

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries are property investment and development, and financial services. On 20 October 2004, the directors resolved to cease the securities broking services and investment operations of the Group (discontinued operations - Note 6 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 83.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004.

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 20 to 21 and other details of the reserves of the Company and the Group are set out in Note 38 to the financial statements.

Distributable reserves

At 31 December 2004, 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, is set out on page 84. This summary does not form part of the audited financial statements.

Fixed assets and investment properties

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in Notes 17 and 18 to the financial statements respectively. Further details of the properties held by the Group are set out on page 85.

Share capital

Details of movements in the Company's share capital during the year are set out in Note 36 to the financial statements.

Share options

Information about the share options of the Company during the year is set out in Note 37 to the financial statements.

DIRECTORS' REPORT

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 – resigned on 23 February 2006

Sin Wai Chiu Joseph – appointed on 16 May 2005 and resigned on 24 March 2006

Ip Man Tin David – appointed on 16 May 2005

Chan Shing Hoi Alfred – appointed on 10 January 2005 and resigned on 15 May 2005

Fai Cheong Hau – deceased on 3 April 2005

Chan Chiu Hung Alex – appointed on 9 June 2006

Lo Tat Shing – appointed on 9 June 2006

In accordance with articles 1(G), 81 to 84 of the Company's articles of association, Mr. Ip Man Tin David, Mr. Chan Chiu Hung Alex and Mr. Lo Tat Shing 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 page 6.

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.

Directors' interests in contracts

No 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 interests, 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 2004, 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 ordinary shares held and nature of interest		Total	Percentage of issued share capital
		Personal	Corporate		
Kong Look Sen (deceased)	(1)	<u>22,760,695</u>	<u>1,457,225,836</u>	<u>1,479,986,531</u>	<u>57.79</u>
Kong Li Jer	(1)	<u>22,760,695</u>	<u>1,457,225,836</u>	<u>1,479,986,531</u>	<u>57.79</u>
Kong Li Szu	(2)	<u>22,760,695</u>	<u>1,053,850,042</u>	<u>1,076,610,737</u>	<u>42.04</u>

Notes:

- (1) The corporate interests in 1,457,225,836 shares comprise 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 Estate. Mr. Kong Li Jer is a the director and shareholder of Kong Fa and KSE.
- (2) The corporate interests of 1,053,850,042 shares is held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.

Save as disclosed above, at 31 December 2004, 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 or 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 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' REPORT

Substantial shareholders

At 31 December 2004, the following shareholders had interests, directly or indirectly, 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 Division 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 :

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

Save as disclosed above, at 31 December 2004, 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

Saved as disclosed in Note 42 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 2004. There has been no exercise of convertible securities, options, warrants or similar rights during the year.

Purchase, redemption or sale of 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 2004, the Group had total assets of HK\$242,872,000 which were financed by current liabilities of HK\$62,870,000, non-current liabilities of HK\$15,000, minority interests of HK\$20,000 and shareholders' equity of HK\$179,967,000. The Group's working capital ratio at the balance sheet date was approximately 0.39:1.

The Group has been unable to meet certain scheduled repayments due to its bankers and creditors during the year ended 31 December 2004 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\$42,003,000 are immediately due and payable. Further details of the breach of the loan agreements are set out in Note 34 to the financial statements.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 36% of the total sales for the year and sales to the largest customer included therein amounted to 29%. Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

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(u)(iii) to the financial statements.

Employees and employment policies

At 31 December 2004, the Group employed 8 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 post balance sheet events of the Group are set out in Note 43 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 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.

At 31 December 2004, 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\$6,399,000. Further details of the pledge and the related loan facility are set out in Note 34(c) to the financial statements.

- b) Advance to entities under Rule 13.13 of the Listing Rules :
- (i) At 31 December 2004, the Group had a loan receivable of approximately HK\$39,510,000 and the accrued loan interest receivable of approximately HK\$5,358,000 due from a shareholder (the "Borrower") of the Group's associate, United Victoria Sdn. Bhd. ("United Victoria"). 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. However, the loan and the accrued interest receivables remain outstanding and overdue. Thus, a provision of approximately HK\$5,358,000 has been made against the accrued interest receivable in the current year. The loan receivable balance of HK\$39,510,000 represented 16.3% of the Group's total assets at 31 December 2004. The Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria secured thereto for settlement of the outstanding receivables.
 - (ii) At 31 December 2004, the Group had a total consideration receivable of approximately HK\$78,679,000 due from Beijing Tianheng Property Development Joint Stock Company Limited. The amount representing approximately 32.4% of the Group's total assets at 31 December 2004 is unsecured and interest free. Further details of the consideration receivable is set out in Notes 25(b) and (c) 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.

Model Code adoption

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company made specific enquiry with all the directors as to whether the directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2005 and all the directors have confirmed that they have complied with the Model 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.

Board practices

The Company has received an annual confirmation of independence from each of the independent non-executive directors of the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines and are independent in accordance with the terms of the guidelines.

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. On 3 April 2005, Mr. Fai Cheong Hau, an independent non-executive director and a member of the audit committee of the Company, has passed away and Mr. Chan Shing Hoi, Alfred had tendered his resignation as independent non-executive director and member of the audit committee of the Company on 15 May 2005 and so the Company on 16 May 2005, appointed Mr. Sin Wai Chiu, Joseph and Mr. Ip Man Tin, David as independent non-executive directors as well as members of the audit committee of the Company. However, on 23 February 2006 and 24 March 2006, Mr. Ku Suen Fai and Mr. Sin Wai Chiu, Joseph had tendered their resignations as independent non-executive directors and members of the audit committee of the Company respectively. 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 other suitable persons to be independent non-executive directors and members of the audit committee of the Board. On 9 June 2006, Mr. Chan Chiu Hung, Alex and Mr. Lo Tat Shing have been appointed as independent non-executive directors and members of the audit committee of the Company. The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Ip Man Tin, David, Mr. Chan Chiu Hung, Alex and Mr. Lo Tat Shing. 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 2004 with the management.

Auditors

The financial statements for the two financial years ended 31 December 2002 and 31 December 2001 were audited by Ernst & Young. The financial statements for the two financial years ended 31 December 2004 and 31 December 2003 were audited by RSM Nelson Wheeler.

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

KONG LI SZU

Executive Director

Hong Kong, 16 June 2006