

Directors' Report

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries are property investment and development, and financial services. The Group was also previously involved in trading of computer products and office equipment, and provision of information technology training and software development services (Note 1 to the financial statements) which operations were discontinued during the year. On 20 October 2004, the directors resolved to cease the securities broking services and investment operations of the Group (discontinuing operations – Note 1 to the financial statements).

Segment information

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 7 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 87.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2003.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 25 to 26 and other details of the reserves of the Company and the Group are set out in Note 40 to the financial statements.

Distributable reserves

At 31 December 2003, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK\$329,049,000, may be distributed in the form of fully paid bonus shares.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 88 to 89. This summary does not form part of the audited financial statements.

Donations

During the year the Group made charitable and other donations amounting to approximately HK\$6,000.

Fixed assets and investment properties

Details of movements in fixed assets of the Company during the year are set out in Note 17 to the financial statements.

Fixed assets and investment properties (Continued)

Details of movements in fixed assets and investment properties of the Group during the year are set out in Notes 17 and 18 to the financial statements. Further details of the properties held by the Group are set out on pages 90 to 91.

Properties under development

Details of movements in properties under development of the Group during the year are set out in Note 19 to the financial statements.

Bank and other borrowings

Details of the Company's and the Group's bank and other borrowings at 31 December 2003 are set out in Note 36 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year are set out in Note 38 to the financial statements.

Share options

Information about the share options of the Company during the year is set out in Note 39 to the financial statements.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors

Kong Lok King (*Chairman and Managing Director*)
– appointed on 15 July 2004
Kong Li Jer
Kong Li Szu
Kong Look Sen – deceased on 6 July 2004

Independent non-executive directors

Ku Suen Fai
Fai Cheong Hau
Chan Shing Hoi Alfred – appointed on
10 January 2005

In accordance with Articles 1(G) and 81 to 84 of the Company's Articles of Association, Mr. Ku Suen Fai and Mr. Fai Cheong Hau will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors and senior management

Biographical details of the directors and the senior management of the Company are set out on pages 17 to 18.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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Directors' interests in contracts

Save as disclosed in Note 44 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests in shares

At 31 December 2003, the interests and short positions of the directors and chief executives 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 (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long Position in the shares of the Company

Name of director	Notes	Number of shares held and nature of interest		Total	Percentage of issued share capital
		Personal	Corporate		
Kong Look Sen (deceased)	(1)	22,760,695	1,457,225,836	1,479,986,531	57.79
Kong Li Jer	(1)	22,760,695	1,457,225,836	1,479,986,531	57.79
Kong Li Szu	(2)	22,760,695	1,053,850,042	1,076,610,737	42.04

Notes:

(1) The corporate interests in 1,457,225,836 shares comprised of 1,053,850,042 shares being held by Kong Fa Holding Limited ("Kong Fa") and 403,375,794 shares by Kong Sun Enterprise Sdn. Bhd. ("KSE"), respectively. Mr. Kong Look Sen, who was a director and shareholder of Kong Fa

and KSE, had passed away on 6 July 2004 and all his shares are being held under an Estate. Mr. Kong Li Jer is a director and shareholder of Kong Fa and KSE.

(2) The corporate interest in 1,053,850,042 shares is held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.

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Directors' and chief executives' interests in shares (Continued)

Save as disclosed above, at 31 December 2003, none of the directors or chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' and chief executives' rights to acquire shares and debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives or their spouses,

or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Substantial shareholders

At 31 December 2003, the following shareholders had interests, directly or in directly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholder	Number of ordinary shares held	Percentage of issued share capital
Kong Fa	1,053,850,042	41.15
KSE	403,375,794	15.75

Substantial shareholders (Continued)

Save as disclosed above, at 31 December 2003, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

Connected transactions

During the year, the Group had the following transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

At 31 December 2003, the short term investment represented the Group's investment in 10% of the registered capital of RMB120,000,000 of Kong Sheng Property Development Limited ("Kong Sheng"), a sino-foreign equity joint venture enterprise established in the People's Republic of China, which was principally engaged in property development in Xicheng District, Beijing. The Group had previously accounted for the investment in Kong Sheng as a subsidiary, and the financial

statements of Kong Sheng were consolidated in the financial statements of the Company for the year ended 31 December 2002 as the Group held 90.1% of the registered capital of Kong Sheng at 31 December 2002. During the year ended 31 December 2003, the Group's interest in Kong Sheng was gradually reduced from 90.1% at 1 January 2003 to 10% at 31 December 2003 following two transfers of interest of the registered capital of Kong Sheng as set out below:

