

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 2004.

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 of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, margin financing, corporate finance and other financial services, (b) retailing of furniture and household items provided via Pricerite, (c) investment holding including property investment, and (d) brand management.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 38 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 2004 is set out on page 97 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 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 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 27 to the financial statements.

As at 31 December 2004, 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\$292,809,000.

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.

RAISING OF FUNDS AND USE OF PROCEEDS

On 19 August 2004, the Company entered into an agreement pursuant to which the Company would issue 72,000,000 new shares of HK\$0.10 each in the Company to Abdulrahman Saad Al-Rashid & Sons Company Limited, an independent third party, at the subscription price of HK\$0.330 per share. The closing price of each share on 19 August 2004 (the date of the agreement on which the terms has been fixed) was HK\$0.360 per share. The agreement has been completed and 72,000,000 new shares in the Company were duly issued and allotted on 24 September 2004.

The funds raised from the agreement of approximately HK\$23,760,000 was used as to approximately HK\$20,000,000 for the development of the international business while the balance as the general working capital of the Group. Details of the transaction were set out in the Company's announcement dated 20 August 2004.

Directors' Report

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

Purchases

| | |
|--------------------------|-------|
| – the largest supplier | 5.4% |
| – five largest suppliers | 16.4% |

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors) owns more than 5% of the Company 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 | |
| Wong Kin Yick Kenneth | |
| Miao Wen Hao Felix | |
| Kwok Oi Kuen Joan Elmond | |
| Li Yuen Cheuk Thomas | |
| Law Ka Kin Eugene | (resigned on 3 November 2004) |
| Chan Yau Ching Bob | (resigned on 28 February 2005) |

Independent Non-executive Directors:

Chan Hak Sin
Leung Ka Kui Johnny
Wong Chuk Yan

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Dr Chan Hak Sin and Mr Leung Ka Kui Johnny 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

Save as disclosed in note 35 to the financial statements, no Director had a material interest in any significant contract to the business of the Group to which the Company or its subsidiaries was a party during the year.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 33 to the financial statements.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, 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

1. Long positions in the shares

| Name | Capacity | Number of shares | | | Shareholding (%) |
|--------------------------|--------------------------------------|------------------|---------|----------------|---------------------|
| | | Personal | Family | Other interest | |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | – | – | 164,028,376* | 37.49 |
| Law Ping Wah Bernard | Beneficial owner | 5,096,200 | – | – | 1.16 |
| Kwok Oi Kuen Joan Elmond | Beneficial owner | 2,700,000 | – | – | 0.62 |
| Li Yuen Cheuk Thomas | Beneficial owner | 2,501,875 | – | – | 0.57 |
| Chan Yau Ching Bob | Beneficial owner and family interest | 70,500 | 200,200 | – | 0.06 |
| | | 10,368,575 | 200,200 | 164,028,376 | 39.90 |

- * 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.

Directors' Report

2. 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 2004 (%) |
|--------------------------|---------------|------------------------|---------------------------------|-------|----------------------------------|-----------------------------------|------------------------------------|--|
| | | | | | outstanding as at 1 January 2004 | lapsed during the year (Note (2)) | outstanding as at 31 December 2004 | |
| Kwan Pak Hoo Bankee | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | (4) | 3,000,000 | – | 3,000,000 | 0.69 |
| Law Ping Wah Bernard | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 3,000,000 | – | 3,000,000 | 0.69 |
| Wong Kin Yick Kenneth | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 1,000,000 | – | 1,000,000 | 0.23 |
| Miao Wen Hao Felix | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 1,000,000 | – | 1,000,000 | 0.23 |
| Kwok Oi Kuen Joan Elmond | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 3,000,000 | – | 3,000,000 | 0.69 |
| Li Yuen Cheuk Thomas | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 1,000,000 | – | 1,000,000 | 0.23 |
| Chan Yau Ching Bob | 31/8/2001 | 1/3/2002 – 28/2/2004 | 2.600 | (1) | 1,500,000 | (1,500,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | | 3,000,000 | – | 3,000,000 | 0.69 |
| Law Ka Kin Eugene | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.502 | (5) | 1,000,000 | (1,000,000) | – | – |
| | | | | | 17,500,000 | (2,500,000) | 15,000,000 | 3.45 |

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 lapsed options were due to expiry or cessation of directorship or employment of participants with the Group.
- (3) No option was granted, exercised or cancelled during the year.
- (4) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (5) Mr Law Ka Kin Eugene resigned as Director of the Company during the year.
- (6) The options are held by the Directors in the capacity of beneficial owner.

