Group to the Retail Group of HK\$51,006,000 and amounts due to CASH Group by the Retail Group of HK\$34,618,000. After netting off such amounts, there were outstanding amounts due from CASH Group to the Retail Group of HK\$16,388,000 instead of any Loan due from the Retail Group to CASH Group as at 31 December 2008.

Accordingly, (i) the Consideration for acquisition of the Interest (being 60% of the Equity Interest) has been fixed at HK\$186,204,000, being 60% of the final Consideration of HK\$310,340,000, (ii) the amount to be settled on the First Completion as well as the principal amount of Convertible Note(s) to be issued on the First Completion shall be approximately HK\$109,816,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion), being HK\$186,204,000 less the deposit paid upon the signing of the S&P Agreement of HK\$60 million and further less the above outstanding amounts due from CASH Group to the Retail Group of HK\$16,388,000, (iii) the amount to be settled on the Second Completion as well as the principal amount of Convertible Note(s) to be issued on the Second Completion has been fixed at HK\$124,136,000, being 40% of the final Consideration of HK\$310,340,000. Accordingly, the aggregate amount of the Convertible Note(s) to be issued on the First Completion and the Second Completion shall be HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion). As at the Latest Practicable Date, a letter of confirmation had been signed between CGL and the Company to confirm the above adjustments of the Consideration and payment on the First Completion and the Second Completion.

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## LETTER FROM THE BOARD

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### THE RETAIL GROUP

The Retail Group currently mainly operates the retail business in Hong Kong including retailing of furniture and household items under the brand name of “Pricerite”. The Retail Group also owns the beneficial interest of a property at “Pricerite Group Building, No. 6 Hong Ting Road, Sai Kung, New Territories, Hong Kong” with market value of HK\$60.0 million as at 31 December 2008 in accordance with the valuation of an independent valuer using market value approach. The property is currently used by the Retail Group as a godown for its business operation.

According to page 132 of the accountants’ report of the Retail Group as set out in appendix II to this circular, the profits, before and after taxation, minority interest and extraordinary items, of the Retail Group for the year ended 31 December 2007 were both approximately HK\$30.1 million, and the profits, before and after taxation, minority interest and extraordinary items, of the Retail Group for the year ended 31 December 2008 were about HK\$35.9 million and HK\$31.0 million respectively.

### REASONS FOR THE PROPOSED TRANSFER

The financial services business of the Group is one of the hard hit businesses amid the recent global financial crunch. The business performance of the Group is very much affected by the financial market and the local and global economy. It has been the strategy of the Group to diversify its income stream and broaden the source of revenues. Though the overall consumer spending in Hong Kong is also affected by the recent unfavourable local economy, the effect on retail business for economical and quality furniture and household products is to certain extent not so severe since consumers will look for economical but quality products in adverse economic environment and therefore the demand for such kind of products remains relatively strong. The Retail Group has shown continued improvement in operations and management efficiency with a lean cost base after the revamped works during the recent years. The Retail Group has been recording remarkable growth with 496.9% increase in profits for the year ended 31 December 2007, as compared with the year ended 31 December 2006. The Retail Group reported turnover of HK\$864.0 million and profits of HK\$31.0 million for the year ended 31 December 2008. The Board is confident about the retail business for economical and quality furniture and household products in Hong Kong amid the unfavourable local and global economy.

The management of the Group is experienced in running the financial services business in Hong Kong, and will provide new idea or visions in operation of retail business so as to further improve the growth potential of the Retail Group in the long run. Also, the grant of Purchaser Call Option provides more flexibility for both the Company or CGL to complete the acquisition of the remaining 40% Equity Interest as and when the Board or the board of CASH might consider appropriate, and it will not impose an immediate heavy financial burden on cash flow of the Group.

The Board considers that the terms of the Proposed Transfer are fair and reasonable and on normal commercial terms, and the entering into of the S&P Agreement is in the interest of the Company and the Shareholders as whole.

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## LETTER FROM THE BOARD

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Upon the First Completion (assuming the Purchaser Call Option is not exercised), the Retail Group will become a 60%-owned subsidiary of the Company and its results will be consolidated into the accounts of the Company. Upon the Second Completion, the Retail Group will become a wholly-owned subsidiary of the Company.

### REASONS FOR THE ISSUE OF THE CONVERTIBLE NOTE(S)

The purpose of the issue of the Convertible Note(s) is for settlement of the balance of the Consideration for the Proposed Transfer such that it will not impose an immediate financial burden on cash flow of the Group. The Convertible Note(s) also provides high flexibility for the Company to convert the Convertible Note(s) into Conversion Shares as and when the Board considers appropriate.

### THE AGREEMENTS AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS ON THE FIRST COMPLETION

Upon the First Completion, the Retail Group will be owned as to 60% and 40% by the Company and CASH respectively, and (assuming the Purchaser Call Option is not exercised) CRM(HK) will become a non-wholly-owned subsidiary of the Company and remain a subsidiary of CASH with CGL holding 40% interest therein. Upon the First Completion, CASH will remain a connected person and (assuming the Purchaser Call Option is not exercised) CRM(HK) will become a connected person of the Company (as defined under the Listing Rules) by virtue of Rule 14A.11(1) of the Listing Rules, and the Proposed Transactions to be made between the Company, the Retail Group and CASH respectively will constitute connected transactions on the part of the Company upon the First Completion.

On 19 December 2008, the Company, CASH and CRM(HK) entered into the Agreements relating to certain intra-group activities proposed to be made among the Group, the CASH Group and the Retail Group in their normal and usual course of business and on normal commercial terms, subject to conditions, on the First Completion, and such activities will constitute non-exempt continuing connected transactions of the Company under the Listing Rules on the First Completion:-

**(a) The First Agreement relating to provision of guarantee**

Date of the First Agreement	:	19 December 2008
Parties to the First Agreement	:	The Company, CASH and CRM(HK)
Annual cap of financial guarantee and terms	:	Each of the Company and/or CASH will provide financial guarantee (as might be necessary as per request of various banks) not exceeding HK\$200 million per annum, for the purpose of assisting the Retail Group to obtain banking facilities from various banks for each of the three financial years ending 31 December 2011.

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## LETTER FROM THE BOARD

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- Basis of determination of financial guarantee : The amount of financial guarantee to be provided by the Company and CASH is determined with reference to the existing financial guarantee provided by CASH Group to the Retail Group of up to HK\$137 million, HK\$135 million and HK\$133 million in the two years ended 31 December 2007 and 6 months ended 30 June 2008, respectively to various banks.
- Reasons for the First Agreement : As the Retail Group will continue to rely on such banking facilities in order to carry on its business operation upon the First Completion, it is expected that the Company and/or CASH will be required to provide financial guarantee (as might be necessary as per request of various banks) not exceeding HK\$200 million per annum to various banks for such purposes for each of the three financial years ending 31 December 2011 in view of the steady growth of retail business during the relevant period.
- (b) The Second Agreement relating to leasing arrangement**
- Date of the Second Agreement : 19 December 2008
- Parties to the Second Agreement : CASH and CRM(HK)
- Premises : A member of the CASH Group will sub-lease around 60% of floor area of “28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong” to the Retail Group as office premises.
- Annual cap of rental and term : Rental (including rent and management fees) not exceeding HK\$5 million per annum, in total, for each of the three financial years ending 31 December 2011.
- Basis for determination of rental : The annual cap of rental is determined in accordance with the monthly rental of not exceeding HK\$400,000 (including the management fees) per month, representing around 60% of the monthly rental payable by the CASH Group (excluding the Group) under the lease agreement entered into between the member of CASH Group with an independent third party.
- Such rental is calculated on the basis of prevailing market rate of the above office premises.

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## LETTER FROM THE BOARD

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Reasons for the Second Agreement : The sharing of the office premises by the Retail Group with the CASH Group (excluding the Group) will allow both the CASH Group (excluding the Group) and the Retail Group to enjoy economy of scale and effective utilisations of resources.

As at the date of the Second Agreement, the Retail Group occupied part of an office premises at “21/F The Center, 99 Queen’s Road Central, Hong Kong” with a gross floor area of 14,872 square feet, which was leased by CASH from an independent third party pursuant to a lease agreement entered between CASH and such independent third party. Under such sub-lease arrangement, the Retail Group was obliged to pay to CASH a monthly rental (including management fees) of approximately HK\$392,000, representing around 60% (as determined in accordance with the percentage of actual floor area of such existing office premises occupied by the Retail Group) of the rental payable by CASH to such independent third party under a lease agreement which has been expired on 31 March 2009. A member of CASH Group (excluding the Group) has signed a tenancy agreement for the above new premises at “28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong” with an independent third party and is currently sub-leasing around 60% of the floor area of such new premises, with similar percentage of the actual floor area occupied by the Retail Group at the existing premises, at a monthly rental of not exceeding the HK\$400,000 under the current new sub-lease arrangement.

**(c) The Third Agreement relating to relating to provision of services**

Date of the Third Agreement : 19 December 2008

Parties to the Third Agreement : The Company, CASH and CRM(HK)

Provision of services : The Retail Group will provide services, including sales and marketing, advertising, promotional, etc, with annual services fees of not exceeding HK\$2 million, in total, to each of the Group and CASH Group (not including the Group) for each of the three financial years ending 31 December 2011.

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## LETTER FROM THE BOARD

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Reasons for the Third Agreement : It is expected that the cross-selling and cross-marketing activities among the Group (excluding the Retail Group), the CASH Group (excluding the Group) and the Retail Group will broaden the revenue base for the Retail Group. The service fees charged by the Retail Group will be on normal commercial terms and on terms, which are no less, favorable to the Company and CASH than those available to independent third parties.

The Agreements are conditional upon (among other things) the approval by the Independent Shareholders at the SGM and the approval by the shareholders of CASH at the special general meeting of CASH.

The above annual caps are determined with reference to the existing utilisation of banking facilities or various services and the anticipated level of utilisation for the coming three years. Also, all of the above activities will be conducted in the ordinary and usual course of businesses and on normal commercial terms. In view of the above reasons, the Board is of the view that the terms of the Agreements are fair and the entering into of the Agreements is in the interests of the Group and the Shareholders as a whole.

### **INFORMATION OF THE GROUP**

The current principal activities of the Group are provision of (a) online and traditional brokerage of securities, options, futures, and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, (b) margin financing, (c) corporate finance, and (d) other financial services.

### **FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated net profits, before and after taxation, minority interest and extraordinary items, of the Group for the year ended 31 December 2007 were about HK\$235.5 million and HK\$206.7 million respectively, and the audited consolidated net loss, before and after taxation, minority interest and extraordinary items, of the Group for the year ended 31 December 2008 were about HK\$90.5 million and HK\$86.2 million respectively. The audited consolidated net assets value of the Group as at 31 December 2007 and 31 December 2008 were about HK\$898.4 million and HK\$689.3 million respectively.

### **FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP**

Upon completion of the Proposed Transfer, the Enlarged Group will be engaged in two core areas of businesses: the financial services business (including the provision of brokerage, margin financing, corporate finance, wealth management and asset management) and the retail business of furniture and household products in Hong Kong via the Retail Group.

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## LETTER FROM THE BOARD

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As shown in the 2008 annual report of the Company, the Group recorded a decrease of revenue from its financial services, from HK\$666.4 million as recorded in year 2007 to HK\$324.7 million in year 2008, due to reduction in both the commission income generated from its brokerage business and interest income from its financing activities. It was in turn the result of weak investor sentiment and the lack of mega IPO activities in the midst of the worsening US sub-prime credit crisis since last year, followed by the downturn in both the local and global economies in 2008. Despite the fact that 2008 had been a most difficult year for the financial services sector at home and overseas, the Group's core financial services business still recorded an operating profit of HK\$62.3 million for year 2008.

With regard to the retail business of the Retail Group, it had recorded a profit of HK\$31.0 million in year 2008. Thanks to the solid labour market conditions towards the end of 2008, the overall consumer spending had not been severely affected by the recent financial market turbulence and economic slowdown. The Retail Group recorded a mild growth in revenue to HK\$864.0 million for year 2008 as compared to revenue of HK\$773.3 million in year 2007 while still being able to maintain decent gross profit margins for the household products amid the rising merchandising costs brought about by the galloping inflation at home and abroad.

The property investment and other investments of the Group also experienced a fall in value and rental income after the global financial crises. The Group recognised an investment loss of HK\$172.1 million on financial assets in year 2008. As a result of the above operating performance of sub-groups, the Group recorded a net loss of HK\$86.2 million in year 2008.

Looking forward, it is anticipated that the financial turmoil will persist for a considerable period of time, rendering the most difficult operating environment in the recent decade. Global economic uncertainties have subdued demand worldwide while the unprecedented joint policy responses of various US-Euro governments have yet to take effect. However, China is expected to be among the first to recover, assisted by the huge capital spending programme launched by the central government and its commitment to maintain GDP growth of about 8% p.a. With the support of the central government, and closer economic ties with the Mainland, Hong Kong is expected to benefit from the recovery.

Upon completion of the Proposed Transfer, the Board will re-engineer the financial service business and the retail business so as to enable elimination of duplications in the existing infrastructure and enhance the utilisation and flexibility of human resources, operations and capital investments for both divisions, and keep a lean cost structure to enhance our competitiveness for our diversified businesses in such unfavourable environment.

In 2009, the Enlarged Group will focus on maintaining and leveraging our operational excellence, healthy financial position, disciplined management and innovation to ride out market adversity. The Board is cautiously optimistic about the long-term outlook of Hong Kong and hence the performance of the Enlarged Group.

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## LETTER FROM THE BOARD

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### MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP AND THE RETAIL GROUP

#### Business and financial review for the year ended 31 December 2006

##### *The Group*

##### *Business review and result*

- Achieved a net profit of HK\$40.2 million as compared to HK\$27.3 million in the previous year. Such increase was mainly attributable to an improved performance of the Group's broking business, but having consolidated the loss of the Game Group of HK\$27.5 million.
- Recorded revenue of HK\$346.0 million from its financial services business as compared to HK\$213.6 million for the previous year. The increase was attributable to the significant growth in securities brokerage income due to the continued speculation over appreciation of RMB as well as the continuous boom of initial public offerings (IPO) during the year under review, especially for mega China-related enterprises.
- During the year, the Group's share in the Hong Kong stock market by turnover improved handsomely due partly to the general market strength and partly to the Group's previous efforts to improve the delivery channels and execution platforms, which contributed to the significant growth in operating profits. There was strong demand for margin financing from clients as a result of the robust market environment. The investment banking division continued to focus its efforts on emerging Chinese private and state-owned enterprises which were listing candidates. During the year, the Group successfully sponsored the listing of Lingbao Gold, a high profile H-share, on the Stock Exchange which drew good publicity and attention from the financial services industry. Meanwhile, the Game Group's online game business performed in line with the financial targets as set out in the business plan.

##### *Financial resources and liquidity*

- Total equity amounted to HK\$483.6 million on 31 December 2006, the improvement of which was due to the growth in retained earnings and new funds raised to strengthen capital bases during the first half of the year.
- Cash and bank balances including trust and segregated accounts totaled HK\$675.6 million. The cash and bank balances of the trust and segregated accounts increased as compared with the end of previous year due to a rise in clients' deposits as they became more active in trading near year end. On the other hand, the cash and bank balances of our house accounts decreased because of intense demand for margin financing from our clients during the year.

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## LETTER FROM THE BOARD

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- Total outstanding bank borrowings were HK\$279.8 million, comprising bank loans of HK\$190.4 million and overdrafts of HK\$89.4 million. The bank borrowings of HK\$277.4 million were drawn to fund securities margin financing to our clients. HK\$262.3 million of these bank borrowings were collateralised by our margin clients' securities pledged to us for seeking financing. A cash deposit of HK\$10.2 million was pledged as collateral for a general overdraft facility of HK\$30 million. However, no overdraft was drawdown under this facility at the balance sheet date. Another deposit of HK\$0.9 million was pledged to secure a general banking facility granted to a subsidiary.
- In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenanted to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility granted by the bank. At the year-end, a bank deposit of approximately HK\$16.7 million was held for the purpose. The remaining bank borrowing of HK\$2.4 million was drawn for financing the working capital of the Game Group. It was secured by personal guarantee from a director of a subsidiary, Fugleman Entertainment Company.
- There was a convertible loan note with outstanding nominal value amounted to HK\$30.5 million as at the end of the previous year. During the year, the noteholder partially exercised the note in the amount of HK\$16.2 million at the conversion price of HK\$0.27 each to convert into a total number of 60 million new Shares and the Company had made early partial repayments of the note in the total amount of HK\$14.3 million. The convertible loan note was fully repaid as at the end the year.
- Liquidity ratio on 31 December 2006 remained healthy at 1.2 times.
- Gearing ratio, which was calculated based on the total borrowings of the Group divided by the total Shareholders' equity, was approximately 0.58 time on 31 December 2006.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- There was no material acquisitions or disposals during the year.

### *Capital commitments*

- There was no outstanding material capital commitment as at the year-end.

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## LETTER FROM THE BOARD

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### *Material investments*

- As at 31 December 2006, the Group was holding a portfolio of listed investments with market value of approximately HK\$54.3 million and a profit on such listed investments of HK\$10.3 million was recorded for the year.
- Save as disclosed, the Group did not have any future plans for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2006, the Group had 390 employees. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK\$79.5 million.
- Our employees were remunerated according to their performance, working experience and market conditions.
- The Company also have mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs.
- The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group.

### ***The Retail Group***

#### *Business review and result*

- Achieved a net profit of HK\$5.0 million which was attributable to the continuing improvement in the local economy throughout the year, the revamping of the retail network and product ranges and improvement in profit margin for household products.
- Recorded revenue of HK\$763.2 million for the year under review.

#### *Financial resources and liquidity*

- Total equity stood at a deficit of HK\$23.8 million on 31 December 2006.
- Cash, bank balances and pledged bank deposits totaled HK\$85.7 million at the year-end. Bank deposits of HK\$47.8 million were pledged to secure the general banking facilities granted by banks.
- Total outstanding bank borrowings of HK\$85.5 million were secured bank loans and trust receipt loans.
- Liquidity ratio on 31 December 2006 was 0.6 time.

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## LETTER FROM THE BOARD

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- Gearing ratio, which was calculated based on the total borrowings of the Retail Group divided by the total shareholders' equity, stood at a deficit of approximately 3.59 times on 31 December 2006.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- The Retail Group did not make any material acquisitions or disposals during the year.

### *Capital commitments*

- There was no outstanding material capital commitment as at the year-end.

### *Material investments*

- There was no investment in listed securities.
- There was no future plan for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2006, the Retail Group had 784 employees. The total amount of remuneration cost of employees of the Retail Group for the year under review was approximately HK\$85.0 million.
- Our employees were remunerated according to their performance, working experience and market conditions.
- The Retail Group also had mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs. The Retail Group also provided its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.
- The Retail Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Retail Group.

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## LETTER FROM THE BOARD

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### **Business and financial review for the year ended 31 December 2007**

#### ***The Group***

##### *Business review and result*

- Ceased to consolidate the revenue and operating results of the Game Group subsequent to the completion of the disposal of the Game Group on 1 June 2007.
- Achieved a net profit of HK\$206.7 million as compared to HK\$40.2 million recorded in the previous year. Such a significant increase was mainly attributable to an improved performance of the Group's broking business and the incorporation of the gain on disposal of the Game Group of HK\$41.7 million.
- Recorded revenue from the continuing operations of HK\$666.4 million as compared to HK\$346.0 million for the previous year. The increase was attributable to the significant growth in the Group's brokerage business and interest income from its financing activities for the year, which in turn, was mainly due to the buoyant stock markets in Hong Kong and the PRC throughout 2007.
- During the year, the Group's market share and securities turnover surged sharply as a result of the large inflow of funds after the announcement that Mainland individuals would be allowed to invest directly in the Hong Kong stock market and the commencement of QDII investments. The strong appetite for IPO subscriptions increased the demand for margin financing which also led to the satisfactory growth of the Group's broking business. Thanks to the buoyant market, the Group's investment banking unit was particularly active in financial advisory and continued to look for IPO sponsorships opportunities for emerging private and state-owned enterprises in China. On the other hand, the Game Group's online game services division was discontinued on 1 June 2007.

##### *Financial resources and liquidity*

- Total equity amounted to HK\$899.4 million on 31 December 2007, the improvement of which, apart from the growth of retained earnings, was mainly attributed to the completion of 5-for-2 rights issue in November 2007 raising approximately HK\$237.4 million (before expenses) to strengthen capital bases during the year.
- Cash and bank balances including trust and segregated accounts totaled HK\$1,213.9 million. The cash and bank balances increased significantly as compared with the end of previous year was the combined results of the cash generated from the net profit and the net proceeds raised by the aforesaid rights issue during the year as well as an increase in clients' deposits at the year end date.

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## LETTER FROM THE BOARD

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- Total outstanding bank borrowings were HK\$231.1 million, comprising bank loans of HK\$229.0 million and overdrafts of HK\$2.1 million. Bank borrowings of HK\$126.1 million, which were drawn to fund securities margin financing to its clients, were collateralised by its margin clients' securities pledged to the Group for seeking financing. The Group had obtained a 3-year term syndicated bank loan with total facilities of HK\$175.0 million and the total bank borrowings of HK\$231.1 million had included a partial draw-down of the syndicated bank loan amounting to HK\$105 million at the year-end date.
- Cash deposit of approximately HK\$10.6 million was pledged as collateral for a loan facility of HK\$10.0 million but the facility had not been drawn down at the year-end. A further deposit of HK\$1.0 million was pledged to secure a general banking facility granted to a subsidiary of the Company. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenanted to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility of HK\$15.0 million granted by the bank. Therefore a bank deposit of approximately HK\$17.1 million was held for this purpose.
- Liquidity ratio on 31 December 2007 remained healthy at 1.3 times.
- Gearing ratio, which was calculated based on the total borrowings of the Group divided by the total Shareholders' equity, was approximately 0.29 time on 31 December 2007.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- On 9 January 2007, the Company proposed the disposal of the Game Group to CASH Group. The final consideration was fixed at HK\$120 million and the transaction was completed on 1 June 2007. Details of the disposal were disclosed in the Company's announcement dated 9 January 2007 and the circular dated 4 April 2007.
- On 27 June 2007, the Company announced the formation of a joint venture entity with two independent third parties in equal shares for investing in a PRC property with maximum capital contribution of the Group up to RMB150 million (approximately HK\$153.2 million). Details of the transaction were disclosed in the Company's announcement dated 27 June 2007 and the circular dated 18 July 2007,
- Save as aforesaid, the Group did not make any material acquisitions or disposals during the year.

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## LETTER FROM THE BOARD

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### *Capital commitments*

- Outstanding material capital commitment was HK\$11.6 million in relation to decoration works and acquisitions of equipment.
- Save as aforesaid, the Group did not have any material capital commitment as at the year-end.

### *Material investments*

- As at 31 December 2007, the Group was holding a portfolio of listed investments with a market value of approximately HK\$59.3 million and a gain on such investments of HK\$20.3 million was recorded for the year.
- Save as disclosed, the Group did not have any future plans for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2007, the Group had 283 employees. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK\$80.0 million.
- Our employees were remunerated according to their performance, working experience and market conditions.
- The Company and some of its subsidiaries also have mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.
- The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group.

### ***The Retail Group***

#### *Business review and result*

- Achieved a net profit of HK\$30.1 million which was attributable to the stable growth in the Hong Kong economy and the territory's property boom in the second half of the year which led to strong domestic consumption.
- Recorded a mild growth of revenue to HK\$773.3 million due to local strong domestic consumption and consistent improvement in its service and products quality and operational effectiveness of the retail business.

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## LETTER FROM THE BOARD

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### *Financial resources and liquidity*

- Total equity amounted to HK\$6.3 million on 31 December 2007, which was due to the increase in retained earnings and the reported profit for the year.
- Cash, bank balances and pledged bank deposits totaled HK\$81.8 million. Bank deposits of HK\$48.6 million were pledged to secure the general banking facilities granted by banks.
- Total outstanding bank borrowings were HK\$77.6 million, all of which were secured bank loans and trust receipt loans which would be due within one year.
- Liquidity ratio on 31 December 2007 was 0.8 time.
- Gearing ratio, which was calculated based on the total borrowings of the Retail Group divided by the total shareholders' equity, was approximately 12.33 times on 31 December 2007.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- There was no material acquisition or disposal during the year.

### *Capital commitments*

- There was no outstanding material capital commitment as at the year-end.

### *Material investments*

- There was no investment in listed securities.
- There was no future plan for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2007, the Retail Group had 811 employees. The total amount of remuneration cost of employees of the Retail Group for the year under review was approximately HK\$98.7 million.
- Our employees were remunerated according to their performance, working experience and market conditions.

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## LETTER FROM THE BOARD

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- The Retail Group also had mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs. The Retail Group also provided its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.
- The Retail Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Retail Group.

### **Business and financial review for the year ended 31 December 2008**

#### ***The Group***

##### *Business review and result*

- Recorded a net loss of HK\$86.2 million which was mainly due to recognition of investment loss of HK\$163.4 million on financial assets when the financial crisis in the last quarter of 2008.
- Recorded revenue of HK\$324.7 million which was significantly decreased as compared with previous year. It was due to reduction in both the commission income generated from the brokerage business and interest income from its financing activities, which had in turn resulted from the weak investors' sentiment and the lack of mega IPO activities in the midst of the worsening US sub-prime credit crisis since late 2007, followed by the downturn in both the local and global economies in 2008.
- Its financial services business still recorded an operating profit of HK\$62.3 million even though the poor investment sentiment caused by the US sub prime credit crisis started to take toll on the local stock market.
- The Group's securities broking industry was hit hard by the unprecedented financial turmoil and economy downturn, resulting in significant fall in turnover and operating profit. With the decline in market turnover and the lack of mega IPO activities, interest income for margin financing business substantially dropped. Under this challenging environment, the Group's corporate finance unit shifted its focus to financial advisory and special transactions such as corporate restructuring and capital injections.

##### *Financial resources and liquidity*

- Total equity amounted to HK\$706.1 million on 31 December 2008, which was due to reduction in retained earnings and the loss for the year.
- Cash and bank balances including the trust and segregated accounts totaled HK\$752.5 million. The cash balances decreased as compared with end of previous year due to drop in deposits by securities' clients whose confidence in the stock market had been weakened as the financial crisis was deepening in the last quarter of 2008.

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## LETTER FROM THE BOARD

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- Total outstanding bank borrowings were HK\$232.1 million, comprising bank loans of HK\$179.0 million, mortgage loans of HK\$38.1 million and overdrafts of HK\$15.0 million. Among the above bank borrowings, HK\$14.0 million were collateralised by its margin clients' securities pledged to the Group. Another bank loan of HK\$10.0 million was secured by a pledged deposit. Mortgage loans of HK\$38.1 million were secured by the investment properties under construction with a total carrying amount of approximately HK\$63.3 million. There were also unsecured borrowings including a syndicated bank loan of HK\$105.0 million, unsecured bank loans of HK\$50.0 million and unsecured overdrafts of HK\$15.0 million.
- Bank deposits of HK\$10.7 million was pledged as collateral for a bank loan of HK\$10.0 million. Another deposit of HK\$0.2 million was pledged to facilitate a bank guarantee of a rental deposit. A further deposit of HK\$7.1 million was pledged to facilitate a standby letter of credit facility granted by a bank to an associate of the Company. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group undertakes to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility of HK\$15.0 million granted by this bank. Accordingly, a bank deposit of approximately HK\$17.1 million was held for this purpose.
- Liquidity ratio on 31 December 2008 remained healthy at 1.4 times.
- Gearing ratio, which was calculated based on the total borrowings of the Group divided by the total Shareholders' equity, was approximately 0.37 time on 31 December 2008.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- On 19 December 2008, the Group entered into the S&P Agreement relating to the Proposed Transfer at a total consideration of approximately HK\$300 million (subject to Adjustment), details of the Transactions are disclosed in the First Announcement and this circular.
- Save as aforesaid, the Group did not make any material acquisitions or disposals during the year.

### *Capital commitments*

- There was no outstanding material capital commitment as at the year-end.

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## LETTER FROM THE BOARD

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### *Material investments*

- As at 31 December 2008, the Group was holding a portfolio of listed investments and unlisted investment funds with market values of approximately HK\$79.2 million and net losses on listed investments, unlisted investment funds, equity-linked structured deposits and derivative financial instruments totally of HK\$163.4 million was recorded for the year.
- Save as disclosed, the Group did not have any future plans for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2008, the Group had 258 employees. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK\$71.8 million.
- Our employees were remunerated according to their performance, working experience and market conditions.
- The Company and some of its subsidiaries also had mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.
- The Group had implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group.

### *The Retail Group*

#### *Business review and result*

- Despite the adverse external environment in 2008, the Retail Group still made remarkable progress in 2008, with revenue and profits both recording satisfactory growth.
- Achieved a net profit of HK\$31.0 million, reflecting the consistent improvement in the services and products quality and operational effectiveness, including the continued overhaul brand rejuvenation for its retail network since late last year of the retail business.
- Recorded revenue of HK\$864.0 million with a mild growth as compared with the previous year. The overall consumer spending had not been severely affected by the recent financial market turbulence and economic slowdown beginning in the last quarter of the year, as a result of the solid labour market conditions towards the year-end.

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## LETTER FROM THE BOARD

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### *Financial resources and liquidity*

- Total equity amounted to HK\$37.5 million on 31 December 2008, which was due to the increase in retained earnings and the reported profit for the year.
- Cash, bank balances and pledged bank deposits totaled HK\$91.8 million, which was kept at a similar level as compared with the previous year. Bank deposits of HK\$54.0 million were pledged to secure the general banking facilities granted by banks.
- Total outstanding bank borrowings were HK\$79.1 million, all of which were secured bank borrowings of trust receipt loans which would be due within one year.
- Liquidity ratio on 31 December 2008 was 0.9 time.
- Gearing ratio, which was calculated based on the total borrowings of the Retail Group divided by the total shareholders' equity, was approximately 2.11 times on 31 December 2008.
- There was no material contingent liability at the year-end.

### *Foreign exchange risks*

- There was no material un-hedged foreign exchange exposure or interest rate mismatch at the year-end.

### *Material acquisitions and disposals*

- The Retail Group did not make any material acquisitions or disposals during the year.

### *Capital commitments*

- There was no outstanding material capital commitment as at the year-end.

### *Material investments*

- There was no investment in listed securities.
- There was no future plan for material investments, nor addition of capital assets.

### *Employee information*

- As at 31 December 2008, the Retail Group had 814 employees. The total amount of remuneration cost of employees of the Retail Group for the year under review was approximately HK\$101.2 million.

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## LETTER FROM THE BOARD

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- Our employees were remunerated according to their performance, working experience and market conditions.
- The Retail Group also had mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for staffs.
- The Retail Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Retail Group.

### **EFFECTS OF THE PROPOSED TRANSFER AND THE PROPOSED TRANSACTIONS ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP**

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in 1(b) of Appendix III to this circular, assuming the Proposed Transfer (before the conversion of the Convertible Note(s)) had been completed on 31 December 2008, the Group's assets will be increased by approximately HK\$391.4 million, while the total liabilities of the Group will be also increased by approximately HK\$382.7 million. The net assets value of the Group will be increased by approximately HK\$8.7 million.

There will be no immediate effect on the earnings of the Group upon completion of the Proposed Transfer. On the other hand, based on the unaudited pro forma consolidated income statement of the Enlarged Group as set out in 2(b) of Appendix III to this circular, assuming the Proposed Transfer (before the conversion of the Convertible Note(s)) had been completed on 1 January 2008, the Group's net loss will be decreased by approximately HK\$0.8 million.

Upon the First Completion (assuming the Purchaser Call Option is not exercised), the Retail Group will be accounted for as a non-wholly-owned subsidiary of the Group, and upon the Second Completion, the Retail Group will be accounted for as a wholly-owned subsidiary of the Group. In both cases, the assets, liabilities and results of the Retail Group will be fully consolidated into the accounts of the Enlarged Group.

The Directors do not expect the Proposed Transactions will have any immediate material effects on the assets, liabilities and earnings of the Group.

### **FUND RAISING OF THE COMPANY FOR THE PAST 12 MONTHS**

On 20 February 2009, the Company announced the Rights Issue to raise approximately HK\$92,600,000 capital. The net proceeds to be raised are intended to be used as additional working capital to strengthen the financial position of the Company. The Rights Issue had been completed on 17 April 2009. Details of the Rights Issue are set out in the prospectus of the Company dated 19 March 2009.

Save as disclosed herein, the Company did not have any other fund raising activity in the past 12 months.

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## LETTER FROM THE BOARD

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### GENERAL

Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

The current principal activities of CASH Group consist of (a) financial services provided via the Group including online and traditional brokerage of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, margin financing, corporate finance, other financial services; (b) retail management business including the retail business via the Retail Group; (c) provision of online game services, sales of online game auxiliary products and licensing services via the Game Group; and (d) property investment and other investments holding. Immediately after the First Completion, the business of CASH Group will focus on online game business in the PRC and investment holding.

CASH is the controlling Shareholder holding 48.32% equity interest in the Company and CGL is a wholly-owned subsidiary of CASH, thus an Associate of CASH, and both CASH and CGL are connected persons of the Company (as defined under the Listing Rules). Upon the First Completion (assuming the Purchaser Call Option is not exercised), CRM(HK) will become a non-wholly-owned subsidiary of the Company, the remaining 40% of which will continue to be held by CGL, an Associate of CASH. As such, CRM(HK) will become a connected person of the Company upon the First Completion (assuming the Purchaser Call Option is not exercised) by virtue of Rule 14.11(1) of the Listing Rules. Under the Listing Rules, the Proposed Transfer constituted a very substantial acquisition and connected transaction for the Company, and the Proposed Transactions constituted non-exempt continuing connected transactions for the Company upon the First Completion (assuming the Purchaser Call Option is not exercised). Accordingly, the Transactions are conditional upon, among other things, the approval of the Independent Shareholders at the SGM. CIGL and its Associates who have material interests in the Transactions will abstain from voting at the SGM and the voting at the SGM must be taken by poll.

The Independent Board Committee has been established to advise the Independent Shareholders as to the terms of the Transactions. Grand Vinco Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions.

### SGM

Set out on pages 190 to 192 of this circular is a notice convening the SGM in which ordinary resolutions will be proposed to be considered and, if thought fit, be passed by the Independent Shareholders for approving (i) the S&P Agreement, the issue of the Convertible Note(s) and the Conversion Share(s) under a specific mandate, and (ii) the Agreements. CIGL and its Associates who have material interests in the Transactions will abstain from voting at the SGM and the voting at the SGM must be taken by poll.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the SGM. Completion and return of a form of proxy will not preclude you from attending and voting in the SGM should you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

In relation to the Transactions, the Directors (including all the independent non-executive Directors forming the Independent Board Committee) are of the opinion that the S&P Agreement, the issue of the Convertible Note(s) and the Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and the Directors (including all the independent non-executive Directors forming the Independent Board Committee) therefore recommend the Independent Shareholders to vote in favour of the resolutions relating to (i) the S&P Agreement, the issue of the Convertible Note(s) and the Conversion Share(s) under a specific mandate, and (ii) the Agreements at the SGM.

