

# Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted 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, other financial services and online game services, sales of online game auxiliary products and licensing services; (b) retailing of furniture and household items and trendy digital products; and (c) investment holding.

## RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 46 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 2006 is set out on pages 127 to 128 of this Annual Report.

## PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Group are set out in note 16 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 47 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

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## RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity of this Annual Report.

As at 31 December 2006, 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\$137,398,000.

## 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 TRANSACTION

On 9 January 2007, subsequent to the balance sheet date, (i) Celestial Investment Group Limited ("CIGL"), a wholly-owned subsidiary of the Company, entered into an agreement with CFSG. As CFSG is a non-wholly-owned subsidiary of the Company where a substantial shareholder is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of CFSG, CFSG is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the agreement, CIGL would acquire of the entire issued capital of the Game Group from CFSG at a consideration of the higher of HK\$120 million or the valuation of the online game business operated by the Game Group as at 31 December 2006 ("Acquisition"). The consideration was finally fixed at HK\$120 million. The Game Group is an online game developer and operator in PRC and Taiwan; and (ii) CIGL entered into an option deed with Mr Lin Che Chu George in relation to the grant of option by CIGL to Mr Lin the right to require CIGL to transfer 10% of the issued share capital of Netfield Technology Limited for a cash consideration at 10% of the consideration with respect of the Acquisition. Mr Lin Che Chu George is a Director of the Company and hence a connected person of the Company within the meaning of the Listing Rules. The entering into of the agreement and the option deed constituted a connected and major transaction and a connected and possible discloseable transaction of the Company under the Listing Rules respectively and the Acquisition and the grant of option will be subject to conditions including, inter alia, the approval of the independent shareholders of the Company at a special general meeting to be held on 23 April 2007. Details of the Acquisition and the grant of option were set out in the Company's announcements dated 9 January 2007 and 22 January 2007 and the circular dated 4 April 2007. The Game Group was originally acquired by CFSG at a consideration of HK\$110 million in September 2005 and the acquisition was completed in January 2006.

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## RAISING OF FUNDS AND USE OF PROCEEDS

On 11 October 2006, the Company announced a 2-for-1 rights issue at the subscription price of HK\$0.28 per share to raise approximately HK\$61.2 million (before expenses). The closing price of each share on 9 October 2006 (the last trading day prior to the fixing of the terms of the rights issue) was HK\$0.385. The rights issue has been completed and 218,741,913 rights shares in the Company were duly issued and allotted on 17 November 2006. The net proceeds of approximately HK\$59.8 million were used as to approximately HK\$40 million for expansion of the retail business in PRC and the balance for general working capital purposes. Details of the rights issue were disclosed in the Company's announcement dated 11 October 2006 and the prospectus dated 31 October 2006.

## 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 had no major supplier due to the nature of principal activities of the Group.

## 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

Lin Che Chu George (was appointed on 1 December 2006)

Li Yuen Cheuk Thomas (resigned on 1 December 2006)

Kwok Oi Kuen Joan Elmond (resigned on 13 April 2006)

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

Leung Ka Kui Johnny

Wong Chuk Yan

Chan Hak Sin

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The following Directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company:

- (i) Mr Wong Kin Yick Kenneth shall retire at least once in every three financial years at annual general meeting of the Company in accordance with the corporate governance code;
- (ii) Mr Lin Che Chu George shall retire at the first general meeting of the Company after his appointment in accordance with Bye-law 86(2) of the Company's Bye-laws and the corporate governance code; and
- (iii) Mr Leung Ka Kui Johnny, Mr Wong Chuk Yan and Dr Chan Hak Sin, being INEDs, shall retire at the annual general meeting of the Company in each year in accordance with their terms of office of directorship.

## 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 45 to the consolidated financial statements, no Director had a material interest in any significant contract to the business of the Group to which the Company and its subsidiaries was a party during the year.

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 43 to the consolidated financial statements.

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## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### A. The Company

#### 1. Long positions in the ordinary shares

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	246,042,564*	37.49
Law Ping Wah Bernard	Beneficial owner	7,644,300	–	1.16
		7,644,300	246,042,564	38.65

\* The shares were held by Cash Guardian Limited ("Cash Guardian"). Mr Kwan Pak Hoo Bankee 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.

#### 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	
					outstanding as at 1 January 2006	granted during the year (Notes [2]&[3])	issued shares as at 31 December 2006 (%)	
					outstanding as at 31 December 2006			
Kwan Pak Hoo Bankee	13/11/2006	13/11/2006 – 12/11/2008	0.323	(1)	–	4,000,000	4,000,000	0.61
Law Ping Wah Bernard	13/11/2006	13/11/2006 – 12/11/2008	0.323		–	4,000,000	4,000,000	0.61
Wong Kin Yick Kenneth	13/11/2006	13/11/2006 – 12/11/2008	0.323		–	4,000,000	4,000,000	0.61
Lin Che Chu George	13/11/2006	13/11/2006 – 12/11/2008	0.323	(4)	–	4,000,000	4,000,000	0.61
					–	16,000,000	16,000,000	2.44

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Notes:

- (1) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (2) The closing price of the share immediately before the date of grant of options on 13 November 2006 was HK\$0.33.
- (3) The fair value of the options granted by the Company to the Directors during the year totalled approximately HK\$422,000. The assumptions in arriving the fair value of the options are disclosed in note 42(A) to the consolidated financial statements.
- (4) Mr Lin Che Chu George was appointed as Director of the Company during the year.
- (5) No option held by the Directors was lapsed, exercised or cancelled during the year.
- (6) The options are held by the Directors in the capacity of beneficial owner.

