

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, none of the existing independent non-executive directors of the Company is appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company, which stipulates that one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code in this respect.

Under the code provision B.1, remuneration committee has to be set up by the Company. Despite no remuneration committee was formed during the period under review, it has been established on 9 June 2006 with all the independent non-executive directors being members.

Continuing Disclosure Requirements under 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 to secure the bank loan facility of the Company and certain 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 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 30 June 2005, 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\$7,025,000.

- b) Advance to entities under Rule 13.13 of the Listing Rules:
- (i) At 30 June 2005, 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 of the Group's associate, United Victoria (the "Borrower"). 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. The loan receivable balance of HK\$39,510,000 represented 22.8% of the Group's net assets at 30 June 2005. 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 30 June 2005, the Group had an amount of approximately HK\$78,679,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 90.1% interest of the registered capital of Kong Sheng. This consideration receivable representing approximately 42% of the Group's net assets at 30 June 2005 is unsecured and interest free.

Audit Committee

As at the date of this report, the Audit Committee has three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the *Group and discussed internal controls and financial reporting matters including a review of the unaudited financial statements of the Group for the period ended 30 June 2005 with the management.

Board of Directors

As at the date of this report, the Board of the Company comprises four executive directors, namely Mr. Kong Lok King, Mr. Kong Li Jer, Mr. Kong Li Szu and Mr. Cham Yiu Keung; three independent non-executive directors, namely, Mr. Ip Man Tin, David, Mr. Lo Tat Shing and Mr. Chan Chiu Hung, Alex.

By Order of the Board
Kong Li Szu
Executive Director

Hong Kong, 28 June 2006