Your attention is also drawn to the letters from the Independent Board Committee and the Independent Financial Adviser and their respective recommendations set out on pages 41 to 61 of this circular.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
On behalf of the Board  
**Bankee P Kwan**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### CASH FINANCIAL SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 510)**

26 May 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION  
INVOLVING THE PROPOSED ISSUE OF CONVERTIBLE NOTE(S)  
– PROPOSED ACQUISITION OF HONG KONG RETAIL BUSINESS**

**AND**

**CONTINUING CONNECTED TRANSACTIONS  
– PROPOSED INTRA-GROUP ACTIVITIES**

We refer to the circular dated 26 May 2009 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form an Independent Board Committee to consider the Proposed Transfer and the Proposed Transactions and to advise the Independent Shareholders whether, in our opinion, the Proposed Transfer and the Proposed Transactions are fair and reasonable so far as the Independent Shareholders as a whole are concerned and are in the interests of the Company and the Independent Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transfer and the Proposed Transactions.

We wish to draw your attention to the letter from the Board set out on pages 7 to 40 of the Circular which contains, inter alia, information on the Proposed Transfer and the Proposed Transactions and the letter from the Independent Financial Adviser set out on pages 43 to 61 of the Circular which contains its advice in respect of the respective terms of the Proposed Transfer and the Proposed Transactions.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the advice of the Independent Financial Adviser, we consider the Proposed Transfer and the Proposed Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Company as a whole. The Proposed Transfer and the Proposed Transactions were entered into upon normal commercial terms. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Proposed Transfer and the Proposed Transactions.

Yours faithfully  
Independent Board Committee  
**Cheng Shu Shing Raymond**  
**Lo Kwok Hung John**  
**Lo Ming Chi Charles**  
*Independent non-executive Directors*

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## LETTER FROM VINCO CAPITAL

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*The following is the text of a letter of advice from Grand Vinco Capital Limited to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Transfer and the Proposed Transactions which has been prepared for the purpose of incorporation in this circular:*



**Grand Vinco Capital Limited**  
Units 4909-4910, 49/F., The Center  
99 Queen's Road Central, Hong Kong

26 May 2009

*To the Independent Board Committee and the Independent Shareholders of  
CASH Financial Services Group Limited*

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION  
INVOLVING THE PROPOSED ISSUE OF CONVERTIBLE NOTE(S)  
– PROPOSED ACQUISITION OF HONG KONG RETAIL BUSINESS**

**AND**

**CONTINUING CONNECTED TRANSACTIONS  
– PROPOSED INTRA-GROUP ACTIVITIES**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Transfer and the Proposed Transactions, details of which are set out in the section headed "Letter from the Board" in the circular ("Circular") issued by the Company to the Shareholders dated 26 May 2009 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 19 December 2008 (in relation to the Transactions) and 21 May 2009 (in relation to the Supplemental Agreement), the Company announced that CGL (a wholly-owned subsidiary of CASH) entered into the S&P Agreement, pursuant to which, subject to the Conditions, the Company will acquire from CGL the Interest (being 60% of the Equity Interest in CRM(HK)) and the Loan due from the Retail Group to CGL (if any) at the Consideration of approximately HK\$184 million (as adjusted to HK\$186,204,000 as at the Latest Practicable Date as more particularly described in the heading of "Adjustment to the Consideration" in the "Letter from the Board" section of the Circular). Upon the First Completion, subject to the Conditions, the Company will be granted the Purchaser Call Option to acquire the remaining 40% of the Equity Interest in CRM(HK) at the Consideration of approximately HK\$116 million (as adjusted to HK\$124,136,000 as at the Latest Practicable Date as more particularly described in the heading of "Adjustment to the Consideration" in the "Letter from the Board" section of the Circular) at any time from the date of

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## LETTER FROM VINCO CAPITAL

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the First Completion up to 31 December 2011, in which the Purchaser Call Option is exercisable at the discretion of both the Company or its nominee or CGL. The aggregate Consideration (including the Interest and the remaining 40% of the Equity Interest in CRM(HK)) of approximately HK\$300 million (as adjusted to HK\$310,340,000 as at the Latest Practicable Date) was determined in accordance with the P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ended 31 December 2008. The Consideration has been settled as to HK\$60 million in cash upon signing of the S&P Agreement and part of the Consideration of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the First Completion as more particularly described in the heading of “Adjustment to the Consideration” in the “Letter from the Board” section of the Circular) will be satisfied by the proposed issue of the Convertible Note(s) at the Conversion Price of HK\$1.482 (as adjusted from HK\$1.15 after the First Announcement due to the Rights Issue) per Conversion Share.

Assuming the Convertible Note(s) are issued at principal amount of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion as more particularly described in the heading of “Adjustment to the Consideration” in the “Letter from the Board” section of the Circular) at the adjusted Conversion Price of HK\$1.482 and the conversion rights attaching to all the Convertible Note(s) are exercised in full, an aggregate of 157,862,348 new Shares (subject to adjustment to the initial Conversion Price) shall be allotted and issued, representing approximately 25.58% of the Company’s existing issued share capital and 20.37% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Proposed Transfer exceed 100%, the Proposed Transfer constituted a very substantial acquisition of the Company under Rule 14.06 of the Listing Rules. Given that (i) CASH is beneficially interested in approximately 48.32% of the equity interest in the Company and is thus a controlling shareholder of the Company; and (ii) CGL is a wholly-owned subsidiary of CASH and is thus an Associate of CASH, as such both CASH and CGL are connected persons of the Company (as defined under the Chapter 14A of the Listing Rules). Accordingly, the Proposed Transfer also constituted a connected transaction for the Company under Chapter 14A.13(1)(a) of the Listing Rules.

In addition, the Company has entered into the First Agreement and the Third Agreement with CASH and CRM(HK) on 19 December 2008 in relation to the provision of guarantees and the provision of services respectively. Meanwhile, CASH has entered into the Second Agreement with CRM(HK) in relation to the leasing arrangement. Upon the First Completion and assuming the Purchaser Call Option is not exercised, the Retail Group will be owned as to 60% and 40% by the Company and CASH respectively, CRM(HK) will become a non-wholly-owned subsidiary of the Company and remain a subsidiary of CASH with CGL holding 40% interest therein. Accordingly, CASH will remain a connected person and CRM(HK) will become a connected person of the Company under Chapter 14A.11(1) of the Listing Rules. The Proposed Transactions to be made between the Retail Group and the Company, and CASH, respectively will constitute connected transactions on the part of the Company, and thus will constitute non-exempt continuing connected transactions for the Company pursuant to the Listing Rules.

Hence, the Proposed Transfer and the Proposed Transactions are subject to, inter alia, the approval of the Independent Shareholders taken by way of poll at the SGM. Under the Listing Rules, CIGL and its Associates shall abstain from voting on the resolutions to approve the Proposed Transfer and the Proposed Transactions at the SGM.

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## LETTER FROM VINCO CAPITAL

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The Independent Board Committee, comprising Mr Cheng Shu Shing Raymond, Mr Lo Kwok Hung John and Mr Lo Ming Chi Charles, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the Proposed Transfer and the Proposed Transactions. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transfer and the Proposed Transactions. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the Proposed Transactions are in the ordinary and usual course of business and both the Proposed Transfer and the Proposed Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Proposed Transfer and the Proposed Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Transfer and the Proposed Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM VINCO CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Transfer and the Proposed Transactions, we have considered the principal factors and reasons set out below:

#### Business and financial information of the Group

As stated in the Letter from the Board, the Group is principally engaged in the provision of (a) online and traditional brokerage of securities, options, futures, and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products; (b) margin financing; (c) corporate finance; and (d) other financial services.

The following is a summary of the financial results of the Group for each of the two years ended 31 December 2008:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>
Revenue	666,378	324,651
Profit/(Loss) for the year	206,690	(86,218)
Profit/(Loss) attributable to the Shareholders	207,779	(99,595)

  

	<b>As at 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>
Net assets	899,366	706,055
Net assets value attributable to the Shareholders	898,365	689,293

*Source: Annual reports of the Company for each of the two years ended 31 December 2008.*

As disclosed in the annual report 2008 of the Group for the financial year ended 31 December 2008, the Group's revenue was approximately HK\$324,651,000. Loss for the year was approximately HK\$86,218,000, in which the amount attributable to the Shareholders was approximately HK\$99,595,000. As at 31 December 2008, the net assets of the Group were amounted to approximately HK\$706,055,000 in which the amount attributable to the Shareholders was approximately HK\$689,293,000.

For the year ended 31 December 2007, the Group recorded revenue of approximately HK\$666,378,000. Profit for the year was approximately HK\$206,690,000, in which the amount attributable to the Shareholders was approximately HK\$207,779,000. As at 31 December 2007, the Group's net assets were amounted to approximately HK\$899,366,000 in which the amount attributable to the Shareholders was approximately HK\$898,365,000.

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## LETTER FROM VINCO CAPITAL

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For the year ended 31 December 2008, the Group's segment revenue from broking, financing and corporate finance were approximately HK\$270,878,000 (2007: approximately HK\$502,039,000), HK\$46,187,000 (2007: approximately HK\$154,497,000) and HK\$7,586,000 (2007: approximately HK\$9,842,000) respectively. In general, we noted that the abovementioned segments recorded decrease in the revenue when compared to the corresponding period in 2007. We noted that the operating and financial results of the Group for the year under our review were adversely impacted by the financial crisis during the year ended 31 December 2008.

As set out in the Letter from the Board, it is noted that it has been the strategy of the Group to diversify its income stream and widen its sources of revenue. Given that the proposed acquisition of CRM(HK) ("Proposed Acquisition") would allow the Group to diversify its income stream in the retail business for economical and quality furniture and household products, we are thus of the opinion that the Proposed Acquisition is in line with the Group's strategy and is in the interests of the Company and the Independent Shareholders as a whole.

### **Background and reasons for the Proposed Acquisition**

#### **(1) Information of the Retail Group**

The Retail Group is principally engaged in the operation of the retail business in Hong Kong, including retailing of furniture and household items under the brand name of "Pricerite". Also, the Retail Group beneficially owns the entire interest of a property which is located at Pricerite Group Building, No.6 Hong Ting Road, Sai Kung, New Territories, Hong Kong. In accordance with the valuation report of an independent valuer using market value approach, the market value of the property was estimated at HK\$60.0 million as at 31 December 2008. Currently, the property is used by the Retail Group as a godown for its business operation.

Set out below is a table of financial summary of the Retail Group as extracted from appendix II to the Circular:

	<b>For the year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Revenue	763,233	773,264	863,997
Profit for the year from the Retail Group	5,044	30,106	31,034

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## LETTER FROM VINCO CAPITAL

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According to the audited financial information of the Retail Group for the three years ended 31 December 2008 as set out in appendix II to the Circular, the Retail Group recorded revenue of approximately HK\$863,997,000 (2007 and 2006: approximately HK\$773,264,000 and HK\$763,233,000 respectively) and its profit for the year was approximately HK\$31,034,000 (2007 and 2006: approximately HK\$30,106,000 and HK\$5,044,000 respectively). In view of the above, we noted that the Retail Group was able to (i) maintain continued and satisfactory growth in both revenue and profits for the past three years, (ii) achieve remarkable growth in profits for the year ended 31 December 2007 with approximately 496.9% increase as compared with the year ended 31 December 2006, (iii) achieve mild growth in both revenue and profits and still recorded operating profits for the year ended 31 December 2008 amid the adverse economy and market conditions during the year.

### **(2) Information of the CASH Group**

The CASH Group is principally engaged in: (a) the provision of financial services provided via the Group including online and traditional brokerage of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, margin financing, corporate finance and other financial services; (b) retail management business including the retail business via the Retail Group; (c) the provision of online game services, sale of online game auxiliary products and licensing services via the Game Group; and (d) property investment and other investments holding. Immediately after the First Completion, the CASH Group will focus on online game business in the PRC and investment holding.

### **(3) Reasons for the Proposed Acquisition**

Given that the recent global financial crisis, the financial services business in which the Group is operated was materially and adversely affected. The business performance of the Group is highly dependent on the performance of the financial market and the local and global economies.

As set out in the Letter from the Board, it has been the strategy of the Group to diversify its income stream and broaden its sources of revenue. As discussed with the Directors, despite the recent unfavourable local and global economy and the subsequent adverse effects on the overall consumer spending in Hong Kong, the Directors believed that the effect on the retail business for economical and quality furniture and household products is relatively insignificant as consumers will look for economic but quality products in adverse economic environment and the demand for such kind of products will remain relatively strong. Accordingly, the Directors are thus optimistic about the retail business for economical and quality furniture and household products in Hong Kong. We have also reviewed the "Provisional statistics of retail sales for December 2008 and for the whole year of 2008" published by the Census and Statistics Department, it is noted that the total retail sales for year 2008 recorded an increase by 10.5% in value or 5.0% in volume when compared to year 2007, with the volume of sales of furniture and fixtures increased by 7.6% in 2008 compared with a year earlier.

In addition, the grant of the Purchaser Call Option provides an opportunity for both CGL and the Company to acquire the remaining 40% Equity Interest and results in no immediate heavy financial burden on cash flow of the Group.

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## LETTER FROM VINCO CAPITAL

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Accordingly, we concur with the Directors' view that the performance of the retail business for economical and quality furniture and household products in Hong Kong remains positive in the near future, and thus the Proposed Acquisition would be able to contribute positively to the Company to future growth and development by diversifying its income stream.

Having considered that (i) the Proposed Acquisition is in line with the Group's business strategy; (ii) the satisfactory performance of the Retail Group for the past three years; (iii) the Proposed Acquisition can diversify the income stream of the Company; and (iv) the grant of the Purchaser Call Option provides an opportunity for both CGL and the Company to acquire the remaining 40% Equity Interest without imposing an immediate heavy financial burden on cash flow of the Group, we are of the view that the Proposed Acquisition is in the interests of the Company and its Independent Shareholders as a whole.

### **Principal terms of the S&P Agreement**

#### ***(1) Basis of the Consideration***

Pursuant to the S&P Agreement as set out in the First Announcement, the Company will acquire from CGL the Interest (being 60% of the Equity Interest in CRM(HK)) and the Loan due from the Retail Group to CGL (if any) at the Consideration of approximately HK\$184 million (as adjusted to HK\$186,204,000 as at the Latest Practicable Date as more particularly described in the heading of "Adjustment to the Consideration" in the "Letter from the Board" section of the Circular). Meanwhile, the Company will be granted the Purchaser Call Option (upon the First Completion) to acquire the remaining 40% of the Equity Interest in CRM(HK) at the Consideration of approximately HK\$116 million (as adjusted to HK\$124,136,000 as at the Latest Practicable Date as more particularly described in the heading of "Adjustment to the Consideration" in the "Letter from the Board" section of the Circular) at any time from the date of the First Completion up to 31 December 2011. Upon signing of the S&P Agreement, the Consideration has been settled as to HK\$60 million in cash and part of the Consideration will be settled by the proposed issue of the Convertible Note(s) ("Proposed Issue"), subject to the terms and conditions as set out in the "Letter from the Board".

The aggregate Consideration of approximately HK\$300 million (as adjusted to HK\$310,340,000 in accordance with the Audited Net Profits as shown in the Audited Accounts 2008, which have been prepared as at the Latest Practicable Date) was determined at after arm's length negotiations between the parties and being a price acceptable to the parties with reference to (i) the P/E Ratio of 10 times of the Audited Net Profits of the Retail Group for the year ended 31 December 2008 (which was determined at after arm's length negotiations with reference to prospective P/E Ratio the year 2008 of various companies listed in Hong Kong engaging in the retail business); (ii) the reputable brand name of "Pricerite"; (iii) the corporate image; (iv) the established supply chain management platform; (v) the efficient logistics system; (vi) the extensive retail networks in Hong Kong; (vii) the profit track record; (viii) the continuous growth in operating profits; and (ix) the various revamps of retail business for recent years of the Retail Group.

P/E Ratio is one of the common approaches used to value the fairness of the consideration. As for the Consideration, having taken into account of the Audited Net Profits of the Retail Group for the year ended 31 December 2008 of HK\$31,034,000 and the final Consideration of approximately HK\$310,340,000, the P/E Ratio of the Proposed Acquisition was 10.00 times.

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## LETTER FROM VINCO CAPITAL

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In accessing the fairness and reasonableness of the pricing of the Consideration, we have reviewed and included, on our best effort, 9 companies listed on the Main Board of the Stock Exchange (“Comparables”). With reference to our search for companies that fall within the retail business with more than 40% of its segmental revenue are contributed by business in Hong Kong, details of which including their respective P/E Ratios are set out below:

Company name	Stock code	Closing price on 19 December 2008 (HK\$)	Earning per share (HK\$)	Price-to- earning ratio	Year ended
Water Oasis Group Limited	1161	1.84	0.197	9.34	30 September 2008
Lifestyle International Holdings Limited	1212	7.80	0.5452	14.31	31 December 2008
Dickson Concepts (International) Limited	113	2.30	0.622	3.70	31 March 2008
Sa Sa International Holdings Limited	178	2.05	0.052	39.42	31 March 2008
Sincere Company Limited	244	0.218	N/A	N/A	29 February 2008
Wing On Company International Limited	289	8.15	N/A	N/A	31 December 2008
Bonjour Holdings Limited	653	2.28	0.577	3.95	31 December 2008
Chow Sang Sang Holdings International Limited	116	4.25	0.782	5.43	31 December 2008
AEON Stores (Hong Kong) Company Limited	984	9.10	1.0496	8.67	31 December 2008
<b>Max</b>				<b>39.42</b>	
<b>Mean</b>				<b>12.12</b>	
<b>Min</b>				<b>3.70</b>	

Source: <http://www.hkex.com.hk>

Note: N/A denotes “not applicable” as the companies are recording losses for the relevant period.

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## LETTER FROM VINCO CAPITAL

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Based on the table above, we noted that the P/E Ratios of the Comparables, based on the closing price of the date of signing the S&P Agreement, represented a range from approximately 3.70 times to 39.42 times with a mean of approximately 12.12 times. Accordingly, the P/E Ratio of the Proposed Acquisition of approximately 10 times is slightly lower than the average P/E Ratio of the Comparables of approximately 12.12 times, and falls within the range of the Comparables. As such, we are of the opinion that the pricing of the Consideration is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

Having considered that (i) the Consideration was arrived at after arm's length negotiation between the parties; (ii) the pricing of the Consideration was determined in accordance with the P/E Ratio of 10 times of Audited Net Profits of the Retail Group for the year ended 31 December 2008 is comparable to the market, we are thus of the view that the basis of determining the Consideration is fair and reasonable so far as the Company and Independent Shareholders are concerned.

### **(2) Settlement method of the Consideration**

An upward adjustment of HK\$10,340,000 has been made to the Consideration of approximately HK\$300 million (as set out in the First Announcement) in accordance with the Audited Net Profits as shown in the Audited Accounts 2008 of the Retail Group, which have been prepared as at the Latest Practicable Date. Therefore, the final Consideration has been fixed at HK\$310,340,000 as at the Latest Practicable Date. Accordingly, the Consideration for acquisition of the Interest has been fixed at HK\$186,204,000 (being 60% of the final Consideration of HK\$310,340,000). Meanwhile, the amount to be settled upon the First Completion and the principal amount of the proposed issue of the Convertible Note(s) upon the First Completion shall be approximately HK\$109,816,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion) (being HK\$186,204,000 less the cash settlement of HK\$60 million upon the signing of the S&P Agreement and further less the above outstanding amounts due from CASH Group to the Retail Group of HK\$16,388,000 as at 31 December 2008). In addition, the amount to be settled upon the Second Completion and the principal amount of the proposed Convertible Note(s) upon the Second Completion has been fixed at HK\$124,136,000. As such, the Group will issue Convertible Note(s) in an aggregate amount of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of First Completion), which can be converted into an aggregate of 157,862,348 new Shares at the adjusted Conversion Price of HK\$1.482 per Conversion Share (subject to adjustments to the initial Conversion Price).

As confirmed by the Directors, it is considered that the Proposed Issue will not result in an immediate financial burden on the cash flow of the Group and also will not result in immediate dilution of the existing shareholding of the Shareholders. Also, the Proposed Issue will provide high flexibility for the Company to convert the Convertible Note(s) into Conversion Shares as and when appropriate. As such, we are of the view that the Proposed Issue is flexible and cost efficient to strengthen the financial position of the Group for its future growth and development.

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## LETTER FROM VINCO CAPITAL

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### (3) *Principal terms of the Convertible Note(s)*

In assessing the reasonableness of the terms of the Convertible Note(s), we have reviewed and identified, on a best effort basis, 27 companies listed on the Main Board of the Stock Exchange that announced to issue or already issued convertible bonds/notes (“CN Comparables”) from 19 December to 22 May 2009 (being the Latest Practicable Date). However, Independent Shareholders should note that the business, operations and prospects of the Company are not the same as the CN Comparables and we have not conducted any in-depth investigation into the business and operations of the CN Comparables. Thus, the CN Comparables are only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions which involved the issue of convertible notes/bonds. The table below summarizes our findings:

Date of the announcement	Company name	Stock code	Conversion price (HK\$)	Maturity (years)	Interest rate (%)	Premium/ (discount) of conversion price over/(to) the closing price as at the respective last trading day (%)
21-May-09	China Timber Resources Group Limited	269	0.056	3.0	21.50	(33.33)
14-May-09	China Water Industry Group Limited	1129	0.182	4.0	0.00	(17.65)
13-May-09	Shougang Concord Technology Holdings Limited	521	0.60	5.0	0.00	20
6-May-09	China Fortune Group Limited	290	0.16	3.0	0.00	(44.83)
30-Apr-09	Genesis Energy Holdings Limited	702	0.46	4.0	2.00	64.29
28-Apr-09	Sino Prosper Holdings Limited	766	0.075	5.0	0.00	7.14
26-Apr-09	Beijing Enterprises Holdings Limited	392	43.50	5.0 <i>(Note 1)</i>	2.25	22.54
7-Apr-09	Forefront Group	885	0.19	3.0	0.00	0.00
1-Apr-09	Temujin International Investments Limited	204	1.60	3.0	12.00	(13.51)
23-Mar-09	Global Flex Holdings Limited	471	0.10	2.0	0.00	194.10
20-Mar-09	New City (China) Development Limited	456	0.03	3.0	Floating interest rate	(88.68)
16-Mar-09	China Fortune Group Limited	290	0.16	3.0	Floating interest rate	(36.00)
10-Mar-09	Jackin International Holdings Limited	630	N/A	3.0	12.00	N/A

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## LETTER FROM VINCO CAPITAL

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Date of the announcement	Company name	Stock code	Conversion price (HK\$)	Maturity (years)	Interest rate (%)	Premium/ (discount) of conversion price over/(to) the closing price as at the respective last trading day (%)
5-Mar-09	Pearl Oriental Innovation Limited	632	0.30	2	Floating interest rate	15.38
4-Mar-09	SEEC Media Group Limited	205	0.422	3.0	3.00	101.00
27-Feb-09	Smart Rich Energy Finance (Holdings) Limited	1051	N/A	3.33	0.00	N/A
26-Feb-09	National Investments Fund Limited	1227	0.05	3.00	2.00	(2.00)
24-Feb-09	Sino Gas Group Limited	260	0.20	2.00	2.00	80.18
24-Feb-09	PME Group Limited	379	0.10	3.00	0.00	(67.21)
18-Feb-09	Golden Resources Development International Limited	677	0.26	5.00	2.00	4.42
13-Feb-09	Bright International Group Limited	1163	0.25	2.00	0.00	(7.41)
11-Feb-09	Sino Union Petroleum & Chemical International Limited	346	1.25	1.00	Floating interest rate	76.10
4-Feb-09	China Energy Development Holdings Limited	228	0.168	30.00	0.00	0.00
2-Feb-09	Asia Resources Holdings Limited	899	0.30	5.00	0.00	(21.10)
23-Jan-09	Cosmopolitan International Holdings Limited	120	0.30	2.0	0.00	(16.67)
7-Jan-09	China Fortune Holdings Limited	110	0.70	2.0	0.00	337.50
31-Dec-08	COL Capital Limited	383	0.75	3.0	9.00	(2.60)
Maximum				30.0	21.50	337.50
Mean				4.2	2.95	22.87
Minimum				1.0	0.00	(88.68)
<b>The Company</b>				<b>3.0</b>	<b>2.00</b>	<b>30.7</b> (Note 2)
				<b>3.0</b>	<b>2.00</b>	<b>124.5</b> (Note 3)

Source: <http://www.hkex.com.hk>

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## LETTER FROM VINCO CAPITAL

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*Note:*

- (1) The convertible notes will be due in 2 June 2014.
- (2) The Conversion Price of HK\$1.15 represents a premium of approximately 30.7% over the closing price of HK\$0.88 per Share on the last trading day prior to the date of the First Announcement (“Last Trading Day”).
- (3) The adjusted Conversion Price of HK\$1.482 represents a premium of approximately 124.5% over the closing price of the HK\$0.66 per Share as at the Latest Practicable Date.

*(a) Conversion Price*

The Convertible Note(s) are convertible into the Conversion Shares at the initial Conversion Price of HK\$1.15 per Conversion Share. As set out in the Letter from the Board, the initial Conversion Price of HK\$1.15 was determined at after arm’s length negotiations between the Company and CASH with reference to the recent market closing prices of the Shares. The initial Conversion Price represents:

- i. a premium of approximately 30.7% over the closing price of HK\$0.88 per Share on the Last Trading Day;
- ii. a premium of approximately 23.7% over the average closing price per Share of approximately HK\$0.93 per Share for the five consecutive trading days up to and including the Last Trading Day;
- iii. a premium of approximately 23.7% over the average closing price per Share of approximately HK\$0.93 for the ten consecutive trading days up to and including the Last Trading Day; and
- iv. a discount of approximately 45.5% to the latest unaudited net asset value of HK\$2.11 per Share based on the unaudited net asset value of the Company as at 30 June 2008;

As at the Latest Practicable Date, the Conversion Price is adjusted to HK\$1.482 and thus represents:

- i. a premium of approximately 124.5% over the closing price of HK\$0.66 per Share as at the Latest Practicable Date;
- ii. a discount of approximately 11.8% to the latest audited net asset value of HK\$1.68 per Share based on the audited net asset value of the Company as at 31 December 2008.

As disclosed in the table above, the conversion prices of the CN Comparables range from a discount of approximately 88.68% to a premium of approximately 337.50% to the respective closing price as at the respective last trading day prior to the release of the relevant announcements. The initial Conversion Price of HK\$1.15 and the adjusted Conversion Price of HK\$1.482, which represent a premium of approximately 30.7% over the closing price on the Last Trading Day and a premium of 124.5% over the closing price as at the Latest Practicable Date respectively, fall within the range of those of the CN Comparables and is higher than the mean of the CN Comparables of a premium of approximately 22.87%.

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## LETTER FROM VINCO CAPITAL

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*(b) Interest rate*

The Convertible Note(s) will bear interest at a rate of 2% per annum on the outstanding principal amount of the Convertible Note(s), payable on a quarterly basis.

As set out in the table above, the interest rate of the CN Comparables ranges from nil to 21.5% per annum. The Convertible Note(s) bears an interest rate of 2% per annum, which falls within the range of the CN Comparables and is lower than the average interest rate of approximately 29.5% per annum of the CN Comparables.

*(c) Maturity*

The maturities of the CN Comparables range from 1 to 30 years with an average of about 4.2 years. The Convertible Note(s) has a maturity of 3 years, which falls within the range of the CN Comparables and is slightly lower than the average maturity of about 4.2 years of the CN Comparables.

*(d) Other terms of the Convertible Note(s)*

We have also reviewed the other terms of the Convertible Note(s) and are not aware of any terms under the Proposed Issue are of material irregularity.

Based on the foregoing, we are thus of the opinion that the terms of the Convertible Note(s) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

*(e) Other financing alternatives*

We have also enquired into the Directors regarding other financing alternatives available to the Company. As confirmed by the Directors, given the recent financial turmoil and the resulting global credit crunch has tightened the availability of fund and increased the cost of funding for the Company, it may be difficult for the Company to secure a principal amount of HK\$233,952,000 borrowings/debts from banks or other financial institutions with favorable terms. As for the other forms of equity financing such as placing, rights issue or open offer, most would incur substantial costs in form of placing commission or underwriting commission. Therefore, the Directors believe that the issue of the Convertible Note(s) offers the best balance in terms of financing flexibility and relatively low recurring interest expense and we concur with the Directors' view that the issue of the Convertible Note(s) is a feasible, cost and time effective fund raising alternative currently available to the Company and is in the interest of the Company and the Independent Shareholders as a whole.

After taking into consideration that (i) the Proposed Issue is one of the best fund raising methods as compared to other financing alternatives; (ii) the Proposed Issue has no immediate shareholding dilution effect before conversion of the Convertible Note(s); and (iii) both the initial Conversion Price and the adjusted Conversion Price represent a premium of approximately 30.7% over the closing price of the Shares on the Last Trading Day and a premium of 124.5% over the closing price of the Shares as at the Latest Practicable Date respectively and is comparable to the CN Comparables, we are thus of the view that the Proposed Issue is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM VINCO CAPITAL

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**(4) Possible dilution to the existing shareholdings of the Independent Shareholders**

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon the completion of the Proposed Transfer and full conversion of the Convertible Note(s) (assuming the Convertible Note(s) are issued at the principal amount of HK\$233,952,000 at the adjusted Conversion Price of HK\$1.482 per Conversion Share):

Shareholders	Existing shareholding structure as at the Latest Practicable Date		Upon the completion of the Proposed Transfer and full conversion of the Convertible Note(s) (assuming the Convertible Note(s) are issued at the principal amount of HK\$233,952,000)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
CIGL (Note 1) and Associates	298,156,558	48.32	456,018,906	58.84
Cash Guardian Limited (“Cash Guardian”) and parties acting in concert with it (Note 2)	17,076,647	2.77	17,076,647	2.20
Directors of CASH				
– Mr Kwan Pak Hoo Bankee	8,168,000	1.32	8,168,000	1.05
– Mr Law Ping Wah Bernard	13,771,120	2.23	13,771,120	1.78
– Mr Lin Che Chu George	5,913,600	0.96	5,913,600	0.76
Directors and Associates (other than those who are also directors of CASH)				
– Mr Chan Chi Ming Benson	10,000,000	1.62	10,000,000	1.29
– Mr Cheng Man Pan Ben	5,334,000	0.86	5,334,000	0.69
– Mr Yuen Pak Lau Raymond	5,010,000	0.81	5,010,000	0.65
– Mr Lo Kwok Hung John	169,000	0.03	169,000	0.02
Sub-total	<u>363,598,925</u>	<u>58.92</u>	<u>521,461,273</u>	<u>67.28</u>
Abdulrahman Saad Al-Rashid & Sons Company Limited (“ARTAR”) (Note 3)	<u>64,372,480</u>	<u>10.43</u>	<u>N/A (Note 3)</u>	<u>N/A (Note 3)</u>
Public (Note 3)	<u>189,136,702</u>	<u>30.65</u>	<u>253,509,182</u>	<u>32.72</u>
<b>Total</b>	<b><u>617,108,107</u></b>	<b><u>100.00</u></b>	<b><u>774,970,455</u></b>	<b><u>100.00</u></b>

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## LETTER FROM VINCO CAPITAL

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*Notes:*

- (1) CIGL is a wholly-owned subsidiary and an Associate of CASH. As at the Latest Practicable Date, CIGL controls over the voting rights in respect of 298,156,558 Shares (approximately 48.32%) they entitled to as disclosed above.
- (2) Cash Guardian is a company controlled by Mr Kwan Pak Hoo Bankee, the chairman of the Company. The parties acting in concert with Cash Guardian are close relatives of Mr Kwan Pak Hoo Bankee.
- (3) ARTAR is a substantial Shareholder of the Company and not a public Shareholder of the Company as at the Latest Practicable Date. However, when the Convertible Note(s) are converted in full, the shareholding interest of ARTAR in the Company will be diluted to below 10%. ARTAR will be regarded as a public shareholder of the Company and the 64,372,480 Shares held by ARTAR will be counted as part of the Shares held by the public.

Upon Completion and immediately after the issue of the Convertible Note(s) and full conversion of the Convertible Note(s) (assuming the Convertible Note(s) are issued at the principal amount of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion) at the adjusted Conversion Price of HK\$1.482, an aggregate of 157,862,348 new Shares shall be issued, representing approximately 25.58% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 20.37% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Note(s).

From the table above, we noted that the shareholding interests of the public Shareholders (not including the shareholding interest of the substantial Shareholder of ARTAR) would be diluted from approximately 30.65% to approximately 24.41% of the enlarged issued share capital of the Company following the issue of the Convertible Note(s).

Given that (i) the Proposed Issue is one of the best fund raising methods as compared to other financing alternatives; (ii) the fact that the Proposed Issue would not result in immediate dilution effect on shareholdings; (iii) the issue of the Convertible Note(s) will enable the Group to strengthen its financial position; and (iv) both the initial Conversion Price and the adjusted Conversion Price represent a premium of approximately 30.7% and 124.5% over the closing price of the Shares on the Last Trading Day and as at Latest Practicable Date respectively, we are of the view that the possible dilution to the existing public Shareholders as a result of the Proposed Issue is acceptable.

### **(5) *Financial effects of the Proposed Transfer***

#### *i. Earnings*

As revealed in the annual report 2008, the audited net loss of the Group before and after taxation for the year ended 31 December 2008 were approximately HK\$81,924,000 and HK\$86,218,000 respectively.

According to the pro forma statement of income statement of the Enlarged Group set out in appendix III to the Circular, upon the First Completion, CRM(HK) will become an indirect non-wholly-owned subsidiary of the Company and remain a subsidiary of CASH with CGL holding 40% interest therein and the pro forma consolidated net loss of the Group will be decreased to HK\$69,383,000, indicating an improvement of approximately HK\$16,835,000. Upon the Second Completion, CGL will become an indirect subsidiary wholly-owned of the Company and the pro forma consolidated net loss of the Enlarged Group will be increased to HK\$85,434,000.

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## LETTER FROM VINCO CAPITAL

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*ii. Net assets value*

As revealed in the annual report 2008, the audited net assets value of the Group as at 31 December 2008 was approximately HK\$689,293,000.

According to the pro forma statement of assets and liabilities of the Enlarged Group set out in appendix III to the Circular, upon the First Completion, the pro forma consolidated net assets value of the Group will be increased to HK\$693,393,000, indicating an increase of approximately HK\$4,100,000. Upon the Second Completion, the pro forma consolidated net assets value of the Enlarged Group will be increased to HK\$697,993,000, indicating an increase of approximately HK\$4,600,000.

*iii. Working Capital*

As set out in the annual report 2008, the Group's net current assets as at 31 December 2008 were amounted to approximately HK\$366,496,000.

