

# 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 2003.

## 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 2003 are set out in the consolidated income statement on page 38 of this Annual Report.

## FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial periods ended 31 December 2003 is set out on page 89 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 21 to the financial statements.

## DIRECTORS' REPORT

### RESERVES AND DISTRIBUTABLE RESERVES

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

As at 31 December 2003, the reserves of the Company available for distribution to shareholders were approximately HK\$168,551,000, comprising contributed surplus of HK\$201,971,000 less accumulated losses of HK\$33,420,000.

### 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.

### 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 10.2%
- five largest suppliers 34.3%

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' REPORT

### 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

Chan Yau Ching Bob (appointed on 3 November 2003)

Cheng Pui Lai Majone

Kwok Lai Ling Elaine (appointed on 18 March 2003)

Leung Siu Pong James

Li Yuen Cheuk Thomas

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

Law Tang Fai James (resigned on 3 November 2003)

*Independent Non-executive Directors:*

Hui Ka Wah Ronnie (appointed on 30 March 2004)

Lo Kwok Hung John

Lo Ming Chi Charles (appointed on 3 November 2003)

Lau Po Yee Edith (resigned on 3 November 2003)

In accordance with Bye-law 111 of the Company's Bye-laws, Mr Li Yuen Cheuk Thomas and Mr Lo Kwok Hung John 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, Dr Chan Yau Ching Bob, Dr Hui Ka Wah Ronnie and Mr Lo Ming Chi Charles 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' REPORT

### 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 SCHEME

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

### DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, the interests or 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 Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, 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:

#### A. The Company

##### (a) Long positions in the shares

Name	Capacity	Number of shares	
		Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	70,971,614*	68.35

\* The shares were held by Celestial Investment Group Limited ("CIGL") 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) Long positions in the underlying shares – options under share option schemes

Name	Date of grant	Exercise period	Exercise price per share (note 1) (HK\$)	notes	Number of options				Percentage to issued shares as at 31 December 2003 (%)	
					outstanding as at 1 January 2003	adjusted on 6 May 2003 (note 1)	lapsed during the year (note 3)	granted during the year (notes 2&5)		outstanding as at 31 December 2003
Kwan Pak Hoo Bankee	17/1/2002	1/2/2002 – 31/1/2004	4.20	(8)	20,000,000	(19,000,000)	–	–	1,000,000	0.96
	2/12/2003	2/12/2003 – 30/11/2004	1.79	(8)	–	–	–	1,000,000	1,000,000	0.96
Law Ping Wah Bernard	12/6/2001	16/6/2001 – 15/6/2003	4.20		7,200,000	(6,840,000)	(360,000)	–	–	–
	17/1/2002	1/2/2002 – 31/1/2004	4.20		13,000,000	(12,350,000)	–	–	650,000	0.63
	2/12/2003	2/12/2003 – 30/11/2004	1.79		–	–	–	1,000,000	1,000,000	0.96
Chan Yau Ching Bob	2/12/2003	2/12/2003 – 30/11/2004	1.79	(7)	–	–	–	1,000,000	1,000,000	0.96
Cheng Pui Lai Majone	2/12/2003	1/12/2004 – 30/11/2005	1.79		–	–	–	1,000,000	1,000,000	0.96
Kwok Lai Ling Elaine	2/12/2003	1/12/2004 – 30/11/2005	1.79	(7)	–	–	–	1,000,000	1,000,000	0.96
Leung Siu Pong James	17/1/2002	1/2/2002 – 31/1/2004	4.20		5,000,000	(4,750,000)	–	–	250,000	0.24
	2/12/2003	1/12/2004 – 30/11/2005	1.79		–	–	–	500,000	500,000	0.48
Li Yuen Cheuk Thomas	12/6/2001	16/6/2001 – 15/6/2003	4.20		14,400,000	(13,680,000)	(720,000)	–	–	–
	17/1/2002	1/2/2002 – 31/1/2004	4.20		6,000,000	(5,700,000)	–	–	300,000	0.29
	2/12/2003	1/12/2004 – 30/11/2005	1.79		–	–	–	500,000	500,000	0.48
Kwok Oi Kuen Joan Elmond	17/1/2002	1/2/2002 – 31/1/2004	4.20	(6)	20,000,000	(19,000,000)	(1,000,000)	–	–	–
Law Tang Fai James	17/1/2002	1/2/2002 – 31/1/2004	4.20	(6)	5,000,000	(4,750,000)	(250,000)	–	–	–
Lai Wai Kwong Daryl	17/1/2002	1/2/2002 – 31/1/2004	4.20	(6)	2,500,000	–	(2,500,000)	–	–	–
					93,100,000	(86,070,000)	(4,830,000)	6,000,000	8,200,000	7.88

