

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 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group consist of (a) financial services provided via CFSG including online and traditional brokerage and trading of securities, futures, commodities and options, margin financing, corporate finance, and online and offline distribution of funds and insurance products, (b) retailing of furniture and household items provided via Pricerite, (c) technology development projects, and (d) other investment holding.

RESULTS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 45 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial years ended 31 December 2001 is set out on page 90 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 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and warrants of the Company during the year are set out in note 30 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 31 to the financial statements.

As at 31 December 2001, 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 HK\$291,997,000.

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.

CONNECTED TRANSACTIONS

The following connected transactions of the Company were entered into during the year:

1. Acquisition of majority shareholding interests in Pricerite

On 9 February 2001, the Company entered into (i) an agreement with Miliway Resources Limited ("Miliway Agreement"); and (ii) an agreement with Joyplace Inc ("Joyplace Agreement") pursuant to which the Company agreed to purchase or procure the purchase of (i) 320,000,000 shares in Pricerite; and (ii) 115,132,000 shares in Pricerite (altogether "Sale Shares") under the Miliway Agreement and the Joyplace Agreement respectively at a consideration of HK\$0.35 per share. The consideration for the Sale Shares was settled by the issue and allotment of a total of 507,654,000 new shares in the Company at the issue price of HK\$0.30 each. The agreements constituted connected transactions of the Company as Pricerite is a company to which Mr Kwan Pak Hoo Bankee, a Director of the Company, is the substantial shareholder. The Miliway Agreement and the Joyplace Agreement also constituted share transactions of the Company under the Listing Rules. The details of the transactions were set out in the Company's circular dated 5 March 2001. The transactions were approved by shareholders in a special general meeting held on 22 March 2001 and completed on 26 March 2001. An unconditional general offer for, inter alia, all shares in Pricerite at an offer price of HK\$0.35 per share (to be satisfied by cash or shares in CASH) followed and was closed on 3 May 2001. As at the completion of the general offer, the Group had acquired further 58,012,099 shares in Pricerite which was satisfied by a total of 164,605 shares in the Company and a cash consideration (before expenses) of approximately HK\$20,255,000.

2. Disposal of financial services business to CFSG

On 28 June 2001, Celestial Investment Group Limited ("CIGL"), a wholly-owned subsidiary of the Company, entered into an agreement with CFSG, whereby CIGL agreed to transfer the interest (being the entire equity shareholding interest in Celestial Financial Services Group Limited ("FSG") and part or all of the interest-free shareholder's loan outstanding from FSG to CIGL which should have an unaudited net book value of HK\$350,000,000 in aggregate as at 30 April 2001) in FSG which operated the traditional financial services business, to CFSG at a consideration of HK\$438,000,000. The consideration was settled by the issue of a redeemable convertible note by CFSG with principal amount of HK\$438,000,000. The convertible note carries interest of 2% per annum and entitles CIGL to convert part or all of the outstanding principal amount of the convertible note into shares in CFSG at HK\$0.15 per share. The convertible note is also redeemable by CFSG and shall mature on 31 December 2006 by when all outstanding principal amount and interest shall be repayable by CFSG to CIGL. The transaction was a connected transaction of the Company as CFSG is a non-wholly owned subsidiary of the Company. The transaction also constituted a major transaction of the Company. The details of the transaction were set out in the Company's circular dated 27 July 2001. The transaction was approved by shareholders in a special general meeting held on 31 August 2001 and completed on 28 September 2001. After the completion of the merger of the online and traditional financial services business, all the financial services business of the Group has been carried out via CFSG.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover.

The Group's purchase attributable to the five largest suppliers accounted for less than 30% of the Group's total purchase.

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
Kwok Oi Kuen Joan Elmond
Law Ka Kin Eugene
Li Yuen Cheuk Thomas
Khoo Ken Wee

Independent Non-executive Directors:

Wong Chuk Yan
Chan Hak Sin
Leung Ka Kui Johnny

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws and as agreed among the Directors, Mr Khoo Ken Wee and Mr Law Ping Wah Bernard 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

Save as disclosed in note 42 to the financial statements, 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.

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 and the forfeited voluntary contributions credited to the income statement amounted to HK\$9,278,000 and HK\$515,000 respectively for the year 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

(a) Interests in ordinary shares

Name	Number of shares beneficially held		Shareholding (%)
	Personal	Other interest	
Kwan Pak Hoo Bankee	–	3,200,225,537*	50.05
Law Ping Wah Bernard	71,156,000	–	1.11
Kwok Oi Kuen Joan Elmond	44,000,000	–	0.69
Law Ka Kin Eugene	2,500,000	–	0.04
Li Yuen Cheuk Thomas	50,037,500	–	0.78
Khoo Ken Wee	170,000,000	–	2.66

* The shares are held as to 2,532,017,154 shares by Cash Guardian Limited ("Cash Guardian") and as to 668,208,383 shares by Suffold Resources Limited ("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.