Upon the First Completion, the pro forma consolidated working capital of the Group will be decreased to HK\$281,718,000, indicating a decrease of approximately HK\$84,778,000. Upon the Second Completion, the pro forma working capital of the Enlarged Group will be approximately HK\$340,472,000, representing an increase of approximately HK\$58,754,000. As such, there will be a slight decrease of approximately HK\$26,024,000 in the working capital of the Enlarged Group upon the completion of the Proposed Transfer.

*iv. Gearing*

As at 31 December 2008, the Group's gearing ratio (being calculated as total borrowings to total equity of the Group) was approximately 0.37 time.

In accordance with the unaudited pro forma financial information of the Enlarged Group and assuming the Convertible Note(s) are issued at the principal amount of HK\$109,816,000 at the adjusted Conversion Price of HK\$1.482 at the First Completion, the Group's gearing ratio would be increased from approximately 0.37 time to approximately 0.63 time (which is derived by the total borrowings of the Group of approximately HK\$405,197,000 and the total equity of the Group of approximately of HK\$645,742,000). Upon the Second Completion, the Enlarged Group's gearing ratio will be approximately 0.67 time (which is derived by the total borrowings of the Enlarged Group of approximately HK\$479,991,000 and the total equity of the Enlarged Group of approximately HK\$714,755,000).

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## LETTER FROM VINCO CAPITAL

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Based on the abovementioned, upon the completion of Proposed Transfer, the Proposed Transfer would have positive financial effects on the Group in terms of earnings and net asset value but negative impacts on both the working capital and gearing of the Enlarged Group. Having considered the abovementioned potential benefits from the Proposed Transfer and the overall financial impacts which the Proposed Transfer would likely to bring to the Group, we consider that the negative impacts on both the working capital and gearing are justifiable.

### **Background and reasons for the Proposed Transactions**

#### ***(1) Terms of and reasons for the First Agreement relating to provision of guarantee***

On 19 December 2008, the Company entered into the First Agreement with CASH and CRM(HK), pursuant to which, each of CASH and/or the Company will provide financial guarantee (as might be necessary as per request of various banks) not exceeding HK\$200 million per annum with the purpose to assist the Retail Group to obtain banking facilities from various banks for each of the three financial years ending 31 December 2011 (in the case of CASH, assuming the Purchaser Call Option is not exercised).

It is noted that the amount of financial guarantee to be provided by CASH and the Company is determined with reference to the existing financial guarantee provided by the CASH Group to the Retail Group of up to HK\$137 million, HK\$135 million and HK\$137 million in the three years ended 31 December 2008, respectively to various banks.

In the view of the steady growth and prospects of the retail business during the relevant period and given that the recent tightening of credit in the banking and financial industry, it is expected that the Retail Group may not obtain alternative banking facilities or other financing channels with more favourable terms when compared to the existing banking facilities in order to carry on its business operation.

Having taken into consideration that (i) the abovementioned prospects in the retail businesses for economical and quality furniture and household products in Hong Kong; (ii) the amount of the financial guarantee to be provided by CASH and the Company is determined with reference to the existing financial guarantee provided by the CASH Group to the Retail Group and CASH and/or the Company will be required to provide financial guarantee as might be necessary as per request of various banks; (iii) the Retail Group will continue to rely on such banking facilities in order to carry on its business operation upon the First Completion; and (iv) the recent tightening of credit in banking and financial industry, we are of the view that the First Agreement are conducted in the ordinary and usual course of businesses of the Group and are fair and reasonable to the Company and Independent Shareholders as a whole.

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## LETTER FROM VINCO CAPITAL

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***(2) Terms of and reasons for the Second Agreement relating to leasing agreement***

On 19 December 2008, CASH entered into the Second Agreement with CRM(HK), pursuant to which, a member of the CASH Group will sub-lease around 60% of floor area of “28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong” to the Retail Group as office premises. The annual cap of rental (including rent and management fees) shall not exceed HK\$5 million per annum, in aggregate, for each of the three financial years ending 31 December 2011, in accordance with the monthly rental of not exceeding HK\$400,000 (including the management fees) per month, representing 60% of the monthly rental payable by the CASH Group (excluding the Group) under the lease agreement entered into between the member of CASH Group with an independent third party.

Pursuant to a lease agreement entered between CASH and an independent third party and as at the date of the Second Agreement, the Retail Group occupied part of an office premises at “21/F, The Center, 99 Queen’s Road Central, Hong Kong” with a gross floor area of 14,872 square feet, which was leased by CASH from an independent third party. Under such sub-lease arrangement, the Retail Group was obliged to pay to CASH a monthly rental (including management fees) of approximately HK\$392,000, representing around 60% (as determined in accordance with the percentage of actual floor area of such existing office premises occupied by the Retail Group) of the rental payable by CASH to such independent third party under a lease agreement which has been expired on 31 March 2009.

Having considered that (i) the sharing of the office premises by the Retail Group with the CASH Group (excluding the Group) will allow both the CASH Group (excluding the Group) and the Retail Group to enjoy the economy of effective utilization of resources; and (ii) the monthly rental under the Second Agreement was determined according to the percentage of actual floor area of such existing office premises occupied by the Retail Group and the rental payable (including management fees by CASH), we are of the view that the Second Agreement are conducted in the ordinary and usual course of businesses of the Group and are fair and reasonable to the Company and Independent Shareholders as a whole.

***(3) Terms of and reasons for the Third Agreement relating to provision of services***

On 19 December 2008, the Company entered into the Third Agreement with CASH and CRM(HK), pursuant to which, the Retail Group will provide services, including sales and marketing, advertising, promotional, etc, with annual service fees of not exceeding HK\$2 million, in total, to each of the Group and CASH Group (excluding the Group) for each of the three financial years ending 31 December 2011. In addition, as confirmed by the Directors, the terms of the Third Agreement will be entered into on terms which are similar to and no less favorable to the Company and CASH than those to independent third parties.

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## LETTER FROM VINCO CAPITAL

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After taking into consideration that (i) the cross-selling and cross-marketing activities among the CASH Group (excluding the Group), the Group (excluding the Retail Group) and the Retail Group will widen the revenue base for the Retail Group; and (ii) the service fees charged by the Retail Group will be on normal commercial terms and terms that are no less favourable to CASH and the Company than those available to independent third parties, we are of the view that the Third Agreement are conducted in the ordinary and usual course of businesses of the Group and are fair and reasonable to the Company and Independent Shareholders as a whole.

### CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the Proposed Transfer and the Proposed Transactions, including:

- a) the adverse impact of the global financial crisis on the financial performance of the Group;
- b) the satisfactory performance of the Retail Group and the prospects in the retail business for economical and quality furniture and household products in Hong Kong;
- c) the basis of the Consideration and the terms of the S&P Agreement are fair and reasonable to the Company and the Independent Shareholders as a whole;
- d) the overall financial effects upon the Proposed Transfer; and
- e) the terms of the Agreements are on normal commercial terms, in the ordinary and usual course of business and in the in the interests of the Company and the Independent Shareholders as a whole,

we are thus of the view that the Proposed Transfer and the Proposed Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Company as a whole. We also consider that the Proposed Transfer was entered into upon normal commercial terms and the Proposed Transactions were on normal commercial terms and in the ordinary and usual course of business. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Proposed Transfer and the Proposed Transactions at the SGM.

Yours faithfully,  
For and on behalf of  
**Grand Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

## 1. FINANCIAL INFORMATION

## A. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2008

The following is a summary of the audited consolidated profit and loss accounts and financial positions for each of the three years ended 31 December 2008 as extracted from the annual reports of the Group for the respective years.

**Consolidated Profit and Loss Account**

	<b>For the year ended 31 December</b>		
	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Revenue	324,651	666,378	345,997
(Loss) Profit before taxation	(81,924)	204,611	73,521
Taxation (charge) credit	(4,294)	(28,825)	(5,796)
(Loss) Profit for the year from continuing operations	(86,218)	175,786	67,725
<b>Discontinued operations</b>			
Profit (Loss) for the year from discontinued operations	–	30,904	(27,527)
(Loss) Profit for the year	(86,218)	206,690	40,198
Attributable to:			
Equity holders of the Company	(99,595)	207,779	39,944
Minority interests	13,377	(1,089)	254
	(86,218)	206,690	40,198
	<b>2008</b>	<b>2007</b> (restated)	<b>2006</b> (restated)
(Loss) Earnings per share			
– Basic	(24.1) HK cents	61.3 HK cents	12.5 HK cents
– Diluted	–	60.6 HK cents	12.5 HK cents

**Consolidated Assets and Liabilities**

	<b>As at 31 December</b>		
	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Total assets	1,727,258	2,626,917	1,775,485
Total liabilities	(1,021,203)	(1,727,551)	(1,291,893)
Net assets	706,055	899,366	483,592

Note: There were no extraordinary items and exceptional items for the three years ended 31 December 2008.

**B. FINANCIAL INFORMATION FOR THE TWO YEARS ENDED 31 DECEMBER 2008**

The following financial information is extracted from the audited consolidated financial statements of the Group for each of the two years ended 31 December 2008.

**Consolidated Income Statement**

*For the year ended 31 December 2008*

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Revenue	7	324,651	666,378
Other operating income		5,260	1,859
Salaries, commission and related benefits	9	(151,110)	(247,980)
Depreciation		(15,655)	(7,403)
Finance costs	10	(20,134)	(91,844)
Other operating and administrative expenses		(100,649)	(133,363)
Net (losses) gains on financial assets at fair value through profit or loss	6	(172,117)	20,334
Net increase in fair value on derivative financial instruments	6	8,734	–
Share of profit (loss) of an associate	24	39,096	(3,370)
(Loss) profit before taxation		(81,924)	204,611
Taxation charge	13	(4,294)	(28,825)
(Loss) profit for the year from continuing operations		(86,218)	175,786
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	14	–	30,904
(Loss) profit for the year	15	(86,218)	206,690
Attributable to:			
Equity holders of the Company		(99,595)	207,779
Minority interests			
– Continuing operations		13,377	(617)
– Discontinued operations		–	(472)
		(86,218)	206,690

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Dividend:			
Proposed final dividend (31 December 2008: nil; 31 December 2007: HK\$0.03 per ordinary share based on 2,076,972,027 shares)		–	62,309
Dividends recognised as distribution during the year			
– 2008 Interim – HK\$0.10 per ordinary share (2007: HK\$0.02 per ordinary share)			
– 2007 Final – HK\$0.03 per ordinary share (2006: HK\$0.02 per ordinary share)		103,566	57,333
(Loss) earnings per share	<i>16</i>		
From continuing and discontinued operations:			
– Basic		(24.1) HK cents	61.3 HK cents
– Diluted		–	60.6 HK cents
From continuing operations:			
– Basic		(24.1) HK cents	52.0 HK cents
– Diluted		–	51.4 HK cents
From discontinued operations:			
– Basic		–	9.3 HK cents
– Diluted		–	9.1 HK cents

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***At 31 December 2008*

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property and equipment	<i>17</i>	108,164	24,787
Investment property	<i>18</i>	–	5,000
Goodwill	<i>19</i>	4,933	4,933
Intangible assets	<i>20</i>	11,062	12,392
Other assets	<i>22</i>	132,718	9,136
Loans receivable	<i>23</i>	192	176
Interests in associates	<i>24</i>	111,684	65,778
Loan to an associate	<i>24</i>	10,296	10,296
Amounts receivable on disposal of subsidiaries	<i>25</i>	–	162,703
		<u>379,049</u>	<u>295,201</u>
<b>Current assets</b>			
Amounts receivable on disposal of subsidiaries	<i>25</i>	171,498	–
Accounts receivable	<i>26</i>	304,042	931,595
Loans receivable	<i>23</i>	13,629	28,867
Prepayments, deposits and other receivables		22,864	28,218
Amount due from an associate	<i>25</i>	260	260
Amounts due from fellow subsidiaries	<i>25</i>	341	447
Tax recoverable		1,230	–
Investments held for trading	<i>27</i>	79,155	59,271
Deposits with brokers	<i>25</i>	2,730	69,188
Bank deposits subject to conditions	<i>28</i>	35,180	28,675
Bank balances – trust and segregated accounts	<i>25</i>	542,079	928,527
Bank balances (general accounts) and cash	<i>25</i>	175,201	256,668
		<u>1,348,209</u>	<u>2,331,716</u>
<b>Current liabilities</b>			
Accounts payable	<i>29</i>	689,175	1,379,521
Accrued liabilities and other payables		46,482	68,534
Derivative financial liabilities	<i>33</i>	3,067	–
Taxation payable		20,172	20,993
Obligations under finance leases			
– amount due within one year	<i>30</i>	127	–
Bank borrowings			
– amount due within one year	<i>31</i>	195,253	231,066
Loan from a minority shareholder	<i>25</i>	27,437	27,437
		<u>981,713</u>	<u>1,727,551</u>
Net current assets		<u>366,496</u>	<u>604,165</u>
		<u>745,545</u>	<u>899,366</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Capital and reserves			
Share capital	<i>32</i>	41,140	207,697
Reserves		<u>648,153</u>	<u>690,668</u>
Equity attributable to equity holders of the Company		689,293	898,365
Minority interests		<u>16,762</u>	<u>1,001</u>
Total equity		<u>706,055</u>	<u>899,366</u>
Non-current liabilities			
Deferred tax liabilities	<i>13</i>	2,342	–
Obligations under finance leases			
– amount due after one year	<i>30</i>	315	–
Bank borrowings			
– amount due after one year	<i>31</i>	<u>36,833</u>	<u>–</u>
		<u>39,490</u>	<u>–</u>
		<u>745,545</u>	<u>899,366</u>

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(Note a)</i>	Share-based payment reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	(Accumulated losses) retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	138,205	220,970	128,550	2,496	(288)	(10,102)	479,831	3,761	483,592
Profit for the year	-	-	-	-	-	207,779	207,779	(1,089)	206,690
Share of translation reserve of associate	-	-	-	-	855	-	855	460	1,315
Total recognised income and expense for the year	-	-	-	-	855	207,779	208,634	(629)	208,005
Issue of new shares <i>(Note b)</i>	10,150	21,419	-	(1,525)	-	-	30,044	-	30,044
Issue of new shares due to rights issue <i>(Note c)</i>	59,342	178,026	-	-	-	-	237,368	-	237,368
Transaction costs attributable to issue of new shares	-	(467)	-	-	-	-	(467)	-	(467)
Amount transferred to retained earnings as a result of expiration of share option	-	-	-	(883)	-	883	-	-	-
Release on disposal of subsidiaries	-	-	-	-	288	-	288	(2,131)	(1,843)
2006 final dividends paid	-	-	-	-	-	(27,661)	(27,661)	-	(27,661)
2007 interim dividends paid	-	-	-	-	-	(29,672)	(29,672)	-	(29,672)
Amount transferred from share premium to contributed surplus <i>(Note d)</i>	-	(100,000)	100,000	-	-	-	-	-	-
Amount transferred to set off accumulated losses <i>(Note e)</i>	-	-	(58,000)	-	-	58,000	-	-	-
At 31 December 2007 and 1 January 2008	207,697	319,948	170,550	88	855	199,227	898,365	1,001	899,366
Loss for the year	-	-	-	-	-	(99,595)	(99,595)	13,377	(86,218)
Share of translation reserve of associate	-	-	-	-	4,426	-	4,426	2,384	6,810
Exchange differences arising on translation of foreign operations	-	-	-	-	79	-	79	-	79
Total recognised income and expense for the year	-	-	-	-	4,505	(99,595)	(95,090)	15,761	(79,329)
Issue of new shares <i>(Note f)</i>	120	408	-	-	-	-	528	-	528
Reduction of shares due to share consolidation and capital reduction <i>(Note g)</i>	(166,238)	-	166,238	-	-	-	-	-	-
Share repurchases	(439)	(10,465)	-	-	-	-	(10,904)	-	(10,904)
Transaction costs attributable to issue of new shares	-	(40)	-	-	-	-	(40)	-	(40)
Amount transferred to retained earnings as a result of expiration of share option	-	-	-	(88)	-	88	-	-	-
2007 final dividends paid	-	-	-	-	-	(62,339)	(62,339)	-	(62,339)
2008 interim dividends paid	-	-	-	-	-	(41,227)	(41,227)	-	(41,227)
Amount transferred to set off accumulated losses <i>(Note h)</i>	-	-	(60,000)	-	-	60,000	-	-	-
At 31 December 2008	41,140	309,851	276,788	-	5,360	56,154	689,293	16,762	706,055

*Notes:*

- (a) The contributed surplus of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate of the nominal amount of the issued share capital and the reserves of CASH on-line Limited, the then holding company of the Group prior to the group reorganisation, pursuant to the group reorganisation after deducting the expenses in connection with the listing of the Company's shares and the acquisition of subsidiaries, and the net amount arising from the capital reduction, reduction of share premium account and amounts transferred to eliminate accumulated losses.
- (b) (i) In April 2007, 1,000,000 share options were exercised at an exercise price of HK\$0.296 per share, resulting in the issue of 1,000,000 shares of HK\$0.10 each on 23 April 2008 for a total consideration (before expenses) HK\$296,000. These shares rank pari passu in all respect with other shares in issue.
- (ii) In July 2007, 8,600,000 share options, 40,100,000 share options, 5,000,000 share options and 9,000,000 share options respectively were exercised at an exercise price of HK\$0.296 per share, resulting in the issue of 8,600,000 shares, 40,100,000 shares, 5,000,000 shares and 9,000,000 shares of HK\$0.10 each on 3 July 2007, 4 July 2007, 9 July 2007 and 27 July 2007 respectively for a total consideration (before expenses) of HK\$18,559,200. These shares rank pari passu in all respects with other shares in issue.
- (iii) In August 2007, 2,600,000 share options and 35,200,000 share options respectively were exercised at an exercise price of HK\$0.296 per share, resulting in the issue of 2,600,000 shares and 35,200,000 shares of HK\$0.10 each on 7 August 2007 and 13 August 2007 respectively for a total consideration (before expenses) of HK\$11,188,800. These shares rank pari passu in all respects with other shares in issue.
- (c) On 21 November 2007, 593,420,579 shares of HK\$0.10 each were issued by way of rights issue at a subscription price of HK\$0.40 per share. The gross proceeds before expenses were approximately HK\$237,368,000.
- (d) Pursuant to a minute of an annual general meeting held on 1 June 2007, an amount of HK\$100,000,000 was transferred from the share premium account to contributed surplus account where it may be utilised in accordance with the bye-laws of the Company and all the applicable laws.
- (e) (i) Pursuant to a board of directors' meeting held on 8 June 2007, an amount of HK\$28,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for the payment of 2006 final dividend of HK\$27,661,000.
- (ii) Pursuant to a minute of a board of directors' meeting held on 3 September 2007, an amount of HK\$30,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for the payment of 2007 interim dividend of HK\$29,672,000.
- (f) On 24 April 2008 and 15 July 2008, 1,000,000 share options and 203,000 share options were exercised at an exercise price of HK\$0.262 each and HK\$1.310 each respectively, resulting in the issue of a total of 1,203,000 new shares of HK\$0.10 each for a total consideration (before expenses) of HK\$528,000. These shares rank pari passu in all respects with other shares in issue.
- (g) Pursuant to a special resolution passed by the shareholders at the annual general meeting of the Company held on 30 April 2008, the Company, with effect from 2 May 2008:
- (i) consolidated every 5 issued shares of HK\$0.10 each in the issued share capital of the Company to 1 share of HK\$0.50 each ("Consolidated Share") ("Share Consolidation");
- (ii) reduced the issued share capital by cancelling paid up capital to the extent of HK\$0.40 on each of the Consolidated Share in issue ("Capital Reduction"); and
- (iii) transferred the amount of paid up capital cancelled arising from the Capital Reduction of approximately HK\$166,238,000 to the contributed surplus account.
- (h) Pursuant to a minute of a board of directors' meeting held on 3 September 2008, an amount of HK\$60,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for the payment of 2008 interim dividend of HK\$41,227,000.

**Consolidated Cash Flow Statement***For the year ended 31 December 2008*

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Operating activities			
(Loss) profit before taxation		(81,924)	235,515
Adjustments for:			
Advertising and telecommunication services expenses	35	–	2,233
Allowance for bad and doubtful debt		900	1,339
Bad debt on accounts and loans receivable written off directly		177	227
Amortisation of intangible assets		–	1,731
Depreciation of property and equipment		15,655	9,809
Interest income arising from accounts receivable on disposal of subsidiaries		(8,795)	–
Interest expense		20,134	91,928
Gain on disposal of subsidiaries	37	–	(41,701)
Fair value change on investment property		(823)	–
Loss (gain) on disposal of intangible asset		830	(9)
Gain on disposal of property and equipment		(35)	–
Realised loss on equity-linked structured deposits		29,905	–
Impairment loss on amount due from an associate		–	4,075
Share of (profit) loss of an associate		(39,096)	3,370
Operating cash (outflows) inflows before movements in working capital		(63,072)	308,517
Increase in inventories		–	(676)
Decrease (increase) in accounts receivable		627,376	(151,142)
Decrease (increase) in loans receivable		14,322	(10,011)
Decrease (increase) in prepayments, deposits and other receivables		5,354	(34,645)
Decrease (increase) in deposits with brokers		64,902	(69,188)
Increase in amount due from an associate		–	(4,519)
Increase in amounts due from fellow subsidiaries		440	3,016
Increase in investments held for trading		(28,143)	(4,954)
Increase in derivative financial liabilities		(8,734)	–
Decrease in equity-linked structured deposits		28,507	–
Decrease (increase) in bank balances – trust and segregated accounts		386,448	(353,950)
(Decrease) increase in accounts payable		(690,346)	447,656
(Decrease) increase in accrued liabilities and other payables		(22,052)	62,980
Increase in deferred revenue		–	9,942

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Cash from operations		315,002	203,026
Income taxes paid		(4,003)	(10,685)
Net cash from operating activities		<u>310,999</u>	<u>192,341</u>
Investing activities			
Investment in an associate		–	(67,833)
Increase in loan to an associate		–	(10,296)
Disposal of subsidiaries	<i>37</i>	–	(35,976)
Acquisition of subsidiaries	<i>36(a)</i>	(105)	37
Increase in bank deposits subject to conditions		(6,505)	(862)
Statutory and other deposits (paid) refunded		(311)	7,105
Purchases of property and equipment		(98,254)	(10,728)
Proceeds on disposal of property and equipment		35	–
Proceeds on disposal of intangible assets		500	1,769
Proceeds on disposal of investment property		5,823	–
Deposits paid for acquisition of fellow subsidiaries	<i>22</i>	(60,000)	–
Receipt on amounts receivable on disposal of subsidiaries		–	9,855
Net cash used in investing activities		<u>(158,817)</u>	<u>(106,929)</u>
Financing activities			
Increase in loan from a minority shareholder		–	27,437
Increase (decrease) in bank overdrafts		12,957	(87,281)
(Decrease) increase in bank loans		(76,613)	40,520
Repayment of loan payable		(35,853)	–
Payment of repurchase of shares		(10,904)	–
Proceeds on issue of shares		528	267,412
Share issue expenses		(40)	(467)
Dividends paid		(103,566)	(57,333)
Interest paid on bank borrowings		(20,125)	(91,923)
Interest paid on obligations under finance leases		(9)	(5)
Repayment of obligations under finance leases		(103)	(330)
Net cash (used in) from financing activities		<u>(233,728)</u>	<u>98,030</u>
Net (decrease) increase in cash and cash equivalents		(81,546)	183,442
Cash and cash equivalents at beginning of year		256,668	73,226
Effect of change in foreign exchange rate		79	–
Cash and cash equivalents at end of year		<u><u>175,201</u></u>	<u><u>256,668</u></u>
Bank balances (general accounts) and cash		<u><u>175,201</u></u>	<u><u>256,668</u></u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 1. General

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (“Stock Exchange”). Its immediate holding company is Celestial Investment Group Limited (“CIGL”), a limited company incorporated in the British Virgin Islands. Its ultimate holding company is Celestial Asia Securities Holdings Limited (“CASH”), a company incorporated in Bermuda with its shares being listed on the Main Board of the Stock Exchange. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, while the address of the principal place of business of the Company is 21/F Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of (a) online and traditional brokerage of securities, futures, options and leverage foreign exchange contracts as well as mutual funds and insurance-linked investment products, (b) margin financing and money lending, and (c) corporate finance. In 2007, the operations of online game and related services were discontinued (*see note 14*).

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the Group’s results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of financial statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1	First-time adoption of financial reporting standards <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>2</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business combinations <sup>3</sup>
HKFRS 7 (Amendments)	Improving disclosures about financial instruments <sup>2</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>4</sup>
HK(IFRIC) – INT 15	Agreements for the construction of real estate <sup>2</sup>
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation <sup>3</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>3</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>6</sup>

- <sup>1</sup> *Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.*
- <sup>2</sup> *Effective for annual periods beginning on or after 1 January 2009.*
- <sup>3</sup> *Effective for annual periods beginning on or after 1 July 2009.*
- <sup>4</sup> *Effective for annual periods beginning on or after 1 July 2008.*
- <sup>5</sup> *Effective for annual periods beginning on or after 1 October 2008.*
- <sup>6</sup> *Effective for transfers on or after 1 July 2009.*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments and investment property, which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### ***Business combinations***

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

***Goodwill******Goodwill arising on acquisitions prior to 1 January 2005***

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

Such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

***Goodwill arising on acquisitions on or after 1 January 2005***

Goodwill arising on acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets, liabilities and contingent liabilities of the relevant acquiree at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

***Investments in associates***

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investments in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Revenue recognition**

Revenue arising from financial services are recognised on the following basis:

- The net increase or decrease in fair value of trading investments are recognised directly in net profit or loss;
- Commission income for broking business is recorded as income on a trade date basis;
- Underwriting commission income, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed;
- Advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Revenue arising from the online game services are recognised on the following basis:

- Online game income is recognised when the in-game premium features is consumed or points for in-game premium features is expired. Payments received from the sales of points for in-game premium features that have not been consumed are recorded as deferred revenue;
- Sales of online game auxiliary products are recognised when products are delivered and title has passed; and
- Licensing fee income is recognised on a straight-line basis over the licensing period.

Other interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Property and equipment**

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

**Investment property**

An investment property is a property held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rates prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

***Retirement benefits costs***

Payments to defined contribution retirement benefits plan/state-managed retirement benefits schemes/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

***Borrowing costs***

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

***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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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 and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

***Intangible assets******Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

***Financial instruments***

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, loan to an associate, other receivables, deposits paid for acquisition of fellow subsidiaries, amounts due from associate and fellow subsidiaries, amounts receivable on disposal of subsidiaries, deposits with brokers, bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

#### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loans receivable and accounts receivable arising from the business of dealing in securities and equity options with margin clients, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and loans receivable where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the accounts receivable and loans receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

#### *Other financial liabilities*

Other financial liabilities (including accounts payable, other payables, bank borrowings and loan from a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. When the Company reacquires its own equity instruments, those instruments shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

#### Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

#### ***Equity-settled share-based payment transactions (share options granted to employees of the Group for their services to the Group)***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when share options granted vested immediately, with a corresponding increase in equity (share-based payment reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of change in estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share-based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses/retained earnings.

#### ***Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)***

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

#### 4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, the management has made various estimates based on past experience, expectations of the future and other information. The key source of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements within the next financial year is disclosed below.

##### *Allowance for bad and doubtful debts*

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. If the financial conditions of debtors and their ability to make payments worsen, additional allowance may be required. As at 31 December 2008, the aggregate carrying amount of accounts and loans receivable and other amounts receivable is HK\$328,159,000 (2007: HK\$970,934,000) (net of allowance for bad and doubtful debts).

#### 5. Capital risk management

##### *Capital risk management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 31, and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 32, reserves and retained earnings as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Certain group entities are regulated by the Hong Kong Securities and Futures Commission ("SFC") and are required to comply with certain minimum capital requirements according to the Hong Kong Securities and Futures Ordinance. Management closely monitors, on a daily basis, the liquid capital level of these entities to ensure the compliance of the minimum liquid capital requirement under the Hong Kong Securities and Futures (Financial Resources) Rules.

#### 6. Financial instruments

##### *(i) Categories of financial instruments*

	2008 HK\$'000	2007 HK\$'000
Financial assets		
Fair value through profit or loss – held-for-trading	79,155	59,271
Loans and receivables (including cash and cash equivalents)	1,316,747	2,426,222
Financial liabilities		
Amortised cost	965,877	1,644,066
Derivative financial liabilities	3,067	–
	<u>          </u>	<u>          </u>

**(ii) Net (losses) gains on financial assets at fair value through profit or loss**

	2008 HK\$'000	2007 HK\$'000
Held-for-trading investments		
– Equity securities listed in Hong Kong	(141,290)	20,121
– Investment funds	(922)	213
Designated at fair value through profit or loss		
– Equity-linked structured deposits (Note 34)	(29,905)	–
	<u>(172,117)</u>	<u>20,334</u>

**(iii) Net increase in fair value on derivative financial instrument**

	2008 HK\$'000	2007 HK\$'000
Equity-linked derivative contracts (Note 33)	<u>8,734</u>	<u>–</u>

**Financial risk management objectives and policies**

The Group's major financial instruments include equity investments, deposits paid for acquisition of fellow subsidiaries, other receivables, other payables, bank balances and deposits, bank borrowings, accounts receivable and accounts payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk****Equity price risk**

The Group is exposed to equity price risk as a result of changes in fair value of its investments in equity securities and derivative financial instruments. The directors of the Company manage the exposure by closely monitoring the portfolio of equity investments and derivative financial instrument (see note 33).

**Equity price sensitivity**

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. As a result of the volatility of the financial market in 2008, the management adjusted the sensitivity rate from 10% for 2007 to 30% for 2008 for the purpose of assessing equity price risk. A 30 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

As at 31 December 2008, if the market bid prices of the Group's listed equity investments had been 30 percent higher/lower, the Group's loss would decrease/increase by HK\$23,747,000 (2007: the Group's profit would increase/decrease by HK\$17,781,000). This is mainly attributable to the changes in fair values of the listed investments held for trading.

For derivative financial instruments, the Group has obligations to take up equity securities based on the relevant contract. In addition, since these contracts are mark-to-market at reporting date, the Group will have profit and loss exposure in these contracts. No sensitivity analysis is prepared as the impact for the remaining contracts are expected to be insignificant (see note 33 for loss on settlement subsequent to 31 December 2008).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year. An unexpected decrease in market bid price may result in the Group suffering significant loss due to the leverage feature.

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances and deposits with brokers. The Group currently does not have a fair value hedging policy.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, loans receivable, loans to margin clients and bank balances. The Group currently does not have a cash flow interest rate hedging policy. However, management is closely monitoring its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group. A 100 (2007: 100) basis point change is used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and HIBOR arising from the Group's variable interest rate instruments.

The sensitivity analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. As at 31 December 2008, if the interest rate of bank borrowings, loans receivable, loans to margin clients and bank balances had been 100 basis point higher/lower, the Group's loss would decrease/increase by HK\$1,509,000 (2007: the Group's profit would increase/decrease by HK\$4,925,000). This is mainly attributable to the bank interest expenses under finance costs or interest income under revenue.

#### Foreign currency risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. The management monitors foreign exchange exposure and will consider hedging significant foreign exposure should the need arise.

More than 99% of financial assets and financial liabilities of the Group are denominated in US\$ or HK\$. As HK\$ is pegged to US\$, the Group does not expect any significant movements in the US\$/HK\$ exchange rates. No foreign currency sensitivity is disclosed as in the opinion of directors, the foreign currency sensitivity does not give additional value in view of insignificant movement in the US\$/HK\$ exchange rates and insignificant exposure of other foreign currencies as at the balance sheet date.

#### *Credit risk*

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk on brokerage, financing and corporate finance operations, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on deposits paid for acquisition of fellow subsidiaries and amounts receivable on disposal of subsidiaries which are payable by CIGL, the Group does not have any other significant concentration of credit risk as the exposure spread over a number of counterparties and customers. CIGL, a wholly owned subsidiary of CASH, is financially supported by CASH. Accordingly, the directors of the Company consider the credit risk is minimal in the view of financial background of CASH.

Bank balances and deposits with brokers are placed in various authorised institutions and the directors of the Company consider the credit risk of such authorised institutions is low.

*Liquidity risk*

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from (1) timing difference between settlement with clearing houses or brokers and customers and (2) derivative financial instruments (trading as accumulator) if it has difficulties in fulfilling its obligation to purchase the agreed amount of equity securities at any agreed point as set out in the contract. Securities market bid price and the associated volatility will affect the Group's future cash flows and profit and loss. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

## Liquidity and interest risk tables

For derivative financial liabilities, which are to be settled on gross basis, the Group has approximately HK\$7.2 million contractual cash outflow in return for listed securities within 2 months from 31 December 2008. The expected cash outflow is calculated with reference to the number of listed securities to be received on the assumption that market price of the underlying securities as at year end remained constant until expiry.

For non-derivative financial liabilities, the following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The difference between the "Total undiscounted cash flows" column and the "Carrying amount at balance sheet date" column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the consolidated balance sheet.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
<b>At 31 December 2008</b>										
Accounts payable	N/A	542,079	147,096	-	-	-	-	-	689,175	689,175
Other payables	N/A	-	16,737	-	-	-	-	-	16,737	16,737
Bank borrowings	Note	-	15,067	-	184,173	1,374	4,756	42,416	247,786	232,086
Loan from a minority shareholder	N/A	-	27,437	-	-	-	-	-	27,437	27,437
Obligations under finance leases	6%	-	10	21	100	147	218	-	496	442
		<u>542,079</u>	<u>206,347</u>	<u>21</u>	<u>184,273</u>	<u>1,521</u>	<u>4,974</u>	<u>42,416</u>	<u>981,631</u>	<u>965,877</u>
<b>At 31 December 2007</b>										
Accounts payable	N/A	928,527	450,994	-	-	-	-	-	1,379,521	1,379,521
Other payables	N/A	-	6,042	-	-	-	-	-	6,042	6,042
Bank borrowings	Note	-	1	106	239,621	-	-	-	239,728	231,066
Loan from a minority shareholder	N/A	-	27,437	-	-	-	-	-	27,437	27,437
		<u>928,527</u>	<u>484,474</u>	<u>106</u>	<u>239,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,728</u>	<u>1,644,066</u>

*Note:* Variable-rate borrowings carry interest at HIBOR plus a spread or Hong Kong Prime Rate. The prevailing market rate at the balance sheet date is used in the maturity analysis.