#### notes:

- (1) The number and the exercise price of options which remained outstanding on 6 May 2003 have been adjusted due to share consolidation of the Company for 20 shares into 1 share with effect from 6 May 2003.
- (2) The closing price of the share immediately before the date of grant of options was HK\$1.80.
- (3) The lapsed options were due to expiry or cessation of directorship or 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\$241,500. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
  - (i) an expected volatility of 41%;

## DIRECTORS' REPORT

- (ii) no annual dividends; and
- (iii) the estimated expected life of the options granted during the year is 1 and 2 year(s). The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.14%.

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.

- (6) Mr Lai Wai Kwong Daryl resigned as a Director of the Company in 2002. Ms Kwok Oi Kuen Joan Elmond and Mr Law Tang Fai James resigned as Directors of the Company during the year.
- (7) Dr Chan Yau Ching Bob and Ms Kwok Lai Ling Elaine were appointed as Directors of the Company during the year.
- (8) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company.
- (9) The options are held by the Directors in the capacity of beneficial owner.

## DIRECTORS' REPORT

### B. Associated corporations (within the meaning of SFO)

#### 1. CASH

##### (a) Long positions in the shares

Name	Capacity	Number of shares			Shareholding (%)
		Personal	Family	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	–	156,952,376*	42.94
Law Ping Wah Bernard	Beneficial owner	5,096,200	–	–	1.39
Chan Yau Ching Bob	Beneficial owner and family interest	70,500	200,200	–	0.07
Kwok Lai Ling Elaine	Beneficial owner and family interest	21,200	500	–	0.01
Li Yuen Cheuk Thomas	Beneficial owner	2,501,875	–	–	0.68
		<u>7,689,775</u>	<u>200,700</u>	<u>156,952,376</u>	<u>45.09</u>

\* 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.

## DIRECTORS' REPORT

(b) Long positions in the underlying shares – options under share option schemes

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	notes	Number of options			Percentage to issued shares as at 31 December 2003 (%)
					outstanding as at 1 January 2003	granted during the year	lapsed during the year	
Kwan Pak Hoo Bankee	2/5/2002	2/5/2002 – 30/4/2003	1.320		3,000,000	–	(3,000,000)	–
	2/12/2003	2/12/2003 – 30/11/2005	0.502		–	3,000,000	–	3,000,000
Chan Yau Ching Bob	6/11/2000	16/5/2001 – 15/5/2003	5.400	(2)	250,000	–	(250,000)	–
	31/8/2001	1/3/2002 – 28/2/2004	2.600	(2)	1,500,000	–	–	1,500,000
	2/5/2002	2/5/2002 – 30/4/2003	1.320	(2)	1,500,000	–	(1,500,000)	–
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.502	(2)	–	3,000,000	–	3,000,000
	2/5/2002	2/5/2002 – 30/4/2003	1.320		3,000,000	–	(3,000,000)	–
Law Ping Wah Bernard	2/12/2003	2/12/2003 – 30/11/2005	0.502		–	1,000,000	–	1,000,000
	2/5/2002	2/5/2002 – 30/4/2003	1.320		3,000,000	–	(3,000,000)	–
Kwok Lai Ling Elaine	2/12/2003	2/12/2003 – 30/11/2005	0.502		–	3,000,000	–	3,000,000
	2/5/2002	1/11/2002 – 31/10/2003	1.320	(2)	200,000	–	(200,000)	–
Kwok Oi Kuen Joan Elmond	6/11/2000	16/5/2001 – 15/5/2003	5.400	(1)	750,000	–	(750,000)	–
	2/5/2002	2/5/2002 – 30/4/2003	1.320	(1)	3,000,000	–	(3,000,000)	–
	2/12/2003	2/12/2003 – 30/11/2005	0.502	(1)	–	3,000,000	–	3,000,000
					16,200,000	13,000,000	(14,700,000)	14,500,000
								3.96