Directors' Report

B. Associated corporations (within the meaning of SFO)

1. CFSG

(a) Long positions in the shares

| Name | Capacity | Number of shares | | Shareholding (%) |
|-----------------------|----------------------------------|------------------|----------------|------------------|
| | | Personal | Other interest | |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | – | 386,827,434* | 51.27 |
| Wong Kin Yick Kenneth | Beneficial owner | 1,620,000 | – | 0.21 |
| | | 1,620,000 | 386,827,434 | 51.48 |

* 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) 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 2004 | |
|--------------------------|---------------|------------------------|--|---------|----------------------------------|---|---|--|------|
| | | | | | outstanding as at 1 January 2004 | adjusted on 24 April 2004 (Note [1]) | lapsed during the year 31 December 2004 | | |
| | | | | | as at 31 December 2004 | | (%) | | |
| Kwan Pak Hoo Bankee | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | (6) | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | (6) | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Law Ping Wah Bernard | 26/3/2001 | 1/10/2001 – 30/9/2004 | 0.83 | (2) | 2,040,000 | 612,000 | (2,652,000) | – | – |
| | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Wong Kin Yick Kenneth | 26/3/2001 | 1/10/2001 – 30/9/2004 | 0.83 | (2) | 2,040,000 | 612,000 | (2,652,000) | – | – |
| | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Miao Wen Hao Felix | 26/3/2001 | 1/10/2001 – 30/9/2004 | 0.83 | (2) | 1,530,000 | 459,000 | (1,989,000) | – | – |
| | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Kwok Oi Kuen Joan Elmond | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Li Yuen Cheuk Thomas | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Chan Yau Ching Bob | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | | 2,450,000 | 735,000 | – | 3,185,000 | 0.42 |
| Law Ka Kin Eugene | 26/3/2001 | 1/10/2001 – 30/9/2004 | 0.83 | (2)&(5) | 2,550,000 | 765,000 | (3,315,000) | – | – |
| | 3/11/2003 | 3/11/2003 – 31/10/2004 | 0.46 | (5) | 1,250,000 | 375,000 | (1,625,000) | – | – |
| | 2/12/2003 | 2/12/2003 – 30/11/2005 | 0.34 | (5) | 2,450,000 | 735,000 | (3,185,000) | – | – |
| | | | | | 36,510,000 | 10,953,000 | (25,168,000) | 22,295,000 | 2.94 |

Directors' Report

Notes:

- (1) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in CFSG with effect from 24 April 2004.
- (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) The lapsed options were due to expiry or cessation of directorship or employment of participants with the Group.
- (4) No option was granted, exercised or cancelled during the year.
- (5) Mr Law Ka Kin Eugene resigned as Director of the Company during the year.
- (6) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (7) The options are held by the Directors in the capacity of beneficial owner.

2. Pricerite

(a) Long positions in the shares

| Name | Capacity | Number of shares | |
|---------------------|----------------------------------|------------------|------------------|
| | | Other interest | Shareholding (%) |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | 446,572,587* | 66.98 |

- * The shares were held as to 443,572,587 shares by CIGL and its subsidiaries and as to 3,000,000 shares by Cash Guardian. 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.