## APPENDIX I

## FINANCIAL INFORMATION OF THE GROUP

The following table details the Group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. The difference between the "Total undiscounted cash flows" column and the "Carrying amount at balance sheet date" column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the consolidated balance sheet.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 to 2 years HK\$'000	Over 2 years HK\$'000	Undated HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
<b>At 31 December 2008</b>										
Investments held for trading	N/A	-	79,155	-	-	-	-	-	79,155	79,155
Amounts receivable on disposal of subsidiaries	Hong Kong Prime Rate (Note 2)	-	-	-	175,071	-	-	-	175,071	171,498
Deposits paid for acquisition of fellow subsidiaries	N/A (Note 4)	-	-	-	-	-	-	60,000	60,000	60,000
Accounts receivable	Hong Kong Prime Rate plus spread (Note 2)	97,858	206,869	-	-	-	-	-	304,727	304,042
Loan to an associate	N/A (Note 1)	-	-	-	-	-	-	10,296	10,296	10,296
Loans receivable	Hong Kong Prime Rate plus spread (Note 2)	-	-	10,083	3,743	201	-	-	14,027	13,821
Other receivables	N/A	-	1,299	-	-	-	-	-	1,299	1,299
Amount due from an associate	N/A	-	260	-	-	-	-	-	260	260
Amounts due from fellow subsidiaries	N/A	-	341	-	-	-	-	-	341	341
Deposits with brokers	0.5%	-	2,731	-	-	-	-	-	2,731	2,730
Bank balances with fixed interest rate	0.01%-1%	-	49,461	82,041	92,869	-	-	-	224,371	224,161
Bank balance with variable interest rate	0.01%-1%	-	64,096	-	-	-	-	-	64,096	64,027
Bank balance without interest-bearing	N/A	464,272	-	-	-	-	-	-	464,272	464,272
		<u>562,130</u>	<u>404,212</u>	<u>92,124</u>	<u>271,683</u>	<u>201</u>	<u>-</u>	<u>70,296</u>	<u>1,400,646</u>	<u>1,395,902</u>

# APPENDIX I

# FINANCIAL INFORMATION OF THE GROUP

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 to 2 years HK\$'000	Over 2 years HK\$'000	Undated HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
<b>At 31 December 2007</b>										
Investments held for trading	N/A	-	59,271	-	-	-	-	-	59,271	59,271
Amounts receivable on disposal of subsidiaries	Hong Kong Prime Rate (Note 2)	-	-	-	-	179,204	-	-	179,204	162,703
Accounts receivable	Hong Kong Prime Rate plus spread (Note 2)	452,624	482,486	-	-	-	-	-	935,110	931,595
Loans receivable	(Note 3)	-	28,931	-	161	130	69	-	29,291	29,043
Loan to an associate	N/A (Note 1)	-	-	-	-	-	-	10,296	10,296	10,296
Other receivables	N/A	-	8,820	-	-	-	-	-	8,820	8,820
Amount due from an associate	N/A	-	260	-	-	-	-	-	260	260
Amounts due from fellow subsidiaries	N/A	-	447	-	-	-	-	-	447	447
Deposits with brokers	1.5%	-	69,274	-	-	-	-	-	69,274	69,188
Bank balances with fixed interest rate	1.5%-3.5%	-	301,376	346,854	28,759	-	-	-	676,989	670,364
Bank balance with variable interest rate	1.5%-3.5%	-	62,830	-	-	-	-	-	62,830	62,255
Bank balance without interest-bearing	N/A	481,251	-	-	-	-	-	-	481,251	481,251
		<u>933,875</u>	<u>1,013,695</u>	<u>346,854</u>	<u>28,920</u>	<u>179,334</u>	<u>69</u>	<u>10,296</u>	<u>2,513,043</u>	<u>2,485,493</u>

## Notes:

- (1) The loan to the associate has no fixed repayment terms and is expected to be recovered after 1 year.
- (2) The prevailing market rate at the balance sheet date is used in the maturity analysis.
- (3) For the fixed rate instrument, the interest rate ranged from 5% to 32.6%, and for those variable rate instrument, the interest rate is Hong Kong Prime Rate plus spread. The prevailing market rate at the balance sheet date in used in the maturity analysis.
- (4) The deposits were paid for the acquisition of fellow subsidiaries and may be refundable if the transaction is not approved by the independent shareholders of the Company.

## Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input; and
- the fair values of derivative instruments are determined based on valuation techniques that incorporate market observable data such as share market price, risk-free rate and dividend yield.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. Revenue

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Continuing operations:</b>		
Fees and commission income	278,464	511,881
Interest income	46,187	154,497
	<u>324,651</u>	<u>666,378</u>
<b>Discontinued operations:</b>		
Online game income	–	23,309
Sales of online game auxiliary products	–	9,738
Licensing income	–	2,064
	<u>–</u>	<u>35,111</u>

## 8. Business and geographical segments

**Business segments**

For management purposes, the Group is currently organised into three main operating divisions, namely, broking, financing and corporate finance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities for the year are as follows:

Broking	–	Broking of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products
Financing	–	Provision of margin financing and money lending services
Corporate finance	–	Provision of corporate finance services

The Group was also involved in the provision of online game services, sales of online game auxiliary products and licensing services up to 31 May 2007. This online game division was disposed of and discontinued on 1 June 2007 as mentioned in notes 14 and 37.

The Group's operation by business segment is as follows:

**Consolidated income statement for the year ended 31 December 2008**

	Continuing operations			Discontinued operations		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Total HK\$'000	Online game services HK\$'000	
Revenue	270,878	46,187	7,586	324,651	–	324,651
<b>RESULT</b>						
Segment profit	47,513	14,729	79	62,321	–	62,321
Other operating income				5,260	–	5,260
Share of profit of an associate				39,096	–	39,096
Unallocated corporate expenses				(25,218)	–	(25,218)
Net losses on financial assets at fair value through profit or loss				(172,117)	–	(172,117)
Net increase in fair value on derivative financial instruments				8,734	–	8,734
Loss before taxation				(81,924)	–	(81,924)
Taxation charge				(4,294)	–	(4,294)
Loss for the year				(86,218)	–	(86,218)

**Consolidated balance sheet as at 31 December 2008**

	Continuing operations			Discontinued operations		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Total HK\$'000	Online game services HK\$'000	
<b>ASSETS</b>						
Segment assets	976,755	246,287	11,272	1,234,314	–	1,234,314
Interests in associates						111,684
Unallocated corporate assets						381,260
Consolidated total assets						1,727,258
<b>LIABILITIES</b>						
Segment liabilities	696,605	212,386	551	909,542	–	909,542
Unallocated corporate liabilities						111,661
Consolidated total liabilities						1,021,203

## Other information for the year ended 31 December 2008

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate		Total HK\$'000	Online game services HK\$'000	
			finance HK\$'000	Unallocated HK\$'000			
Additions to property and equipment	71,921	-	-	26,878	98,799	-	98,799
Allowance for bad and doubtful debts	-	900	-	-	900	-	900
Depreciation of property and equipment	5,904	-	-	9,751	15,655	-	15,655

## Consolidated income statement for the year ended 31 December 2007

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate		Total HK\$'000	Online game services HK\$'000	
			finance HK\$'000	Unallocated HK\$'000			
Revenue	502,039	154,497	9,842	666,378	35,111	701,489	
RESULT							
Segment profit (loss)	164,639	36,227	(1,861)	199,005	(7,528)	191,477	
Net gains on financial assets at fair value through profit or loss				20,334	-	20,334	
Other operating income				1,859	336	2,195	
Gain on disposal of subsidiaries				-	41,701	41,701	
Share of loss of an associate				(3,370)	-	(3,370)	
Unallocated corporate expenses				(13,217)	(3,605)	(16,822)	
Profit before taxation				204,611	30,904	235,515	
Taxation charge				(28,825)	-	(28,825)	
Profit for the year				175,786	30,904	206,690	

## Consolidated balance sheet as at 31 December 2007

	Continuing operations				Discontinued operations	Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Total HK\$'000	Online game services HK\$'000	
<b>ASSETS</b>						
Segment assets	1,495,624	780,602	12,197	2,288,423	–	2,288,423
Interests in associates						65,778
Unallocated corporate assets						272,716
Consolidated total assets						2,626,917
<b>LIABILITIES</b>						
Segment liabilities	1,164,302	489,678	409	1,654,389	–	1,654,389
Unallocated corporate liabilities						73,162
Consolidated total liabilities						1,727,551

## Other information for the year ended 31 December 2007

	Continuing operations				Discontinued operations	Consolidated HK\$'000	
	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Unallocated HK\$'000	Total HK\$'000		Online game services HK\$'000
Additions to property and equipment	39	–	–	5,006	5,045	5,683	10,728
Allowance for bad and doubtful debts	1,041	298	–	–	1,339	–	1,339
Depreciation of property and equipment	59	–	–	7,344	7,403	2,406	9,809
Amortisation of intangible assets	–	–	–	–	–	1,731	1,731

**Geographical segments**

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC"). For the activities of broking, financing and corporate finance, they are based in Hong Kong and PRC and the revenue of these activities for the year ended 31 December 2008 and 31 December 2007 are derived from Hong Kong. The online game services were mainly based in the PRC and Taiwan and the relevant revenue for the year ended 31 December 2007 were derived mainly from the PRC and Taiwan.

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The Group's segment revenue from external customers cannot be allocated based on geographic location of its customers. The following table provides an analysis of the Group's revenue by geographical market based on location of operations:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Continuing operations:		
Hong Kong	324,651	666,378
Discontinued operations:		
PRC	–	27,781
Taiwan	–	7,330
	–	35,111
	<u>324,651</u>	<u>701,489</u>

The following is an analysis of the carrying amount of segment assets, and additions to property and equipment, analysed by the geographical area in which the assets are located:

***Carrying amount of segment assets***

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Continuing operations:		
Hong Kong	1,165,853	2,288,423
PRC	68,461	–
	<u>1,234,314</u>	<u>2,288,423</u>
Discontinued operations:		
PRC	–	–
Taiwan	–	–
	–	–
	<u>–</u>	<u>2,288,423</u>

***Additions to property and equipment***

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Continuing operations:		
Hong Kong	26,878	5,045
PRC	71,921	–
	<u>98,799</u>	<u>5,045</u>
Discontinued operations		
PRC	–	1,824
Taiwan	–	3,859
	–	5,683
	<u>98,799</u>	<u>10,728</u>

## 9. Salaries, commission and related benefits

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Salaries, allowances and commission represent the amounts paid and payable to the directors of the Company and employees and account executives and comprise:		
<b>Continuing operations:</b>		
Salaries, allowances and commission	147,682	245,220
Contributions to retirement benefits schemes	3,428	2,760
	<u>151,110</u>	<u>247,980</u>
<b>Discontinued operations:</b>		
Salaries, allowances and commission	–	10,027
Contributions to retirement benefits schemes	–	638
	<u>–</u>	<u>10,665</u>

## 10. Finance costs

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>Continuing operations:</b>		
Interest on:		
Bank overdrafts and borrowings:		
– repayable within five years	19,494	91,839
– repayable more than five years	631	–
Finance leases	9	5
	<u>20,134</u>	<u>91,844</u>
<b>Discontinued operations:</b>		
Interest on bank overdrafts and borrowings wholly repayable within five years	–	84
	<u>–</u>	<u>84</u>

## 11. Directors' remuneration

The remuneration paid or payable to each of the directors during the year were as follows:

	Kwan Pak Hoo Bankee HK\$'000	Chan Chi Ming Benson HK\$'000	Law Ping Wah Bernard HK\$'000	Cheng Man Pan Ben HK\$'000	Yuen Pak Lau Raymond HK\$'000	Wong Kin Yick Kenneth HK\$'000	Cheng Shu Shing Raymond HK\$'000	Lo Kwok Hung John HK\$'000	Lo Ming Chi Charles HK\$'000	Hui Ka Wah Ronnie HK\$'000	2008 Total HK\$'000
Fees:											
Executive directors	-	-	-	-	-	-	-	-	-	-	-
Independent non-executive directors	-	-	-	-	-	-	100	100	25	84	309
Other remuneration paid to executive directors:											
Salaries, allowances and benefits in kind	1,260	1,920	920	1,262	55	1,156	-	-	-	-	6,573
Contributions to retirement benefit scheme	63	98	46	63	3	58	-	-	-	-	331
<b>Total remuneration</b>	<b>1,323</b>	<b>2,018</b>	<b>966</b>	<b>1,325</b>	<b>58</b>	<b>1,214</b>	<b>100</b>	<b>100</b>	<b>25</b>	<b>84</b>	<b>7,213</b>
	Kwan Pak Hoo Bankee HK\$'000	Chan Chi Ming Benson HK\$'000	Law Ping Wah Bernard HK\$'000	Cheng Man Pan Ben HK\$'000	Yuen Pak Lau Raymond HK\$'000	Wong Kin Yick Kenneth HK\$'000	Cheng Shu Shing Raymond HK\$'000	Lo Kwok Hung John HK\$'000	Hui Ka Wah Ronnie HK\$'000	2007 Total HK\$'000	
Fees:											
Executive directors	-	-	-	-	-	-	-	-	-	-	
Independent non-executive directors	-	-	-	-	-	-	100	100	100	300	
Other remuneration paid to executive directors:											
Salaries, allowances and benefits in kind	-	420	431	990	958	1,850	-	-	-	4,649	
Discretionary bonus (Note)	-	-	-	-	430	-	-	-	-	430	
Contributions to retirement benefit scheme	-	17	21	44	47	77	-	-	-	206	
<b>Total remuneration</b>	<b>-</b>	<b>437</b>	<b>452</b>	<b>1,034</b>	<b>1,435</b>	<b>1,927</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>5,585</b>	

*Note:* The discretionary bonus is determined by reference to the individual performance of directors and approved by Remuneration Committee Meeting.

During the year ended 31 December 2008, Mr Wong Kin Yick Kenneth resigned as an executive director and Mr Yuen Pak Lau Raymond was appointed as an executive director. In addition, Dr Hui Ka Wah Ronnie resigned as an independent non-executive director and Mr Lo Ming Chi Charles was appointed as an independent non-executive director.

During the year ended 31 December 2007, Mr Chan Chi Ming Benson was appointed as an executive director.

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.

**12. Employees' remuneration**

Three (2007: one) of the five individuals with the highest emoluments in the Group were directors of the Company for the year ended 31 December 2008. Details of these directors' emolument are included in the disclosures in note 11 above.

The emoluments of the remaining two (2007: four) individuals were as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,040	3,325
Contributions to retirement benefit scheme	75	176
Performance related incentive payments	463	14,144
Discretionary bonus	–	902
	<u>2,578</u>	<u>18,547</u>

Their remuneration of the five highest paid individuals (other than directors) were within the following bands:

	<b>Number of employees</b>	
	<b>2008</b>	<b>2007</b>
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$7,500,001 to HK\$8,000,000	–	1

During the year, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

**13. Taxation charge**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>Continuing operations:</b>		
Current tax:		
– Hong Kong	(2,154)	(27,635)
Overprovision in prior years	202	385
Deferred taxation	<u>(2,342)</u>	<u>(1,575)</u>
	<u>(4,294)</u>	<u>(28,825)</u>

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries of the Company operated in the PRC and Taiwan and were disposed of by the Group in 2007, as disclosed in note 14, were subject to tax with rate of 15% because they were registered in 張江高科技園區 (translated as Shanghai Zhang Jiang High Technological Zone). No provision for the PRC income tax has been made as they had incurred tax losses in 2007. Also, no provision for taxation had been made for subsidiary located in Taiwan as no assessable profit is arisen in 2007.

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## FINANCIAL INFORMATION OF THE GROUP

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (“New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The relevant tax rate for the Group’s remaining subsidiaries in the PRC is 25%.

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

	<b>2008</b> <i>HK\$’000</i>	<b>2007</b> <i>HK\$’000</i>
(Loss) profit before taxation:		
Continuing operations	(81,924)	204,611
Discontinued operations	–	30,904
	<u>(81,924)</u>	<u>235,515</u>
Taxation at income tax rate of 16.5% (2007: 17.5%)	13,517	(41,215)
Tax effect of share of gain (loss) of associate	6,451	(590)
Overprovision in respect of prior years	202	385
Tax effect of expenses not deductible for tax purpose	(2,738)	(2,775)
Tax effect of income not taxable for tax purpose	3,409	9,300
Tax effect of utilisation of estimated tax losses previously not recognised	6,184	10,736
Tax effect of estimated tax losses not recognised	(32,610)	(2,707)
Effect of different tax rate of subsidiaries operating in other jurisdictions	1,100	(230)
Overprovision of deferred tax assets	–	(1,575)
Other differences	191	(154)
Taxation for the year	<u>(4,294)</u>	<u>(28,825)</u>

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

	<b>Accelerated tax depreciation</b> <i>HK\$’000</i>	<b>Estimated tax losses</b> <i>HK\$’000</i>	<b>Intangible asset</b> <i>HK\$’000</i>	<b>Total</b> <i>HK\$’000</i>
At 1 January 2007	(771)	2,346	(1,844)	(269)
Eliminated on disposal of subsidiaries (note 37)	–	–	1,844	1,844
Credit (charge) to consolidated income statement	<u>771</u>	<u>(2,346)</u>	<u>–</u>	<u>(1,575)</u>
At 31 December 2007	–	–	–	–
Charge to consolidated income statement	<u>(2,342)</u>	<u>–</u>	<u>–</u>	<u>(2,342)</u>
At 31 December 2008	<u>(2,342)</u>	<u>–</u>	<u>–</u>	<u>(2,342)</u>

As at 31 December 2008, the Group had unused estimated tax losses of HK\$415,830,000 (2007: HK\$262,333,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely. For certain subsidiaries operated in the PRC, unused estimated tax loss of HK\$12,948,000 (2007: nil) can be carried forward until 2013.

**14. Discontinued operations**

On 9 January 2007, the Group entered into a sale and purchase agreement with CASH to dispose of Netfield Technology Limited and its subsidiaries (“Netfield Group”), which carried out the Group’s online game services operations. The disposal was effected in order to generate cash flows for the expansion of the Group’s other businesses. The disposal was approved by independent shareholders of the Company at a special general meeting held on 23 April 2007 and was completed on 1 June 2007, on which date control of the Netfield Group has been passed to CASH.

The profit (loss) for the year ended 31 December 2007 from the discontinued operations is analysed as follows:

	<i>HK\$’000</i>
Gain on disposal of the Netfield Group	41,701
Loss for the year on online game services operations	<u>(10,797)</u>
	<u><u>30,904</u></u>

The results of the Netfield Group for the period from 1 January 2007 to 31 May 2007, which have been included in the consolidated income statement for the year ended 31 December 2007, were as follows:

	<i>HK\$’000</i>
Revenue	35,111
Other operating income	336
Salaries, commission and related benefits	(10,665)
Depreciation and amortisation	(4,137)
Other operating and administrative expenses	(31,358)
Finance costs	<u>(84)</u>
Loss before taxation and loss for the period	<u><u>(10,797)</u></u>
Attributable to:	
The Group	(10,325)
Minority interests	<u>(472)</u>
	<u><u>(10,797)</u></u>

The cash flows of the Netfield Group for the period from 1 January 2007 to 31 May 2007 are as follows:

	<i>HK\$’000</i>
Net cash from operating activities	33,375
Net cash used in investing activities	(5,683)
Net cash from financing activities	<u>48,367</u>

The carrying amounts of the assets and liabilities of the Netfield Group at the date of disposal are disclosed in note 37.

## 15. (Loss) profit for the year

	2008 HK\$'000	2007 HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
<b>Continuing operations:</b>		
Auditor's remuneration	1,770	1,770
Depreciation of property and equipment		
Owned assets	15,610	7,310
Leased assets	45	93
	15,655	7,403
Advertising and promotion expenses	8,704	10,198
Operating lease rentals in respect of land and buildings	25,647	12,407
Gain on disposal of property and equipment	(35)	–
Loss (gain) on disposal of intangible asset	830	(9)
Fair value change on investment property	(823)	–
Net foreign exchange gain	(182)	(2,498)
Dividends from investments held for trading	(3,261)	(704)
Allowance for bad and doubtful accounts receivable (note)	–	1,041
Bad debt on accounts receivable and loans receivable recovered (note)	(3,476)	–
Allowance for bad and doubtful loans receivable (note)	900	298
Bad debt on accounts and loans receivable written off directly (note)	177	227
Impairment loss on amount due from an associate (note)	–	4,075

Note: All these impairment losses or reversal of impairment losses are included in "other operating and administrative expenses" of the consolidated income statement.

	2008 HK\$'000	2007 HK\$'000
<b>Discontinued operations:</b>		
Auditor's remuneration	–	223
Amortisation of intangible assets	–	1,731
Depreciation of property and equipment		
Owned assets	–	2,406
Advertising and promotion expenses	–	22,429
Operating lease rentals in respect of land and buildings	–	1,330

## 16. (Loss) Earnings Per Share

The calculation of basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company for the year is based on the following data:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>From continuing and discontinued operations</b>		
(Loss) profit for the purpose of basic and diluted (loss) earnings per share	<u>(99,595)</u>	<u>207,779</u>
<b>From continuing operations</b>		
(Loss) profit for the purpose of basic and diluted (loss) earnings per share	<u>(99,595)</u>	<u>176,403</u>
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>From discontinued operations</b>		
Profit for the purpose of basic and diluted earnings per share	<u>–</u>	<u>31,376</u>
	2008	2007 (restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	413,600,313	339,047,794
Effect of dilutive potential ordinary shares assumed exercise of share options	<u>–</u>	<u>4,061,310</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>413,600,313</u>	<u>343,109,104</u>

The weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share has been adjusted for the consolidation of shares on 2 May 2008.

For the year ended 31 December 2008, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

## 17. Property and Equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Computer and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 January 2007	50,421	21,440	46,873	2,009	120,743
Additions	1,465	558	8,705	–	10,728
Arising on disposal of subsidiaries (see note 37)	(3,783)	(497)	(21,115)	(170)	(25,565)
Arising on acquisition of subsidiaries (see note 36(b))	137	110	–	–	247
Disposal/written off	–	(6,628)	–	–	(6,628)
At 31 December 2007	48,240	14,983	34,463	1,839	99,525
Additions	50,779	16,004	31,471	545	98,799
Arising on acquisition of subsidiaries (see note 36(a))	–	233	–	–	233
Disposal/written off	(13,438)	(9,590)	(8,156)	(657)	(31,841)
At 31 December 2008	85,581	21,630	57,778	1,727	166,716
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	31,639	20,800	21,038	1,546	75,023
Provided for the year	5,375	322	4,008	104	9,809
Eliminated on disposals of subsidiaries (see note 37)	(1,141)	(80)	(2,232)	(13)	(3,466)
Eliminated on disposal/written off	–	(6,628)	–	–	(6,628)
At 31 December 2007	35,873	14,414	22,814	1,637	74,738
Provided for the year	6,410	1,696	7,411	138	15,655
Eliminated on disposal/written off	(13,438)	(9,590)	(8,156)	(657)	(31,841)
At 31 December 2008	28,845	6,520	22,069	1,118	58,552
CARRYING VALUES					
At 31 December 2008	<u>56,736</u>	<u>15,110</u>	<u>35,709</u>	<u>609</u>	<u>108,164</u>
At 31 December 2007	<u>12,367</u>	<u>569</u>	<u>11,649</u>	<u>202</u>	<u>24,787</u>

The carrying value of motor vehicles included amounts of HK\$500,000 was held under finance leases (2007: nil).

The above property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	The shorter of the lease terms and 5 years
Furniture and fixtures	5 years
Computer and equipment	3 to 5 years
Motor vehicles	3 years

#### 18. Investment Property

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2007 and 31 December 2007	5,000
Increase in fair value recognised in the consolidated income statement	823
Disposal	<u>(5,823)</u>
At 31 December 2008	<u><u>–</u></u>

The fair value of the Group's investment property at 31 December 2007 was arrived at on the basis of a valuation carried out at that date by Knight Frank Petty Limited, independent qualified professional valuer not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's property interest held under operating lease to earn rentals or for capital appreciation purpose is measured using the fair value model and is classified and accounted for as investment property.

The investment property shown above represents land in Hong Kong with medium-term lease.

#### 19. Goodwill

	<i>HK\$'000</i>
COST AND CARRYING VALUES	
At 1 January 2007	114,878
Reversal on disposal of subsidiaries ( <i>see note 37</i> )	<u>(109,945)</u>
At 31 December 2007 and 31 December 2008	<u><u>4,933</u></u>

Particulars regarding impairment testing on goodwill are disclosed in note 21.

## 20. Intangible Assets

	Trading rights HK\$'000	Club memberships HK\$'000	Online game and related intellectual property HK\$'000	Domain name HK\$'000	Total HK\$'000
COST					
At 1 January 2007	9,092	5,060	16,561	5,460	36,173
Disposals	–	(1,760)	–	–	(1,760)
Arising on disposal of subsidiaries (see note 37)	–	–	(16,561)	(5,460)	(22,021)
At 31 December 2007	9,092	3,300	–	–	12,392
Disposals	–	(1,330)	–	–	(1,330)
At 31 December 2008	9,092	1,970	–	–	11,062
AMORTISATION					
At 1 January 2007	–	–	4,131	–	4,131
Charge for the year	–	–	1,731	–	1,731
Elimination on disposal of subsidiaries (see note 37)	–	–	(5,862)	–	(5,862)
At 31 December 2007 and 31 December 2008	9,092	1,970	–	–	11,062
CARRYING VALUES					
At 31 December 2008	9,092	1,970	–	–	11,062
At 31 December 2007	9,092	3,300	–	–	12,392

At 31 December 2008, intangible assets amounting to HK\$9,092,000 (2007: HK\$9,092,000) represent trading rights that confer eligibility of the Group to trade on the Stock Exchange and the Hong Kong Futures Exchange. Particulars regarding impairment testing on the trading rights are disclosed in note 21.

At 31 December 2008, intangible assets amounting to HK\$1,970,000 (2007: HK\$3,300,000) represent club memberships. For the purpose of impairment testing on club memberships, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is the second-hand market price less cost of disposal. During the year ended 31 December 2008, management of the Group determines that there was no impairment of the club memberships since the recoverable amount of the club memberships exceeds its carrying amount.

**21. Impairment testing on goodwill and trading rights**

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and trading rights set out in notes 19 and 20 respectively have been allocated to three individual cash generating units (CGUs) respectively, including two subsidiaries in broking and one subsidiary in corporate finance. The carrying amounts of goodwill and trading rights at the balance sheet date allocated to these units are as follows:

	<b>Goodwill</b> <b>2008 and 2007</b> <i>HK\$'000</i>	<b>Trading rights</b> <b>2008 and 2007</b> <i>HK\$'000</i>
Broking – Broking of securities	–	9,092
Broking – Mutual funds and insurance-linked investment products	2,272	–
Corporate finance	2,661	–
	<u>4,933</u>	<u>9,092</u>

During the year ended 31 December 2008, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trading rights.

The recoverable amounts of the CGUs of broking and corporate finance have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and discount rate of 8% (2007: three-year period, and discount rate of 6%). The cash flows beyond the one-year period are extrapolated for two years using a zero growth rate. The zero growth rate is determined based on management's expectations for the market development and is not expected to exceed the average long-term growth rate for the relevant industry. Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

**22. Other assets**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Statutory and other deposits	9,447	9,136
Deposits paid to residential property developers	63,271	–
Deposits paid for acquisition of fellow subsidiaries	60,000	–
	<u>132,718</u>	<u>9,136</u>

Statutory and other deposits represent deposits with various exchanges and clearing houses.

Deposits paid to residential property developers represent deposits for purchase of residential properties in Shanghai. The properties are currently under construction and deliveries are expected in late 2009.

On 19 December 2008, the Group entered into a sale and purchase agreement with CASH Group Limited (“CGL”) (a wholly-owned subsidiary of CASH) to acquire 60% of the equity interests in CASH Retail Management (HK) Limited and its subsidiaries (collectively known as “Retail Group”) and the loan due from the Retail Group to CGL, at an aggregate consideration of approximately HK\$184 million (subject to adjustment) and the Group will be granted a purchaser call option to acquire the remaining 40% of the equity interests in the Retail Group at the consideration of approximately HK\$116 million (subject to adjustment) at any time from the date of the first completion date up to 31 December 2011. The total consideration of approximately HK\$300 million (subject to adjustment) was based on price-to-earning ratio (“PE ratio”) of 10 times of the estimated net profits of the Retail Group for the year ended 31 December 2008. The final consideration could be adjusted upward or downward based on the audited net profit of the Retail Group for the year ended 31 December 2008. The PE ratio was determined by reference to prospective PE ratio for year 2008 of various companies listed in Hong Kong engaging in the retail business. This transaction is still subject to, inter alia, the approval by independent shareholders of the Company at a special general meeting to be convened.

As at 31 December 2008, the Group has paid part of the consideration of HK\$60 million to CGL as non-interest bearing deposit for the acquisition of 60% equity interests in the Retail Group. The remaining consideration for this 60% equity interest and the 40% interest upon the Group exercising the purchaser call option as mentioned above will be settled by the convertible note which shall be issued by the Company at principal value of approximately HK\$240 million (subject to adjustment) with conversion price of HK\$1.15 per conversion share. The conversion price will be adjusted to HK\$1.482 per conversion share with retrospective effect from 19 March 2009 subject to completion of the 2-for-1 rights issue of the Company as set out in the prospectus of the Company dated 19 March 2009.

All the above deposits are non-interest bearing.

### 23. Loans receivable

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Variable-rate loans receivable denominated in Hong Kong dollar	17,554	33,399
Fixed-rate loans receivable denominated in Hong Kong dollar	–	1,361
<i>Less: Allowance for bad and doubtful debts</i>	<u>(3,733)</u>	<u>(5,717)</u>
	<u>13,821</u>	<u>29,043</u>
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	13,629	28,867
Non-current assets (receivable after 12 months from the balance sheet date)	<u>192</u>	<u>176</u>
	<u>13,821</u>	<u>29,043</u>

Interest rates underlying the variable-rate loans receivable are Hong Kong Prime Rate plus a spread for both years. Interest rates underlying the fixed-rate loans receivable for 2007 are ranged from 5% to 32.6%.

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment, including the current creditworthiness, collaterals and the past collection history of each client.

Movement in the allowance for bad and doubtful debts is as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Balance at the beginning of the year	5,717	26,570
Amounts written off during the year	–	(21,151)
Increase (decrease) during the year		
Charge for the year	900	1,997
Reversal for the year	–	(1,699)
Amounts recovered during the year	<u>(2,884)</u>	<u>–</u>
Balance at the end of the year	<u>3,733</u>	<u>5,717</u>

In determining the recoverability of the loans receivable, the Group considers any change in the credit quality of the loans receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further impairment required in excess of the allowance for doubtful debts.

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At 31 December 2007, debtors with a carrying amount of HK\$28,720,000 are past due at the reporting date for which the directors of the Company considered them as recoverable since the amounts are either fully secured by marketable securities pledged by the debtors or subsequently settled. Accordingly, no further impairment is considered necessary.

In respect of loans receivable which are past due but not impaired at the respective balance sheet date, the aged analysis (from due date) is as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
0–30 days	–	4,267
31–60 days	–	23,312
61–90 days	–	–
Over 90 days	–	1,141
	<u>–</u>	<u>1,141</u>
	<u>–</u>	<u>28,720</u>

The loans receivable with a carrying amount of HK\$13,821,000 (2007: HK\$323,000) which are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

Loans receivable with an aggregate carrying value of approximately HK\$13,821,000 (2007: HK\$4,267,000) are secured by pledged marketable securities at fair values of HK\$3,357,000 (2007: HK\$11,934,000) and convertible instrument with nominal value of HK\$13,000,000 (2007: nil).

The variable-rate loans receivable have contractual maturity dates as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Within one year	13,629	27,602
In more than one year but not more than two years	192	25
In more than two years but not more than three years	–	27
In more than three years but not more than four years	–	28
	<u>13,821</u>	<u>27,682</u>

The fixed-rate loans receivable have contractual maturity dates as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Within one year	–	1,265
In more than one year but not more than two years	–	96
	<u>–</u>	<u>1,361</u>

The effective interest rates (which are equal to contractual interest rate) on the Group's loans receivable are Hong Kong Prime Rate plus a spread.

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## 24. Interests in associates

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Cost of investments in an associate		
Unlisted shares	67,833	67,833
Share of post-acquisition reserve	8,125	1,315
Share of post-acquisition profit (loss)	35,726	(3,370)
	<u>111,684</u>	<u>65,778</u>
Loan to an associate ( <i>Note</i> )	<u>10,296</u>	<u>10,296</u>

*Note:* Pursuant to the shareholder agreement entered into between a subsidiary, Marvel Champ Investments Limited, and other shareholders of the associate on 27 June 2007, the loan to an associate is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, the loan will not be repaid within the next twelve months from 31 December 2008.

As at 31 December 2008 and 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of incorporation/ date of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held	Principal activity
					Directly %	Indirectly %		
China Able Limited	Incorporated	British Virgin Islands ("BVI") 23 May 2007	PRC	Ordinary	33.33	-	33.33	Investment holding
Shanghai Property (No. 1) Holding SRL	Incorporated	Barbados 11 August 2006	PRC	Ordinary	-	33.33	33.33	Investment holding
昌裕(上海)房地產經營有限公司	Incorporated	PRC 11 December 2006	PRC	Ordinary	-	33.33	33.33	Property investment

The summarised financial information in respect of the Group's associates is set out below:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Total assets	704,248	327,781
Total liabilities	(369,197)	(130,446)
Net assets	<u>335,051</u>	<u>197,335</u>
Group's share of net assets of associates	<u>111,684</u>	<u>65,778</u>
Revenue	<u>22,231</u>	<u>-</u>
Profit (loss) for the year	<u>117,288</u>	<u>(10,111)</u>
Group's share of profit (loss) of associates for the year	<u>39,096</u>	<u>(3,370)</u>

Pursuant to the shareholder agreement entered into between a subsidiary, Marvel Champ Investments Limited, and the other shareholders of the associate on 27 June 2007, the Group is required to make capital contribution to the associate amounting to HK\$153,200,000. During the year ended 31 December 2007, the associate has obtained banking facilities to finance its operations. Accordingly, the outstanding capital contribution from the Group and other shareholders were reduced. The outstanding capital contribution of the Group commitment was reduced from HK\$153,200,000 to HK\$84,388,000. In 2007, the Group has made payments of HK\$67,833,000 and HK\$10,296,000 in the form of capital injection and shareholders' loan respectively to the associate. During the year, the Group has not made any further contributions to the associate. At 31 December 2008, the remaining capital contribution to be made by the Group amounted to HK\$6,259,000 (2007: HK\$6,259,000).

## 25. Other financial assets and liabilities

### *Amounts receivable on disposal of subsidiaries*

The amount represents partial consideration receivable from the purchaser with respect to the disposal of subsidiaries and the amount due from the Netfield Group on 31 May 2007, and related interest receivables.

Pursuant to the sale and purchase agreement entered into between the subsidiary of the Company, Vantage Giant Limited and CIGL, immediate holding company of the Company, on 9 January 2007, the amount is repayable on 1 June 2009, the principal amount of HK\$162,703,000 carries interest at Hong Kong Prime Rate and unsecured. CIGL has the right to repay early part or all of the amount at any time prior to 1 June 2009.

### *Amounts due from an associate and fellow subsidiaries*

The amounts are non-interest bearing, unsecured and are repayable on demand.

### *Deposits with brokers*

The amount represents deposits with brokers for trading in securities. The amount is unsecured, repayable on demand and bears interest at 0.5% (2007: 3.2%) per annum.

