

directors' report

The Directors are pleased to present their report and the audited financial statements of the Company and of the Group for the nine months ended 31 December 2001.

CHANGE OF FINANCIAL YEAR END

The financial year end of the Company was changed from 31 March to 31 December of each year to get in line with that of its ultimate holding company. The audited financial statements as presented are made up of a nine month period from 1 April 2001 to 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activity of the Group is retailing of furniture and household items.

The Directors do not recommend the payment of any dividend.

RESULTS

The results of the Group for the nine months ended 31 December 2001 are set out in the consolidated income statement on page 16 of this Annual Report.

FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last four financial years ended 31 March 2001 and the nine months ended 31 December 2001 is set out on pages 42 to 43 of this Annual Report.

PROPERTY AND EQUIPMENT

Details of movements during the period in the property and equipment of the Company and the Group are set out in note 11 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 20 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 21 to the financial statements.

As at 31 December 2001, the reserves of the Company available for distribution to shareholders were approximately HK\$776,000 and the Company's share premium available for distribution in the form of fully paid bonus shares was HK\$80,764,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RAISE OF FUNDS AND USE OF PROCEEDS

During the nine months ended 31 December 2001, the Company had raised funds of approximately HK\$163.7 million by the following corporate issues:

1. In July 2001, the Company raised approximately HK\$25.2 million (before expenses) from the placing of 63,000,000 new shares of HK\$0.10 each in the Company at HK\$0.40 per share to several investors.
2. In November 2001, the Company raised approximately HK\$138.5 million (before expenses) by issuing 1,384,518,000 rights shares at the subscription price of HK\$0.10 by way of rights issue.

The funds raised during the period were mainly used for the development of the business in retailing of household and furniture items in both Hong Kong and China and as general working capital for the usual and ordinary business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases for the year attributable to the Group's largest suppliers are as follows:

Purchases	
– the largest supplier	12%
– five largest suppliers	33%

The Group had no major customer due to the nature of principal activities of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers above.

DIRECTORS

The Directors of the Company during the period and up to the date of this Annual Report were as follows:

Executive Directors:

Kwan Pak Hoo Bankee	
Li Yuen Cheuk Thomas	(appointed on 3 May 2001)
Leung Siu Pong James	
Law Tang Fai James	(appointed on 15 August 2001)
Lai Wai Kwong Daryl	(appointed on 16 October 2001)
Law Ping Wah Bernard	(appointed on 3 May 2001)
Kwok Oi Kuen Joan Elmond	(resigned on 3 May 2001 and re-appointed on 16 October 2001)
Khoo Ken Wee	(appointed on 3 May 2001)
Lin Chih Cheih Sidney	(resigned on 30 September 2001)
Liu Yuen Tai Gordon	(resigned on 13 August 2001)

Independent Non-executive Directors:

Lo Kwok Hung John	(appointed on 3 May 2001)
Lau Po Yee Edith	(appointed on 19 July 2001)
Ko Wai Ming Daniel	(resigned on 19 July 2001)
Lam Pak Gon	(resigned on 3 May 2001)

In accordance with Bye-law 115 of the Company's Bye-laws, Mr Law Tang Fai James, Mr Lai Wai Kwong Daryl and Ms Kwok Oi Kuen Joan Elmond shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any significant contract to the business of the Group to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party during the period.

PENSION SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of Mandatory Provident Fund Scheme Ordinance for all its employees and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. In respect of those employees who leave the Old Scheme before the employer's voluntary contributions (represents contributions in excess of the mandatory MPF requirements 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 to offset future employer's contributions. Contribution 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 administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employer's pension cost charged to the income statement amounted to HK\$2,731,000 for the nine months ended 31 December 2001.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, the Directors' interests in and rights to subscribe for the ordinary shares of HK\$0.10 each in the Company and shares in its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

1. Interest in shares or debentures

A. The Company

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	1,374,432,297*	66.18
Lai Wai Kwong Daryl	22,500,000	–	1.08

* The shares were held by Celestial Investment Group Limited ("CIGL"), a wholly-owned subsidiary of CASH. Mr Kwan is deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian Limited ("Cash Guardian") and Suffold Resources Limited ("Suffold") as disclosed in the "Substantial Shareholders" below.

