

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 activity of the Group is retailing of furniture and household items.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 30 of this Annual Report.

FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial periods is set out on page 84 of this Annual Report.

PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Company and the Group are set out in note 11 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 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 23 to the financial statements.

As at 31 December 2004, the reserves of the Company available for distribution to shareholders were approximately HK\$89,344,000, comprising contributed surplus of HK\$201,971,000 less accumulated losses of HK\$112,627,000.

Directors' Report

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

Acquisition of entire interest in Cosmos Global Assets Limited and its subsidiaries from substantial shareholder

On 3 November 2004, the Company entered into a sale and purchase agreement ("Agreement") with Celestial Investment Group Limited ("CIGL"), the controlling shareholder of the Company. Pursuant to the Agreement, CIGL has agreed to sell and the Company has agreed to purchase or procure to purchase the entire issued share capital of Cosmos Global Assets Limited ("CG Assets"), comprising two ordinary shares of US\$1 each, and an interest-free shareholder's loan advanced by CIGL to CG Assets which amounted to HK\$9,678,076 as at 31 August 2004 at the consideration of HK\$9,678,092 to be settled in cash. The transaction was a connected transaction of the Company. Completion of the transaction took place on 3 November 2004. Details of the transaction were set out in the Company's announcement dated 4 November 2004.

RAISING OF FUNDS AND USE OF PROCEEDS

On 25 August 2004, the Directors proposed a 1-for-4 rights issue at the subscription price of HK\$0.35 per share to raise approximately HK\$46,700,000 capital. The closing price of each share on 23 August 2004 (the last trading day prior to the suspension of trading in the shares for fixing of the terms of the rights issue) was HK\$0.85. The rights issue has been completed and 133,298,562 rights shares in the Company were duly issued and allotted on 30 September 2004.

The funds raised from the rights issue was used for the development of the international business for extension of our current retailing of furniture and household business to also distribution and bulk supply of our products or franchising of our business model to the overseas market, and for general working capital of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

- | | |
|--------------------------|-------|
| – the largest supplier | 10.7% |
| – five largest suppliers | 32.5% |

Directors' Report

The Group had no major customer due to the nature of principal activities of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers above.

DIRECTORS

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 Lai Ling Elaine
 Leung Siu Pong James
 Li Yuen Cheuk Thomas
 Chan Yau Ching Bob
 Cheng Pui Lai Majone

(resigned on 3 November 2004)

(resigned on 31 March 2005)

Independent Non-executive Directors:

Hui Ka Wah Ronnie
 Lai Wai Kwong Daryl
 Lo Ming Chi Charles
 Lo Kwok Hung John

(appointed on 30 March 2004)

(appointed on 3 November 2004)

(resigned on 3 November 2004)

In accordance with Bye-law 111 of the Company's Bye-laws and as agreed among the Directors, Mr Law Ping Wah Bernard shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 115 of the Company's Bye-laws, Mr Lai Wai Kwong Daryl shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any significant contract to the business of the Group to which the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company was a party during the year.

RETIREMENT BENEFITS SCHEME

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 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

(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 Limited ("Cash Guardian"). Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

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						Percentage to issued shares	
					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))	outstanding as at 31 December 2004	as at 31 December 2004
Kwan Pak Hoo Bankee	17/1/2002	1/2/2002 – 31/1/2004	4.200	(8)	1,000,000	-	-	-	-	(1,000,000)	-	-
	2/12/2003	2/12/2003 – 30/11/2004	0.316	(8)	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)	-	-
Cheng Pui Lai Majone	2/12/2003	1/12/2004 – 30/11/2005	0.316		1,000,000	4,000,000	666,667	-	-	-	5,666,667	0.85
Kwok Lai Ling Elaine	2/12/2003	1/12/2004 – 30/11/2005	0.316		1,000,000	4,000,000	666,667	-	-	-	5,666,667	0.85
Leung Siu Pong James	17/1/2002	1/2/2002 – 31/1/2004	4.200		250,000	-	-	-	-	(250,000)	-	-
	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	(7)	1,000,000	4,000,000	666,666	(200,000)	(5,466,666)	-	-	-
					8,200,000	24,000,000	4,000,000	(200,000)	(5,466,666)	(13,533,334)	17,000,000	2.54

Notes:

- (1) The number and the exercise price of options which remained outstanding have been adjusted due to share subdivision of the Company 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 the Company with effect from 11 September 2004.
- (3) On 29 October 2004, 200,000 share options of the Company were exercised at the exercise price of HK\$0.316 per share. The weighted average closing price of the Company's shares immediately before the date of exercise was HK\$0.345 per share.
- (4) On 3 November 2004, 5,466,666 share options of the Company 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 option was granted during the year.
- (7) Dr Chan Yau Ching Bob resigned as a Director of the Company during the year.
- (8) Mr Kwan Pak Hoo Bankee is also a substantial shareholder of the Company.
- (9) The options are held by the Directors in the capacity of beneficial owner.