### *Bank balances – trust and segregated accounts*

The Group receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities of its ordinary business. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding accounts payable to respective clients and other institutions. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

### *Bank balances (general accounts) and cash*

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates with an original maturity of three months or less.

### *Loan from a minority shareholder*

The amount is non-interest bearing, unsecured and is repayable on demand.

## 26. Accounts receivable

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Accounts receivable arising from the business of dealing in securities:		
Clearing houses, brokers and dealers	72,199	216,343
Cash clients	36,425	166,310
Margin clients	97,185	449,162
Accounts receivable arising from the business of dealing in futures and options:		
Clients	65	68
Clearing houses, brokers and dealers	94,719	93,032
Commission receivable from brokerage of mutual funds and insurance-linked investment products	2,349	5,238
Accounts receivable arising from the business of provision of corporate finance services	1,100	1,442
	<u>304,042</u>	<u>931,595</u>

The settlement terms of accounts receivable arising from the business of dealing in securities 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.

In respect of the commission receivables from brokerage of mutual funds and insurance-linked investment products as well as accounts receivable arising from the business of corporate finance services, the Group allows a credit period of 30 days. The aged analysis is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0–30 days	2,034	4,173
31–60 days	458	619
61–90 days	323	697
Over 90 days	634	1,191
	<u>3,449</u>	<u>6,680</u>

Loans to margin clients are secured by clients' pledged securities at fair values of HK\$442,488,000 (2007: HK\$1,827,557,000) which can be sold at the Group's discretion to settle any margin call requirements imposed by their respective securities transactions. The Group is able to use client's pledged securities up to the amount of 140% of the loans to margin clients as collateral of the Group's borrowing (with client's consent). The loans are repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts receivable are netted off by allowance for bad and doubtful debts of HK\$7,524,000 (2007: HK\$9,330,000).

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and age analysis of accounts and on management's judgement including the current creditworthiness, collaterals and the past collection history of each client.

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Movement in the allowance for bad and doubtful debts:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Balance at the beginning of the year	9,330	20,086
Amounts written off during the year	(1,214)	(11,797)
Charge for the year	–	1,041
Amounts recovered during the year	(592)	–
	<u>7,524</u>	<u>9,330</u>

In addition to the individually assessed allowance for bad and doubtful debt, the Group has also provided, on a collective basis, loan impairment allowance for accounts receivable arising from the business of dealing in securities and equity options with margin client that are individually insignificant or accounts receivable where no impairment has been identified individually. Objective evidence of collective impairment could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further impairment required in excess of the allowance for bad and doubtful debts.

Included in the Group's accounts receivable are debtors, with a carrying amount of HK\$8,332,000 (2007: HK\$24,278,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality. The Group believes that the amounts are still considered recoverable given the substantial subsequent settlement after the reporting date.

In respect of accounts receivable which are past due but not impaired at the respective balance sheet date, the aged analysis (from due date) is as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
0–30 days	6,549	21,771
31–60 days	826	619
61–90 days	323	697
Over 90 days	634	1,191
	<u>8,332</u>	<u>24,278</u>

The accounts receivable with a carrying amount of HK\$295,710,000 (2007: HK\$907,317,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

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Included in accounts receivable from margin clients arising from the business of dealing in securities are amounts due from certain related parties, the details of which are as follows:

Name	Balance at 1 January HK\$'000	Balance at 31 December HK\$'000	Maximum amount outstanding during the year HK\$'000	Market value of pledged securities at fair value at 31 December HK\$'000
<b>Directors of both the Company and CASH</b>				
Mr Wong Kin Yick Kenneth (Note 2) and associates (Note 1)				
2007	648	1,678	28,842	3,941
2008	1,678	222	16,031	1,096
Mr Law Ping Wah Bernard and associates				
2007	–	–	29,489	19,914
2008	–	–	15,401	6,049
<b>Directors of the Company</b>				
Mr Cheng Man Pan Ben and associates				
2007	–	–	23,349	1,945
2008	–	29	16,412	433
Mr Yuen Pak Lau Raymond and associates				
2007	–	–	–	–
2008	–	–	996	748
<b>Director of CASH</b>				
Mr Lin Che Chu George and associates				
2007	–	–	29,703	12,900
2008	–	–	–	6,372
<b>Subsidiaries of CASH</b>				
Kawoo Finance Limited (Note 3)				
2007	–	–	29,146	978
2008	–	–	29,900	2,566
Libra Capital Management (HK) Limited (formerly known as E-Tailer Holding Limited)				
2007	–	–	–	–
2008	–	–	29,182	–
<b>Substantial shareholders of CASH</b>				
Cash Guardian Limited				
2007	–	–	–	930
2008	–	–	–	8,895
Mr Kwan Pak Hoo Bankee and associates				
2007	–	–	29,021	10,161
2008	–	–	1,792	1,363
<b>Substantial shareholder of the Company</b>				
Abdulrahman Saad Al-Rashid & Sons Company Limited (“ARTAR”) and associates				
2007	–	–	2,060,400	218,735
2008	–	–	–	5,387

*Notes:*

- (1) Associates are defined in accordance with the Rules Governing the Listing of Securities on the Stock Exchange.
- (2) During the year, Mr Wong Kin Yick Kenneth resigned as directors of both the Company and CASH.
- (3) On 31 July 2008, Kawoo Finance Limited was acquired by the Group and became a wholly-owned subsidiary of the Company.

The above balances are repayable on demand and bear interest at commercial rates which are similar to the rates offered to other margin clients.

**27. Investments held for trading**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Equity securities listed in Hong Kong	78,419	57,613
Investment funds	736	1,658
	<u>79,155</u>	<u>59,271</u>

The fair values of the listed investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

The fair value of the investment funds is determined based on the price quoted in an active market.

**28. Bank deposits subject to conditions**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Other bank deposits ( <i>Note (a)</i> )	17,142	17,105
Pledged bank deposits ( <i>Notes (b), (c) and (d)</i> )	18,038	11,570
	<u>35,180</u>	<u>28,675</u>

The bank deposits subject to conditions carry average floating interest rate at prevailing market rate per annum. The effective interest rates on the Group's bank deposits subject to conditions are also equal to contracted interest rates.

*Notes:*

- (a) Pursuant to a letter of undertaking given by the Group to a bank, the Group undertakes to maintain deposits of not less than HK\$15,000,000 (2007: HK\$15,000,000) with a bank as a condition precedent to an overdraft facility granted by the bank. The bank deposits will mature within one year or at an earlier date when the overdraft facility is expired.
- (b) The Group's bank deposits of HK\$10,744,000 (2007: HK\$10,574,000) were pledged to secure the general banking facilities granted by a bank. At 31 December 2008, bank loan of HK\$10,000,000 was drawdown (2007: nil).
- (c) The Group's bank deposits of HK\$223,000 (2007: HK\$996,000) were pledged to facilitate a bank guarantee for rental deposit. The bank deposits will be released when the bank guarantee is expired.
- (d) The Group's bank deposits of HK\$7,071,000 (2007: nil) were pledged to secure a standby letter of credit facility granted by a bank. The bank deposits will be released on clearance of the facility.

## 29. Accounts payable

	2008 HK\$'000	2007 HK\$'000
Accounts payable arising from the business of dealing in securities:		
Cash clients	400,345	963,379
Margin clients	120,928	255,425
Accounts payable to clients arising from the business of dealing in futures and options	167,545	151,097
Accounts payable to clients arising from the business of dealing in leveraged foreign exchange contracts	357	9,620
	<u>689,175</u>	<u>1,379,521</u>

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts payable to clients arising from the business of dealing in futures and options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options and leveraged foreign contracts position. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of these businesses.

The accounts payable amounting to HK\$542,079,000 (2007: HK\$928,527,000) were payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

## 30. Obligations under finance leases

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3 to 4 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 6%. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Amount payable under finance leases				
Within one year	150	–	127	–
In more than one year but not more than two years	338	–	315	–
	<u>488</u>	<u>–</u>	<u>442</u>	<u>–</u>
Less: future finance charges	(46)	–	–	–
Present value of lease obligations	<u>442</u>	<u>–</u>	442	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(127)	–
Amount due for settlement after 12 months			<u>315</u>	<u>–</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 31. Bank borrowings

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Bank overdrafts, secured	15,023	2,066
Bank loans, secured	217,063	229,000
	<u>232,086</u>	<u>231,066</u>

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
On demand or within one year	195,253	231,066
More than one year, but not exceeding two years	1,278	–
More than two years, but not more than five years	4,136	–
More than five years	31,419	–
	<u>232,086</u>	<u>231,066</u>
<i>Less:</i> Amount due within one year shown under current liabilities	<u>(195,253)</u>	<u>(231,066)</u>
Amount due after one year under non-current liabilities	<u>36,833</u>	<u>–</u>

The Group's bank borrowings of HK\$232,086,000 (2007: HK\$231,066,000) used to finance the financing business of the Group were secured by:

- (a) corporate guarantees from the Company for both years;
- (b) marketable securities of the Group's clients of carrying value of HK\$175,432,000 (2007: HK\$502,840,000) (with client's consent);
- (c) a charge over the properties to be delivered by the residential property developers (2007: nil); and
- (d) pledged deposit of HK\$10,744,000 (2007: nil).

In addition, pursuant to a letter of undertaking given by the Group to a bank, the Group covenant to maintain deposits of not less than HK\$15,000,000 (2007: HK\$15,000,000) with a bank as a condition precedent to an overdraft facility granted by the bank (*see note 28*).

Bank overdrafts amounting to HK\$15,023,000 (2007: HK\$2,066,000) carried interest at HIBOR plus a spread. Bank borrowings amounting to HK\$217,063,000 (2007: HK\$229,000,000) were at variable-rate borrowings which carry interest at HIBOR plus a spread or Hong Kong Prime Rate.

The effective interest rates on the Group's borrowings are also equal to contracted interest rates.

The Group had undrawn borrowing facility amounting to HK\$1,280,000,000 (2007: HK\$1,050,936,000) with floating rate and expiring within one year.

## 32. Share capital

	<i>Notes</i>	Number of shares '000	Amount HK\$'000
<i>Authorised:</i>			
Ordinary shares of HK\$0.10 each at 31 December 2007 and 31 December 2008		3,000,000	300,000
<i>Issued and fully paid:</i>			
At 1 January 2007		1,382,051	138,205
Exercise of share options	<i>(a)</i>	101,500	10,150
Issue of shares due to rights issue	<i>(b)</i>	593,421	59,342
At 31 December 2007 and 1 January 2008		2,076,972	207,697
Exercise of share options	<i>(a)</i>	1,203	120
Share consolidation	<i>(c)</i>	(1,662,378)	–
Ordinary shares of HK\$0.50 each		415,797	207,817
Capital reduction	<i>(c)</i>	–	(166,238)
Ordinary shares of HK\$0.10 each		415,797	41,579
Share repurchases	<i>(d)</i>	(4,392)	(439)
Ordinary shares of HK\$0.10 each at 31 December 2008		411,405	41,140

*Notes:*

- (a) Exercise of share options

The particulars of options exercised during the year ended 31 December 2008 and 31 December 2007 are set out below:

Date of issue of shares	Number of options exercised and resulting number of shares in issue	Exercise price per share HK\$	Total consideration (before expenses) HK\$
<b>2008</b>			
24 April 2008	1,000,000	0.262	262,000
15 July 2008	203,000	1.310	265,930
	<u>1,203,000</u>		<u>527,930</u>
<b>2007</b>			
23 April 2007	1,000,000	0.296	296,000
3 July 2007	8,600,000	0.296	2,545,600
4 July 2007	40,100,000	0.296	11,869,600
9 July 2007	5,000,000	0.296	1,480,000
27 July 2007	9,000,000	0.296	2,664,000
7 August 2007	2,600,000	0.296	769,600
13 August 2007	35,200,000	0.296	10,419,200
	<u>101,500,000</u>		<u>30,044,000</u>

All the above shares rank pari passu in all respects with the other shares in issue.

(b) Rights issue

On 21 November 2007, 593,420,579 shares of HK\$0.10 each were issued by way of rights issue at a subscription price of HK\$0.40 per share. The gross proceeds of approximately HK\$237,368,000 were used to support its expanding share margin financing portfolio and to facilitate corresponding growth in its securities brokerage business in line with market development and for general working capital purposes. These shares rank pari passu in all respects with other shares in issue.

(c) Share consolidation and capital reduction

Pursuant to a special resolution passed by the shareholders at the annual general meeting of the Company held on 30 April 2008, the Company, with effect from 2 May 2008:

- (i) consolidated every 5 issued shares of HK\$0.10 each in the issued share capital of the Company to 1 share of HK\$0.50 each ("Consolidated Shares") ("Share Consolidation");
- (ii) reduced the issued share capital by cancelling paid up capital to the extent of HK\$0.40 on each of the Consolidated Share in issue ("Capital Reduction"); and
- (iii) transferred the amount of paid up capital cancelled arising from the Capital Reduction of approximately HK\$166,238,000 to the contributed surplus account.

(d) Repurchase of shares

During the year ended 31 December 2008, the Company repurchased a total of 4,392,000 shares of HK\$0.10 each in its own issued share capital on the Stock Exchange for an aggregate consideration of HK\$10,904,000 (before expenses). Accordingly, such shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares. Further details of the share repurchases are set out in the section headed "Purchase, redemption or sale of listed securities" in the Directors' report.

### 33. Derivative financial instruments

The Group through the acquisition of the subsidiaries (*see note 36(a)*), acquired a number of equity-linked derivative contracts (trading as accumulators) during the year. Under the equity-linked derivative contracts, the Group receives predetermined equity securities at stipulated strike prices on a weekly basis. When the market price of equity securities moves favorable to the Group (i.e. market price above strike price), the Group gets to buy the agreed amount of equity securities at the strike price. However, when the market price moves unfavorable to the Group (i.e. dropped below the strike price), the Group gets to buy 2 times the pre-determined equity securities at strike price. When the market price is above the knock out price, the derivative contract would be terminated (i.e. the profit is capped at the knock out price).

The fair value of derivative financial instruments is determined based on valuation techniques that incorporate market observable data. Such equity-linked derivative contracts are not accounted for using hedge accounting mechanism. They are measured at fair value at each balance sheet date with any gains or losses arising from changes in fair value being recognised in the profit and loss immediately. As at 31 December 2008, there were 5 outstanding equity linked derivative contracts with fair value of HK\$3,067,000. All the 5 equity-linked derivative contracts were expired subsequent to the balance sheet date and resulted in a loss of HK\$2,982,000, calculated with reference to the equity securities taken up and the difference between the strike price and market price as at the date of taking up.

### 34. Equity-linked structured deposits

During the year, the Group through the acquisition of the subsidiaries (*see note 36(a)*), acquired a number of equity-linked structured deposits with contract term of one year from inception date. It is a hybrid instrument which comprises a debt instrument with coupon payments and a put option with the underlying basket of equity securities. The coupon payments were determined based on the market price of the underlying basket of equity securities during the relevant period. According to the terms of the instruments, at maturity, if the market price of the underlying basket of equity securities is above a pre-determined level, the Group would receive par value of the bond and coupon interest. If the market price of the underlying basket of equity securities is below a pre-determined level, the Group would receive the underlying basket of equity securities at the strike price as set out in the instrument. All these equity-linked structured deposits were early redeemed by the Group during the year and there were no outstanding equity-linked structured deposits as at 31 December 2008.

**35. Major non-cash transactions**

In addition to the deferred consideration on disposal of subsidiaries as disclosed in note 37, the Company had the following non-cash transaction:

Pursuant to the agreement entered into between CASH and a third party, the third party agreed to procure its group companies to provide advertising and telecommunication services to CASH and its subsidiaries and associate, including the Group. The fee for these services will be used to offset the prepayments for advertising and telecommunication services which the Group paid. During the year, no advertising and telecommunication services were utilised by the Group (2007: HK\$2,233,000).

**36. Acquisition of subsidiaries****(a) Subsidiaries of CASH**

On 31 July 2008, through the acquisitions of the entire equity interests of two subsidiaries of CASH, Kawoo Finance Limited and Think Right Investments Limited, the Group had, in substance, acquired the following assets and related liabilities, at a total consideration of approximately HK\$8,000.

	<i>HK\$'000</i>
Furniture and fixtures	233
Amounts due from fellow subsidiaries	334
Equity-linked structured deposits	58,412
Deposits paid to residential property developers	63,271
Bank balance	647
Bank overdraft	(744)
Deposits with brokers	(1,556)
Derivative financial liabilities	(20,060)
Secured bank loans	(64,676)
Loan payable	(35,853)
	<hr/>
Net assets acquired	8
	<hr/>
Cash consideration	8
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration	(8)
Bank balance acquired	647
Bank overdraft acquired	(744)
	<hr/>
Net cash outflow arising on acquisition of assets and related liabilities	(105)
	<hr/> <hr/>

*(b) RACCA Capital Inc. and its subsidiary*

On 31 October 2007, the Group, through the acquisition of the remaining equity interests of 66.67% in RACCA Capital Inc. from the other shareholders of RACCA Capital Inc., had in substance, acquired the following assets and related liabilities, at a total consideration of US\$2.

	<i>HK\$'000</i>
Property and equipment	247
Deposits	273
Payable to the Group	(4,632)
Bank balance	38
Bank overdraft	(1)
	<hr/>
Net liabilities assumed	(4,075)
Impairment loss on amount due from an associate	4,075
	<hr/>
Cash consideration (US\$2)	–
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration (US\$2)	–
Bank balance acquired	38
Bank overdraft acquired	(1)
	<hr/>
Net cash inflow arising on acquisition of assets and related liabilities	37
	<hr/> <hr/>

## 37. Disposal of subsidiaries

As referred to in note 14, on 1 June 2007, the Group discontinued its online game services operations at the time of disposal of the Netfield Group. At the same time, the Group disposed of the debt due from the Netfield Group to CASH at its carrying amount of HK\$102,558,000, details of these disposals were as follows:

	At 31 May 2007 HK\$'000
Net liabilities disposed of:	
Property and equipment	22,099
Intangible assets in relation to online game related intellectual property	10,699
Domain name	5,460
Inventories	1,350
Prepayments, deposits and other receivables	28,231
Bank balances and cash	84,939
Accrued liabilities and other payables	(59,306)
Amount due to the Company	(102,558)
Deferred revenue	(17,969)
Bank borrowings	(1,941)
Deferred tax liabilities	(1,844)
	(30,840)
Minority interest	(2,131)
Attributable goodwill	109,945
Release of translation reserve	288
	77,262
Gain on disposal	41,701
Debt from the Netfield Group disposed	102,558
	221,521
Satisfied by:	
Cash consideration received	50,000
Deferred consideration	172,558
Related costs of disposal	(1,037)
	221,521
Net cash outflow arising on disposal:	
Cash consideration, net of related costs	48,963
Bank balances and cash disposed of	(84,939)
	(35,976)

The deferred consideration will be settled in cash by the purchaser on or before 1 June 2009.

The impact of the Netfield Group on the Group's results and cash flows in the prior periods is disclosed in note 14.

**38. Share option schemes****(A) Share option schemes of the Company****(a) New Option Scheme**

The Company's share option scheme ("New Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 22 February 2008, which took effect on 3 March 2008. The New Option Scheme replaces the Option Scheme (to be defined in 38(A)(b) below) with effect from 3 March 2008. During the year, no option has been granted under the New 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 and associates, including the Group ("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 employees (whether full time or part time), executives and officers (including executive and non-executive directors) and business consultants, agents and legal and financial advisers of the CASH Group.
- (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 41,140,540 shares (as adjusted due to the Share Consolidation and repurchase of shares in 2008), representing 10% of the issued share capital of the Company as at the date of this 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 of the Company and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors of the Company 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 21 February 2018.

(b) *Option Scheme*

Prior to 3 March 2008, the Company's share option scheme ("Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002. The Option Scheme was replaced by the New Option Scheme with effect from 3 March 2008. The major terms of the 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 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 Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the 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 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 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 the Company and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors of the Company 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 Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

# APPENDIX I

# FINANCIAL INFORMATION OF THE GROUP

The following table discloses details of the Company's share options granted under the Option Scheme 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 1.1.2007	exercised in 2007 (Note 2)	adjusted on 30.10.2007 (Note 3)	outstanding as at 31.12.2007		exercised on 24.4.2008 (Note 2)	lapsed on 1.5.2008 (Note 4)	adjusted on 1.5.2008 (Note 5)	exercised on 15.7.2008 (Note 2)	lapsed on 14.11.2008 (Note 4)	outstanding as at 31.12.2008
								and							
<b>Directors</b>															
Option Scheme	7.7.2006	0.296	7.7.2006-31.7.2008		27,000,000	(27,000,000)	-	-	-	-	-	-	-	-	
					27,000,000	(27,000,000)	-	-	-	-	-	-	-	-	
<b>Employees</b>															
Option Scheme	7.7.2006	0.296	7.7.2006-31.7.2008		73,300,000	(73,300,000)	-	-	-	-	-	-	-	-	
	7.7.2006	0.262 (before 4:00 pm on 1.5.2008) 1.310 (after 4:00 pm on 1.5.2008)	7.7.2006-31.7.2010	(1), (3) & (5)	6,000,000	(1,200,000)	624,341	5,424,341	(1,000,000)	(1,582,100)	(2,274,241)	(203,000)	(252,000)	113,000	
					79,300,000	(74,500,000)	624,341	5,424,341	(1,000,000)	(1,582,100)	(2,274,241)	(203,000)	(252,000)	113,000	
					106,300,000	(101,500,000)	624,341	5,424,341	(1,000,000)	(1,582,100)	(2,274,241)	(203,000)	(252,000)	113,000	

**Notes:**

- 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 12 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 24 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 36 months from the commencement of the exercise period.
- The number of options exercised during the year together with the exercise price and the weighted average preceding closing price are set out as follows:

Date of exercise	Number of options exercised	Exercise price per share HK\$	Weighted average preceding closing price HK\$ (Note)
23 April 2007	1,000,000	0.296	0.355
3 July 2007	8,600,000	0.296	0.690
4 July 2007	40,100,000	0.296	0.640
9 July 2007	5,000,000	0.296	0.690
17 July 2007	9,000,000	0.296	0.770
7 August 2007	2,600,000	0.296	0.670
13 August 2007	35,200,000	0.296	0.720
24 April 2008	1,000,000	0.262	3.034
15 July 2008	203,000	1.310	2.993

**Note:**

This represents the weighted average closing price of the Company's shares immediately before the date of exercise.

- (3) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in the Company with effect from 30 October 2007. The exercise prices per share were adjusted from HK\$0.296 to HK\$0.262.
- (4) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (5) The number and the exercise price of options which remained outstanding have been adjusted due to share consolidation of the Company with effect from 4:00 pm on 1 May 2008. The exercise price was adjusted from HK\$0.262 to HK\$1.310.

There were no options granted for the years ended 31 December 2008 and 2007. No such related expense was charged to consolidated income statement for both years ended 31 December 2008 and 2007.

**(B) Share option scheme of CASH**

Pursuant to an ordinary resolution passed at the special general meeting of CASH held on 19 February 2002, CASH adopted a share option scheme ("CASH Option Scheme"). The major terms of the CASH 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 Option Scheme must not exceed 10% of the issued share capital of CASH as at the date of approval of the CASH 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 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 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.
- (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 nonrefundable 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.

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## FINANCIAL INFORMATION OF THE GROUP

- (ix) The life of the CASH Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

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

Name of scheme	Date of grant	Exercise price per share		Exercise period	Number of options						
		HK\$			outstanding	granted	exercised	outstanding	adjusted	lapsed	outstanding
		Before 6.6.2008	After 6.6.2008		as at 1.1.2007	in 2007	in 2007	as at 31.12.2007	on 6.6.2008 (Note 1)	in 2008	as at 31.12.2008
<b>Directors</b>											
CASH Option Scheme	13.11.2006	0.323	1.615	13.11.2006-12.11.2008	12,000,000	-	-	12,000,000	(9,600,000)	(2,400,000)	-
	6.6.2007	0.490	2.450	6.6.2007-31.5.2009	-	14,000,000	-	14,000,000	(11,200,000)	-	2,800,000
					<u>12,000,000</u>	<u>14,000,000</u>	<u>-</u>	<u>26,000,000</u>	<u>(20,800,000)</u>	<u>(2,400,000)</u>	<u>2,800,000</u>
<b>Employees</b>											
CASH Option Scheme	13.11.2006	0.323	1.615	13.11.2006-12.11.2008	20,000,000	-	(12,000,000)	8,000,000	(6,400,000)	(1,600,000)	-
	30.5.2007	0.480	2.400	30.5.2007-31.5.2009	-	11,700,000	(4,000,000)	7,700,000	(6,160,000)	-	1,540,000
	6.6.2007	0.490	2.450	6.6.2007-31.5.2009	-	28,300,000	-	28,300,000	(22,640,000)	-	5,660,000
					<u>20,000,000</u>	<u>40,000,000</u>	<u>(16,000,000)</u>	<u>44,000,000</u>	<u>(35,200,000)</u>	<u>(1,600,000)</u>	<u>7,200,000</u>
					<u>32,000,000</u>	<u>54,000,000</u>	<u>(16,000,000)</u>	<u>70,000,000</u>	<u>(56,000,000)</u>	<u>(4,000,000)</u>	<u>10,000,000</u>

*Notes:*

- (1) The number and the exercise price of options which remained outstanding have been adjusted due to share consolidation of CASH with effect from 6 June 2008.
- (2) No equity-settled share-based payments were recognised by the Group as the options were granted by CASH to these directors and employees of the Group for their services rendered to CASH.

### 39. Retirement benefits schemes

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. In respect of those employees who leave the Group prior to completion of qualifying service period for the employer's voluntary contributions (represents contributions in excess of the mandatory requirements under the Mandatory Provident Fund Schemes Ordinance plus all the assets transferred from the Old Scheme) become fully vested, the relevant portion of the voluntary contributions forfeited will be reverted to the Group. Contributions are made based on a percentage of the employees' salaries and are charged to the 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 administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

For the years ended 31 December 2008 and 2007, no forfeited voluntary contributions to the retirement benefits scheme was credited to the consolidated income statement.

The Group operates various benefits schemes for its full-time employees in the PRC in accordance with the relevant the PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively.

#### 40. Related party transactions

Other than as disclosed in notes 22, 26, 36(a) and 37, where the Group acquired Kawoo Finance Limited and Think Right Investments Limited from CASH and disposed of its subsidiaries, Netfield Group, to CASH respectively, the Group had the following transactions with related parties:

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Commission and interest income received from the following wholly-owned subsidiaries of CASH			
Kawoo Finance Limited	<i>(a)</i>	1,607	2,473
Libra Capital Management (HK) Limited (formerly known as E-Tailer Holding Limited)	<i>(b)</i>	29	–
		<u>1,636</u>	<u>2,473</u>
Commission and interest income received from the following substantial shareholders of CASH	<i>(c)</i>		
Cash Guardian Limited		3	263
Mr Kwan Pak Hoo Bankee and associates		67	421
		<u>70</u>	<u>684</u>
Commission and interest income received from substantial shareholder	<i>(d)</i>	86	16,570
Commission and interest income received from the following directors of the Company	<i>(e)</i>		
Mr Law Ping Wah Bernard and associates		36	477
Mr Cheng Man Pan Ben and associates		33	222
Mr Chan Chi Ming Benson and associates		–	3
Mr Yuen Pak Lau Raymond and associates		13	–
Mr Wong Kin Yick Kenneth and associates	<i>(l)</i>	104	542
		<u>186</u>	<u>1,244</u>
Commission and interest income received from director of CASH	<i>(f)</i>		
Mr Lin Che Chu George and associates		8	386
Placing agent commission received from CASH	<i>(g)</i>	–	2,632
Financial advisory service fee received from CASH	<i>(h)</i>	–	300
Interest income received from CASH for amounts receivable on disposal of subsidiaries	<i>(i)</i>	8,795	7,567
Proceeds received from CASH on disposal of membership	<i>(j)</i>	500	–
Deposit paid to CASH for the acquisition of fellow subsidiaries	<i>(k)</i>	60,000	–
Rental expense paid to an associate	<i>(m)</i>	4,749	–

*Notes:*

- (a) The Group received commission and interest from margin financing of approximately HK\$1,607,000 (2007: HK\$2,473,000) from Kawoo Finance Limited before the acquisition of it on 31 July 2008. Details are disclosed in note 36(a).
- (b) During the year ended 31 December 2008, the Group received commission and interest from margin financing of approximately HK\$29,000 (2007: nil) from Libra Capital Management (HK) Limited (formerly known as E-Tailer Holding Limited), a wholly-owned subsidiary of CASH.
- (c) During the year ended 31 December 2008, the Group received commission and interest income from margin financing of approximately HK\$70,000 (2007: HK\$684,000) from substantial shareholders of CASH.
- (d) During the year ended 31 December 2008, the Group received commission and interest from margin financing of approximately HK\$86,000 (2007: HK\$16,570,000) from a substantial shareholder of the Company.
- (e) During the year ended 31 December 2008, the Group received commission and interest from margin financing of approximately HK\$186,000 (2007: HK\$1,244,000) from certain directors of the Company.
- (f) During the year ended 31 December 2008, the Group received commission and interest from margin financing of approximately HK\$8,000 (2007: HK\$386,000) from a director of CASH.
- (g) During the year ended 31 December 2007, the Group received placing agent commission fee of approximately HK\$2,632,000 from CASH. The fee was calculated at 1% on the total proceeds from the placement received by CASH.
- (h) During the year ended 31 December 2007, the Group received financial advisory service fee of approximately HK\$300,000 from CASH.
- (i) During the year ended 31 December 2008, the Group received interest income of HK\$8,795,000 (2007: HK\$7,567,000) from CASH for the amounts receivable on disposal of subsidiaries. The interest was calculated at Hong Kong Prime Rate.
- (j) During the year ended 31 December 2008, the Group received HK\$500,000 from CASH for the disposal of membership and recorded a loss of HK\$830,000.
- (k) During the year ended 31 December 2008, the Group placed a deposit of HK\$60,000,000 at CASH for the acquisition of fellow subsidiaries (*see note 22*).
- (l) During the year ended 31 December 2008, Mr Wong Kin Yick Kenneth resigned as executive directors of both the Company and CASH.
- (m) During the year ended 31 December 2008, the Group paid rental expense of approximately HK\$4,749,000 (2007: HK\$nil) to an associate.

**Compensation of key management personnel**

The compensation of key management personnel represents the director's remuneration as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Short-term employee benefits	6,882	5,379
Post-employment benefits	331	206
	<u>7,213</u>	<u>5,585</u>

The remuneration of directors is determined by the performance of individuals and market trends.

**41. Capital commitment**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property and equipment	–	11,560

**42. Operating lease commitments**

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

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Within one year	30,754	23,620
In the second to fifth year inclusive	26,021	21,029
	<u>56,775</u>	<u>44,649</u>

Operating lease payments represent rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of three years and rentals are fixed for an average of three years.

**43. Post balance sheet events**

- (a) Pursuant to the announcement dated 18 February 2009, the Group entered into an agreement to purchase the remaining equity interests of 30% of in CASH Frederick Taylor Limited ("CFT") from the minority shareholders at total consideration of HK\$1,400,000. Upon completion on 20 February 2009, CFT has been changed from a 70% non-wholly-owned subsidiary to a wholly-owned subsidiary of the Group.
- (b) Pursuant to the announcement dated 20 February 2009, the Company proposed a rights issue on the basis of 1 rights share for every 2 shares at a subscription price HK\$0.45. Under the proposal, there will be no more than 205,702,702 new shares to be issued for raising approximately HK\$92.6 million (before expenses). The rights issue is expected to be completed on 17 April 2009.
- (c) Pursuant to the announcement dated 19 December 2008, a special general meeting will be convened to consider the approval of the proposed acquisition of the Retail Group from CASH by the Company (*see note 22 for details*).

## 44. Particulars of principal subsidiaries of the company

Name	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			2008 %	2007 %	
CASH Asset Management Limited	Hong Kong	Ordinary HK\$200,000	100	100	Provision of asset management services
CASH E-Trade Limited	Hong Kong	Ordinary HK\$4,000,000	100	100	Provision of management services for group companies
CASH Frederick Taylor Limited	Hong Kong	Ordinary HK\$1,000,000	70	70	Financial advisory consultancy
CASH Payment Services Limited	Hong Kong	Ordinary HK\$2	100	100	Provision of payment gateway services
Celestial Capital Limited	Hong Kong	Ordinary HK\$27,000,000	100	100	Provision of corporate finance, investment and financial advisory services
Celestial Commodities Limited	Hong Kong	Ordinary HK\$10,000,000	100	100	Futures and options broking and trading
Celestial Investments (HK) Limited	Hong Kong	Ordinary HK\$10,000,000	100	100	Money lending
Celestial Securities Limited	Hong Kong	Ordinary HK\$140,000,000	100	100	Securities, equity options broking and trading, leveraged foreign exchange contracts
icoupon Limited	British Virgin Islands	Ordinary US\$1	100	100	Investment holding and trading
Linkup Assets Management Limited	British Virgin Islands	Ordinary US\$1	100	100	Investment holding and trading
Kawoo Finance Limited	British Virgin Islands	Ordinary US\$2	100	–	Investment holding and trading
Think Right Investments Limited	British Virgin Islands	Ordinary US\$1	100	–	Properties holding

CASH E-Trade Limited is directly held by the Company. All other subsidiaries shown above are indirectly held by the Company.

The above table lists the subsidiaries of the Group 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.

## 45. Summarised balance sheet of the company

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Assets		
Investments in subsidiaries	477,108	472,277
Amounts receivable on disposal of subsidiaries	171,498	162,703
Amounts due from subsidiaries	132,065	300,203
Bank balances (general accounts)	121	543
Deposit and other receivables	60,043	–
	<u>840,835</u>	<u>935,726</u>
Liabilities		
Accrued liabilities and other payables	6,265	6,483
Amounts due to subsidiaries	323,273	323,273
	<u>329,538</u>	<u>329,756</u>
Net asset	511,297	605,970
Capital and reserves		
Share capital	41,140	207,697
Reserves	470,157	398,273
	<u>511,297</u>	<u>605,970</u>
Total equity	<u><u>511,297</u></u>	<u><u>605,970</u></u>

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

**Borrowings**

As at 31 March 2009, the Enlarged Group had total outstanding borrowings of approximately HK\$356.9 million, comprising bank loans of HK\$187.0 million, trust receipt loans of HK\$78.0 million, mortgage loans of HK\$37.8 million, an unsecured bank overdraft of HK\$26.7 million and an unsecured loan of HK\$27.4 million from a minority shareholder of one of its subsidiaries. Bank loans in aggregate of HK\$52.0 million were collateralised by its margin clients' securities pledged to the Enlarged Group. Trust receipt loans in aggregate of HK\$78.0 million were secured by pledged deposits of HK\$53.5 million and the Enlarged Group's building and prepaid lease payment with a total carrying amount of approximately HK\$43.7 million. Mortgage loans in aggregate of HK\$37.8 million were secured by the Enlarged Group's deposits paid for purchase of property and equipment with a total carrying amount of approximately HK\$63.3 million. The Enlarged Group had an unsecured syndicated bank loan of HK\$105.0 million (which is unguaranteed on the Enlarged Group basis) as well as unsecured bank loans of HK\$30.0 million.