Directors' Report

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

| Name | Date of grant | Exercise period | Exercise price per share (Notes (1)&(2)) (HK\$) | Notes | Number of options | | | | | | outstanding as at 31 December 2004 | Percentage to issued shares as at 31 December 2004 (%) |
|----------------------|---------------|------------------------|---|-------|----------------------------------|--|---|---|---|--------------------------------------|------------------------------------|---|
| | | | | | outstanding as at 1 January 2004 | adjusted on 2 March 2004 (Note (1)) | adjusted on 11 September 2004 (Note (2)) | exercised during the year (Note (3)) | cancelled during the year (Note (4)) | lapsed during the year (Note (5)) | | |
| Kwan Pak Hoo Bankee | 17/1/2002 | 1/2/2002 – 31/1/2004 | 4.200 | (7) | 1,000,000 | - | - | - | - | (1,000,000) | - | - |
| | 2/12/2003 | 2/12/2003 – 30/11/2004 | 0.316 | (7) | 1,000,000 | 4,000,000 | 666,667 | - | - | (5,666,667) | - | - |
| Law Ping Wah Bernard | 17/1/2002 | 1/2/2002 – 31/1/2004 | 4.200 | | 650,000 | - | - | - | - | (650,000) | - | - |
| | 2/12/2003 | 2/12/2003 – 30/11/2004 | 0.316 | | 1,000,000 | 4,000,000 | 666,667 | - | - | (5,666,667) | - | - |
| Miao Wen Hao Felix | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | | 500,000 | 2,000,000 | 333,333 | - | - | - | 2,833,333 | 0.42 |
| Li Yuen Cheuk Thomas | 17/1/2002 | 1/2/2002 – 31/1/2004 | 4.200 | | 300,000 | - | - | - | - | (300,000) | - | - |
| | 2/12/2003 | 1/12/2004 – 30/11/2005 | 0.316 | | 500,000 | 2,000,000 | 333,333 | - | - | - | 2,833,333 | 0.42 |
| Chan Yau Ching Bob | 2/12/2003 | 2/12/2003 – 30/11/2004 | 0.316 | | 1,000,000 | 4,000,000 | 666,666 | (200,000) | (5,466,666) | - | - | - |
| | | | | | 5,950,000 | 16,000,000 | 2,666,666 | (200,000) | (5,466,666) | (13,283,334) | 5,666,666 | 0.84 |

Notes:

- (1) The number and the exercise price of options which remain outstanding have been adjusted due to share subdivision of Pricerite for 1 share to 5 shares with effect from 2 March 2004.
- (2) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in Pricerite with effect from 11 September 2004.
- (3) On 29 October 2004, 200,000 shares options of Pricerite were exercised at the exercise price of HK\$0.316 per share. The weighted average closing price of the Pricerite's shares immediately before the date of exercise was HK\$0.345 per share.
- (4) On 3 November 2004, 5,466,666 shares options of Pricerite were cancelled. The exercise price of the cancelled options was HK\$0.316 per share.
- (5) The lapsed options were due to expiry.
- (6) No options was granted during the year.
- (7) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company.
- (8) The options are held by the Directors in the capacity of beneficial owner.

Save as disclosed above, as at the 31 December 2004, 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).

Directors' Report

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 32(A) to the financial statements.

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 shares of HK\$0.02 each in Pricerite granted under the share option schemes during the year are set out in notes 32(B) and 32(C) respectively to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, 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 ("Jeffnet") (Note (1)) | Trustee of a discretionary trust | 164,028,376 | 37.49 |
| Cash Guardian (Note (1)) | Interest in a controlled corporation | 164,028,376 | 37.49 |
| Mr Al-Rashid, Abdulrahman Saad ("Mr Al-Rashid") (Note (2)) | Interest in a controlled corporation | 72,000,000 | 16.46 |
| Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") (Note (2)) | Beneficial owner | 72,000,000 | 16.46 |

Directors' Report

Notes:

- (1) This refers to the same number of shares held by Cash Guardian (which is 100% beneficially owned by 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 Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan and Jeffnet were deemed to be interested in the shares held by Cash Guardian. 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 shares were held by ARTAR, which was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in the shares held by ARTAR.

Save as disclosed above, at 31 December 2004, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more or short positions of the issued share capital of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this Annual Report, the Company has maintained sufficient public float of not less than 25% of its shares in the hands of the public throughout the year ended 31 December 2004.

DONATIONS

During the year, the Group made charitable donations amounted to approximately HK\$311,000.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

Directors' Report

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 (in force prior to the amendments effective on 1 January 2005) of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the year ended 31 December 2004 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.

The Company had adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules, and all Directors have complied with the required standard of dealings set out therein throughout the year ended 31 December 2004.

The Company has received a written confirmation in respect of independence from each of the Independent Non-executive Director of the Company in compliance with rule 3.13 of the Listing Rules, and the Company still considers that each of them is to be independent.

AUDIT COMMITTEE

The Audit Committee of the Company was established on 28 June 1999 and was as at 31 December 2004 comprising Dr Chan Hak Sin, Mr Leung Ka Kui Johnny and Mr Wong Chuk Yan, all 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.

Directors' Report

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

Hong Kong, 15 April 2005