

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 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 and corporate finance, (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 2002 are set out in the consolidated income statement on page 30 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 2002 is set out on pages 93 to 94 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 15 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 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 29 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 30 to the financial statements.

As at 31 December 2002, the reserves of the Company available for distribution to shareholders were approximately HK\$77,517,000 and the Company's share premium available for distribution in the form of fully paid bonus shares was HK\$266,810,000.

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CHARITABLE DONATIONS

The Company had made charitable donations of HK\$2,563,000 for the year ended 31 December 2002.

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	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 shareholders (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

Chan Yau Ching Bob (appointed on 1 August 2002)

Kwok Oi Kuen Joan Elmond

Law Ka Kin Eugene

Li Yuen Cheuk Thomas

Khoo Ken Wee (resigned on 18 June 2002)

Independent Non-executive Directors:

Wong Chuk Yan

Chan Hak Sin

Leung Ka Kui Johnny

In accordance with Bye-law 86(2) of the Company's Bye-laws, Dr Chan Yau Ching Bob shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr Law Ka Kin Eugene and Mr Wong Chuk Yan shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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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 40 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.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 38 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	Personal	Number of shares beneficially held		Other interest	Shareholding (%)
		Family			
Kwan Pak Hoo Bankee	—	—	156,952,376*		51.38
Law Ping Wah Bernard	5,096,200	—	—		1.67
Chan Yau Ching Bob	70,500	200,200	—		0.09
Kwok Oi Kuen Joan Elmond	2,700,000	—	—		0.88
Law Ka Kin Eugene	125,000	—	—		0.04
Li Yuen Cheuk Thomas	2,501,875	—	—		0.82

* The shares were held by Cash Guardian Limited ("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.

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

(a) Ordinary shares in CFSG

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

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

(b) Ordinary shares in Pricerite

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

* The shares were held by CIGL and its subsidiaries. Mr Kwan was deemed to be interested in all these shares as a result of his interests in the Company 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 37(A) to the financial statements.

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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	adjusted on 25 April 2002 (Note 1)	granted during the year (Notes 4 & 7)	lapsed during the year (Note 5)	outstanding as at 31 December 2002		
Kwan Pak Hoo Bankee	4/10/1999	40,000,000	–	–	(40,000,000)	–	8/4/2000 – 7/4/2002	0.59 (9)
	2/5/2002	–	–	3,000,000	–	3,000,000	2/5/2002 – 30/4/2003	1.32 (9)
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
Chan Yau Ching Bob	6/11/2000	5,000,000	(4,750,000)	–	–	250,000	16/5/2001 – 15/5/2003	5.40 (3)&(8)
	31/8/2001	30,000,000	(28,500,000)	–	–	1,500,000	1/3/2002 – 28/2/2004	2.60 (3)&(8)
	2/5/2002	–	–	1,500,000	–	1,500,000	2/5/2002 – 30/4/2003	1.32 (8)
Kwok Oi Kuen Joan Elmond	4/10/1999	5,750,000	–	–	(5,750,000)	–	8/4/2000 – 7/4/2002	0.59 (2)
	6/11/2000	15,000,000	(14,250,000)	–	–	750,000	16/5/2001 – 15/5/2003	5.40 (3)
	2/5/2002	–	–	3,000,000	–	3,000,000	2/5/2002 – 30/4/2003	1.32
Law Ka Kin Eugene	4/10/1999	3,000,000	–	–	(3,000,000)	–	8/4/2000 – 7/4/2002	0.59 (2)
	1/6/2000	10,000,000	(9,500,000)	–	(500,000)	–	1/12/2000 – 30/11/2002	7.00 (3)
	6/11/2000	10,000,000	(9,500,000)	–	–	500,000	16/5/2001 – 15/5/2003	5.40 (3)
	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
Khoo Ken Wee	4/10/1999	20,000,000	–	–	(20,000,000)	–	8/4/2000 – 7/4/2002	0.59 (8)
Wong Chuk Yan	2/5/2002	–	–	200,000	–	200,000	1/11/2002 – 31/10/2003	1.32 (3)
Chan Hak Sin	2/5/2002	–	–	200,000	–	200,000	1/11/2002 – 31/10/2003	1.32 (3)
Leung Ka Kui Johnny	2/5/2002	–	–	200,000	–	200,000	1/11/2002 – 31/10/2003	1.32 (3)
		198,750,000	(66,500,000)	17,100,000	(129,250,000)	20,100,000		

