

# Directors' Report

The Directors are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

## PRINCIPAL ACTIVITIES

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

## RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 24 of this Annual Report.

## FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last three financial years ended 31 March 2001, the nine months ended 31 December 2001 and the year ended 31 December 2002 is set out on page 68 of this Annual Report.

## PROPERTY AND EQUIPMENT

Details of movements during the year 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 year are set out in note 22 to the financial statements.

## RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements.

As at 31 December 2002, the Company had no reserves available for distribution to shareholders and the Company's share premium available for distribution in the form of fully paid bonus shares was approximately HK\$50,511,000.

## 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.

## Directors' Report

### 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 year and up to the date of this Annual Report were as follows:

#### *Executive Directors:*

Kwan Pak Hoo Bankee

Law Ping Wah Bernard

Li Yuen Cheuk Thomas

Law Tang Fai James

Leung Siu Pong James

Cheng Pui Lai Majone (appointed on 1 November 2002)

Kwok Lai Ling Elaine (appointed on 18 March 2003)

Kwok Oi Kuen Joan Elmond (resigned on 18 March 2003)

Khoo Ken Wee (resigned on 18 June 2002)

Lai Wai Kwong Daryl (resigned on 1 November 2002)

#### *Independent Non-executive Directors:*

Lo Kwok Hung John

Lau Po Yee Edith

In accordance with Bye-law 111 of the Company's Bye-laws and as agreed among the Directors, Mr Law Ping Wah Bernard and Mr Leung Siu Pong James shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 115 of the Company's Bye-laws, Ms Cheng Pui Lai Majone and Ms Kwok Lai Ling Elaine shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Directors' Report

### 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 year.

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 28 to the financial statements.

### DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, 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 of Hong Kong Limited ("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

###### Ordinary shares

Name	Number of shares beneficially held		Shareholding (%)
		Other interest	
Kwan Pak Hoo Bankee		1,419,432,297*	68.35

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

## Directors' Report

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

#### (a) Ordinary shares in CASH

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	156,952,376*	51.38
Law Ping Wah Bernard	5,096,200	–	1.67
Li Yuen Cheuk Thomas	2,501,875	–	0.82
Kwok Oi Kuen Joan Elmond	2,700,000	–	0.88

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

#### (b) Ordinary shares in CFSG

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	50,463,239*	50.08

\* The shares were held by CIGL, a wholly-owned subsidiary of CASH. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

Save as disclosed above, as at 31 December 2002, 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 schemes 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 schemes of the Company are set out in note 25(A) to the financial statements.

## Directors' Report

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			Exercise period	Exercise price per share (HK\$)	Notes
		outstanding as at 1 January 2002	granted during the year (Notes 2 & 5)	lapsed during the year (Note 3)			
Kwan Pak Hoo Bankee	12/6/2000	18,000,000	–	(18,000,000)	–	13/6/2000 - 12/6/2002	0.32 (7)
	17/1/2002	–	20,000,000	–	20,000,000	1/2/2002 - 31/1/2004	0.21 (7)
Law Ping Wah Bernard	12/6/2001	7,200,000	–	–	7,200,000	16/6/2001 - 15/6/2003	0.21
	17/1/2002	–	13,000,000	–	13,000,000	1/2/2002 - 31/1/2004	0.21
Li Yuen Cheuk Thomas	12/6/2001	14,400,000	–	–	14,400,000	16/6/2001 - 15/6/2003	0.21
	17/1/2002	–	6,000,000	–	6,000,000	1/2/2002 - 31/1/2004	0.21
Law Tang Fai James	17/1/2002	–	5,000,000	–	5,000,000	1/2/2002 - 31/1/2004	0.21
Leung Siu Pong James	12/6/2000	3,600,000	–	(3,600,000)	–	13/6/2000 - 12/6/2002	0.32 (1)
	17/1/2002	–	5,000,000	–	5,000,000	1/2/2002 - 31/1/2004	0.21
Kwok Oi Kuen Joan Elmond	17/1/2002	–	20,000,000	–	20,000,000	1/2/2002 - 31/1/2004	0.21
Khoo Ken Wee	12/6/2001	7,200,000	–	(7,200,000)	–	16/6/2001 - 15/6/2003	0.21 (6)
	17/1/2002	–	13,000,000	(13,000,000)	–	1/2/2002 - 31/1/2004	0.21 (6)
Lai Wai Kwong Daryl	17/1/2002	–	2,500,000	–	2,500,000	1/2/2002 - 31/1/2004	0.21 (6)
		50,400,000	84,500,000	(41,800,000)	93,100,000		

### Notes:

- (1) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 6 months from the commencement of the exercise period.
- (2) The closing price of the share immediately before the date of grant of options was HK\$0.207.
- (3) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (4) No option was exercised or cancelled during the year.
- (5) The fair value of the options granted by the Company to the Directors during the year totaled approximately HK\$152,100. The assumptions in arriving the fair value of the options are disclosed in the section under the heading "Share Option Schemes" below.
- (6) Mr Khoo Ken Wee and Mr Lai Wai Kwong Daryl resigned as Directors of the Company during the year.
- (7) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

## Directors' Report

### B. Rights to acquire shares in CASH

Pursuant to the share option schemes 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. Further details of the share option schemes of CASH are set out in note 25(B) to the financial statements.