(b) Interests in warrants

Warrants carrying rights to subscribe for shares of HK\$0.10 each in the Company 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*
Law Ping Wah Bernard	3,526,238.30	–
Kwok Oi Kuen Joan Elmond	260,000.00	–
Law Ka Kin Eugene	162,500.00	–
Li Yuen Cheuk Thomas	1,952,437.50	–
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. Associated corporations (within the meaning of SDI Ordinance)*(a) 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
Law Ping Wah Bernard	5,424,982	–	0.27
Kwok Oi Kuen Joan Elmond	400,000	–	0.02
Law Ka Kin Eugene	250,000	–	0.01
Li Yuen Cheuk Thomas	3,003,750	–	0.15
Khoo Ken Wee	3,000,000	–	0.15

* The shares are held as to 1,009,264,783 shares by CIGL (a wholly-owned subsidiary of CASH), 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 CASH, Cash Guardian and Suffold as disclosed in the "Substantial Shareholders" below.

(b) Interest in ordinary shares in Pricerite

Name	Number of shares beneficially held Other interest	Shareholding (%)
Kwan Pak Hoo Bankee	1,374,432,297*	66.18

* The shares were held by CIGL, a wholly-owned subsidiary of the Company. Mr Kwan is deemed to be interested in all these shares as a result of his interests in CASH through 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 January 2001	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	
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	(1)
	6/11/2000	15,000,000	–	15,000,000	16/5/2001 – 15/5/2003	0.27	(2)
Law Ka Kin Eugene	13/5/1999	2,500,000	(2,500,000)	–	13/5/2000 – 12/11/2001	0.23	
	4/10/1999	3,000,000	–	3,000,000	8/4/2000 – 7/4/2002	0.59	(1)
	1/6/2000	10,000,000	–	10,000,000	1/12/2000 – 30/11/2002	0.35	(2)
	6/11/2000	10,000,000	–	10,000,000	16/5/2001 – 15/5/2003	0.27	(2)
Li Yuen Cheuk Thomas	4/10/1999	20,000,000	–	20,000,000	8/4/2000 – 7/4/2002	0.59	
Khoo Ken Wee	4/10/1999	20,000,000	–	20,000,000	8/4/2000 – 7/4/2002	0.59	
		166,250,000	(2,500,000)	163,750,000			

notes:

- (1) 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 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (2) 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.
- (3) The lapsed options were due to the expiry.
- (4) No options were granted to the Directors during the year.
- (5) No options were exercised or cancelled during the year.
- (6) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

B. 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	outstanding as at 1 January 2001	Number of options		Exercise period	Exercise price per share (HK\$)
			granted during the year	outstanding as at 31 December 2001		
Law Ka Kin Eugene	26/3/2001	–	25,000,000	25,000,000	1/10/2001 – 30/9/2004	0.11
Law Ping Wah Bernard	26/3/2001	–	20,000,000	20,000,000	1/10/2001 – 30/9/2004	0.11
		–	45,000,000	45,000,000		

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 12 months from the commencement of the exercise period.
- (2) The closing price of the share immediately before the date of grant of the options was HK\$0.109.
- (3) No options were exercised, lapsed or cancelled during the year.
- (4) The fair value of the options granted by CFSG to the Directors during the year totalled approximately HK\$531,000. The assumptions in arriving the fair value of the options are disclosed in the relevant notes to the section under the heading "Share Option Scheme" below.

C. Rights to acquire shares in Pricerite

Pursuant to the share option scheme of Pricerite, 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 Pricerite.

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

Name	Date of grant	outstanding as at 1 January 2001	Number of options		outstanding as at 31 December 2001	Exercise period	Exercise price per share (adjusted after rights issue) (HK\$)	notes
			granted during the year	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	
Law Ping Wah Bernard	12/6/2001	–	4,000,000	3,200,000	7,200,000	16/6/2001 – 15/6/2003	0.21	(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	(1)
Khoo Ken Wee	12/6/2001	–	4,000,000	3,200,000	7,200,000	16/6/2001 – 15/6/2003	0.21	(1)
		10,000,000	16,000,000	20,800,000	46,800,000			

notes:

- (1) The closing price of the share immediately before the date of grant was HK\$0.77.
- (2) No option was exercised, lapsed or cancelled during the year.

