

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2004.

1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

2. FINANCIAL POSITION AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 17.

The state of the Group's affairs at 31 December 2004 is set out in the consolidated balance sheet on pages 18 and 19.

The changes in equity of the Group for the year are set out in the consolidated statement of changes in equity on page 21.

The cash flows of the Group for the year are set out in the consolidated cash flow statement on pages 22 and 23.

The directors do not recommend the payment of any dividend.

3. RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

At 31 December 2004, the Company's share premium account may be distributed in the form of fully paid bonus shares.

4. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

5. INTANGIBLE ASSETS

Details of the movements in intangible assets of the Group are set out in note 15 to the financial statements.

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6. SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 26 to the financial statements.

7. PRE-EMPTIVE RIGHTS

There is no provision 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.

8. BANK BORROWINGS

Particulars of bank borrowings at 31 December 2004 are set out in note 24 to the financial statements. There was no interest capitalized by the Group during the year.

9. FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

Results	Year ended 31 December				As restated
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	36,781	14,062	24,645	46,870	83,926
Operating loss after finance costs	(10,875)	(126,382)	(234,736)	(103,363)	(101,980)
Share of profits/(losses) of associated companies	-	2	(486)	(11,685)	(6,950)
Share of result of a joint venture	-	-	-	(310)	(59)
Amortisation of premium on acquisition of associated companies	-	(7,764)	(5,823)	-	-
Impairment loss on investments in associated companies	-	(11,862)	-	-	-
Impairment loss on investment held for resale	-	(115,739)	(30,816)	-	-
Gain/(loss) on disposal of subsidiaries	23,022	-	(1,905)	(84,147)	26,954
Gain on deconsolidation of a subsidiary	50,239	-	-	-	-
Gain on debt discharged under Creditors' Scheme	100,306	-	-	-	-
Profit/(loss) before taxation	162,692	(261,745)	(273,766)	(199,505)	(82,035)
Taxation	(841)	(596)	-	(82)	(225)
Profit/(loss) from operating activities	161,851	(262,341)	(273,766)	(199,587)	(82,260)
Minority interest	-	-	60,762	(1)	-
Profit/(loss) attributable to shareholders	161,851	(262,341)	(213,004)	(199,588)	(82,260)

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9. FIVE YEARS FINANCIAL SUMMARY (Continued)

Assets and Liabilities	As at 31 December				As restated
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	27,472	8,336	255,217	550,767	435,708
Total liabilities	(21,826)	(185,897)	(105,918)	(184,732)	(95,233)
	5,646	(177,561)	149,299	366,035	340,475
Minority interest	-	-	(74,827)	(135,589)	-
Shareholders' funds/(Capital deficiency)	5,646	(177,561)	74,472	230,446	340,475

10. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

11. DIRECTORS

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

Executive directors:

Mr. TAM Jin Rong (*Chairman*) (re-designated on 29 September 2004)
 Mr. TAO Ke Wei
 Mr. TAM Kai On
 Mr. KO Chung Ting, Peter

Independent non-executive directors:

Mr. CHOY Sai Man
 Mr. LAU Kwok Wah
 Mr. HUANG Shou Deng (appointed on 29 September 2004)

In accordance with Clause 99 of the Company's Bye-Laws, Messrs. TAO Ke Wei and CHOY Sai Man retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with Clause 102(B) of the Company's Bye-Laws, Mr. HUANG Shou Deng, being appointed by the Board during the year and eligible, offer himself for re-election at the forthcoming Annual General Meeting.

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12. DIRECTORS' SERVICE CONTRACTS

Mr. Tam Jin Rong, Mr. Tam Kai On, Mr. Tao Ke Wei and Mr. Ko Chung Ting, Peter entered into service contracts with the Company for a period of three years commencing from 11 February 2003, 1 June 2003, 1 June 2003 and 1 June 2003, respectively (the "Service Contracts"). The Service Contracts provided for a compensation payment from the Company for early termination by the Company during the term of Service Contracts.

Save as disclosed above, no directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

13. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its 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.

14. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on page 6.

15. RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year are set out in note 13 to the financial statements.

16. CONNECTED TRANSACTIONS

- (a) Pursuant to the Creditors' Scheme (note 2(b)(ii) to the financial statements), the Group repaid an aggregate amount of HK\$626,000 in cash and issued an aggregate of 9,395,000 Creditors Shares to four executive directors so as to discharge total scheme indebtedness of HK\$6,726,000 owing to the four executive directors. The resulting gain of HK\$5,160,000 arising from debts discharged under the scheme of arrangement has been credited to the income statement.
- (b) Pursuant to an agreement entered into between the Company and a shareholder, the shareholder committed to provide a loan with maximum amount of HK\$10 million to the Company for daily operation with interest rate at prime rate plus 2% per annum (note 25 to the financial statements). The loan is unsecured and repayable on demand. During the year, the Group paid interest of HK\$495,000 in relation to shareholder's loan.
- (c) During the year, the Group recognised construction revenue of HK\$366,000 (2003: HK\$1,667,000) from a company in which an executive director of the Company is a beneficial shareholder.

