

KongSun  **江山**

江山控股有限公司
Kong Sun Holdings Limited

(Stock Code: 0295)



Interim Report

2005

The Board of Directors (the “Board”) of Kong Sun Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004 are as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	506	4,079
Cost of inventories sold/ properties pre-sold		—	(1,134)
Gross profit		506	2,945
Other revenue	2	—	560
Staff costs		(1,077)	(1,346)
Depreciation		(19)	(173)
Other operating expenses		(2,103)	(3,315)
Finance costs	3	(1,868)	(1,735)
Share of results of associates		(1,837)	(1,399)
Loss before tax	4	(6,398)	(4,463)
Income tax	5	(88)	(1)
Loss for the period		<u>(6,486)</u>	<u>(4,464)</u>
Attributable to:			
Equity holders of the Company		(6,486)	(4,463)
Minority interests		—	(1)
		<u>(6,486)</u>	<u>(4,464)</u>
Loss per share – Basic	6	<u>(0.25 cents)</u>	<u>(0.17 cents)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

Condensed Consolidated Balance Sheet

30 June 2005

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		391	410
Investment properties		178	15,666
Interests in associates		94,478	96,403
Available-for-sale investments		6,537	6,537
Loan and interest receivables		39,510	39,510
Consideration receivables		59,988	59,988
		<u>201,082</u>	<u>218,514</u>
Current assets			
Properties held for sales		3,059	2,188
Trade receivables	7	625	396
Considerations receivables		18,691	18,691
Other receivables		1,622	2,061
Amount due from an associate		–	123
Pledged time deposit		37	37
Cash and cash equivalents		179	862
		<u>24,213</u>	<u>24,358</u>
Current liabilities			
Trade payables	8	4,881	4,609
Other payables		11,734	14,259
Amount due to a substantial shareholder		–	60
Amount due to a related company		9	157
Amount due to directors		1,455	678
Tax payable		48	48
Finance lease payables		6	6
Interest-bearing bank loans and other borrowings	9	33,766	43,053
		<u>51,899</u>	<u>62,870</u>
Net current liabilities		<u>(27,686)</u>	<u>(38,512)</u>
Total assets less current liabilities		<u>173,396</u>	<u>180,002</u>
Non-current liabilities			
Finance lease payables		13	15
		<u>173,383</u>	<u>179,987</u>
Capital and reserves			
Share capital	10	256,116	256,116
Reserves		(82,752)	(76,149)
Equity attributable to equity holders of the parent		<u>173,364</u>	<u>179,967</u>
Minority interests		19	20
		<u>173,383</u>	<u>179,987</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Share Capital	Share premium account	Capital Redemption reserves	General reserves	Investment property revaluation reserve	Exchange fluctuation reserve	Special reserve	Accumulated losses	Total	Minority interest	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	256,116	329,049	20	18,000	-	341	9,329	(403,309)	209,546	221	209,767
Exchange realignment	-	-	-	-	-	372	-	-	372	-	372
Net loss for the period	-	-	-	-	-	-	-	(4,463)	(4,463)	(1)	(4,464)
At 30 June 2004	256,116	329,049	20	18,000	-	713	9,329	(407,772)	205,455	220	205,675
Exchange realignment	-	-	-	-	-	11	-	-	11	-	11
Net loss for the period	-	-	-	-	-	-	-	(25,499)	(25,499)	(200)	(25,699)
At 1 January 2005	256,116	329,049	20	18,000	-	724	9,329	(433,271)	179,967	20	179,987
Exchange realignment	-	-	-	-	-	(117)	-	-	(117)	-	(117)
Net loss for the period	-	-	-	-	-	-	-	(6,486)	(6,486)	(1)	(6,487)
At 30 June 2005	256,116	329,049	20	18,000	-	607	9,329	(439,757)	173,364	19	173,383

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM		
OPERATING ACTIVITIES	(4,834)	761
NET CASH FROM INVESTING ACTIVITIES	15,425	8,582
NET CASH USED IN FINANCING ACTIVITIES	(7,617)	(9,094)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,974	249
Cash and cash equivalents at beginning of period	(2,641)	(3,680)
Effects of foreign exchange rate changes, net	(117)	371
CASH AND CASH EQUIVALENTS		
AT END OF PERIOD	216	(3,060)
ANALYSIS OF BALANCES OF CASH AND		
CASH EQUIVALENTS		
Cash and bank balances	179	118
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	37	248
Bank overdrafts	–	(3,426)
	216	(3,060)

Notes to The Condensed Financial Statements

1. Principal Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed consolidated interim financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the Group’s audited financial statements for the year ended 31 December 2004, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standard, HKASs and Interpretations (hereinafter collectively referred as “new HKFRSs”) which are effective for accounting periods commencing on or after 1 January 2005. The adoption of these new HKFRSs has no material impact on the Group’s results of operations and financial position.