DIRECTORS' REPORT

(3) *The fair value of the options granted by Pricerite to the Directors during the year totalled approximately HK\$4,053,000. The assumptions in arriving the fair value of the options are disclosed in the relevant notes to the section under the heading "Share Option Scheme" below.*

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 SCHEME

The Company

The share option scheme ("Scheme") of the Company during the year was adopted by the Company on 29 March 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 employee or director of any member of the Group.
3. The maximum number of shares in respect of which options might be granted under the Scheme must not exceed 10% of the issued share capital of the Company from time to time and should be of maximum of 639,435,467 shares as at end of the year under review.
4. The maximum number of shares in respect of which options might 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. A grantee was required to hold an option for a minimum of 6 months before the option became exercisable.
6. The exercise period of an option granted under the Scheme must not exceed a period of 3 years commencing on the expiry of the abovementioned minimum holding period.
7. 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.
8. The exercise price of an option must be 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 28 March 2004. On 19 February 2002, the Scheme was resolved by the shareholders of the Company to have been cancelled thereon.

DIRECTORS' REPORT

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 year are as follows:

Date of grant	Exercise price per share (HK\$)	Exercise period	notes	outstanding as at	Number of options		outstanding as at
				1 January 2001	granted during the year	lapsed during the year	31 December 2001
Directors							
13/5/1999	0.23	13/5/2000 – 12/11/2001	(1)	2,500,000	–	(2,500,000)	–
4/10/1999	0.59	8/4/2000 – 7/4/2002	(1)	128,750,000	–	–	128,750,000
1/6/2000	0.35	1/12/2000 – 30/11/2002	(1)	10,000,000	–	–	10,000,000
6/11/2000	0.27	16/5/2001 – 15/5/2003	(1)	25,000,000	–	–	25,000,000
				166,250,000	–	(2,500,000)	163,750,000
Employees							
13/5/1999	0.23	13/11/2000 – 12/5/2002		750,000	–	–	750,000
4/10/1999	0.59	8/4/2000 – 7/4/2002	(2)	28,490,000	–	(4,680,000)	23,810,000
15/11/1999	0.61	1/11/2000 – 31/10/2002	(4)	10,000,000	–	–	10,000,000
10/1/2000	0.80	10/1/2001 – 9/1/2003		10,000,000	–	–	10,000,000
10/1/2000	0.80	11/7/2000 – 10/7/2002	(2)	500,000	–	–	500,000
1/6/2000	0.35	1/12/2000 – 30/11/2002	(3)	45,000,000	–	–	45,000,000
28/7/2000	0.49	1/2/2001 – 31/1/2003	(2)	11,000,000	–	(10,000,000)	1,000,000
6/11/2000	0.27	16/5/2001 – 15/5/2003	(3)	25,000,000	–	–	25,000,000
6/11/2000	0.27	16/5/2001 – 15/5/2003	(2)	6,500,000	–	(500,000)	6,000,000
2/2/2001	0.24	16/8/2001 – 15/8/2003	(2) & (5)	–	6,000,000	–	6,000,000
31/8/2001	0.13	1/3/2002 – 28/2/2004	(3) & (6)	–	90,000,000	–	90,000,000
				137,240,000	96,000,000	(15,180,000)	218,060,000
				303,490,000	96,000,000	(17,680,000)	381,810,000

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".
- (2) 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 6 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 18 months from the commencement of the exercise period.
- (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 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 12 months from the commencement of the exercise period.
- (5) The closing price of the share immediately before the date of grant was HK\$0.295.
- (6) The closing price of the share immediately before the date of grant was HK\$0.152.
- (7) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (8) No option was exercised or cancelled during the year.

DIRECTORS' REPORT

(9) The fair value of the options granted during the year totalled approximately HK\$7,659,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (i) an expected volatility of 10%;
- (ii) no annual dividends; and
- (iii) the estimated expected life of the options granted during the year is 2.5 years. The corresponding 2.5 year Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 4.835%.

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 year.

During the year 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 year 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 year.