On 16 January 2003, Best Spot Investments Limited ("Best Spot"), a wholly owned subsidiary of the Company, entered into an agreement (the "First Transfer Agreement") with a joint venture partner of Kong Sheng, Beijing Xicheng Housing Construction Development Company ("Beijing Xicheng") whereby Best Spot agreed to transfer 20.1% of the registered capital of Kong Sheng to Beijing Xicheng at a consideration of approximately HK\$22,429,000 (the "First Transfer"). Best Spot was given an option to repurchase the said 20.1% interest of the registered capital of Kong Sheng at a consideration of approximately HK\$25,121,000 within one year from the date of the First Transfer Agreement. The First Transfer was approved by Beijing Municipal Bureau of Commerce on 29 January 2003. The then registered capital of Kong Sheng was owned, as to 70% by Best Spot and as to 30% by Beijing Xicheng. Beijing Xicheng became a connected person of the Company under the Listing Rules in effect immediately prior to 31 March 2004 (the "Old Listing Rules")

Connected transactions (Continued)

On 1 April 2003, Best Spot entered into the Supplemental Property Development Contract with Kong Sheng and Beijing Xicheng whereby, among other things, Kong Sheng agreed to extend the total site area of property to be developed by approximately 16,955 square metres and the total advance development costs payable by Kong Sheng to Beijing Xicheng for such additional site area be increased by approximately HK\$287,000,000 ("Increased Advance Costs"). In the event Kong Sheng was unable to meet its obligation to pay the Increased Advance Costs, Best Spot would unconditionally be obliged to fulfil that obligation.

The entering into the Supplemental Property Development Contract constituted a disclosable and connected transaction for the Company under the Old Listing Rules. The agreement for Best Spot to fulfil the obligation of Kong Sheng to pay the Increased Advance Costs in the event Kong Sheng was unable to do so constituted financial assistance for the Company under Rule 14.26(6)(a) of the Old Listing Rules. The Company failed to comply Rule 14.26 of the Old Listing Rules for obtaining the prior approval of the Supplemental Property Development Contract from its shareholders in general meeting; making an announcement by way of press notice and issuing to its shareholders a circular in respect of

this contract. The Directors are of the view that the terms of the Supplemental Property Development Contract were agreed after arm's length negotiations and were fair, reasonable and on normal commercial terms and in the interests of the Company and its shareholders as a whole.

On 22 April 2003, Best Spot entered into an agreement (the "Second Transfer Agreement") with Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng") whereby Best Spot agreed to transfer 60% of the registered capital of Kong Sheng to Beijing Tianheng at a consideration of approximately HK\$67,290,000 (the "Second Transfer"). Best Spot was given an option to repurchase the said 60% interest of the registered capital of Kong Sheng at a consideration of approximately HK\$75,364,000 within one year from the date of the Second Transfer Agreement. The Second Transfer (together with a transfer of 30% of the registered capital of Kong Sheng owned by Beijing Xicheng to Beijing Tianheng) was subsequently approved by Beijing Municipal Bureau of Commerce on 16 June 2003. The then registered capital of Kong Sheng was owned, as to 10% by Best Spot and as to 90% by Beijing Tianheng.

Connected transactions (Continued)

The entering into the Second Transfer Agreement constituted a discloseable and connected transaction for the Company; and a disposal of a major subsidiary under the Old Listing Rules. The Company failed to comply Rules 14.12 to 14.13 and 14.26 of the Old Listing Rules for obtaining the prior approval of the Second Transfer Agreement from its shareholders in general meeting; making an announcement by way of press notice and issuing to its shareholders a circular in respect of the Second Transfer. The Directors are of the view that the terms of the Second Transfer Agreement were agreed after arm's length negotiations and were fair, reasonable and on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Saved as disclosed above and in Notes 25, 44(viii) and 44(ix) to the financial statements, there are no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Convertible securities, options, warrants or similar rights

The Company had no outstanding convertible securities, options, warrants or other similar rights at 31 December 2003. There has been no exercise of convertible securities, options, warrants or similar rights during the year.

Purchase, redemption or sale of the Company's listed securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Liquidity and financial resources

At 31 December 2003, the Group had total assets of approximately HK\$281,262,000 which were financed by current liabilities of approximately HK\$14,916,000, finance lease payables of approximately HK\$225,000, bank loans and other borrowings of approximately HK\$56,354,000, minority interests of approximately HK\$221,000 and shareholders' equity of approximately HK\$209,546,000. The Group's working capital ratio at the balance sheet date was approximately 0.4:1.