B. Associated corporations (within the meaning of SDI Ordinance)

(a) CASH

Ordinary shares

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	3,200,225,537*	50.05
Li Yuen Cheuk Thomas	50,037,500	–	0.78
Law Ping Wah Bernard	71,156,000	–	1.11
Kwok Oi Kuen Joan Elmond	44,000,000	–	0.69
Khoo Ken Wee	170,000,000	–	2.66

* The shares are held as to 2,532,017,154 shares by Cash Guardian and as to 668,208,383 shares by Suffold. Mr Kwan is deemed to be interested in all these shares as a result of his interests in Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

Warrants carrying rights to subscribe for shares in CASH at a subscription price of HK\$0.65 each (subject to adjustment) during the period from 20 July 2000 to 31 July 2002 (both days inclusive)

Name	Amount of warrants beneficially held	
	Personal (HK\$)	Other interest (HK\$)
Kwan Pak Hoo Bankee	–	159,976,285.30*
Li Yuen Cheuk Thomas	1,952,437.50	–
Law Ping Wah Bernard	3,526,238.30	–
Kwok Oi Kuen Joan Elmond	260,000.00	–
Khoo Ken Wee	1,950,000.00	–

* The amount of warrants is held as to HK\$144,876,749.55 by Cash Guardian and as to HK\$15,099,535.75 by Suffold. Mr Kwan is deemed to be interested in all these warrants as a result of his interests in Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

(b) Interest in ordinary shares in CFSG

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	1,086,619,945*	53.92
Li Yuen Cheuk Thomas	3,003,750	–	0.15
Law Ping Wah Bernard	5,424,982	–	0.27
Kwok Oi Kuen Joan Elmond	400,000	–	0.02
Khoo Ken Wee	3,000,000	–	0.15

* The shares are held as to 1,009,264,783 shares by CIGL, as to 47,887,307 shares by Cash Guardian and as to 29,467,855 shares by Suffold. Mr Kwan is deemed to be interested in all these shares as a result of his interests in CIGL through CASH, Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

Save as disclosed above, as at 31 December 2001, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

2. Rights to acquire shares or debentures

A. Rights to acquire shares in the Company

Pursuant to the share option scheme of the Company, the Directors may, at their discretion, invite participants to take up options at a total consideration of HK\$1 to subscribe for ordinary shares in the Company. Further details of the share option scheme are set out in the "Share Option Scheme" below.

Details of movements in the share options to subscribe for shares of HK\$0.10 each in the Company granted to certain Directors were as follows:

Name	Date of grant	Number of options				outstanding as at 31 December 2001	Exercise period	Exercise price per share (HK\$)	notes
		outstanding as at 1 April 2001	granted during the period	lapsed during the period	adjusted due to rights issue				
Kwan Pak Hoo Bankee	12/6/2000	10,000,000	-	-	8,000,000	18,000,000	13/6/2000 - 12/6/2002	0.32	(1)
Li Yuen Cheuk Thomas	12/6/2001	-	8,000,000	-	6,400,000	14,400,000	16/6/2001 - 15/6/2003	0.21	(2)
Leung Siu Pong James	12/6/2000	2,000,000	-	-	1,600,000	3,600,000	13/6/2000 - 12/6/2002	0.32	(1) & (3)
Law Ping Wah Bernard	12/6/2001	-	4,000,000	-	3,200,000	7,200,000	16/6/2001 - 15/6/2003	0.21	(2)
Khoo Ken Wee	12/6/2001	-	4,000,000	-	3,200,000	7,200,000	16/6/2001 - 15/6/2003	0.21	(2)
Lin Chih Cheih Sidney	12/6/2000	10,000,000	-	(10,000,000)	-	-	13/6/2000 - 12/6/2002	0.58	
Liu Yuen Tai Gordon	12/6/2000	2,000,000	-	(2,000,000)	-	-	13/6/2000 - 12/6/2002	0.58	(3)
		24,000,000	16,000,000	(12,000,000)	22,400,000	50,400,000			

notes:

- (1) The initial exercise price was HK\$0.58. On 23 November 2001, the exercise price was adjusted to HK\$0.32 due to the rights issue.
- (2) The initial exercise price was HK\$0.39. On 23 November 2001, the exercise price was adjusted to HK\$0.21 due to the rights issue.
- (3) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (4) The closing price of the share immediately before the date of grant was HK\$0.77.
- (5) The lapsed options were due to cessation of employment of participants with the Group.
- (6) No option was exercised or cancelled during the period.
- (7) The fair value of the options granted by the Company to the Directors during the period totalled approximately HK\$4,053,000. The assumptions in arriving the fair value of the options are disclosed in the notes to the section under the heading "Share Option Scheme" below.