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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 the Company for 20 shares into 1 share with effect from the close of business on 25 April 2002.
- (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 closing price of the share immediately before the date of grant of options was HK\$1.32.
- (5) The lapsed options were due to the expiry or cessation of employment of participants with the Group.
- (6) No options were exercised or cancelled during the year.
- (7) The fair value of the options granted by the Company to the Directors during the year totaled approximately HK\$368,880. The assumptions in arriving the fair value of the options are disclosed in the section under the heading "Share Option Schemes" below.
- (8) Mr Khoo Ken Wee resigned and Dr Chan Yau Ching Bob was appointed as a Director of the Company during the year.
- (9) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

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B. 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 37(B) to the financial statements.

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 (Note 2)	Exercise price per share (HK\$)
		outstanding as at 1 January 2002	adjusted on 25 April 2002 (Note 1)	outstanding as at 31 December 2002		
Law Ka Kin Eugene	26/3/2001	25,000,000	(23,750,000)	1,250,000	1/10/2001 – 30/9/2004	2.20
Law Ping Wah Bernard	26/3/2001	20,000,000	(19,000,000)	1,000,000	1/10/2001 – 30/9/2004	2.20
		45,000,000	(42,750,000)	2,250,000		

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 CFSG for 20 shares into 1 share with effect from the close of business on 25 April 2002.
- (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.
- (3) No options were granted, exercised, lapsed or cancelled during the year.

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C. Rights to acquire shares in Pricerite

Pursuant to the share option schemes 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. Further details of the share option schemes of Pricerite are set out in note 37(C) to the financial statements.

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	Number of options				Exercise period	Exercise price per share (HK\$)	Notes
		outstanding	granted	lapsed	outstanding			
		as at 1 January 2002			as at 31 December 2002			
			(Notes 1&4)	(Note 2)				
Kwan Pak Hoo Bankee	12/6/2000	18,000,000	–	(18,000,000)	–	13/6/2000 – 12/6/2002	0.32	(6)
	17/1/2002	–	20,000,000	–	20,000,000	1/2/2002 – 31/1/2004	0.21	(6)
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	
Kwok Oi Kuen Joan Elmond	17/1/2002	–	20,000,000	–	20,000,000	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	
Khoo Ken Wee	12/6/2001	7,200,000	–	(7,200,000)	–	16/6/2001 – 15/6/2003	0.21	(5)
	17/1/2002	–	13,000,000	(13,000,000)	–	1/2/2002 – 31/1/2004	0.21	(5)
		46,800,000	72,000,000	(38,200,000)	80,600,000			

Notes:

- (1) The closing price of the share immediately before the date of grant of options was HK\$0.207.
- (2) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (3) No option was exercised or cancelled during the year.
- (4) The fair value of the options granted by Pricerite to the Directors during the year totaled approximately HK\$152,100. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:
 - (i) an expected volatility of 0.061%;

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- (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 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.

- (5) Mr Khoo Ken Wee resigned as a Director of the Company during the year.
- (6) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

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

The Company

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 37(A) to the financial statements.

As disclosed in note 37(A) to the financial statements, the Company had granted a total number of 22,100,000 options during the year. The fair value of the said options totaled approximately HK\$491,840. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (i) an expected volatility of 1.1%;
- (ii) no annual dividends; and

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- (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.

The subsidiaries

CFSG and Pricerite had also adopted their respective share option schemes. Particulars of the share option schemes of CFSG and Pricerite and details of movements in the share options to subscribe for shares of HK\$0.10 each in CFSG and Pricerite granted under the share option schemes during the year are set out in notes 37(B) and 37(C) respectively to the financial statements.

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)	156,952,376	51.38
Jeffnet Inc (Note)	156,952,376	51.38
Cash Guardian	156,952,376	51.38

Note: This refers to the same number of shares held 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, Mr Kwan and Jeffnet were deemed to be interested in the shares held by Cash Guardian.

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.

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2002, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 29(c) to the financial statements. The Directors considered that the repurchase would enhance the net value per share in the Company.

Save as disclosed in note 29(c) to the financial statements, 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 2002.

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 2002 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

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, 21 March 2003