As at 31 March 2009, bank deposits with an aggregate amount of approximately HK\$54.3 million were pledged as collateral for a bank loan and trust receipt loan facilities granted by banks to the Enlarged Group. Another deposit of HK\$0.2 million was pledged to facilitate a bank guarantee for a rental deposit. A further deposit of HK\$9.1 million was pledged to facilitate a standby letter of credit facility granted by a bank to an associate of the Company. In addition, pursuant to a letter of undertaking provided by the Enlarged Group to a bank, the Enlarged Group undertakes to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility of HK\$15.0 million granted by this bank. Accordingly, a bank deposit of approximately HK\$17.1 million was held for this purpose. Therefore, total bank deposits subject to conditions were approximately HK\$80.7 million as at 31 March 2009.

In addition, the Enlarged Group had an outstanding obligation under a finance lease of approximately HK\$0.4 million as at 31 March 2009.

**Contingent liabilities**

As at 31 March 2009, the Enlarged Group had litigations/claims as disclosed in the paragraph "Litigation" in Appendix IV to this circular.

Save as aforesaid, the Enlarged Group had no other material contingent liabilities as at 31 March 2009.

**Disclaimers**

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts and loans, other loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantee or other material contingent liabilities, at the close of business on 31 March 2009.

The Board has confirmed that, save as disclosed above, there has not been any material change in the indebtedness or contingent liabilities of the Enlarged Group since 31 March 2009.

**3. LIQUIDITY, FOREIGN CURRENCY AND CAPITAL COMMITMENTS****Liquidity ratio**

As at 31 December 2008, the Group's cash and bank balances were HK\$752.5 million. Our liquidity ratio was 1.4 times on 31 December 2008. Our gearing ratio, which was calculated based on the total borrowings of the Group divided by the total Shareholders' equity, was approximately 0.38 time on 31 December 2008.

**Capital commitments**

Save as the balance of the final Consideration of HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group as at the date of the First Completion) to be settled by the issue of the Convertible Note(s) by the Company, the Group did not have any material capital commitment as at 31 March 2009.

**Foreign exchange risk**

All of the Group's borrowings and cash and cash equivalents held are mainly in HK dollar, with the interest rates priced at close to banks' funding costs, as a result, our exposure to both foreign currency and interest rate fluctuation was insignificant. As at 31 March 2009, the Group did not have any material un-hedged foreign exchange or interest rate exposure.

**4. WORKING CAPITAL**

The Directors are of the opinion that taking into account the financial resources and banking facilities available to the Enlarged Group and its internally generated funds, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

**5. MATERIAL ADVERSE CHANGES**

The Directors has confirmed that, at the Latest Practicable Date, there is no material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular received from the reporting Accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

**Deloitte Touche Tohmatsu**  
35/F One Pacific Place  
88 Queensway  
Hong Kong

26 May 2009

The Directors  
CASH Financial Services Group Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding CASH Retail Management (HK) Limited (“CRM(HK)”) and its subsidiaries (hereinafter collectively referred to as the “Retail Group”) for each of the three years ended 31 December 2008 (“Relevant Periods”) for inclusion in a circular issued by CASH Financial Services Group Limited (“Company” together with its subsidiaries, “Group”) dated 26 May 2009 (“Circular”) in connection with the very substantial acquisition and connected transaction in respect of the proposed acquisition of the Retail Group.

CRM(HK) was incorporated in the British Virgin Islands (“BVI”) on 11 May 2005 and acts as an investment holding company.

As at the date of this report, CRM(HK) has direct and indirect interest in the subsidiaries as follows.

Name of subsidiary	Place and date of incorporation/ establishment	Registered and fully paid capital	Proportion of nominal value of registered capital held by CRM(HK)		Principal activities
			Directly	Indirectly	
3C Electrical Appliances Limited (note a)	Hong Kong 17 June 2005	HK\$1	100%	–	Retailing of electrical appliances
Celestial IT Investments Limited (note b)	BVI 6 January 2000	US\$2	100%	–	Inactive
Pricerite.com.hk Limited (note a)	Hong Kong 10 May 1988	HK\$2	100%	–	Retailing of furniture and household goods through corporate sales

Name of subsidiary	Place and date of incorporation/ establishment	Registered and fully paid capital	Proportion of nominal value of registered capital held by CRM(HK)		Principal activities
			Directly	Indirectly	
Pricerite Development Limited (note a)	Hong Kong 27 June 2001	HK\$2	100%	–	Inactive
Pricerite Marketing Limited (note a)	Hong Kong 19 May 2000	HK\$2	100%	–	Holding of equipment
Pricerite SA (HK) Limited (note a)	Hong Kong 26 August 1988	HK\$2	–	100%	Inactive
Pricerite Stores Limited (note a)	Hong Kong 10 October 1986	HK\$200,000,000	100%	–	Retailing of furniture and household goods
Richwell Target Limited (note a)	Hong Kong 27 July 1995	HK\$2	100%	–	Property holding
深圳市品致生活家居用品有限公司 (note c, d and e)	The People's Republic of China (the "PRC") 28 November 2003	RMB3,500,000	–	–	Sourcing services company (note e)

## Notes:

- (a) We have acted as auditor of these companies for each of the Relevant Periods. Audited financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").
- (b) No audited financial statements have been prepared for the Company, which was incorporated in a country where there was no statutory audit requirement.
- (c) The statutory financial statements for each of the Relevant Periods were audited by 深圳誠華會計師事務所 (Shenzhen ChengHua Certified Public Accountants).
- (d) Audited financial statements of this company were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC.
- (e) The Retail Group controls this entity under a trust arrangement which is legally enforceable in the PRC. The Retail Group is able to control the voting power at all general meeting of this company. Accordingly, 深圳市品致生活家居用品有限公司 was accounted for as a subsidiary of CRM(HK).

We audited the consolidated financial statements of the Retail Group (“Underlying Financial Statements”) for the Relevant Periods, which were prepared in accordance with HKFRSs.

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” as recommended by HKICPA.

The Financial Information of the Retail Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of CRM(HK) are responsible for the Underlying Financial Statements and the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Retail Group as at 31 December 2006, 2007 and 2008 and of the consolidated results and cash flows of the Retail Group for the Relevant Periods.

## (A) FINANCIAL INFORMATION

## Consolidated income statements

	NOTES	Year ended 31 December		
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
<b>Continuing operations</b>				
Revenue	6	763,233	773,264	863,997
Cost of sales		<u>(478,011)</u>	<u>(437,508)</u>	<u>(491,172)</u>
Gross profit		285,222	335,756	372,825
Other income		5,343	5,763	7,621
Selling and distribution costs		(228,735)	(241,415)	(277,624)
Administrative expenses		(52,678)	(65,223)	(63,662)
Finance costs	8	<u>(4,108)</u>	<u>(4,775)</u>	<u>(3,226)</u>
Profit before taxation		5,044	30,106	35,934
Taxation charge	11	<u>–</u>	<u>–</u>	<u>(4,900)</u>
Profit for the year from continuing operations		5,044	30,106	31,034
<b>Discontinued operations</b>				
Loss for the year from discontinued operations	12	<u>(79,737)</u>	<u>(61,810)</u>	<u>–</u>
(Loss) profit for the year	13	<u><u>(74,693)</u></u>	<u><u>(31,704)</u></u>	<u><u>31,034</u></u>

## Consolidated balance sheets

	NOTES	As at 31 December		
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Non-current assets				
Property and equipment	14	58,520	55,641	45,928
Prepaid lease payments	15	16,378	15,963	15,548
Deferred tax assets	11	–	–	2,000
		<u>74,898</u>	<u>71,604</u>	<u>63,476</u>
Current assets				
Inventories	16	48,950	39,693	38,407
Accounts receivable	17	460	408	–
Prepayments, deposits and other receivables	18	30,289	36,204	34,479
Amounts due from fellow subsidiaries	18	52,526	103,186	51,006
Pledged bank deposits	18	50,262	51,816	54,030
Bank balances and cash	18	75,606	36,674	37,786
		<u>258,093</u>	<u>267,981</u>	<u>215,708</u>
Current liabilities				
Accounts payable	19	139,965	125,775	97,528
Accrued liabilities and other payables		40,334	44,893	28,489
Taxation payable		200	200	2,031
Amounts due to fellow subsidiaries	19	12,506	92,365	34,618
Borrowings – amount due within one year	20	105,460	77,634	79,066
		<u>298,465</u>	<u>340,867</u>	<u>241,732</u>
Net current liabilities		<u>(40,372)</u>	<u>(72,886)</u>	<u>(26,024)</u>
Net assets (liabilities)		<u>34,526</u>	<u>(1,282)</u>	<u>37,452</u>
Capital and reserves				
Share capital	21	–	–	–
Reserves		29,896	(1,282)	37,452
		29,896	(1,282)	37,452
Non-current liability				
Borrowings – amount due after one year	20	4,630	–	–
		<u>34,526</u>	<u>(1,282)</u>	<u>37,452</u>

## Consolidated statements of changes in equity

	Share capital <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> <i>(Note (a))</i>	Translation reserve <i>HK\$'000</i>	Shareholder contribution <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	–	6,601	–	36,113	(285,620)	(242,906)
Deemed contribution from the former immediate holding company <i>(Note (b))</i>	–	–	–	347,495	–	347,495
Loss for the year	–	–	–	–	(74,693)	(74,693)
At 31 December 2006 and 1 January 2007	–	6,601	–	383,608	(360,313)	29,896
Exchange difference arising from translation	–	–	526	–	–	526
Loss for the year	–	–	–	–	(31,704)	(31,704)
At 31 December 2007 and 1 January 2008	–	6,601	526	383,608	(392,017)	(1,282)
Exchange difference arising from translation	–	–	122	–	–	122
Profit for the year	–	–	–	–	31,034	31,034
Deemed contribution arising on disposal of subsidiaries <i>(see note 22(ii))</i>	–	–	–	7,578	–	7,578
At 31 December 2008	–	6,601	648	391,186	(360,983)	37,452

## Notes:

- (a) Other reserve is arisen from the reorganisation on 30 November 2005.
- (b) The deemed contribution represents the waiver of CRM(HK)'s amount due to Oriental Ginza Holdings Limited, the former immediate holding company of CRM(HK).

## Consolidated cash flow statements

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Operating activities			
(Loss) profit before taxation	(74,693)	(31,704)	35,934
Adjustments for:			
Amortisation of prepaid lease payments	207	415	415
Depreciation of property and equipment	28,810	23,971	16,362
Allowance for inventory obsolescence and write-off of inventories	4,860	8,281	2,044
Impairment loss recognised in respect of property and equipment	5,951	1,472	–
Interest expense	4,168	5,333	3,226
Interest income	(2,721)	(2,641)	(942)
(Gain) loss on disposal of property and equipment	(4,402)	(15)	187
Revaluation deficit on buildings	–	–	1,388
Operating cashflow before movements in working capital	(37,820)	5,112	58,614
(Increase) decrease in inventories	(5,947)	976	(5,976)
Decrease (increase) in accounts receivable	778	52	(52)
Decrease (increase) in prepayments, deposits and other receivables	36,327	(5,915)	(7,110)
Decrease in held-for-trading investments	4,106	–	–
Decrease in accounts payable	(11,459)	(14,190)	(2,399)
Increase (decrease) in accrued liabilities and other payables	4,781	4,559	(10,511)
Net cash (used in) from operations	(9,234)	(9,406)	32,566
Income taxes paid	–	–	(5,069)
Net cash (used in) from operating activities	(9,234)	(9,406)	27,497

	NOTE	Year ended 31 December		
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Investing activities				
Interest income		2,721	2,641	942
Addition in prepaid lease payments		(17,000)	–	–
Purchase of club membership		(1,330)	–	–
Disposal of subsidiaries	22	736	–	(6,663)
Proceeds from disposal of property and equipment		9,802	15	–
Purchase of property and equipment		(48,381)	(22,491)	(13,586)
Increase in pledged bank deposits		(11,362)	(1,554)	(2,214)
(Advance to) repayment from fellow subsidiaries		(50,826)	(50,660)	1,014
Repayment from ultimate holding company		49,242	–	–
Net cash used in investing activities		<u>(66,398)</u>	<u>(72,049)</u>	<u>(20,507)</u>
Financing activities				
New loans raised		239,712	265,508	286,845
Repayment of borrowings		(191,719)	(297,964)	(283,733)
Advance from (repayment to) fellow subsidiaries		11,491	79,859	(5,803)
Interest paid on bank and other loans		(4,168)	(5,333)	(3,226)
Net cash from (used in) financing activities		<u>55,316</u>	<u>42,070</u>	<u>(5,917)</u>
Net (decrease) increase in cash and cash equivalents		(20,316)	(39,385)	1,073
Cash and cash equivalents at beginning of year		95,922	75,606	36,674
Effect of foreign exchange rate changes		–	453	39
Cash and cash equivalents at end of year		<u><u>75,606</u></u>	<u><u>36,674</u></u>	<u><u>37,786</u></u>
Being:				
Bank balances and cash		<u><u>75,606</u></u>	<u><u>36,674</u></u>	<u><u>37,786</u></u>

## Notes to financial information

### 1. General

CRM(HK) is incorporated in the BVI on 11 May 2005. The address of the registered office is PO Box 957, offshore Incorporations Centre, Road Town, Tortola, the BVI and principal place of business of CRM(HK) is 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong.

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of CRM(HK).

CRM(HK)'s ultimate holding company is Celestial Asia Securities Holdings Limited ("CASH"), a company incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited.

### 2. Application of Hong Kong Financial Reporting Standards ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Retail Group has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") amendments and interpretations ("INT") issued by the HKICPA that are effective for annual accounting periods beginning on 1 January 2008.

The Retail Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of financial statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>4</sup>
HKFRS 1	First-time adoption of financial reporting standards <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>4</sup>
HKFRS 7 (Amendment)	Improving disclosures about financial instruments <sup>3</sup>
HKFRS 8	Operating segments <sup>3</sup>
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>6</sup>
HK(IFRIC) – INT 15	Agreements for the construction of real estate <sup>3</sup>
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation <sup>7</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>4</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>5</sup> Effective for annual periods ending on or after 30 June 2009.

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2008.

<sup>7</sup> Effective for annual periods beginning on or after 1 October 2008.

<sup>8</sup> Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Retail Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment on changes in the Retail Group's ownership interest in a subsidiary. The Directors of CRM(HK) anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Retail Group.

### 3. Significant accounting policies

The Financial Information has been prepared on the historical cost basis except for certain properties, which are measured at fair value, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### ***Basis of consolidation***

The Financial Information incorporates the financial statements of CRM(HK) and entities controlled by CRM(HK) (its subsidiaries). Control is achieved where CRM(HK) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Retail Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### ***Property and equipment***

Property and equipment are stated at cost or revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated 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 dates.

Any revaluation increase arising on revaluation of 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 consolidated 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 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 accumulated losses.

Depreciation is provided to write off the cost or revaluation of items of property and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

***Leasing******The Retail Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rents is determined with reference to the turnover generated by respective shops using the predetermined formulae and is recognized in the consolidated income statement when relevant turnover is recognised.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Retail Group's foreign operations are translated into the presentation currency of CRM(HK) (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

***Retirement benefit costs***

Payments to defined contribution retirement benefit plan/state-managed retirement benefit schemes the Mandatory Provident Fund Scheme are charged as an expenses when employees have rendered service entitling them to the contributions.

***Borrowing costs***

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

***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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Retail Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base 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 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 Retail Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### ***Impairment losses***

At each balance sheet date, the Retail 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### ***Financial instruments***

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### ***Financial assets***

The Retail Group's financial assets are classified into loans and receivables. The accounting policies adopted is set out below.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, deposits and other receivables, amounts due from fellow subsidiaries, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, other receivables and amounts due from fellow subsidiaries where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the accounts receivable, other receivables and amounts due from fellow subsidiaries are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Retail Group after deducting all of its liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities including accounts payable, other payables, amounts due to fellow subsidiaries and borrowings are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by CRM(HK) are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Retail Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### 4. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### *Income taxes*

No deferred tax asset was recognised in the Retail Group's consolidated balance sheet in relation to the unused tax losses of approximately HK\$209,611,000, HK\$214,822,000 and HK\$25,252,000 and deductible temporary difference in respect of accelerated accounting depreciation of HK\$11,618,000, HK\$20,908,000 and HK\$1,408,000 as at 31 December 2006, 2007 and 2008 respectively available to offset against future profits. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

##### *Impairment of property and equipment*

Determining whether property and equipment are impaired requires an estimation of the value in use of the items of respective retail shops. The value in use calculation requires the Retail Group to estimate the future cash flows expected to arise from the items of respective retail shops, a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. When the actual future cash flows and less than expected, a material impairment loss may arise. At 31 December 2006, 2007 and 2008, the carrying amounts of property and equipment was approximately HK\$58,520,000, HK\$55,641,000 and HK\$45,928,000 respectively. Impairment loss on property and equipment of HK\$5,951,000 and HK\$1,472,000 have been recognised during each of the years ended 31 December 2006 and 2007 respectively. No impairment loss on property and equipment was recognised for the year ended 31 December 2008.

#### 5. Financial instruments

##### *Capital risk management*

The Retail Group manages its capital to ensure that entities in the Retail Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Retail Group consists of debt, which includes the borrowings disclosed in note 20, and equity attributable to equity holders of CRM(HK), comprising issued share capital disclosed in note 21, reserves and accumulated losses as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Retail Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Retail Group's overall strategy remains unchanged throughout the Relevant Periods.

##### *Categories of financial instruments*

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	188,057	201,483	151,643
Financial liabilities			
Amortised cost	262,998	299,756	215,598

##### *Financial risk management objectives and policies*

The Retail Group's major financial instruments include accounts receivable, deposits and other receivables, amounts due from/to fellow subsidiaries, accounts payable, other payables, borrowings, pledged bank deposits and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

## Interest rate risk

The management considered that the Retail Group's exposure to future cash flow risk on variable-rate bank balances as a result of the change of market interest rate is insignificant.

The Retail Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank balances.

The Retail Group currently does not have a cash flow interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise. A 100 basis point change is used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Retail Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Retail Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Inter Bank Offering Rate ("HIBOR") arising from the Retail Group's variable interest rate borrowings.

The sensitivity analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. If the interest rate of borrowings had been 100 basis point higher/lower, the Retail Group's loss for each of the years ended 31 December 2006 and 2007 would increase/decrease by HK\$1,101,000 and HK\$776,000 respectively and the Retail Group's profit for the year ended 31 December 2008 would decrease/increase by HK\$791,000. This is mainly attributable to the bank interest expenses under finance costs.

## Foreign currency risk

More than 99% of financial assets and financial liabilities of the Retail Group are denominated in the group entity's functional currency. No foreign currency sensitivity is disclosed as in the opinion of Directors of CRM(HK), the foreign currency sensitivity does not give additional value in view of insignificant exposure of other foreign currencies as at the balance sheet date.

*Credit risk*

The Retail Group's maximum exposure to credit risk which will cause a financial loss to the Retail Group in the event of the counterparties failure to perform their obligations as at the balance sheet dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk on accounts receivable, other receivables and amounts due from fellow subsidiaries, the Retail Group reviews the recoverable amount of each individual debtors at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of CRM(HK) consider that the Retail Group's credit risk is significantly reduced.

The Retail Group has concentration of credit risk on three, two and one fellow subsidiaries as at 31 December 2006, 2007 and 2008 respectively, and 71%, 51% and 100% of the total amounts due from fellow subsidiaries was due from one of the Retail Group's fellow subsidiaries as at 31 December 2006, 2007 and 2008 respectively. The management closely monitors the subsequent settlement of the counterparties. There is no significant concentration of credit risk in accounts receivable under current business model of the Retail Group. In this regard, the Directors of CRM(HK) consider that the credit risk is significantly reduced.

Bank balances and deposits are placed in various authorised institutions and the Directors of CRM(HK) consider the credit risk of such authorised institutions is low.

*Liquidity risk*

The Retail Group has net current liabilities of approximately HK\$40,372,000, HK\$72,886,000 and HK\$26,024,000 as at 31 December 2006, 2007 and 2008 respectively. The Financial Information has been prepared on a going concern basis because the directors of CRM(HK) believe that the Retail Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations.

In the management of liquidity risk, the Retail Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

## Liquidity tables

The following tables detail the Retail Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Retail Group can be required to pay. The tables include both interest and principal cash flows. The difference between the "Total undiscounted cash flows" column and the "Carrying amount at balance sheet date" column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the consolidated balance sheets.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
<b>At 31 December 2006</b>								
Accounts payable	N/A	-	5,347	115,643	18,975	-	139,965	139,965
Other payables	N/A	-	-	-	437	-	437	437
Amounts due to fellow subsidiaries	N/A	12,506	-	-	-	-	12,506	12,506
Borrowings	Note	-	42,179	27,297	37,468	4,719	111,663	110,090
		<u>12,506</u>	<u>47,526</u>	<u>142,940</u>	<u>56,880</u>	<u>4,719</u>	<u>264,571</u>	<u>262,998</u>
<b>At 31 December 2007</b>								
Accounts payable	N/A	-	16,193	98,602	10,980	-	125,775	125,775
Other payables	N/A	-	-	-	3,982	-	3,982	3,982
Amounts due to fellow subsidiaries	N/A	92,365	-	-	-	-	92,365	92,365
Borrowings	Note	-	22,084	50,737	6,000	-	78,821	77,634
		<u>92,365</u>	<u>38,277</u>	<u>149,339</u>	<u>20,962</u>	<u>-</u>	<u>300,943</u>	<u>299,756</u>
<b>At 31 December 2008</b>								
Accounts payable	N/A	-	24,849	28,797	43,882	-	97,528	97,528
Other payables	N/A	-	-	-	4,386	-	4,386	4,386
Amounts due to fellow subsidiaries	N/A	34,618	-	-	-	-	34,618	34,618
Borrowings	Note	-	23,023	55,763	971	-	79,757	79,066
		<u>34,618</u>	<u>47,872</u>	<u>84,560</u>	<u>49,239</u>	<u>-</u>	<u>216,289</u>	<u>215,598</u>

Note: Variable-rate borrowings carry interest at HIBOR plus a spread or Hong Kong Prime Rate. The prevailing market rate at the balance sheet date is used in the maturity analysis.

**Fair values**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The Directors of CRM(HK) consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

## 6. Revenue

Revenue represents the invoiced value of sales of furniture and household goods, electrical appliances and trendy digital products, net of discounts and returns.

	Year ended 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
<b>Continuing operations</b>			
Sales of popular furniture, household and electrical appliances products, net of discounts and returns	763,233	773,264	863,997
<b>Discontinued operations</b>			
Sales of trendy digital and audio visual products, net of discounts and returns	80,623	32,042	–
Sales of elegant, stylish furniture and household products, net of discounts and returns	14,553	19,044	–
	<u>858,409</u>	<u>824,350</u>	<u>863,997</u>

## 7. Segment information

*Business segments*

The Retail Group is engaged in the retailing of sales of furniture, household goods and trendy digital products which can be divided into three product segments: (i) popular furniture, household and electrical appliance products; (ii) trendy digital and audio visual products; and (iii) elegant, stylish furniture and household products. The product segments for trendy digital and audio products and elegant, stylish furniture and household products were discontinued on 1 January 2008 (see note 12) through the disposal of subsidiaries. An analysis of the Retail Group's results of operations and the Retail Group's financial position by product segments are as follows:

Segment information about these businesses is presented below.

**Consolidated income statement for the year ended 31 December 2006**

	Continuing operations	Discontinued operations			Consolidated HK\$'000
	Popular furniture, household and electrical appliances products HK\$'000	Trendy digital and audio visual products HK\$'000	Elegant, stylish furniture and household products HK\$'000	Total HK\$'000	
Revenue	<u>763,233</u>	<u>80,623</u>	<u>14,553</u>	<u>95,176</u>	<u>858,409</u>
Segment result	<u>3,079</u>	<u>(30,637)</u>	<u>(42,005)</u>	<u>(72,642)</u>	<u>(69,563)</u>
Unallocated other income					10,151
Unallocated corporate expenses					(11,113)
Finance costs					(4,168)
Loss before taxation					(74,693)
Taxation					–
Loss for the year					<u>(74,693)</u>

## Consolidated balance sheet as at 31 December 2006

	Continuing operations	Discontinued operations			Consolidated HK\$'000
	Popular furniture, household and electrical appliance products HK\$'000	Trendy digital and audio visual products HK\$'000	Elegant, stylish furniture and household products HK\$'000	Total HK\$'000	
<b>ASSETS</b>					
Segment assets	81,736	13,887	9,744	23,631	105,367
Unallocated corporate assets					227,624
Consolidated total assets					332,991
<b>LIABILITIES</b>					
Segment liabilities	140,603	30,074	7,365	37,439	178,042
Unallocated corporate liabilities					125,053
Consolidated total liabilities					303,095

## Other information for the year ended 31 December 2006

	Continuing operations	Discontinued operations			Consolidated HK\$'000
	Popular furniture, household and electrical appliance products HK\$'000	Trendy digital and audio visual products HK\$'000	Elegant, stylish furniture and household products HK\$'000	Unallocated HK\$'000	
Additions to property and equipment	12,986	1,416	2,979	31,000	48,381
Depreciation of property and equipment	16,906	1,906	3,698	6,300	28,810
Impairment loss on property and equipment	–	2,659	3,292	–	5,951
Loss (gain) on disposal of equipment	32	826	1,588	(6,848)	(4,402)
Amortisation of prepaid lease payment	–	–	–	207	207
Allowance for inventory and write-off of inventories	2,388	475	1,997	–	4,860

## Consolidated income statement for the year ended 31 December 2007

	Continuing operations	Discontinued operations			Consolidated HK\$'000
	Popular furniture, household and electrical appliance products HK\$'000	Trendy digital and audio visual products HK\$'000	Elegant, stylish furniture and household products HK\$'000	Total HK\$'000	
Revenue	773,264	32,042	19,044	51,086	824,350
Segment result	32,424	(19,679)	(33,347)	(53,026)	(20,602)
Unallocated other income					2,641
Unallocated corporate expenses					(8,410)
Finance costs					(5,333)
Loss before taxation					(31,704)
Taxation					-
Loss for the year					(31,704)

## Consolidated balance sheet as at 31 December 2007

	Continuing operations	Discontinued operations			Consolidated HK\$'000
	Popular furniture, household and electrical appliance products HK\$'000	Trendy digital and audio visual products HK\$'000	Elegant, stylish furniture and household products HK\$'000	Total HK\$'000	
<b>ASSETS</b>					
Segment assets	83,938	5,613	10,724	16,337	100,275
Unallocated corporate assets					239,310
Consolidated total assets					339,585
<b>LIABILITIES</b>					
Segment liabilities	138,920	21,694	7,835	29,529	168,449
Unallocated corporate liabilities					172,418
Consolidated total liabilities					340,867

## Other information for the year ended 31 December 2007

	Continuing operations	Discontinued operations		Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
	Popular furniture, household and electrical appliance products <i>HK\$'000</i>	Trendy digital and audio visual products <i>HK\$'000</i>	Elegant, stylish furniture and household products <i>HK\$'000</i>		
Additions to property and equipment	17,291	5	4,982	213	22,491
Depreciation of property and equipment	19,435	1	1,341	3,194	23,971
Impairment loss on property and equipment	–	–	1,472	–	1,472
Amortisation of prepaid lease payment	–	–	–	415	415
Allowance for inventory and write-off of inventories	2,263	1,235	4,783	–	8,281
	2,263	1,235	4,783	–	8,281

## Consolidated income statement for the year ended 31 December 2008

	Continuing operations
	Popular furniture, household and electrical appliance products <i>HK\$'000</i>
Revenue	863,997
Segment result	48,167
Unallocated other income	2,256
Unallocated corporate expenses	(11,263)
Finance costs	(3,226)
Profit before taxation	35,934
Taxation	(4,900)
Profit for the year	31,034

## Consolidated balance sheet as at 31 December 2008

	<u>Continuing operations</u>
	<b>Popular furniture, household and electrical appliance products</b>
	<i>HK\$'000</i>
<b>ASSETS</b>	
Segment assets	91,863
Unallocated corporate assets	187,321
	<hr/>
Consolidated total assets	<u>279,184</u>
<b>LIABILITIES</b>	
Segment liabilities	125,999
Unallocated corporate liabilities	115,733
	<hr/>
Consolidated total liabilities	<u>241,732</u>

## Other information for the year ended 31 December 2008

	<b>Popular furniture, household and electrical appliance products</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions to property and equipment	11,899	1,687	13,586
Depreciation of property and equipment	14,951	1,411	16,362
Loss on disposal of equipment	187	–	187
Amortisation of prepaid lease payment	–	415	415
Allowance for inventory and write-off of inventories	2,044	–	2,044
	<u>2,044</u>	<u>–</u>	<u>2,044</u>

**Geographical segments**

The Retail Group's operations are located in Hong Kong and the PRC. For the retailing of popular furniture, household and electrical appliance products, they are mainly based in Hong Kong and the revenue is substantially derived from Hong Kong. The retailing of trendy digital, audio visual products and elegant, stylish furniture and house products are mainly based in Hong Kong and the PRC and the revenue of the Relevant Periods are derived mainly from Hong Kong and the PRC.

The following table provides an analysis of the Retail Group's revenue by geographical location of its customers:

	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Hong Kong	763,233	773,264	863,997
<b>Discontinued operations</b>			
Hong Kong	93,803	43,156	–
PRC ( <i>Note</i> )	1,373	7,930	–
	<u>858,409</u>	<u>824,350</u>	<u>863,997</u>

*Note:* The revenue derived from PRC was contributed by the subsidiaries disposed of on 31 December 2008. Details of the disposal of subsidiaries are disclosed in note 22(ii).

The following is an analysis of the carrying amount of segment assets and additions to property and equipment, analysed by the geographical area in which the assets are located:

*Carrying amount of segment assets*

	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Hong Kong	80,766	82,883	90,716
PRC	970	1,055	1,147
<b>Discontinued operations</b>			
Hong Kong	17,184	6,977	–
PRC	6,447	9,360	–
	<u>105,367</u>	<u>100,275</u>	<u>91,863</u>

*Additions to property and equipment*

	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Hong Kong	43,986	16,620	13,380
PRC	–	884	206
<b>Discontinued operations</b>			
Hong Kong	2,657	61	–
PRC	1,738	4,926	–
	<u>48,381</u>	<u>22,491</u>	<u>13,586</u>

## 8. Finance costs

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>			
Interest on:			
Borrowings wholly repayable within five years	4,108	4,775	3,226
<b>Discontinuing operations</b>			
Interest on:			
Borrowings wholly repayable within five years	60	558	–

## 9. Directors' remuneration

The remuneration paid or payable to the Directors was as follows:

	Kwan Pak Hoo Bankee HK\$'000	Lin Che Chu George HK\$'000	Law Ping Wah Bernard HK\$'000	Kwok Lai Ling Elaine HK\$'000	Leung Siu Pong James HK\$'000	Wong Kin Yick Kenneth HK\$'000	Li Yuen Cheuk Thomas HK\$'000	Law Tang Fai James HK\$'000	Ng Kung Chit Raymond HK\$'000	Kwok Oi Kuen Joan Elmond HK\$'000	Total HK\$'000
<b>2006</b>											
Fee	–	–	–	–	–	–	–	–	–	–	–
Salaries, allowances and benefits in kind	630	–	–	–	–	–	–	–	–	–	630
Performance related incentive payments	–	–	–	–	–	–	–	–	–	–	–
Employee share option benefits	–	–	–	–	–	–	–	–	–	–	–
Contributions to retirement benefit scheme	32	–	–	–	–	–	–	–	–	–	32
<b>Total remuneration</b>	<b>662</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>662</b>
<b>2007</b>											
Fee	–	–	–	–	–	–	–	–	–	–	–
Salaries, allowances and benefits in kind	–	–	–	–	–	–	–	–	–	–	–
Performance related incentive payments	–	–	–	–	–	–	–	–	–	–	–
Employee share option benefits	–	–	–	–	–	–	–	–	–	–	–
Contributions to retirement benefit scheme	–	–	–	–	–	–	–	–	–	–	–
<b>Total remuneration</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Kwan Pak Hoo Bankee <i>HK\$'000</i>	Lin Che Chu George <i>HK\$'000</i>	Law Ping Wah Bernard <i>HK\$'000</i>	Wong Kin Yick Kenneth <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2008</b>					
Fee	-	-	-	-	-
Salaries, allowances and benefits in kind	-	-	-	-	-
Performance related incentive payments	-	-	-	-	-
Employee share option benefits	-	-	-	-	-
Contributions to retirement benefit scheme	-	-	-	-	-
Total remuneration	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the year ended 31 December 2006, Ms Kwok Lai Ling Elaine, Mr Leung Siu Pong James, Mr Law Tang Fai James, Mr Li Yuen Cheuk Thomas, Mr Ng Kung Chit Raymond and Ms Kwok Oi Kuen Joan Elmond resigned as directors of CRM(HK).

During the year ended 31 December 2008, Mr Wong Kin Yick Kenneth resigned as director of CRM(HK).

During the Relevant Periods, no remuneration was paid by the Retail Group to the directors of CRM(HK) as an inducement to join or upon joining the Retail Group or as compensation for loss of office. None of the directors of CRM(HK) has waived any remuneration during the Relevant Periods.

#### 10. Employees' remuneration

Of the five individuals with the highest emoluments in the Retail Group one was Director of CRM(HK) for the year ended 31 December 2006. The emoluments of the remaining individuals for the Relevant Periods were as follows:

	<b>Year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,552	2,441	2,556
Contributions to retirement benefit scheme	77	147	144
Performance related incentive payments	117	619	435
	<u>1,746</u>	<u>3,207</u>	<u>3,135</u>

Their remunerations were all below HK\$1,000,000 during the Relevant Periods.

## 11. Taxation charge

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Continuing operations:			
The charge (credit) comprises:			
Current tax:			
– Hong Kong	–	–	6,900
Deferred taxation credit	–	–	(2,000)
	<u>–</u>	<u>–</u>	<u>4,900</u>

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Retail Group's subsidiary in the PRC was reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Retail Group's subsidiary in the PRC is 33%, 33% and 25% for the years ended 31 December 2006, 2007 and 2008 respectively.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 17.5%, 17.5% and 16.5% of the estimated assessable profit for the years ended 31 December 2006, 2007 and 2008 respectively.

No provision for PRC Enterprise Income Tax has been made as the Retail Group has no assessable profits arising in the PRC during the Relevant Periods.