The subsidiaries

CFSG and Pricerite had also adopted their respective share option schemes. Details of movements in the respective share options during the year are as follows:

1. CFSG

Date of grant	Exercise price per share (HK\$)	Exercise period	notes	Number of options			outstanding as at 31 December 2001
				outstanding as at 1 January 2001	granted during the year	lapsed during the year	
Directors							
26/3/2001	0.11	1/10/2001 – 30/9/2004	(1)	–	45,000,000	–	45,000,000
				–	45,000,000	–	45,000,000
Employees							
26/3/2001	0.11	1/10/2001 – 30/9/2004	(2) & (3)	–	55,000,000	–	55,000,000
27/3/2001	0.11	1/10/2001 – 30/9/2004	(2) & (4)	–	26,300,000	(2,200,000)	24,100,000
				–	81,300,000	(2,200,000)	79,100,000
				–	126,300,000	(2,200,000)	124,100,000

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 CFSG".
- (2) 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 12 months from the commencement of the exercise period.

DIRECTORS' REPORT

- (3) The closing price of the share immediately before the date of grant was HK\$0.109.
- (4) The closing price of the share immediately before the date of grant was HK\$0.105.
- (5) The lapsed options were due to cessation of employment of participants with the Group.
- (6) No option was exercised or cancelled during the year.
- (7) The fair value of the options granted during the year totalled approximately HK\$1,385,140. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
- (i) an expected volatility of 2.1%;
- (ii) no annual dividends; and
- (iii) the estimated expected life of the options granted during the year is 3.5 years. The corresponding 3 years Hong Kong Exchange Fund Notes interest rate at the date of the options were granted was 3.52%.
- The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price.
- (8) 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.
- (9) No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the year.

2. Pricerite

Date of grant	Exercise price per share (adjusted after rights issue) (HK\$)	Exercise period	notes	outstanding as at 1 January 2001	granted during the year	exercised during the year	lapsed during the year	adjustment due to rights issue	outstanding as at 31 December 2001
Directors									
12/6/2000	0.32	13/6/2000 – 12/6/2002	(1)	10,000,000	–	–	–	8,000,000	18,000,000
12/6/2001	0.21	16/6/2001 – 15/6/2003	(1)	–	16,000,000	–	–	12,800,000	28,800,000
				10,000,000	16,000,000	–	–	20,800,000	46,800,000
Employees									
12/6/2000	0.32	13/6/2000 – 12/6/2003	(2)	4,495,000	–	(590,000)	(1,608,000)	2,140,000	4,437,000
12/6/2000	0.32	13/6/2000 – 12/6/2002	(3)	4,000,000	–	–	(2,000,000)	1,600,000	3,600,000
12/6/2000	0.32	13/6/2000 – 12/6/2002		10,000,000	–	–	(10,000,000)	–	–
				18,495,000	–	(590,000)	(13,608,000)	3,740,000	8,037,000
				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 Pricerite".
- (2) 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.
- (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 weighted average closing price of the share immediately before the date of exercises was HK\$0.79.

DIRECTORS' REPORT

- (6) *The lapsed options were due to cessation of employment of participants with the Group.*
- (7) *No option was cancelled during the period.*
- (8) *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 year 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.*
- (9) *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.*
- (10) *No accounting treatment has been adopted in the financial statements in respect of the value of options subsisting during the year.*

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)	3,200,225,537	50.05
Jeffnet Inc (note)	3,200,225,537	50.05
Cash Guardian	2,532,017,154	39.60
Suffold	668,208,383	10.45

note: The shares are held as to 2,532,017,154 shares by Cash Guardian (which is 100% beneficially owned by Jeffnet Inc ("Jeffnet")) and as to 668,208,383 shares by Suffold (which is 100% beneficially owned by Jeffnet). Jeffnet 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, Mr Kwan and Jeffnet are deemed to be interested in the aggregate shares held by Cash Guardian and Suffold.

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 year ended 31 December 2001, the Company purchased shares of HK\$0.10 each in the Company on the Stock Exchange as follows:

2001 Month	Number of shares purchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate price paid (before expenses) (HK\$)
January	7,782,000	0.240	0.192	1,720,178
March	948,000	0.234	0.220	213,580
April	5,804,000	0.202	0.172	1,075,308
May	3,164,000	0.203	0.193	629,782
July	3,990,000	0.203	0.193	795,100
August	6,248,000	0.198	0.179	1,165,424
September	8,166,000	0.113	0.083	795,984
October	1,260,000	0.092	0.072	108,920
Total	37,362,000			6,504,276

DIRECTORS' REPORT

The above shares were cancelled upon repurchase.

The reason for making the purchases was to enhance the net value per share in the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2001.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 43 to the financial statements.

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 28 June 1999 and was as at 31 December 2001 comprising Dr Chan Hak Sin and Mr Leung Ka Kui Johnny, 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 years ended 31 December 2001 and 31 December 2000 were audited by Messrs Deloitte Touche Tohmatsu while that for the year ended 31 December 1999 was 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, 15 March 2002