notes:

- (1) Ms Kwok Oi Kuen Joan Elmond resigned as a Director of the Company during the year.
- (2) Dr Chan Yau Ching Bob and Ms Kwok Lai Ling Elaine were appointed as Directors of the Company during the year.
- (3) The options are held by the Directors in the capacity of beneficial owner.

## 2. CFSG

(a) Long positions in the shares

Name	Capacity	Number of shares	
		Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	Founder of a discretionary trust	217,977,717*	57.78

\* The shares were held as to 24,564,000 shares by Cash Guardian and as to 193,413,717 shares 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 Guardian and in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.



## DIRECTORS' REPORT

(b) Long positions in the underlying shares – options under share option schemes

Name	Date of grant	Exercise period	Exercise price per share (note 1) (HK\$)	notes	Number of options			Percentage to issued shares as at 31 December 2003 (%)	
					outstanding as at 1 January 2003	adjusted on 4 November 2003 (note 1)	granted during the year		outstanding as at 31 December 2003
Kwan Pak Hoo Bankee	3/11/2003	3/11/2003 – 31/10/2004	0.60		–	–	1,250,000	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44		–	–	2,450,000	2,450,000	0.65
Law Ping Wah Bernard	26/3/2001	1/10/2001 – 30/9/2004	1.08		1,000,000	1,040,000	–	2,040,000	0.54
	3/11/2003	3/11/2003 – 31/10/2004	0.60		–	–	1,250,000	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44		–	–	2,450,000	2,450,000	0.65
Chan Yau Ching Bob	3/11/2003	3/11/2003 – 31/10/2004	0.60	(3)	–	–	1,250,000	1,250,000	0.33
	2/12/2003	2/12/2003 – 30/11/2005	0.44	(3)	–	–	2,450,000	2,450,000	0.65
Cheng Pui Lai Majone	26/3/2001	1/10/2001 – 30/9/2004	1.08		500,000	520,000	–	1,020,000	0.27
	2/12/2003	1/6/2004 – 31/5/2006	0.44		–	–	500,000	500,000	0.13
Kwok Lai Ling Elaine	2/12/2003	1/6/2004 – 31/5/2006	0.44	(3)	–	–	500,000	500,000	0.13
Li Yuen Cheuk Thomas	2/12/2003	2/12/2003 – 30/11/2005	0.44		–	–	2,450,000	2,450,000	0.65
Kwok Oi Kuen Joan	3/11/2003	3/11/2003 – 31/10/2004	0.60	(2)	–	–	N/A	N/A	N/A
Elmond	2/12/2003	2/12/2003 – 30/11/2005	0.44	(2)	–	–	N/A	N/A	N/A
					1,500,000	1,560,000	14,550,000	17,610,000	4.66

notes:

- (1) The number and the exercise price of options which remained outstanding on 27 October 2003 have been adjusted due to rights issue of shares in CFSG with effect from 4 November 2003.
- (2) Ms Kwok Oi Kuen Joan Elmond resigned as Director of the Company during the year.
- (3) Dr Chan Yau Ching Bob and Ms Kwok Lai Ling Elaine were appointed as Directors of the Company during the year.
- (4) The options are held by the Directors in the capacity of beneficial owner.