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

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Profit (loss) before taxation			
Continuing operations	5,044	30,106	35,934
Discontinued operations	(79,737)	(61,810)	–
	<u>(74,693)</u>	<u>(31,704)</u>	<u>35,934</u>
Taxation (credit) charge at income tax rate (2006: 17.5%, 2007: 17.5%, 2008: 16.5%)	(13,071)	(5,548)	5,929
Tax effect of expenses not deductible for tax purpose	1,731	3,279	704
Tax effect of income not taxable for tax purpose	(450)	(173)	(33)
Tax effect of estimated tax losses not recognised	13,825	8,525	196
Tax effect of utilisation of estimated tax losses previously not recognised	(3,787)	(7,613)	(651)
Utilization of deductible temporary difference previously not recognised	–	–	(1,218)
Tax effect of deductible temporary difference not recognised	1,270	1,626	–
Others	482	(96)	(27)
Taxation charge	<u>–</u>	<u>–</u>	<u>4,900</u>

The following are the major deferred tax asset recognised and the movements thereon during the Relevant Periods:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>
At 1 January 2006, 31 December 2006 and 31 December 2007	–
Credit to consolidated income statement	2,000
	<hr/>
At 31 December 2008	2,000
	<hr/> <hr/>

The Retail Group had estimated unused tax losses of HK\$209,611,000, HK\$214,822,000 and HK\$25,252,000 and deductible temporary difference in respect of accelerated accounting depreciation of HK\$11,618,000, HK\$20,908,000 and HK\$13,528,000 as at 31 December 2006, 2007 and 2008 respectively available to offset against future profits. No deferred tax asset has been recognised as at 31 December 2006 and 2007, while HK\$12,120,000 of such deductible temporary differences has been recognised as deferred tax asset for the year ended 31 December 2008. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams. The estimated unused tax losses may be carried forward indefinitely.

## 12. Discontinued operations

The Retail Group conducted a reorganisation in early 2008 and the Retail Group disposed of certain subsidiaries, which product segments of trendy digital and audio visual products and elegant, stylish furniture and household products, to a fellow subsidiary of CRM(HK) with effect from 1 January 2008.

The results of the discontinued operations which represented segments of trendy digital and audio visual products and elegant, stylish furniture and household products for each of the two years ended 31 December 2007 and which have been included in the consolidated income statements, were as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Revenue	95,176	51,086
Cost of sales	(87,227)	(50,388)
	<hr/>	<hr/>
Gross profit	7,949	698
Other income	8,020	297
Selling and distribution costs	(64,999)	(42,883)
Administrative expenses	(24,696)	(17,892)
Finance costs	(60)	(558)
Impairment loss recognised in respect of property and equipment	(5,951)	(1,472)
	<hr/>	<hr/>
Loss before taxation	(79,737)	(61,810)
Taxation	–	–
	<hr/>	<hr/>
Loss for the year	(79,737)	(61,810)
	<hr/> <hr/>	<hr/> <hr/>

The cash flows of the discontinued operations for each of the two years ended 31 December 2007 are as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Net cash used in operating activities	(59,471)	(56,954)
Net cash from (used in) investing activities	16,129	(4,412)
Net cash from financing activities	60,720	27,240
	<hr/> <hr/>	<hr/> <hr/>

## 13. (Loss) profit for the year

	Year ended 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):			
<b>Continuing operations</b>			
Advertising and promotion expenses	23,897	14,169	15,139
Allowance for inventory obsolescence and write-off of inventories	2,388	2,263	2,044
Amortisation of prepaid lease payments	207	415	415
Auditor's remuneration	800	800	650
Cost of inventories recognised as an expense	478,011	437,508	491,172
Depreciation of property and equipment	17,855	21,005	16,362
Staff costs:			
Directors' remuneration ( <i>Note 9</i> )	630	–	–
Other staff salaries, allowances and commission	80,967	95,039	96,339
Contributions to retirement benefits schemes	4,037	3,676	4,867
	85,634	98,715	101,206
Loss on disposal of property and equipment	32	–	187
Operating lease rentals in respect of land and buildings:			
Minimum lease payments	81,271	98,821	115,487
Contingent rents ( <i>Note</i> )	4,530	3,447	5,429
	85,801	102,268	120,916
Interest income	(2,258)	(2,457)	(942)
Net foreign exchange (gain) loss	(28)	(110)	327
<b>Discontinued operations</b>			
Advertising and promotion expenses	9,609	3,866	–
Allowance for inventory obsolescence and write-off of inventories	2,472	6,018	–
Auditor's remuneration	350	350	–
Cost of inventories recognised as an expense	87,227	50,388	–
Depreciation of property and equipment	10,955	2,966	–
Gain on disposal of property and equipment	(4,434)	(15)	–
Impairment loss recognised in respect of property and equipment	5,951	1,472	–
Staff costs:			
Directors' remuneration ( <i>Note 9</i> )	–	–	–
Other staff salaries, allowances and commission	22,300	19,579	–
Contributions to retirement benefits schemes	1,009	1,099	–
	23,309	20,678	–
Operating lease rentals in respect of land and buildings:			
Minimum lease payments	17,655	15,066	–
Contingent rents ( <i>Note</i> )	2,006	8	–
	19,661	15,074	–
Interest income	(463)	(184)	–
Net foreign exchange gain	(10)	(55)	–

*Note:* The contingent rents are determined based on certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

## 14. Property and equipment

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST OR VALUATION					
At 1 January 2006	–	81,450	135,946	3,331	220,727
Additions	31,000	14,012	3,369	–	48,381
Disposals/written off	–	(15,117)	(16,102)	–	(31,219)
Deficit on revaluation	(700)	–	–	–	(700)
At 31 December 2006	30,300	80,345	123,213	3,331	237,189
Additions	–	17,987	4,504	–	22,491
Disposals/written off	–	(5,220)	(797)	–	(6,017)
Exchange differences	–	60	37	–	97
Deficit on revaluation	(1,400)	–	–	–	(1,400)
At 31 December 2007	28,900	93,172	126,957	3,331	252,360
Additions	1,688	9,463	2,435	–	13,586
Disposals/written off	–	(4,226)	(1,079)	–	(5,305)
Arising on disposal of subsidiaries	–	(7,650)	(10,792)	(1,696)	(20,138)
Exchange differences	–	–	104	–	104
Deficit on revaluation	(2,788)	–	–	–	(2,788)
At 31 December 2008	27,800	90,759	117,625	1,635	237,819
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2006	–	57,975	109,629	2,823	170,427
Provided for the year	700	16,419	11,403	288	28,810
Impairment loss recognised	–	4,654	1,297	–	5,951
Eliminated on disposals/written off	–	(11,643)	(14,176)	–	(25,819)
Eliminated on revaluation	(700)	–	–	–	(700)
At 31 December 2006	–	67,405	108,153	3,111	178,669
Provided for the year	1,400	14,513	7,850	208	23,971
Impairment loss recognised	–	1,456	16	–	1,472
Eliminated on disposals/written off	–	(5,220)	(797)	–	(6,017)
Exchange differences	–	3	21	–	24
Eliminated on revaluation	(1,400)	–	–	–	(1,400)
At 31 December 2007	–	78,157	115,243	3,319	196,719
Provided for the year	1,400	10,525	4,437	–	16,362
Eliminated on disposals/written off	–	(4,226)	(892)	–	(5,118)
Exchange differences	–	–	21	–	21
Eliminated on disposal of subsidiaries	–	(4,868)	(8,141)	(1,684)	(14,693)
Eliminated on revaluation	(1,400)	–	–	–	(1,400)
At 31 December 2008	–	79,588	110,668	1,635	191,891
NET BOOK VALUES					
At 31 December 2006	30,300	12,940	15,060	220	58,520
At 31 December 2007	28,900	15,015	11,714	12	55,641
At 31 December 2008	27,800	11,171	6,957	–	45,928

The above property and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 7 years
Motor vehicles	3 to 5 years

The buildings of the Retail Group are situated on the land of Hong Kong under medium-term lease and measured at fair value. The gross carrying amount of remaining items of property and equipment are measured at cost.

The buildings of the Retail Group were valued by Knight Frank Petty Limited as at 31 December 2006, 2007 and 2008, a firm of independent professional property valuers, on a market value basis. Knight Frank Petty Limited is not connected with the Retail Group. A revaluation deficit on buildings HK\$1,388,000 has been charged to consolidated income statement for the year ended 31 December 2008 (2006 and 2007: Nil).

If the buildings had not been revalued, they would have been included in Financial Information at historical cost less accumulated depreciation of HK\$30,300,000, HK\$28,900,000 and HK\$27,500,000 as at 31 December 2006, 2007 and 2008 respectively.

The directors of CRM(HK) reassessed the recoverable amount of the property and equipment of certain shops of which continuous losses incurred and recognised an impairment loss of approximately HK\$5,951,000 and HK\$1,472,000 for each of the years ended 31 December 2006 and 2007 respectively. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 16.4%, 12% and 10% as at 31 December 2006, 2007 and 2008 respectively.

#### 15. Prepaid lease payments

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
The Retail Group's prepaid lease payments comprise:			
Leasehold land in Hong Kong under medium-term lease	16,793	16,378	15,963
Analysed for reporting purposes as:			
Current asset (included in prepayments, deposits and other receivables)	415	415	415
Non-current asset	16,378	15,963	15,548
	<u>16,793</u>	<u>16,378</u>	<u>15,963</u>

The leasehold land is amortised on a straight-line basis over the remaining term of leases.

#### 16. Inventories

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Finished goods held for sale	48,950	39,693	38,407

**17. Accounts receivable**

The Retail Group allows a credit period of 30 days on accounts receivable. The aged analysis is as follows:

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
0 – 30 days	460	408	–

The Retail Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and age analysis of accounts and on management's judgement including the credit creditworthness, collaterals and the past collection history of each client.

In determining the recoverability of the accounts receivable, the Retail Group considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors of CRM(HK) believe that there is no credit provision required.

All the accounts receivable are neither past due nor impaired at the reporting date for which the Retail Group believes that the amounts are considered recoverable.

**18. Other financial assets**

Amounts due from fellow subsidiaries are non-trade nature, unsecured, interest free and repayable on demand.

The Retail Group's bank deposits of HK\$50,262,000, HK\$51,816,000 and HK\$54,030,000 as at 31 December 2006, 2007 and 2008 respectively were pledged to secure the general banking facilities granted by banks.

Bank balances and cash comprise cash held by the Retail Group and short-term bank deposits at market interest rates with an original maturity of three months or less.

**19. Other financial liabilities**

Accounts payable principally comprise amounts outstanding for trade purchases costs. The average credit period taken for trade purchase is 30 to 90 days.

The aged analysis of accounts payable is stated as follows:

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
0 – 30 days	57,431	54,553	43,882
31 – 60 days	37,468	32,771	28,797
61 – 90 days	32,880	22,897	10,728
Over 90 days	12,186	15,554	14,121
	<u>139,965</u>	<u>125,775</u>	<u>97,528</u>

Amounts due to fellow subsidiaries are non-trade nature, unsecured, interest free and repayable on demand.

## 20. Borrowings

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Secured bank borrowings:			
Bank loans	10,501	6,307	–
Trust receipt loans	74,989	71,327	79,066
	<u>85,490</u>	<u>77,634</u>	<u>79,066</u>
Unsecured other borrowings	24,600	–	–
	<u>110,090</u>	<u>77,634</u>	<u>79,066</u>

The maturity profile of the above borrowings is as follows:

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
On demand or within one year	105,460	77,634	79,066
More than one year but not exceeding two years	4,630	–	–
	<u>110,090</u>	<u>77,634</u>	<u>79,066</u>
Less: Amount due within one year shown under current liabilities	(105,460)	(77,634)	(79,066)
Amount due after one year	<u>4,630</u>	<u>–</u>	<u>–</u>

At 31 December 2006, 2007 and 2008, bank borrowings of HK\$85,490,000, HK\$77,634,000 and HK\$79,066,000 respectively of the Retail Group were secured by:

- a corporate guarantee from its ultimate holding company;
- pledged bank deposits as disclosed in note 18; and
- all the building and prepaid lease payments as disclosed in notes 14 and 15.

Bank loans amounting to HK\$10,501,000, HK\$6,307,000 are at variable-rate borrowings which carried interest at HIBOR plus a spread as at 31 December 2006 and 2007 respectively. Trust receipt loans amounting to HK\$74,989,000, HK\$71,327,000 and HK\$79,066,000 carried interest at Hong Kong Prime Rate plus a spread as at 31 December 2006, 2007 and 2008 respectively.

As at 31 December 2006, unsecured other borrowings of HK\$24,600,000 carried interest at Hong Kong Prime Rate plus 3% per annum.

The effective interest rates on the Retail Group's borrowings are also equal to contracted interest rates as at 31 December 2006, 2007 and 2008.

As at 31 December 2006, 2007 and 2008, the Retail Group had undrawn borrowing facilities amounting to HK\$26,511,000, HK\$56,673,000 and HK\$60,935,000 with floating rate respectively and expiring within one year from the respective balance sheet dates.

## 21. Share capital

	Number of shares	Amount	
		US\$	HK\$'000
Ordinary shares of US\$1 each	105,460	77,634	79,066
<i>Authorised:</i>			
At 1 January 2006, 31 December 2006, 31 December 2007 and 31 December 2008	50,000	50,000	390
<i>Issued and fully paid:</i>			
At 1 January 2006, 31 December 2006, 31 December 2007 and 31 December 2008	1	1	–

## 22. Disposal of subsidiaries

- (i) During the year ended 31 December 2006, through the disposal of equity interest of certain subsidiaries, engaged in investment of club memberships and investment property, to a subsidiary of the Company, the Retail Group has, in substance, disposed of the following assets and related liabilities at a total consideration of HK\$852,000.

The net assets of subsidiaries at the date of disposal were as follows:

	HK\$'000
NET ASSETS DISPOSAL OF:	
Club memberships	3,090
Investment property	5,000
Prepayments	1,589
Bank balances and cash	116
Amount due to ultimate holding company	(8,943)
Net assets disposed of	<u>852</u>
Cash consideration	<u>852</u>
NET CASH INFLOW ARISING ON DISPOSAL	
Total cash consideration	852
Bank balances and cash	(116)
Net cash inflow arising on disposal of assets and related liabilities	<u>736</u>

The subsidiaries contributed approximately HK\$638,000 to the Retail Group's revenue, and HK\$1,107,000 loss to the Retail Group's loss for the year end 31 December 2006.

- (ii) On 1 January 2008, the Retail Group disposed of 100% equity interest in certain subsidiaries to CASH Retail Management Group Limited, a fellow subsidiary of CRM(HK), at a consideration of HK\$827. The subsidiaries were engaged in retailing of sales of trendy digital and audio products and elegant, stylish furniture and household products, which has been classified as discontinued operations in the Financial Information.

The net liabilities of subsidiaries at the date of disposal were as follows:

	<b>As at 1 January 2008</b>
	<i>HK\$'000</i>
NET LIABILITIES DISPOSAL OF:	
Property and equipment	5,445
Inventories	5,218
Accounts receivable	460
Prepayments, deposits and other receivables	8,835
Amounts due from fellow subsidiaries	51,166
Bank balances and cash	6,663
Accounts payable	(25,848)
Accrued liabilities and other payables	(5,893)
Amounts due to fellow subsidiaries	(51,944)
Borrowings	(1,680)
	<u>(7,578)</u>
Contribution from equity participants credited to equity	7,578
	<u>–</u>
CASH OUTFLOW ARISING ON DISPOSAL	
Bank balances and cash disposal of	<u>(6,663)</u>

### 23. Contingent liabilities

On 11 May 2006, Hallmark Cards, Incorporated (“Petitioner”) filed a petition for a winding-up order against Cosmos Global Limited (“Cosmos”), a subsidiary of CRM(HK), under which the Petitioner claimed that Cosmos was indebted to the Petitioner for a sum of approximately US\$42,000 (equivalent to approximately HK\$324,000) and interest accrued thereon. A winding-up order was made by a master of the High Court on 2 August 2006. Provisional liquidator has been appointed by the court to manage the affairs of Cosmos on the same date and Cosmos is now in the process of liquidation. Cosmos is a dormant company and the winding up of Cosmos will not have any material financial impact to the operation of the Retail Group.

### 24. Operating lease commitments

At each balance sheet date, the Retail Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>As at 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	97,877	98,989	90,554
In the second to fifth year inclusive	98,574	93,576	67,606
	<u>196,451</u>	<u>192,565</u>	<u>158,160</u>

Operating lease payments represent rentals payable by the Retail Group for office premises and retail shops. Leases are mainly negotiated for lease term of two to three years and rentals are fixed for lease term of two to three years. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Retail Group has to pay a rental based on certain percent of the gross sales of the relevant shop when the sales meets certain specified level.

**25. Retirement benefits schemes**

The Retail Group operates Mandatory Provident Fund Schemes ("MPF Schemes") under the rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. All the employees of the Retail Group in Hong Kong are required to join the MPF Scheme. In respect of those employees who leave the Retail Group prior to completion of qualifying service period for the employer's voluntary contributions (represents contributions in excess of the mandatory requirements under the Mandatory Provident Fund Schemes Ordinance plus all the assets transferred from the Old Scheme) become fully vested, the relevant portion of the voluntary contributions forfeited will be reverted to the Retail Group. Contributions are made based on a percentage of the employees' salaries and are charged to income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Scheme are held separately from those of the Retail Group in an independently administrated fund. The Retail Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

For members of MPF Schemes, the Retail Group contributes 5% relevant payroll costs with a maximum contribution of HK\$1,000 per person for the MPF Schemes, which contribution is matched by the employees.

The employer's contributions to the MPF Schemes charged to the income statement amounted to approximately HK\$4,594,000, HK\$3,885,000 and HK\$4,270,000 for each of the years ended 31 December 2006, 2007 and 2008 respectively.

The Retail Group operates various benefits schemes for its full-time employees in the PRC in accordance with the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Retail Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively. The Retail Group recognised contribution to the aforesaid benefits schemes of HK\$452,000, HK\$890,000 and HK\$597,000 for each of the years ended 31 December 2006, 2007 and 2008 respectively.

**26. Share option schemes****(A) Share option scheme of CASH, the ultimate holding company of CRM(HK)**

CASH share option scheme ("Share Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of CASH held on 19 February 2002. The major terms of the Share 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 ("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 share options might be granted under the Share Option Scheme must not exceeded 10% of the issued share capital of CASH as at the date of approval of the Share Option Scheme and such limit might be refreshed by shareholders in general meeting. The total maximum number of shares which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option scheme must not exceed 30% of the shares in issue of CASH from time to time.

- (iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the share options cancelled) under any share option granted to the same participant under the Share Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue of CASH from time to time.
- (v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the Board of Directors of CASH and provided in the offer of grant of share option.
- (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 share option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of a share 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 a share option must be the highest of:
  - the closing price of CASH's shares on the date of grant which day must be a trading day;
  - the average closing price of the CASH's shares for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of CASH's share.
- (ix) The life of the Share Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

The following table discloses details of CASH's share options held by the Directors of CRM(HK) and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share		Exercise period	Number of share options										
		(Note (3))			outstanding as at 1.1.2006	granted in 2006	outstanding as at 31.12.2006 and 1.1.2007	granted in 2007	outstanding as at 31.12.2007 and 1.1.2008	adjusted on 6.6.2008	lapsed in 2008	reallocated change in directorate	outstanding as at 31.12.2008		
		Before 6.6.2008 4:00 p.m. HK\$	After 6.6.2008 4:00 p.m. HK\$		(Notes (1)&(2))	(Notes (1)&(2))	(Note (3))								
Directors of the Retail Group															
Share Option Scheme	13.11.2006	0.323	1.615	13.11.2006 – 12.11.2008	-	16,000,000	16,000,000	-	16,000,000	(12,800,000)	(3,200,000)	-	-	-	-
	6.6.2007	0.490	2.450	6.6.2007 – 31.5.2009	-	-	-	10,000,000	10,000,000	(8,000,000)	-	-	(500,000)	1,500,000	
					-	16,000,000	16,000,000	10,000,000	26,000,000	(20,800,000)	(3,200,000)	(500,000)		1,500,000	

Notes:

- (1) These options were granted to the directors of CRM(HK) for their services to the Retail Group and other fellow subsidiaries. The directors of CRM(HK) considered the financial impact of share options granted by CASH to the directors of the Retail Group was insignificant. No expense was charged to the consolidated income statements of the Retail Group for each of the years ended 31 December 2006 and 2007 accordingly.
- (2) The closing price of the share immediately before the date of grant on 13 November 2006 and 6 June 2007 was HK\$0.330 and HK0.480 respectively. The share options are fully vested on the grant date.

- (3) The number and the exercise price of options which remained outstanding have been adjusted due to share consolidation of CASH with effect from 4:00 pm on 6 June 2008.

During the year ended 31 December 2006, share options were granted on 13 November 2006 and are fully vested on the same date. The estimated fair value of the options granted on that date was HK\$211,000.

During the year ended 31 December 2007, share options were granted on and 6 June 2007 are fully vested on the same date. The estimated fair value of the options granted on that date was HK\$197,000.

These fair values are calculated using the Black-Scholes pricing model. The variables and assumptions used in computing the fair value of the share options are based on the Director's best estimate. The value of an opinion varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

These fair values are calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options grant date	
	13 November 2006	6 June 2007
Weighted average share price	HK\$0.330	HK\$0.360
Exercise price	HK\$0.323	HK\$0.490
Expected volatility	67%	76.85%
Expected life	2 years	2 years
Risk-free rate	4.59%	3.64%
Expected dividend yield	Nil	Nil

Expected volatility was determined by using the historical volatility of CASH's share price over the previous 256 trading days.

There were no share options granted and no expense was charged to consolidated income statement for year ended 31 December 2008.

**(B) Share option schemes of the Company**

*(a) New Option Scheme*

The Company's share option scheme ("New Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 22 February 2008, which took effect on 3 March 2008. During the year ended 31 December 2008, no option has been granted under New Option Scheme.

The major terms of 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 ("CASH Group"), including the Retail Group and the 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 employees (whether full time or part time), executives and officers (including executive and non-executive directors) and business consultants, agents and legal and financial advisers of the CASH Group.

- (iii) The maximum number of shares in respect of which options might be granted under New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of 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 New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue of the Company from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue of the Company 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 the Company and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the Board of Directors of the Company 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 of the Company on the date of grant which day must be a trading day;
  - the average closing price of the shares of the Company for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share.
- (ix) The life of New Option Scheme is effective for 10 years from the date of adoption until 22 February 2018.

(b) *Option Scheme*

Prior to 3 March 2008, the Company's share option scheme ("Share Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002. The major terms of Share Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to:
  - award and retain the participants who have made contributions to the Group; or
  - attract potential candidates to serve the Group for the benefit of the development of the Group.
- (ii) The participants included any employee, director, consultant, adviser or agent of any member of the Group.

- (iii) The maximum number of shares in respect of which share options might be granted under Share Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of Share 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 share options granted and yet to be exercised under Share 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 share 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 share option granted to the same participant under Share 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 share option for a certain period before exercising the share option save as determined by the board of directors of the Company and provided in the offer of grant of share option.
- (vi) The exercise period should be any period fixed by the board of directors of the Company upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of a share 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 a share option must be the highest of:
- the closing price of the shares of the Company on the date of grant which day must be a trading day;
  - the average closing price of the shares of the Company for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share of the Company.
- (ix) The life of Share Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

The following table discloses details of the Company's share options held by the Directors of CRM(HK) and movements in such holdings:

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Number of share options					
				outstanding as at 1.1.2006	granted in 2006	lapsed in 2006	outstanding as at 31.12.2006 and 1.1.2007	exercised in 2007	outstanding as at 31.12.2007, 1.1.2008 and 31.12.2008
Directors of the Retail Group									
Share Option Scheme	6.10.2005	0.380	6.10.2005 - 31.10.2006	38,700,000	-	(38,700,000)	-	-	-
	7.7.2006	0.296	7.7.2006 - 31.7.2008	-	31,800,000	-	31,800,000	(31,800,000)	-
				<u>38,700,000</u>	<u>31,800,000</u>	<u>(38,700,000)</u>	<u>31,800,000</u>	<u>(31,800,000)</u>	<u>-</u>

*Notes:*

- (1) The option was granted to the directors of CRM(HK) for their service to the CASH Group. The Directors of the Company considered the financial impact of share options granted by the Company to Directors of CRM(HK) the Company was insignificant. No expense was charged to consolidated income statements for the year ended 31 December 2006.

- (2) The closing price of share of the Company immediately before the date of grant on 7 July 2006 was HK\$0.290.
- (3) The lapsed share options were due to expiry or cessation of employment of participants with the Company.
- (4) The weighted closing price of the share of the Company immediately before the date of exercise was HK\$0.640.

During the year ended 31 December 2006, share options were granted on 7 July 2006. The estimated fair values of the share options granted on that date are HK\$478,000.

These fair values are calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	<b>Share options grant date 7 July 2006</b>
Weighted average share price	HK\$0.29
Exercise price	HK\$0.30
Expected volatility	74%
Expected life	2 years
Risk-free rate	4.59%
Expected dividend yield	3.125%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 256 trading days. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

## 27. Related party transactions

Apart from the amounts due from and to fellow subsidiaries and disposal of subsidiaries as set out in notes 18, 19, 20, 22 and 26 respectively, during the Relevant Periods, the Retail Group had entered the following related party transactions:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Service fee income received from fellow subsidiaries	–	165	3,012
Purchase of property and equipment and prepaid lease payments from immediate holding company	48,000	–	–
Consideration received for disposal of property and equipment	9,801	–	–

During the year ended 31 December 2006, 2007 and 2008, compensation of key management personnel represented Directors' remuneration which is disclosed in note 9. The Director's remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experience of individuals and market trends.

## 28. Loss (earnings) per share

Loss (earnings) per share is not presented herein as such information is not considered meaningful for the purpose of this report.

**(B) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Retail Group, CRM(HK) or any of the companies comprising the Retail Group in respect of any period subsequent to 31 December 2008.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED  
GROUP****1. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP****(a) Introduction**

The unaudited pro forma balance sheet of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the equity interest in CASH Retail Management (HK) Limited (“CRM(HK)”) and its subsidiaries (“Acquisition”).

The unaudited pro forma balance sheet of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the acquisition took place on 31 December 2008.

The unaudited pro forma balance sheet of the Enlarged Group is based upon the audited consolidated balance sheet of the Group as at 31 December 2008, which has been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2008 set out in Appendix I to this circular and the audited consolidated balance sheet of CRM(HK) as at 31 December 2008 as extracted from the accountants’ report as set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction, and (ii) factually supportable.

The unaudited pro forma balance sheet of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma balance sheet of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2008. The unaudited pro forma balance sheet of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma balance sheet of the Enlarged Group should be read in conjunction with the historical information of the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2008 set out in Appendix I to this circular and other financial information included elsewhere in this circular.

The statement has been prepared by the Directors for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Enlarged Group following completion of the Acquisition.

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**
**(b) Unaudited pro forma consolidated balance sheet**

	The Group		CRM(HK)		Proforma adjustments		The completion of proposed transfer of remaining 40% equity interest in CRM(HK)		Pro Forma Enlarged Group
	as at 31 December 2008	as at 31 December 2008	as at 31 December 2008	as at 31 December 2008	The completion of proposed transfer of 60% equity interest in CRM(HK)	Notes	Sub-total	Notes	
	HK\$'000	HK\$'000	Sub-total	Sub-total	HK\$'000		HK\$'000	HK\$'000	HK\$'000
	Note (a)	Note (b)	HK\$'000	HK\$'000	Note (c)		HK\$'000	Note (c)	HK\$'000
<b>Non-current assets</b>									
Property and equipment	108,164	45,928	154,092				154,092		154,092
Prepaid lease payments	–	15,548	15,548				15,548		15,548
Deferred tax assets	–	2,000	2,000				2,000		2,000
Goodwill	4,933	–	4,933		87,155	d(v)	92,088	85,053	e(v)
Intangible assets	11,062	–	11,062				11,062		11,062
Other assets	132,718	–	132,718		(60,000)	d(i)	72,718		72,718
Loans receivable	192	–	192				192		192
Interests in associates	111,684	–	111,684				111,684		111,684
Loan to an associate	10,296	–	10,296				10,296		10,296
	<u>379,049</u>	<u>63,476</u>	<u>442,525</u>				<u>469,680</u>		<u>554,733</u>
<b>Current assets</b>									
Inventories	–	38,407	38,407				38,407		38,407
Accounts receivable	304,042	–	304,042				304,042		304,042
Amounts receivable on disposal of subsidiaries	171,498	–	171,498				171,498		171,498
Loans receivable	13,629	–	13,629				13,629		13,629
Prepayments, deposits and other receivables	22,864	34,479	57,343				57,343		57,343
Amount due from an associate	260	–	260				260		260
Amounts due from fellow subsidiaries	341	51,006	51,347				51,347		51,347
Tax recoverable	1,230	–	1,230				1,230		1,230
Investments held for trading	79,155	–	79,155				79,155		79,155
Deposits with brokers	2,730	–	2,730				2,730		2,730
Bank deposits subject to conditions	35,180	54,030	89,210				89,210		89,210
Bank balances – trust and segregated accounts	542,079	–	542,079				542,079		542,079
Bank balances (general accounts) and cash	175,201	37,786	212,987				212,987		212,987
	<u>1,348,209</u>	<u>215,708</u>	<u>1,563,917</u>				<u>1,563,917</u>		<u>1,563,917</u>
<b>Current liabilities</b>									
Accounts payable	689,175	97,528	786,703				786,703		786,703
Accrued liabilities and other payables	46,482	28,489	74,971				74,971		74,971
Derivative financial liabilities	3,067	–	3,067				3,067		3,067
Amounts due to fellow subsidiaries	–	34,618	34,618				34,618		34,618
Taxation payable	20,172	2,031	22,203				22,203		22,203
Obligations under finance leases – amount due within one year	127	–	127				127		127
Bank borrowings – amount due within one year	195,253	79,066	274,319				274,319		274,319
Loan from a minority shareholder	27,437	–	27,437				27,437		27,437
Other financial liabilities	–	–	–		58,754	d(iv)	58,754	(58,754)	e(iii)
	<u>981,713</u>	<u>241,732</u>	<u>1,223,445</u>				<u>1,282,199</u>		<u>1,223,445</u>
<b>Net current assets (liabilities)</b>	<u>366,496</u>	<u>(26,024)</u>	<u>340,472</u>				<u>281,718</u>		<u>340,472</u>
	<u>745,545</u>	<u>37,452</u>	<u>782,997</u>				<u>751,398</u>		<u>895,205</u>

**APPENDIX III**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group as at 31 December 2008 HK\$'000 Note (a)	CRM(HK) as at 31 December 2008 HK\$'000 Note (b)	Proforma adjustments			Sub-total HK\$'000	The completion of proposed transfer of remaining 40% equity interest in CRM(HK) HK\$'000 Note (c)	Notes	Pro Forma Enlarged Group HK\$'000
			Sub-total HK\$'000	The completion of proposed transfer of 60% equity interest in CRM(HK) HK\$'000 Note (c)	Notes				
<b>Capital and reserves</b>									
Share capital	41,140	-	41,140			41,140		41,140	
Convertible loan note equity reserve	-	-	-	4,100	d(i)	4,100	4,600 e(i)	8,700	
Reserves	648,153	37,452	685,605	(37,452)	d(ii)	648,153		648,153	
Equity attributable to equity holders of the Company	689,293	37,452	726,745			693,393		697,993	
Minority interests	16,762	-	16,762	14,981	d(iii)	31,743	(14,981) e(i)	16,762	
Other reserves	-	-	-	(79,394)	d(vi)	(79,394)	79,394 e(ii)	-	
	<u>706,055</u>	<u>37,452</u>	<u>743,507</u>			<u>645,742</u>		<u>714,755</u>	
<b>Non-current liabilities</b>									
Deferred tax liabilities	2,342	-	2,342			2,342		2,342	
Obligations under finance leases – amount due after one year	315	-	315			315		315	
Bank borrowings – amount due after one year	36,833	-	36,833			36,833		36,833	
Convertible loan note – amount due after one year	-	-	-	66,166	d(i)	66,166	74,794 e(i)	140,960	
	<u>39,490</u>	<u>-</u>	<u>39,490</u>			<u>105,656</u>		<u>180,450</u>	
	<u>745,545</u>	<u>37,452</u>	<u>782,997</u>			<u>751,398</u>		<u>895,205</u>	

**Notes:**

- (a) Figures extracted from 2008 annual report of the Company.
- (b) Figures extracted from consolidated financial statements of CRM(HK) as set out in Appendix II to this circular after reclassification of certain accounts to align the presentation with that of the Group.
- (c) The adjustments are made assuming: (1) the carrying amounts of the assets and liabilities of CRM(HK) as at 31 December 2008 approximate their then fair value; (2) no material intangible assets are identified in the business of CRM(HK) to be acquired; and (3) the transaction costs involved are insignificant.
- (d) The adjustments in connection with the acquisition of 60% equity interest in CRM(HK) represent:
- (i) (1) HK\$60,000,000 cash consideration which was paid by the Company during the year and recorded as other assets as at 31 December 2008; (2) the issuance of Convertible Notes of principal amount of HK\$109,816,000 by the Company (After adjustment for the amount due from the Group to the subsidiaries of CRM(HK) as at 31 December 2008). Upon the application of Hong Kong Accounting Standard 32 Financial Instruments: Presentation (“HKAS 32”), the Convertible Notes is split between the liability and equity elements, amounting to HK\$66,166,000 and HK\$4,100,000 respectively. The liability and equity elements of the Convertible Notes are measured at fair value and the valuation is determined by an independent professional valuer in accordance with generally accepted pricing models;
- (ii) elimination of pre-acquisition reserves of CRM(HK) and its subsidiaries as at 31 December 2008 amounting to HK\$37,452,000;

- (iii) recognition of 40% minority interest of CRM(HK) and its subsidiaries as at 31 December 2008 amounting to HK\$14,981,000;
  - (iv) the net amount of the followings:
    - (1) the value of the Purchaser Call Option (which comprises a purchaser call option and a vendor put option, the arrangement of which is in effect a forward) to acquire the remaining 40% equity interest in CRM(HK) at a fair value amounting to approximately HK\$20,640,000. This amount is determined by an independent professional valuer in accordance with Black-Scholes option pricing model, assuming, inter alia, the business value of 40% interest of CRM(HK) and its subsidiaries is approximately HK\$117.6 million while the estimated fair value of the Convertible Notes to be issued upon Second Completion is approximately HK\$79.4 million; and
    - (2) a gross liability amounting to HK\$79,394,000 recognised as the Group now has an obligation under the vendor put option (embedded in the Purchaser Call Option as discussed above) to deliver the Convertible Notes with principal amount of HK\$124,136,000 in connection with the acquisition of the remaining 40% equity interest in CRM(HK);
  - (v) The Group will apply the purchase method to account for the acquisition of CRM(HK). In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of CRM(HK) and its subsidiaries will be recorded at fair values at the date of the completion. A goodwill of HK\$87,155,000, representing the excess of the consideration for the acquisition of 60% interest in CRM(HK) amounting to HK\$130,266,000 (see note (d) (i) for details) over 60% of net asset value of CRM(HK) and its subsidiaries amounting to HK\$22,471,000 and the fair value of the Purchaser Call Option of HK\$20,640,000 as discussed above in note (iv) (1), will be recognised. The Group will engage independent professional valuer to assess the fair value of the Convertible Notes to be issued by the Company and the Purchaser Call Option as well as the identifiable assets, liabilities and contingent liabilities of CRM(HK) and its subsidiaries at the date of completion for the purpose of the preparation of the consolidated financial statements of the Company; and
  - (vi) the recording of an equity element as a result of the vendor put option as discussed in note (d) (iv) (2) above.
- (e) The adjustments in connection with the acquisition of the remaining 40% equity interest in CRM(HK) represent:
- (i) the issuance of Convertible Notes of principal amount of HK\$124,136,000 by the Company. Upon the application of HKAS32, the Convertible Notes is split between the liability and equity elements, amounting to HK\$74,794,000 and HK\$4,600,000 respectively. The liability and equity elements of the Convertible Notes are measured at fair value and the valuation is determined by an independent professional valuer in accordance with generally accepted pricing models.
  - (ii) reversal of 40% minority interest of CRM(HK) and its subsidiaries previously recognised in note (d) (iii) and reversal of the adjustment in (d) (vi) upon the acquisition of 40% remaining interest in CRM(HK);
  - (iii) reversal of the adjustments previously recognised in note (d) (iv) above upon exercise of the Purchaser Call Option for the acquisition of 40% remaining interest in CRM(HK); and
  - (iv) An additional goodwill of HK\$85,053,000, representing the excess of the consideration for the acquisition of the remaining 40% interest in CRM(HK) amounting to HK\$100,034,000 (including the issuance of Convertible Notes as detailed in note (e) (i) and the Purchaser Call Option as detailed in note (d) (iv) (1) above) over 40% of net asset value of CRM(HK) and its subsidiaries amounting to HK\$14,981,000, will be recognised. The Group will engage independent professional valuer to assess the fair value of the Convertible Notes to be issued by the Company, as the identifiable assets, liabilities and contingent liabilities of CRM(HK) and its subsidiaries and the Purchaser Call Option at the date of completion for the purpose of the preparation of the consolidated financial statements of the Company.
- (f) Upon the full conversion of the Convertible Notes by CASH, the share capital of the Company will be increased by approximately HK\$15.8 million.