Directors' Report

B. Associated corporations (within the meaning of SFO)

1. CASH

(a) Long positions in the shares

Name	Capacity	Number of shares			Shareholding (%)
		Personal	Family	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	–	–	164,028,376*	37.49
Law Ping Wah Bernard	Beneficial owner	5,096,200	–	–	1.16
Kwok Lai Ling Elaine	Beneficial owner and family interest	21,200	500	–	0.01
Li Yuen Cheuk Thomas	Beneficial owner	2,501,875	–	–	0.57
		7,619,275	500	164,028,376	39.23

* The shares were held by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

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

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	Notes	Number of options			Percentage to issued shares as at 31 December 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		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
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)&(3)	1,500,000	(1,500,000)	–	–
	2/12/2003	2/12/2003 – 30/11/2005	0.502	(3)	3,000,000	–	N/A	N/A
					11,500,000	(1,500,000)	7,000,000	1.61

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 lapsed options were due to expiry.
- (3) Dr Chan Yau Ching Bob resigned as Director of the Company during the year.
- (4) 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).

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for shares of HK\$0.02 each in the Company granted under the share option schemes during the year are set out in note 25(A) 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 (Note (1))	Trustee of a discretionary trust	446,572,587	66.98
Cash Guardian (Note (1))	Interest in a controlled corporation	446,572,587	66.98
CASH (Note (1))	Interest in a controlled corporation	443,572,587	66.53
CIGL (Note (1))	Beneficial owner	443,572,587	66.53
Mr Ng Hung Sang Robert ("Mr Ng") (Note (2))	Interest in a controlled corporation	60,390,500	9.06
South China Holdings Limited ("SCH") (Note (2))	Interest in a controlled corporation	60,390,500	9.06
South China (BVI) Limited ("SCBVI") (Note (2))	Interest in a controlled corporation	60,390,500	9.06
Tek Lee Finance and Investment Corporation Limited ("Tek Lee") (Note (2))	Interest in a controlled corporation	60,390,500	9.06

Directors' Report

Name	Capacity	Number of shares	Shareholding (%)
South China Industries Limited ("SCI") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
South China Industries (BVI) Limited ("SCIBVI") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
Wah Shing International Holdings Limited ("WSIH") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
Wah Shing Toys International (BVI) Limited ("WSTIBVI") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
Wah Shing Toys Company Limited ("WST") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
Man Wah Plastics Company Limited ("MWP") (Note (2))	Interest in a controlled corporation	57,322,500	8.60
Man Wah Trading Limited ("MWT") (Note (2))	Beneficial owner	57,322,500	8.60

Notes:

- (1) The shares were held as to 3,000,000 shares by Cash Guardian and as to 443,572,587 shares by CIGL and its subsidiaries. CIGL was a wholly-owned subsidiary of CASH which was owned as to approximately 37.49% by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in the shares held by CIGL through CASH. The above interest has already been disclosed as other interest of Mr Kwan in the section headed "Directors' Interests in Securities" above.
- (2) The shares were held as to 57,322,500 shares by MWT and as to 3,068,000 shares by an indirect controlled corporation of Tek Lee. MWT was 100% directly owned by MWP, which in turn was 100% owned by a chain of wholly-owned controlled corporations of WST, WSTIBVI, WSIH respectively. WSIH was 62.34% owned by SCIBVI, which in turn was 100% owned by SCI. SCI was 74.79% owned by three wholly-owned subsidiaries of Tek Lee, which in turn was 100% owned by a chain of wholly-owned controlled corporations of SCBVI and SCH respectively. SCH was controlled as to 73.72% by Mr Ng through his controlled companies.

Pursuant to the SFO, MWP, WST, WSTIBVI, WSIH, SCIBVI, SCI were all deemed to be interested in the 57,322,500 shares held by MWT, and Tek Lee, SCBVI, SCH and Mr Ng were all deemed to be interested in the 60,390,500 shares held by MWT and the indirect controlled corporation of Tek Lee.

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.

Directors' Report

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's 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.

POST BALANCE SHEET EVENT

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

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 to be independent.

AUDIT COMMITTEE

The Audit Committee of the Company was established on 9 November 1999 and was as at 31 December 2004 comprising Dr Hui Ka Wah Ronnie, Mr Lai Wai Kwong Daryl and Mr Lo Ming Chi Charles, 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.

AUDITORS

The financial statements of the Company for the year were 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

Bankeo P Kwan

Chairman

Hong Kong, 15 April 2005