## DIRECTORS' REPORT

(c) *Long positions in the underlying shares – convertible note*

Name	Date of convertible note	Exercise period	Conversion price per share (HK\$)	Number of underlying shares as at 31 December 2003	Percentage to issued shares as at 31 December 2003 (%)
Kwan Pak Hoo Bankee	28/9/2001	28/9/2001 – 31/12/2006	1.47	85,102,040	22.56

note: The convertible note in the outstanding amount of HK\$125,100,000 was held by a subsidiary of 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 the 31 December 2003, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests or 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).

### 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 10,300,000 options during the year. The fair value of the said options totaled approximately HK\$401,510. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (i) an expected volatility of 41%;
- (ii) no annual dividends; and
- (iii) the estimated expected life of the options granted during the year is 1 and 2 year(s). The corresponding 2 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 1.14%.

## DIRECTORS' REPORT

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 2003, 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 as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Number of shares	Shareholding (%)
Jeffnet Inc (Note 1)	Trustee of a discretionary trust	70,971,614	68.35
Cash Guardian (Note 1)	Interest in a controlled corporation	70,971,614	68.35
CASH (Note 1)	Interest in a controlled corporation	70,971,614	68.35
CIGL (Note 1)	Beneficial owner	70,971,614	68.35
South China Industries Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
South China Industries (BVI) Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
Wah Shing International Holdings Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
Wah Shing Toys International (BVI) Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
Wah Shing Toys Company Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
Man Wah Plastics Company Limited (Note 2)	Interest in a controlled corporation	8,343,600	8.04
Man Wah Trading Limited (Note 2)	Beneficial owner	8,343,600	8.04

## DIRECTORS' REPORT

Notes:

- (1) This refers to the same number of 70,971,614 shares held by CIGL and its subsidiaries. CIGL was a wholly-owned subsidiary of CASH which was owned as to approximately 42.94% 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. Pursuant to SFO, CASH, Cash Guardian, Jeffnet Inc and Mr Kwan were deemed to be interested in the shares held by CIGL. The above interest has already been disclosed as other interest of Mr Kwan in the section headed "Directors' interests in securities" above.
- (2) This refers to the same number of 8,343,600 shares held by Man Wah Trading Limited. Man Wah Trading Limited was a wholly-owned subsidiary of Man Wah Plastics Company Limited, which in turn was a wholly-owned subsidiary of Wah Shing Toys Company Limited. Wah Shing Toys Company Limited was a wholly-owned subsidiary of Wah Shing Toys International (BVI) Limited, which in turn was a wholly-owned subsidiary of Wah Shing International Holdings Limited. Wah Shing International Holdings Limited was owned as to 52.77% by South China Industries (BVI) Limited, which in turn was a wholly-owned subsidiary of South China Industries Limited. Pursuant to the SFO, Man Wah Plastics Company Limited, Wah Shing Toys Company Limited, Wah Shing Toys International (BVI) Limited, Wah Shing International Holdings Limited, South China Industries (BVI) Limited and South China Industries Limited were all deemed to be interested in the shares held by Man Wah Trading Limited.

Save as disclosed above, at 31 December 2003, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### POST BALANCE SHEET EVENT

Details of a significant post balance sheet event of the Group are set out in note 31 to the financial statements.

## DIRECTORS' REPORT

### 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 Rules Governing the Listing of Securities on the Stock Exchange 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 comprising Mr Lo Kwok Hung John and Mr Lo Ming Chi Charles, both being Independent Non-executive Directors, as at 31 December 2003. Dr Hui Ka Wah Ronnie, the new Independent Non-executive Director, was also appointed as a member of the Audit Committee on 30 March 2004.

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

The financial statements of the Company for the year was audited by Messrs Deloitte Touche Tohmatsu. 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, 1 April 2004