**2. UNAUDITED PRO FORMA INCOME STATEMENT AND UNAUDITED PRO FORMA  
CASH FLOW STATEMENT OF THE ENLARGED GROUP****(a) Introduction**

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group have been prepared to illustrate the effect of the Acquisition. The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group have been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had taken place at 1 January 2008.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group are based upon the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2008, which have been extracted from the audited consolidated financial statements of the Group for year ended 31 December 2008 set out in Appendix I to this circular and the audited consolidated income statement and audited consolidated cash flow statement of CRM(HK) for the year ended 31 December 2008 as extracted from the accountants' report as set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction and (ii) factually supportable.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group are based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group do not purport to describe the actual results and cash flow of the Enlarged Group that would have been attained had the Acquisition been completed at 1 January 2008 or to predict the future results and cash flow of the Enlarged Group.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Enlarged Group should be read in conjunction with the historical information of the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2008 set out in Appendix I to this circular and other financial information included elsewhere in this circular.

The statements have been prepared by the Directors for illustrative purposes only and because of their nature, they may not give a true picture of the results and the cash flow of the Enlarged Group had the Acquisition actually occurred at the beginning of the year ended 31 December 2008 or for any future period.

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**
**(b) Unaudited pro forma income statement**

	The Group for the year ended 31 December 2008 <i>HK\$'000</i> <i>Note (a)</i>	CRM(HK) for the year ended 31 December 2008 <i>HK\$'000</i> <i>Note (b)</i>	Sub-total <i>HK\$'000</i>	The completion of proposed transfer of 60% equity interest in CRM(HK) <i>HK\$'000</i> <i>Note (c)</i>	<i>Notes</i>	Sub-total <i>HK\$'000</i>	The completion of proposed transfer of remaining 40% equity interest in CRM(HK) <i>HK\$'000</i> <i>Note (d)</i>	<i>Notes</i>	Pro Forma Enlarged Group <i>HK\$'000</i>
Revenue	324,651	863,997	1,188,648			1,188,648			1,188,648
Cost of sales	–	(491,172)	(491,172)			(491,172)			(491,172)
Gross profit	324,651	372,825	697,476			697,476			697,476
Other operating income	5,260	7,621	12,881			12,881			12,881
Salaries, allowances and commission	(151,110)	(101,206)	(252,316)			(252,316)			(252,316)
Other operating and administrative expenses	(100,649)	(223,718)	(324,367)			(324,367)			(324,367)
Depreciation	(15,655)	(16,362)	(32,017)			(32,017)			(32,017)
Finance cost	(20,134)	(3,226)	(23,360)	(14,199)	(c)(i)	(37,559)	(16,051)	(d)(i)	(53,610)
Net losses on financial assets at fair value through profit or loss	(172,117)	–	(172,117)			(172,117)			(172,117)
Net increase in fair value on derivative financial instruments	8,734	–	8,734			8,734			8,734
Share of results of an associate	39,096	–	39,096			39,096			39,096
Loss (profit) before taxation	(81,924)	35,934	(45,990)	(14,199)		(60,189)	(16,051)		(76,240)
Taxation charge	(4,294)	(4,900)	(9,194)			(9,194)			(9,194)
Loss (profit) for the year	<u>(86,218)</u>	<u>31,034</u>	<u>(55,184)</u>	<u>(14,199)</u>		<u>(69,383)</u>	<u>(16,051)</u>		<u>(85,434)</u>
Attributable to :									
Equity holders of the Company	(99,595)	31,034	(68,561)	(26,613)	(c)(iii)	(95,174)	(3,637)	(d)(iii)	(98,811)
Minority interest	13,377	–	13,377	12,414	(c)(ii)	25,791	(12,414)	(d)(ii)	13,377
	<u>(86,218)</u>	<u>31,034</u>	<u>(55,184)</u>	<u>(14,199)</u>		<u>(69,383)</u>	<u>(16,051)</u>		<u>(85,434)</u>

*Notes:*

- (a) Figures extracted from 2008 annual report of the Company.
- (b) Figures extracted from consolidated financial statements of CRM(HK) as set out in Appendix II to this circular after reclassification of certain accounts to align the presentation with that of the Group.
- (c) The adjustments represent:
  - (i) the finance costs, representing the effective interest of Convertible Notes to be issued after the First Completion, assuming the fair value of the liability component of Convertible Notes as at 1 January 2008 approximately their fair values as at 31 December 2008;
  - (ii) the profit attributable to minority interests of CRM(HK) upon the completion of proposed transfer of 60% equity interest in CRM(HK) for the year ended 31 December 2008; and
  - (iii) the net amount of (i) and (ii) above.
- (d) The adjustments represent:
  - (i) the finance costs, representing the effective interest of the Convertible Notes to be issued after the Second Completion, assuming the fair value of the liability component of the relevant Convertible Notes as at 1 January 2008 approximate their fair values as at 31 December 2008;
  - (ii) the elimination of minority interests of CRM(HK) after the completion of proposed transfer of remaining 40% equity interest in CRM(HK); and
  - (iii) the net amount of (i) and (ii) above.
- (e) The adjustments in notes (c)(i) and (d)(i) will have a continuing effect to the Enlarged Group before the full conversion of the Convertible Notes. The other proforma adjustments have no continuing effect to the Enlarged Group.

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**
**(c) Unaudited pro forma consolidated cash flow statement**

	The Group for the year ended 31 December 2008 <i>HK\$ '000</i> <i>Note (a)</i>	CRM(HK) for the year ended 31 December 2008 <i>HK\$ '000</i> <i>Note (b)</i>	Proforma adjustments			Sub-total <i>HK\$ '000</i>	The completion of proposed transfer of 60% equity interest in CRM(HK) <i>HK\$ '000</i> <i>Note (c)</i>	Notes	Sub-total <i>HK\$ '000</i>	The completion of proposed transfer of remaining 40% equity interest in CRM(HK) <i>HK\$ '000</i> <i>Note (d)</i>	Notes	Pro Forma Enlarged Group <i>HK\$ '000</i>
			Sub-total <i>HK\$ '000</i>	The completion of proposed transfer of 60% equity interest in CRM(HK) <i>HK\$ '000</i> <i>Note (c)</i>	Notes							
Operating activities												
(Loss) profit before taxation	(81,924)	35,934	(45,990)	(14,199)	<i>c(i)</i>	(60,189)	(16,051)	<i>d(i)</i>	(76,240)			
Adjustments for:												
Allowance of bad and doubtful debts	900	–	900			900			900			
Bad debt on accounts and loans receivable written off directly	177	–	177			177			177			
Amortisation of prepaid lease payments	–	415	415			415			415			
Depreciation of property and equipment	15,655	16,362	32,017			32,017			32,017			
Allowance of inventory obsolescence	–	2,044	2,044			2,044			2,044			
Interest income arising from accounts receivable on disposal of subsidiaries	(8,795)	–	(8,795)			(8,795)			(8,795)			
Interest expense	20,134	3,226	23,360	14,199	<i>c(ii)</i>	37,559	16,051	<i>d(ii)</i>	53,610			
Interest income	–	(942)	(942)			(942)			(942)			
Fair value change on investment property	(823)	–	(823)			(823)			(823)			
Loss on disposal of intangible assets	830	–	830			830			830			
Loss on disposal of property and equipment	–	187	187			187			187			
Gain on disposal of property and equipment	(35)	–	(35)			(35)			(35)			
Realised loss on equity- linked structured deposits	29,905	–	29,905			29,905			29,905			
Share of profit of an associate	(39,096)	–	(39,096)			(39,096)			(39,096)			
Revaluation deficit on buildings	–	1,388	1,388			1,388			1,388			

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2008 <i>HK\$ '000</i> <i>Note (a)</i>	CRM(HK) for the year ended 31 December 2008 <i>HK\$ '000</i> <i>Note (b)</i>	Proforma adjustments		Sub-total <i>HK\$ '000</i>	The completion of proposed transfer of 60% equity interest in CRM(HK) <i>HK\$ '000</i> <i>Note (c)</i>	Notes	Sub-total <i>HK\$ '000</i>	The completion of proposed transfer of remaining 40% equity interest in CRM(HK) <i>HK\$ '000</i> <i>Note (d)</i>	Pro Forma Enlarged Group <i>HK\$ '000</i>
			Sub-total <i>HK\$ '000</i>	Notes						
Operating cash (outflows)										
inflow before movements										
in working capital	(63,072)	58,614	(4,458)		(4,458)				(4,458)	
Increase in inventories	–	(5,976)	(5,976)		(5,976)				(5,976)	
Decrease (increase)										
in accounts receivable	627,376	(52)	627,324		627,324				627,324	
Decrease in loan receivables	14,322	–	14,322		14,322				14,322	
Decrease (increase) in										
prepayments, deposits										
and other receivables	5,354	(7,110)	(1,756)		(1,756)				(1,756)	
Decrease in amounts due										
from										
fellow subsidiaries	440	–	440		440				440	
Increase in investments held										
for trading	(28,143)	–	(28,143)		(28,143)				(28,143)	
Increase in derivative										
financial liabilities	(8,734)	–	(8,734)		(8,734)				(8,734)	
Decrease in deposits with										
brokers	64,902	–	64,902		64,902				64,902	
Decrease in bank balances										
– trust and segregated										
accounts	386,448	–	386,448		386,448				386,448	
Decrease in equity-linked										
structured deposits	28,507	–	28,507		28,507				28,507	
Decrease in accounts										
payable	(690,346)	(2,399)	(692,745)		(692,745)				(692,745)	
Decrease in accrued										
liabilities and other										
payables	(22,052)	(10,511)	(32,563)		(32,563)				(32,563)	
Net cash from operations	315,002	32,566	347,568		347,568				347,568	
Income taxes paid	(4,003)	(5,069)	(9,072)		(9,072)				(9,072)	
Net cash from operating										
activities	310,999	27,497	338,496		338,496				338,496	

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2008 HK\$'000 Note (a)	CRM(HK) for the year ended 31 December 2008 HK\$'000 Note (b)	Proforma adjustments		Sub-total HK\$'000	The completion of proposed transfer of 60% equity interest in CRM(HK) HK\$'000 Note (c)	Notes	Sub-total HK\$'000	The completion of proposed transfer of remaining 40% equity interest in CRM(HK) HK\$'000 Note (d)	Notes	Pro Forma Enlarged Group HK\$'000
			Sub-total HK\$'000	Notes							
Investing activities											
Interest income	–	942	942		942						942
Acquisition of subsidiaries	(105)		(105)		(105)						(105)
Disposal of subsidiaries	–	(6,663)	(6,663)		(6,663)						(6,663)
Increase in bank deposits subject to conditions	(6,505)	(2,214)	(8,719)		(8,719)						(8,719)
Statutory and other deposits paid	(311)	–	(311)		(311)						(311)
Purchase of property and equipment	(98,254)	(13,586)	(111,840)		(111,840)						(111,840)
Proceeds on disposal of property and equipment	35	–	35		35						35
Proceeds on disposal of intangible assets	500	–	500		500						500
Proceeds on disposal of investment property	5,823	–	5,823		5,823						5,823
Deposits paid for acquisition of fellow subsidiaries	(60,000)	–	(60,000)	36,674	c(iii)	(23,326)					(23,326)
Repayment from fellow subsidiaries	–	1,014	1,014		1,014						1,014
Net cash used in investing activities	(158,817)	(20,507)	(179,324)	36,674		(142,650)					(142,650)
Financing activities											
Increase in bank overdrafts	12,957	–	12,957		12,957						12,957
(Decrease) increase in bank loans	(76,613)	–	(76,613)		(76,613)						(76,613)
New loans raised	–	286,845	286,845		286,845						286,845
Repayment of borrowings	–	(283,733)	(283,733)		(283,733)						(283,733)
Repayment of loan payable	(35,853)	–	(35,853)		(35,853)						(35,853)
Payment of repurchase of shares	(10,904)	–	(10,904)		(10,904)						(10,904)
Proceeds on issue of shares	528	–	528		528						528
Share issue expenses	(40)	–	(40)		(40)						(40)
Dividends paid	(103,566)	–	(103,566)		(103,566)						(103,566)
Interests paid on bank borrowings	(20,125)	(3,226)	(23,351)		(23,351)						(23,351)
Interests paid on obligations under finance leases	(9)	–	(9)		(9)						(9)
Interests paid on convertible notes	–	–	–	(2,196)	c(iv)	(2,196)	(2,482)	d(iii)			(4,678)
Repayment of obligations under finance leases	(103)	–	(103)		(103)						(103)
Repayment to fellow subsidiaries	–	(5,803)	(5,803)		(5,803)						(5,803)
Net used in financing activities	(233,728)	(5,917)	(239,645)	(2,196)		(241,841)	(2,482)				(244,323)

**APPENDIX III**

**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

	The Group		Proforma adjustments			The completion of proposed transfer of remaining 40% equity interest in CRM(HK)		Pro Forma Enlarged Group HK\$'000
	for the year ended 31 December 2008	CRM(HK) for the year ended 31 December 2008	Sub-total HK\$'000	The completion of proposed transfer of 60% equity interest in CRM(HK) HK\$'000	Notes	Sub-total HK\$'000	Notes	
	HK\$'000 Note (a)	HK\$'000 Note (b)						
Net (decrease) increase in cash and cash equivalents	(81,546)	1,073	(80,473)	34,478		(45,995)	(2,482)	(48,477)
Cash and cash equivalents at beginning of the year	256,668	36,674	293,342	(36,674)	c(ii)	256,668		256,668
Effect of change in foreign exchange rates	79	39	118			118		118
Cash and cash equivalents at end of the year	<u>175,201</u>	<u>37,786</u>	<u>212,987</u>	<u>(2,196)</u>		<u>210,791</u>	<u>(2,482)</u>	<u>208,309</u>

*Notes:*

- (a) Figures extracted from 2008 annual report of the Company.
- (b) Figures extracted from consolidated financial statements of CRM(HK) as set out in Appendix II to this circular after reclassification of certain accounts to align the presentation with that of the Group.
- (c) The adjustments represent:
- (i) the interest expenses of the Convertible Notes for the transfer of 60% equity interest in CRM(HK) as of 1 January 2008;
  - (ii) the reversal of interest expenses of the Convertible Notes for the transfer of 60% equity interest in CRM(HK) as of 1 January 2008;
  - (iii) the true up of the net cash outflow from the acquisition of 60% interest in CRM(HK) and its subsidiaries of HK\$23,326,000; and
  - (iv) interest payment on 2% coupon on the Convertible Notes for the transfer of 60% equity interest in CRM(HK) as of 1 January 2008 of HK\$2,196,000.
- (d) The adjustments represent:
- (i) the interest expenses of the Convertible Notes for the transfer of remaining 40% equity interest in CRM(HK) as of 1 January 2008;
  - (ii) the reversal of interest expenses of the Convertible Notes for the transfer of remaining 40% equity interest in CRM(HK) as of 1 January 2008; and
  - (iii) interest payment on 2% coupon on the Convertible Notes for the transfer of remaining 40% equity interest in CRM(HK) as of 1 January 2008 of HK\$2,482,000.
- (e) Other than adjustment in note (c)(iii) above which does not have a continuing effect to the Enlarged Group before the full Conversion of Convertible Notes, the other adjustments have continuing effect to the Enlarged Group.

**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The following is the full text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular:

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP****TO THE DIRECTORS OF CASH FINANCIAL SERVICES GROUP LIMITED**

We report on the unaudited pro forma financial information of CASH Financial Services Group Limited (“Company”) and its subsidiaries (hereinafter collectively referred to as “Group”) and CASH Retail Management (HK) Limited and its subsidiaries, which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the Hong Kong retail business of Celestial Asia Securities Holdings Limited might have affected the financial information presented, for inclusion in Appendix III of the circular dated 26 May 2009 (“Circular”). The basis of preparation of the unaudited pro forma financial information is set out on page 169 to 179 of the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified

Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 31 December 2008 or any future date:  
or
- the results and cash flows of the Group for the year ended 31 December 2008 or any future period.

### **Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

26 May 2009

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept under section 352 of the SFO, or (c) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### A. The Company

#### *Long positions in the ordinary Shares*

Name	Capacity	Number of Shares			Shareholding (%)
		Personal	Family	Other interest	
Kwan Pak Hoo Bankee	Beneficial owner and founder of a discretionary trust	8,168,000	–	315,121,198*	52.39
Chan Chi Ming Benson	Beneficial owner	10,000,000	–	–	1.62
Law Ping Wah Bernard	Beneficial owner	13,771,120	–	–	2.23
Cheng Man Pan Ben	Beneficial owner	5,334,000	–	–	0.86
Yuen Pak Lau Raymond	Beneficial owner and family interest	5,000,000	10,000	–	0.81
Lo Kwok Hung John	Beneficial owner	169,000	–	–	0.03
		42,442,120	10,000	315,121,198	57.94

\* The Shares were held as to 298,156,558 Shares by CIGL, a wholly-owned subsidiary of Praise Joy Limited (which was 100% beneficially owned by CASH), and as to 16,964,640 Shares by Cash Guardian. Pursuant to the SFO, CASH was owned as to approximately 48.32% by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). Jeffnet Inc 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. 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 heading of "Substantial Shareholders" in this section below.

## B. Associated corporation (within the meaning of the SFO)

**CASH**

## (a) Long positions in the ordinary shares of HK\$0.10 each

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	66,398,512*	36.78
Law Ping Wah Bernard	Beneficial owner	6,784,060	–	3.76
Cheng Man Pan Ben	Beneficial owner	12,700	–	0.01
Yuen Pak Lau Raymond	Beneficial owner	650,000	–	0.36
		<u>7,446,760</u>	<u>66,398,512</u>	<u>40.91</u>

\* The shares were held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the heading of “Substantial Shareholders” in this section below.

## (b) Long positions in the underlying shares

## (i) Options under share option scheme

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options outstanding	Percentage to issued shares (%)
Kwan Pak Hoo Bankee	6/6/2007	6/6/2007 – 31/5/2009	2.45	500,000	0.28
	13/3/2009	13/3/2009 – 31/3/2011	1.13	1,800,000	0.99
Chan Chi Ming Benson	13/3/2009	13/3/2009 – 31/3/2011	1.13	1,500,000	0.83
	6/6/2007	6/6/2007 – 31/5/2009	2.45	500,000	0.28
Law Ping Wah Bernard	13/3/2009	13/3/2009 – 31/3/2011	1.13	1,800,000	0.99
	6/6/2007	6/6/2007 – 31/5/2009	2.45	1,300,000	0.72
Cheng Man Pan Ben	13/3/2009	13/3/2009 – 31/3/2011	1.13	1,000,000	0.55
	6/6/2007	6/6/2007 – 31/5/2009	2.45	500,000	0.28
Yuen Pak Lau Raymond	13/3/2009	13/3/2009 – 31/3/2011	1.13	1,000,000	0.55
				<u>9,900,000</u>	<u>5.47</u>

## (ii) Convertible note

Name	Date of convertible note	Exercise period	Conversion price per share (HK\$)	Number of underlying shares	Percentage to issued shares (%)
Kwan Pak Hoo Bankee	17/2/2009	17/8/2009 – 31/12/2011	1.00	<u>43,243,000</u>	<u>23.96</u>

*Note:* The convertible note in the outstanding amount of HK\$43,243,000 was held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the heading of “Substantial Shareholders” in this section below.

## (c) Aggregate long positions in the ordinary shares and the underlying shares

Name	Number of shares	Number of underlying shares	Aggregate in number	Percentage to issued shares (%)
Kwan Pak Hoo Bankee	66,398,512	45,543,000	111,941,512	62.01
Chan Chi Ming Benson	–	1,500,000	1,500,000	0.83
Law Ping Wah Bernard	6,784,060	2,300,000	9,084,060	5.03
Cheng Man Pan Ben	12,700	2,300,000	2,312,700	1.28
Yuen Pak Lau Raymond	650,000	1,500,000	2,150,000	1.19
	<u>73,845,272</u>	<u>53,143,000</u>	<u>126,988,272</u>	<u>70.34</u>

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive or their Associates had any interests and 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) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept under section 352 of the SFO, or (c) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group and any options in respect of such capital, or were otherwise notified to the Company and recorded in the register required to be kept under section 336 of the SFO were as follows:

#### A. Long positions in the ordinary Shares

Name	Capacity	Number of Shares	Shareholding (%)
Jeffnet Inc (“Jeffnet”) <i>(Note (1))</i>	Trustee of a discretionary trust	315,121,198	51.06
Cash Guardian <i>(Note (1))</i>	Interest in a controlled corporation	315,121,198	51.06
CASH <i>(Note (1))</i>	Interest in a controlled corporation	298,156,558	48.32
Praise Joy Limited <i>(Note (1))</i>	Interest in a controlled corporation	298,156,558	48.32
CIGL <i>(Note (1))</i>	Beneficial owner	298,156,558	48.32
Mr Al-Rashid, Abdulrahman Saad (“Mr Al-Rashid”) <i>(Note (2))</i>	Interest in a controlled corporation	64,372,480	10.43
ARTAR <i>(Note (2))</i>	Beneficial owner	64,372,480	10.43

*Notes:*

- (1) This refers to the same number of 315,121,198 Shares which were held as to 298,156,558 Shares by CIGL, a wholly-owned subsidiary of Praise Joy Limited (which was 100% beneficially owned by CASH) and as to 16,964,640 Shares by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). CASH owned as to approximately 48.32% by Cash Guardian. Jeffnet Inc held these Shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in all the Shares held by CIGL through CASH.
- (2) This refers to the same number of 64,372,480 Shares held by ARTAR. ARTAR was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in the Shares held by ARTAR.

- (3) Mr Kwan (a Director whose interest is not shown in the above table) was interested and/or deemed to be interested in a total of 323,289,198 Shares (52.39%), which were held as to 298,156,558 Shares by CIGL, as to 16,964,640 Shares by Cash Guardian and as to 8,168,000 Shares in his personal name. Details of his interest are set out under the heading of “Directors’ Interests” in this section.

**B. Long positions in the ordinary shares of subsidiary of the Enlarged Group**

Name of subsidiary	Name of shareholder	Number of shares	Shareholding (%)
Marvel Champ Investments Limited	Smooth Joy Investments Limited	35	35.00

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, no other parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group and any options in respect of such capital, or were otherwise notified to the Company and recorded in the register required to be kept under section 336 of the SFO.

**4. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or their respective Associates had any interest in a business which competes or may compete with the business of the Group.

**5. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)).

**6. INTEREST OF DIRECTORS IN THE ENLARGED GROUP’S ASSETS**

Since 31 December 2008, the date to which the latest published audited accounts of the Group have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group.

**7. INTERESTS OF DIRECTORS IN CONTRACTS**

The Directors confirm that there is no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Enlarged Group.

**8. LITIGATION OF THE ENLARGED GROUP**

The following set out the outstanding litigation, arbitration or claims involved by the Enlarged Group of material importance:

- (1) In 2003, Ka Chee Company Limited instituted a winding-up proceedings against Celestial (International) Securities & Investment Limited (“CISI”), a subsidiary of the Company, for an amount of HK\$1,662,598. A winding-up order was made by the court on 13 July 2005, the liquidator has been appointed to wind-up CISI, and the winding-up proceedings are still in progress.

Save as disclosed above, no member of the Enlarged Group is involved in any litigation or arbitration or claims of material importance and no litigation or arbitration or claim of material importance of the Company to be pending or threatened by or against any member of the Enlarged Group as at the Latest Practicable Date.

**9. MATERIAL CONTRACTS**

The following contracts are contracts that are or may be material, not being contracts entered into during the ordinary course of business, and have been entered into by the Enlarged Group within two years preceding the Latest Practicable Date:

- (a) the shareholders’ agreement dated 27 June 2007 entered into between, among others, Marvel Champ Investments Limited (a 65%-owned subsidiary of the Company), Nanyang Industrial (China) Limited and Fit Team Holdings Limited (both are independent third parties) in relation to the formation of a joint venture associate with a total maximum capital commitment of RMB450 million (approximately HK\$459.6 million) in equal share for the acquisition and management of a property developed in the PRC;
- (b) the top up agreement dated 24 July 2007 entered into between CASH, Cash Guardian and Celestial Securities Limited (a wholly-owned subsidiary of the Company) as the placing agent in relation to (i) the placing of 130,300,000 issued shares in CASH held by Cash Guardian by Celestial Securities Limited to certain placees (independent third parties) at the placing price of HK\$2.02 per share and (ii) the subscription by Cash Guardian for 130,300,000 new top up shares in CASH at the top up price of HK\$2.02 per share;
- (c) the agreement dated 24 July 2007 entered into among CASH, Celestial Securities Limited as the placing agent and Cash Guardian as the grantee in relation to the grant of unlisted green-shoe by CASH to Cash Guardian and certain placees to subscribe up to HK\$364,206,000 in aggregate for shares in CASH at the exercise price of HK\$2.02 per share;
- (d) the underwriting agreement dated 27 September 2007 entered into between CASH and the Company in relation to the underwriting for a 5-for-2 rights issue of the Company at the subscription price of HK\$0.40 per share;

- (e) the S&P Agreement (incorporating the proposed issue of the Convertible Note(s)) and the Agreements;
- (f) the two letters of agreements dated 18 February 2009 entered into between Celestial Financial Services Limited (a wholly-owned subsidiary of the Company) as purchaser with Mr Wong Tat Tung Dennis and Ms Kam Chi Wan Sandy (connected persons of the Company) as vendors respectively in relation to, inter alia, the acquisition of 300,000 shares (30% of the equity interest) in CFT at a total consideration of HK\$1.4 million; and
- (g) the underwriting agreement dated 20 February 2009 entered into between the Company and Elrond Limited (as underwriter) in relation to the underwriting for a 2-for-1 rights issue of the Company at the subscription price of HK\$0.45 per share.

#### 10. EXPERTS, QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts who have given opinion or advice which are contained in this circular:–

<b>Name</b>	<b>Qualification</b>
Grand Vinco Capital Limited, the Independent Financial Adviser	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu, the Accountants	Certified Public Accountants

As at the Latest Practicable Date, the Independent Financial Adviser and the Accountants were not interested beneficially in the shares in any member of the Enlarged Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

As at the Latest Practicable Date, the Independent Financial Adviser and the Accountants did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Enlarged Group or are proposed to be acquired or disposed of by or leased to the Enlarged Group since 31 December 2008, being the date up to which the latest published audited consolidated accounts of the Company were made up.

As at the Latest Practicable Date, the Independent Financial Adviser and the Accountants have given and have not withdrawn their written consents to the issue of this circular with the inclusion of and reference to their name and statements in the form and context in which it appears.

**11. MISCELLANEOUS**

- (a) The secretary of the Company is Ms Luke Wing Sheung Suzanne, *a fellow member of The Institute of Chartered Secretaries and Administrators.*
- (b) The head office and the principal place of business of the Company in Hong Kong are at 21/F Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The principal share registrars and transfer office of the Company in Bermuda are The Bank of Bermuda Limited at The Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda. The branch share registrars and transfer office of the Company in Hong Kong are Tricor Standard Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong during normal business hours on any day up to the holding of the SGM:–

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports and audited consolidated financial statements of the Group for the two financial years ended 31 December 2008;
- (c) the letter from Vinco Capital, the text of which is set out on pages 43 to 61 of this circular;
- (d) the accountants' report of the Retail Group, the text of which is set out in Appendix II to this circular;
- (e) the letter from the Accountants in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (f) the letters of consent from the Independent Financial Adviser and the Accountants referred to in paragraph headed "Experts, qualifications and consents" in this Appendix IV;
- (g) the material contracts referred to in paragraph headed "Material contracts" in this Appendix IV; and
- (h) the prospectus of the Company dated 19 March 2009 in relation to the Rights Issue and the circular of the Company dated 26 May 2009 in relation to the Transactions.

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## NOTICE OF SGM

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# CASH FINANCIAL SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 510)**

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of CASH Financial Services Group Limited (“Company”, together with its subsidiaries “Group”) will be held at 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong on 11 June 2009, Thursday, at 9:00 am for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

### ORDINARY RESOLUTIONS

1. **“THAT**, subject to and conditional upon the resolutions numbered 2(a) to (c) set out below being passed as ordinary resolutions,
  - (a) the sale and purchase agreement dated 19 December 2008 as supplemented by the supplemental agreement dated 21 May 2009 (“S&P Agreement”, copy of which together with the supplemental agreement dated 21 May 2009 have been produced to the Meeting and marked “A(1) and A(2)” and signed by the chairman of the Meeting for the purpose of identification) entered into between the Company and CASH Group Limited (“CGL”) (a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited (“CASH”, together with its subsidiaries “CASH Group”) (the controlling shareholder of the Company)) in relation to (i) the proposed acquisition of 60% of the equity shareholding interest in CASH Retail Management (HK) Limited (“CRM(HK)”, together with its subsidiaries “Retail Group”) and the loan due from the Retail Group to CGL, if any, by the Company from CGL, and (ii) the grant of a purchaser call option by CGL to the Company to acquire the remaining 40% of the equity shareholding interest in CRM(HK) exercisable at the discretion of both the Company or CGL, at a total adjusted consideration of HK\$310,340,000 and the issue of convertible note(s) (to be defined in resolution number 1(b) below) by the Company to CGL to settle part of the consideration, subject to the terms and conditions as set out in the S&P Agreement and described in the circular of the Company dated the same date of this notice, and the transactions contemplated thereunder, be and are hereby approved and the directors of the Company (“Directors”) be and are hereby authorised to do such things or make such arrangement as they may think fit to give effect to the completion of the S&P Agreement and the transactions contemplated thereunder; and

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## NOTICE OF SGM

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- (b) the issue of the convertible note(s) in the principal amount of approximately HK\$233,952,000 (subject to the actual amounts due from CASH Group to the Retail Group to be set off as at the date of completion of acquisition of 60% of the equity interest of CRM(HK) as described in 1(a) above (“Convertible Note(s)”), subject to the terms and conditions of the S&P Agreement and described in the circular of the Company dated the same date of this notice, and the transactions contemplated thereunder be and are hereby approved and the Directors be and are hereby authorised to allot and issue the new shares of HK\$0.10 each in the Company issuable upon the conversion of any part of the Convertible Note(s) during the conversion period.”
2. **“THAT**, subject to and conditional upon the resolutions numbered 1(a) to (b) set out above being passed as ordinary resolutions,
- (a) the first agreement (“First Agreement”, copy of which has been produced to the Meeting and marked “B” and signed by the chairman of the Meeting for the purpose of identification) dated 19 December 2008 entered into among the Company, CASH and CRM(HK) relating to provision of financial guarantee by each of the Company and/or CASH at an annual cap of up to HK\$200 million for assisting the Retail Group to obtain banking facilities from various banks for each of the three financial years ending 31 December 2011, subject to the terms and conditions as set out in the First Agreement and described in the circular of the Company dated the same date of this notice, and the transactions contemplated thereunder be and are hereby approved and the Directors be and are hereby authorised to do such things or make such arrangement as they may think fit to give effect to the completion of the First Agreement and the transactions contemplated thereunder;
- (b) the second agreement (“Second Agreement”, copy of which has been produced to the Meeting and marked “C” and signed by the chairman of the Meeting for the purpose of identification) dated 19 December 2008 entered into between CASH and CRM(HK) relating to sub-leasing arrangement by which CASH will sub-lease around 60% of floor area of its current office premises to the Retail Group as its office premises at an annual cap of rental (including rent and management fees) of up to HK\$5 million, in total, for each of the three financial years ending 31 December 2011, subject to the terms and conditions as set out in the Second Agreement and described in the circular of the Company dated the same date of this notice, and the transactions contemplated thereunder be and are hereby approved and the Directors be and are hereby authorised to do such things or make such arrangement as they may think fit to give effect to the completion of the Second Agreement and the transactions contemplated thereunder; and

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## NOTICE OF SGM

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- (c) the third agreement (“Third Agreement”, copy of which has been produced to the Meeting and marked “D” and signed by the chairman of the Meeting for the purpose of identification) dated 19 December 2008 entered into among the Company, CASH and CRM(HK) relating to provision of services, including sales and marketing, advertising, promotional, etc, by the Retail Group at an annual cap of services fees of up to HK\$2 million, in total, to each of the Group and CASH Group (not including the Group) for each of the three financial years ending 31 December 2011, subject to the terms and conditions as set out in the Third Agreement and described in the circular of the Company dated the same date of this notice, and the transactions contemplated thereunder be and are hereby approved and the Directors be and are hereby authorised to do such things or make such arrangement as they may think fit to give effect to the completion of the Third Agreement and the transactions contemplated thereunder.”

By order of the Board  
**Suzanne W S Luke**  
*Company Secretary*

Hong Kong, 26 May 2009

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business in Hong Kong:*  
21/F Low Block  
Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote on his behalf. A proxy need not be a member of the Company. A form of proxy is also enclosed for the meeting.
2. In order to be valid, the form of proxy must be deposited at the correspondence address of the Company at 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or other authority, not less than 48 hours before the time for holding the special general meeting or any adjournment thereof.