B. Rights to acquire shares in CASH

Pursuant to the share option scheme of CASH, its directors may, at their discretion, invite participants to take up options at a total consideration of HK\$1 to subscribe for ordinary shares in CASH.

Details of movements in the share options to subscribe for shares of HK\$0.10 each in CASH granted to certain Directors of the Company were as follows:

Name	Date of grant	Number of options		Exercise period	Exercise price per share (HK\$)
		outstanding as at 1 April 2001	outstanding as at 31 December 2001		
Kwan Pak Hoo Bankee	4/10/1999	40,000,000	40,000,000	8/4/2000 – 7/4/2002	0.59
Li Yuen Cheuk Thomas	4/10/1999	20,000,000	20,000,000	8/4/2000 – 7/4/2002	0.59
Law Ping Wah Bernard	4/10/1999	40,000,000	40,000,000	8/4/2000 – 7/4/2002	0.59
Kwok Oi Kuen Joan Elmond	4/10/1999	5,750,000	5,750,000	8/4/2000 – 7/4/2002	0.59
	6/11/2000	15,000,000	15,000,000	16/5/2001 – 15/5/2003	0.27
Khoo Ken Wee	4/10/1999	20,000,000	20,000,000	8/4/2000 – 7/4/2002	0.59
		140,750,000	140,750,000		

C. Rights to acquire shares in CFSG

Pursuant to the share option scheme of CFSG, its directors may, at their discretion, invite participants to take up options at a total consideration of HK\$1 to subscribe for ordinary shares in CFSG.

Details of movements in the share options to subscribe for shares of HK\$0.10 each in CFSG granted to certain Directors of the Company were as follows:

Name	Date of grant	Number of options			Exercise period	Exercise price per share (HK\$)
		outstanding as at 1 April 2001	granted during the period	outstanding as at 31 December 2001		
Law Ping Wah Bernard	26/3/2001	–	20,000,000	20,000,000	1/10/2001 – 30/9/2004	0.11
		–	20,000,000	20,000,000		

Save as disclosed above, at no time during the period was the Company, any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or to the spouse or children under 18 years of age of any such Director or chief executive, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, or had exercised any such rights.

SHARE OPTION SCHEME

The share option scheme (“Scheme”) of the Company during the period was adopted by the Company on 21 January 1994. The major terms of the Scheme are summarised as follows:

1. The purpose of the Scheme was to provide incentives to the participants.
2. The participants of the Scheme included any full-time employee or executive director of any member of the Group.
3. The maximum number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the issued share capital of the Company from time to time and shall be of maximum of 207,677,700 shares as at end of the period under review.

4. The maximum number of shares in respect of which options may be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Scheme, must not exceed 25% of the maximum shares issuable under the Scheme from time to time.
5. Under the Scheme, no minimum period for which an option must be held before it became exercisable was required.
6. The exercise period of an option shall be any period determined by the Board but shall not be beyond the end of the life of the Scheme.
7. The acceptance of an option, if accepted, must be made within 21 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
8. The exercise price of an option must not be less than the higher of:
 - (i) a price not less than 80% of the average closing price of the share for the 5 trading days immediately preceding the grant; and
 - (ii) the nominal value of the share.
9. The life of the Scheme was originally effective for 10 years until 20 January 2004. On 19 February 2002, the Scheme was resolved by the shareholders of the Company to have been cancelled thereon.