The Group has been unable to meet certain scheduled repayments due to its bankers and creditors during the year ended 31 December 2003 and up to the date of this annual report. As a consequence, there are various lawsuits against the Group from a number of bankers for the repayment of the amounts due by the Group. Hence, bank and other borrowings of approximately HK\$39,611,000 (outstanding balance at 31 December 2003) are immediately due and payable. Further details of the breach of loan agreements are set out in Note 36 to the financial statements.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 71% of the total sales for the year and sales to the largest customer included therein amounted to 35%. Purchases from the Group's five largest suppliers accounted for 90% of the total purchases for the year and purchases from the largest supplier included therein amounted to 79%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year.

Retirement benefits schemes

Details of the retirement benefits schemes of the Group are set out in Note 4(v)(iii) to the financial statements.

Employees and employment policies

At 31 December 2003, the Group employed 12 staff. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus and mandatory provident fund schemes.

Events after the balance sheet date

Details of the significant events after the balance sheet date are set out in Note 45 to the financial statements.

Disclosure pursuant to Chapter 13 of the Listing Rules

- (a) Pledging of shares by the controlling shareholder and loan agreements with covenants relating to specific performance of the controlling shareholder under Rules 13.17 and 13.18 of the Listing Rules:

In accordance with the disclosure requirements of Rules 13.17 and 13.18 of the Listing Rules, the following disclosures are included in respect of one of the Company's bank loan facilities, which the controlling shareholder of the Company has pledged its shares of the Company to secure the bank loan facility of the Company and contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan facility letter dated 25 October 2002 between the Company and Industrial and Commercial International Capital Limited ("ICIC"), relating to a 30-month term loan facility of HK\$20 million, a termination event would arise if 20% of the market value of certain of the Company's shares owned by Kong Fa and pledged with ICIC for the facility falls below 110% of the outstanding loan balance.

Disclosure pursuant to Chapter 13 of the Listing Rules (Continued)

At 31 December 2003, Kong Fa had pledged 596,052,085 ordinary shares of HK\$0.10 each of the Company to secure the loan facility and the outstanding loan balance was approximately HK\$7,090,000. Further details of the pledge and the related loan facility are set out in Note 36(c) to the financial statements.

(b) Advances to entities under Rule 13.13 of the Listing Rules:

(i) At 31 December 2003, the Group had a loan receivable of approximately HK\$39,510,000 and loan interest receivable of approximately HK\$1,793,000 due from Mr. Hoe Hee Liang (the "Borrower"), a shareholder of the Group's associate, United Victoria Sdn. Bhd. ("United Victoria"). The total receivable balances from the Borrower of approximately HK\$41,303,000 represented approximately 19.7% of the Group's net assets at 31 December 2003. Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005.

(ii) At 31 December 2003, the Group had an amount of approximately HK\$76,962,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 80.1% interest of the registered capital of Kong Sheng. This consideration receivable representing approximately 36.7% of the Group's net assets at 31 December 2003 is unsecured and interest free. Further details of the consideration receivable are set out in Note 27(a) to the financial statements.

Code of best practice

In the opinion of the directors, the Company has endeavored to comply with the Code of Best Practice (the "Code") as set out in the Listing Rules, throughout the accounting period covered by the annual report, except that (a) the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and (b) full board meeting was not held every six months during the year as required by paragraph 1 of the Code.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of Hong Kong.

Audit committee

The Company has an audit committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. Pursuant to Rules 3.10 and 3.19 of the Listing Rules, the Company is required to have at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise by 30 September 2004. In order to address to the non-compliance of Rule 3.10 of the Listing Rules, the Company had used its best efforts to identify a suitable person to be another independent non-executive director and a member of the audit committee of the Board. On 10 January 2005, Mr. Chan Shing Hoi Alfred has been appointed as an independent non-executive director of the Company. The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Ku Suen Fai, Mr. Fai Cheong Hau and Mr. Chan Shing Hoi Alfred. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial report matters including a review of the audited financial statements for the year ended 31 December 2003 with the management.

Auditors

Ernst & Young have acted as auditors of the Company for the past three years.

On 27 May 2004, Ernst & Young tendered their resignation as the Company's auditors. Subsequently RSM Nelson Wheeler were appointed as auditors of the Company in June 2004 to fill the vacancy left by the resignation of Ernst & Young.

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

KONG LOK KING

Chairman and Managing Director

Hong Kong, 19 January 2005