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16. CONNECTED TRANSACTIONS (Continued)

- (d) During the year, the Group paid rental of HK\$39,000 in relation to office premises and staff quarters in the PRC to a company in which an executive director is a beneficial shareholder.
- (e) As at 31 December 2004, included in the following accounts are amounts due from a company in which an executive director is a beneficial shareholder:

	2004 HK\$	2003 HK\$
Prepayments, deposits and other receivables	84,000	83,000
Gross amounts due from customers on construction contracts	<u>121,000</u>	<u>–</u>

17. LOAN FACILITIES FROM CONTROLLING SHAREHOLDER

The Company entered into a loan agreement with Mr. Tam Jin Rong, a controlling shareholder, who agreed to provide loan facilities of not more than HK\$10 million to finance the working capital requirements of the Group. At 31 December 2004, these facilities were utilised to the extent of HK\$7,175,000 which is unsecured, interest-bearing at prime rate plus 2% per annum and repayable on demand.

18. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

The directors and chief executives of the Company who held office at 31 December 2004 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO.

Name of Director	Capacity/Nature of Interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Tam Jin Rong ("Mr. Tam")	Corporate and personal (Note)	410,935,123	–	48.08%
Mr. Tao Ke Wei	Personal	1,917,095	–	0.22%
Mr. Tam Kai On	Personal	1,875,191	–	0.22%
Mr. Ko Chung Ting Peter	Personal	1,791,383	–	0.21%

Note: 407,123,869 Shares were held through Main Faith Limited ("Main Faith"), a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Tam

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18. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

Apart from the foregoing, none of the directors and chief executives of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

19. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (i) Particulars of the Company's share option scheme adopted on 11 June 1997 are set out in note 26 to the financial statements.
- (ii) At no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

20. SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of Shareholders	Capacity/Nature of Interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Tam	Corporate and Personal (Note)	410,935,123	–	48.08%
Main Faith	Beneficial	407,123,869	–	47.63%

Note: Out of the interest, 407,123,869 shares were beneficial owned by and registered in the name of Main Faith Limited ("Main Faith"), a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Tam

21. MANAGEMENT CONTRACTS

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

22. MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	93%
– five largest customers combined	100%

Purchase

– the largest supplier	23%
– five largest suppliers combined	59%

During the year, the Group has generated HK\$366,000 (2003: HK\$1,667,000) construction revenue in relation to two construction contracts, having an aggregate contract sum of approximately HK\$530,000, were carried out in the ordinary course of business and were entered into on normal commercial terms with a company of which, Mr. Tam is a beneficial shareholder, was one of the five largest customers noted above.

Except for the above, 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 customers or suppliers noted above.

23. COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules save that non-executive directors have not been appointed for a specific term but are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Bye-laws of the Company.

24. AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control. The audit committee comprises three independent non-executive directors of the Company.

25. PUBLIC FLOAT

On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the date of the report, the Company has complied with the public float requirements of the Listing Rules.

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26. POST BALANCE SHEET EVENTS

- (a) On 13 January 2005, the Group injected HK\$1,000,000 capital into a newly formed subsidiary 中盛企業管理顧問有限公司. The capital injection has been verified by a firm of certified public accountants in the PRC on 20 January 2005.
- (b) On 23 March 2005, Main Faith entered into a placing agreement ("Placing Agreement II") and a top-up subscription agreement ("Top-Up Subscription Agreement II") with a placing agent and the Company respectively.

Pursuant to the Placing Agreement II, Main Faith agreed to place an aggregate of 98,900,000 existing shares at a price of HK\$0.08 per share, on a fully underwritten basis, to not fewer than six placees which are independent individuals, corporate and/or institutional investors. The Placing Agreement II was completed on 31 March 2005.

Pursuant to the Top-Up Subscription Agreement II, Main Faith conditionally agreed to subscribe for an aggregate of 98,900,000 shares at a price of HK\$0.08 per share. However, the Top-Up Subscription Agreement II was lapsed given that one of the conditions precedent has not been fulfilled on or before 6 April 2005. Accordingly, the top-up subscription was not completed and the Company could not obtain the net proceeds of about HK\$7.5 million for the general working capital purpose from the top-up subscription. The Company confirmed that there is no material impact on its financial position as a result thereof.

Details of the Placing Agreement II and Top-Up Subscription Agreement II, and the lapse of Top-Up Subscription Agreement II were disclosed in the Company's announcements dated 23 March 2005 and 6 April 2005 respectively.

27. AUDITORS

On 15 April 2002, Arthur Andersen & Co. tendered their resignation as the auditors of the Company. On the same day, RSM Nelson Wheeler were appointed as auditors of the Company by the Board to fill in the casual vacancy. A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming Annual General Meeting.

On behalf of the board
Tam Kai On
Executive Director

Hong Kong, 27 April 2005