Details of movements in the share options to subscribe for shares of HK\$0.10 each in the Company granted under the Scheme during the period are as follows:

Date of grant	Exercise price per share (adjusted after rights issue) (HK\$)	Exercise period	notes	Number of options					outstanding as at 31 December 2001
				outstanding as at 1 April 2001	granted during the period	exercised during the period	lapsed during the period	adjustment due to rights issue	
Directors									
12/6/2000	0.32	13/6/2000 – 12/6/2002	(1)	24,000,000	-	-	(12,000,000)	9,600,000	21,600,000
12/6/2001	0.21	16/6/2001 – 15/6/2003	(1)	-	16,000,000	-	-	12,800,000	28,800,000
				24,000,000	16,000,000	-	(12,000,000)	22,400,000	50,400,000
Employees									
12/6/2000	0.32	13/6/2000 – 12/6/2003	(2) & (4)	4,495,000	-	(590,000)	(1,608,000)	2,140,000	4,437,000
				4,495,000	-	(590,000)	(1,608,000)	2,140,000	4,437,000
				28,495,000	16,000,000	(590,000)	(13,608,000)	24,540,000	54,837,000

notes:

- (1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities" under the sub-heading "Rights to acquire shares in the Company".

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- (2) The initial exercise price was HK\$0.58. On 23 November 2001, the exercise price was adjusted to HK\$0.32 due to the rights issue.
- (3) The initial exercise price was HK\$0.39. On 23 November 2001, the exercise price was adjusted to HK\$0.21 due to the rights issue.
- (4) The options are vested in 3 tranches as to (i) 1/3 exercisable from the commencement of the exercise period; (ii) 1/3 exercisable from the expiry of 12 months from the commencement of the exercise period; and (iii) 1/3 exercisable from the expiry of 24 months from the commencement of the exercise period.
- (5) The closing price of the share immediately before the date of grant was HK\$0.77.
- (6) The weighted average closing price of the share immediately before the date of exercises was HK\$0.79.
- (7) The lapsed options were due to cessation of employment of participants with the Group.
- (8) No option was cancelled during the period.
- (9) The fair value of the options granted during the period totalled approximately HK\$4,053,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
 - (i) an expected volatility of 9.3%;
 - (ii) no annual dividends; and
 - (iii) the estimated expected life of the options granted during the period is 2 years. The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 4.28%.The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.
- (10) Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the share options.
- (11) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the period.

During the period under review, the Stock Exchange had revised the statutory requirements under the Listing Rules in relation to the share option scheme of a listed issuer. Accordingly, subsequent to the end of the period under review, the Company adopted a new share option scheme to replace the Scheme on 19 February 2002 to comply with the current statutory requirements. All the options having been granted under the Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Scheme. No option under the Scheme had been or will be granted subsequent to the end of the period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Shareholding %
Kwan Pak Hoo Bankee (note)	1,374,432,297	66.18
Jeffnet Inc (note)	1,374,432,297	66.18
Cash Guardian (note)	1,374,432,297	66.18
CASH (note)	1,374,432,297	66.18
CIGL (note)	1,374,432,297	66.18

note: This refers to the same number of 1,374,432,297 shares held by CIGL. CIGL is a wholly-owned subsidiary of CASH which is owned as to approximately 39.60% by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc) and 10.45% by Suffolk (which is 100% beneficially owned by Jeffnet Inc). Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which are held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to SDI Ordinance, CASH, Cash Guardian, Jeffnet Inc and Mr Kwan are deemed to be interested in the shares held by CIGL.

Save as disclosed above, at 31 December 2001, no other parties were recorded in the register required by the SDI Ordinance to be kept as having an interest of 10% or more of the issued share capital of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 31 December 2001, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this Annual Report save for the Independent Non-executive Directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Audit Committee of the Company was established on 9 November 1999 and was as at 31 December 2001 comprising Mr Lo Kwok Hung John and Ms Lau Po Yee Edith, both being Independent non-executive Directors.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. During the period, the Audit Committee had held two meetings for reviewing and supervising the financial reporting process, the Company's financial statements, and providing advice and recommendations to the Board.

AUDITORS

There was change in auditors of the Company in the preceding three years.

The financial statements of the Company for the nine months ended 31 December 2001 were audited by Messrs Deloitte Touche Tohmatsu while that for the years ended 31 March 2001 and 31 March 2000 were audited by Messrs Ernst & Young. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Bankee P Kwan

Chairman

Hong Kong, 15 March 2002