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				outstanding as at 31 December 2002	Exercise period	Exercise price per share (HK\$)	Note
		outstanding as at 1 January 2002	adjusted on 25 April 2002	granted during the year (Note 1)	lapsed during the year				
Kwan Pak Hoo Bankee	4/10/1999	40,000,000	-	-	(40,000,000)	-	8/4/2000 - 7/4/2002	0.59	
	2/5/2002	-	-	3,000,000	-	3,000,000	2/5/2002 - 30/4/2003	1.32	
Law Ping Wah Bernard	4/10/1999	40,000,000	-	-	(40,000,000)	-	8/4/2000 - 7/4/2002	0.59	
	2/5/2002	-	-	3,000,000	-	3,000,000	2/5/2002 - 30/4/2003	1.32	
Li Yuen Cheuk Thomas	4/10/1999	20,000,000	-	-	(20,000,000)	-	8/4/2000 - 7/4/2002	0.59	
	2/5/2002	-	-	3,000,000	-	3,000,000	2/5/2002 - 30/4/2003	1.32	
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	(14,250,000)	-	-	750,000	16/5/2001 - 15/5/2003	5.40	
	2/5/2002	-	-	3,000,000	-	3,000,000	2/5/2002 - 30/4/2003	1.32	
Khoo Ken Wee	4/10/1999	20,000,000	-	-	(20,000,000)	-	8/4/2000 - 7/4/2002	0.59	(2)
		140,750,000	(14,250,000)	12,000,000	(125,750,000)	12,750,000			

Notes:

(1) The number and the exercise price of options which remained outstanding on 25 April 2002 have been adjusted due to share consolidation of CASH for 20 shares into 1 share with effect from the close of business on 25 April 2002.

(2) Mr Khoo Ken Wee resigned as a Director of the Company during the year.

### C. Rights to acquire shares in CFSG

Pursuant to the share option schemes 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. Further details of the share option schemes of CFSG are set out in note 25(C) to the financial statements.

## Directors' Report

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\$)	Note
		outstanding as at 1 January 2002	adjusted on 25 April 2002 (Note 1)	outstanding as at 31 December 2002			
Law Ping Wah Bernard	26/3/2001	20,000,000	(19,000,000)	1,000,000	1/10/2001 - 30/9/2004	2.20	
Cheng Pui Lai Majone	26/3/2001	10,000,000	(9,500,000)	500,000	1/10/2001 - 30/9/2004	2.20	(2)
		<u>30,000,000</u>	<u>(28,500,000)</u>	<u>1,500,000</u>			

Notes:

- (1) The number and the exercise price of options which remained outstanding on 25 April 2002 have been adjusted due to share consolidation of CFSG for 20 shares into 1 share with effect from the close of business on 25 April 2002.
- (2) Ms Cheng Pui Lai Majone was appointed as a Director of the Company during the year.

Save as disclosed above, at no time during the year 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 SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for shares of HK\$0.10 each in the Company granted under the share option schemes during the year are set out in note 25(A) to the financial statements.

As disclosed in note 25(A) to the financial statements, the Company had granted a total number of 114,500,000 options during the year. The fair value of the said options totaled approximately HK\$206,100. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (i) an expected volatility of 0.058%;
- (ii) no annual dividends; and

## Directors' Report

(iii) the estimated expected life of the options granted during the year is 2 years. The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.625%.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, which can materially affect the fair value estimate. Thus, in the Directors' opinion, the existing model does not necessary provide a reliable single measure of the fair value of the share options.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

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

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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)	1,419,432,297	68.35
Jeffnet Inc (Note)	1,419,432,297	68.35
Cash Guardian (Note)	1,419,432,297	68.35
CASH (Note)	1,419,432,297	68.35
CIGL (Note)	1,419,432,297	68.35

Note: This refers to the same number of shares held by CIGL and its subsidiaries. CIGL is a wholly-owned subsidiary of CASH which is owned as to approximately 51.38% by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc ("Jeffnet")). Jeffnet held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to the SDI Ordinance, CASH, Cash Guardian, Jeffnet and Mr Kwan were deemed to be interested in the shares held by CIGL.

Save as disclosed above, at 31 December 2002, 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.



## Directors' Report

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2002, 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 2002 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 year, 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 and the year ended 31 December 2002 were audited by Messrs Deloitte Touche Tohmatsu while that for the year ended 31 March 2001 was 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 & CEO*

Hong Kong, 21 March 2003