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

CFSG

(a) Long positions in the ordinary shares

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	679,219,434*	49.15
Law Ping Wah Bernard	Beneficial owner	17,264,000	–	1.25
Wong Kin Yick Kenneth	Beneficial owner	9,860,000	–	0.71
Lin Che Chu George	Beneficial owner	280,000	–	0.02
		27,404,000	679,219,434	51.13

- \* The shares were held as to 638,827,434 shares by CIGL, a wholly-owned subsidiary of the Company, and as to 40,392,000 shares by Cash Guardian. Mr Kwan Pak Hoo Bankee 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.

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

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	Notes	Number of options			outstanding as at 31 December 2006	Percentage to issued shares as at 31 December 2006 (%)
					outstanding as at 1 January 2006	lapsed during the year (Note (6))	granted during the year (Notes (2)&(3))		
Kwan Pak Hoo Bankee	6/10/2005	6/10/2005 – 31/10/2006	0.380	(1)	7,800,000	(7,800,000)	–	–	–
	7/7/2006	7/7/2006 – 31/7/2008	0.296		–	–	6,000,000	6,000,000	0.43
Law Ping Wah Bernard	6/10/2005	6/10/2005 – 31/10/2006	0.380		7,800,000	(7,800,000)	–	–	–
	7/7/2006	7/7/2006 – 31/7/2008	0.296		–	–	6,000,000	6,000,000	0.43
Wong Kin Yick Kenneth	6/10/2005	6/10/2005 – 31/10/2006	0.380		7,800,000	(7,800,000)	–	–	–
	7/7/2006	7/7/2006 – 31/7/2008	0.296		–	–	6,000,000	6,000,000	0.43
Lin Che Chu George	7/7/2006	7/7/2006 – 31/7/2008	0.296	(4)	–	–	13,800,000	13,800,000	0.99
Li Yuen Cheuk Thomas	6/10/2005	6/10/2005 – 31/10/2006	0.380	(5)	7,500,000	(7,500,000)	–	–	–
Kwok Oi Kuen Joan Elmond	6/10/2005	6/10/2005 – 31/10/2006	0.380	(5)	7,800,000	(7,800,000)	–	–	–
					38,700,000	(38,700,000)	31,800,000	31,800,000	2.28

### Notes:

- (1) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (2) The closing price of the share immediately before the date of grant of options on 7 July 2006 was HK\$0.29.
- (3) The fair value of the options granted by the Company to the Directors during the year totalled approximately HK\$1,613,000. The assumptions in arriving the fair value of the options are disclosed in note 42(B) to the consolidated financial statements.
- (4) Mr Lin Che Chu George was appointed as Director of the Company during the year.
- (5) Ms Kwok Oi Kuen Joan Elmond and Mr Li Yuen Cheuk Thomas resigned as Directors of the Company during the year.
- (6) The lapsed options were due to expiry or cessation of directorship or employment of participants with the Group.
- (7) No option held by the Directors was exercised or cancelled during the year.
- (8) The options are held by the Directors in the capacity of beneficial owner.

Save as disclosed above, as at the 31 December 2006, 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).

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## SHARE OPTION SCHEMES

### The Company

Particulars of the Company's share option scheme 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 scheme during the year are set out in note 42(A) to the consolidated financial statements.

### The subsidiary

CFSG had also adopted its share option scheme. Particulars of the share option scheme of CFSG and details of movements in the share options to subscribe for shares of HK\$0.10 each in CFSG granted under the share option scheme during the year are set out in note 42(B) to the consolidated financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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	246,042,564	37.49
Cash Guardian (Note (1))	Interest in a controlled corporation	246,042,564	37.49
Mr Al-Rashid, Abdulrahman Saad ("Mr Al-Rashid") (Note (2))	Interest in a controlled corporation	108,000,000	16.46
Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") (Note (2))	Beneficial owner	108,000,000	16.46



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## 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 Pak Hoo Bankee 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 Pak Hoo Bankee 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 2006, 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 2006, 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 2006.

## DONATIONS

During the year, the Group made charitable donations amounted to approximately HK\$252,600.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 46 to the consolidated financial statements.

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## CONFIRMATION OF INDEPENDENCE

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 to be independent.

## AUDITORS

The consolidated 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, 20 April 2007