2. Segment Information

(a) Business segments

The Group’s operating businesses are structured and managed separately, accordingly to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the business segments. Accordingly, the Group reports the business segment as its primary segment and the information of his segment is set out below:

2. Segment Information (Continued)
(a) Business segments (Continued)

	Continuing Operation		Discontinued Operation					
	Property investment and development		Financial services		Elimination		Consolidation	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:								
Sales to external customers	506	2,306	-	1,773	-	-	506	4,079
Intersegment sales	-	-	-	1,033	-	(1,033)	-	-
Other revenue	-	453	-	3	-	-	-	456
Total	<u>506</u>	<u>2,759</u>	<u>-</u>	<u>2,809</u>	<u>-</u>	<u>(1,033)</u>	<u>506</u>	<u>4,535</u>
Segment results	<u>(111)</u>	<u>(554)</u>	<u>-</u>	<u>665</u>	<u>-</u>	<u>(1,033)</u>	<u>(111)</u>	<u>(922)</u>
Bank interest income and unallocated gains							-	104
Unallocated and corporate							<u>(2,582)</u>	<u>(511)</u>
Loss from operations							<u>(2,693)</u>	<u>(1,329)</u>
Finance costs							<u>(1,868)</u>	<u>(1,735)</u>
Share of results of associates							<u>(1,837)</u>	<u>(1,399)</u>
Loss from ordinary activities before taxation							<u>(6,398)</u>	<u>(4,463)</u>
Income tax							<u>(88)</u>	<u>(1)</u>
Loss for the period							<u>(6,486)</u>	<u>(4,464)</u>
Minority interests							<u>-</u>	<u>1</u>
Net loss attributable to equity holders of the Company							<u>(6,486)</u>	<u>(4,463)</u>

2. Segment Information (Continued)

(a) Business segments (Continued)

	Continued Operation											
	Property investment and development				Financial services		Corporate and other unallocated		Consolidation			
	30 June		31 December		30 June		31 December		30 June		31 December	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Segment assets	91,076	106,550	39,562	39,562	-	-	-	-	130,638	146,112		
Interests in associates	94,478	96,526	-	-	-	-	-	-	94,478	96,526		
Corporate and other unallocated assets	-	-	-	-	179	234	179	234	-	-		
Total assets	185,554	203,076	39,562	39,562	179	234	179	234	225,295	242,872		
Segment liabilities	6,819	9,361	32	34	-	-	-	-	6,851	9,395		
Corporate and other unallocated liabilities	-	-	-	-	45,061	53,490	45,061	53,490	-	-		
Total liabilities	6,819	9,361	32	34	45,061	53,490	45,061	53,490	51,912	62,885		

(b) Geographical segments

The Group's operations are principally located in Hong Kong and Malaysia.

The following table presents revenue and certain assets information for the Group's geographical segments:

	Continuing Operation						Discontinued Operation		Consolidated	
	Hong Kong		Mainland China		Malaysia		Hong Kong		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Segment revenue:										
Sales to external customers	108	316	-	60	398	1,927	-	1,776	506	4,079
	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information										
Segment assets	119,650	135,282	-	-	105,645	107,610	-	-	225,295	242,872

3. Finance Costs

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	399	497
Other loans wholly repayable within five years	1,469	1,238
	<u>1,868</u>	<u>1,735</u>

4. Loss Before Tax

The Group's loss before tax is stated at after charging:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	–	1,134
Depreciation	19	173
Staff cost	1,077	1,346
	<u>1,077</u>	<u>1,346</u>

5. Income Tax

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong profits tax	–	1
Share of taxation attributable to associates	88	–
	<u>88</u>	<u>1</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. Income Tax *(Continued)*

At the balance sheet date, the following unused tax losses and deductible temporary differences have not been recognised as deferred tax assets:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Unused tax losses	134,327	129,766
Deductible temporary differences	104	104
	<u>134,431</u>	<u>129,870</u>

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

At 30 June 2005, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

6. Loss Per Share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the six months ended 30 June 2005 of approximately HK\$6,486,000 (2004: HK\$4,463,000) and on the weighted average of 2,561,167,000 (2004: 2,561,167,000) shares in issue during the period.

Diluted loss per share for the periods ended 30 June 2005 and 30 June 2004 have not been shown as there were no dilutive potential ordinary shares during those periods.

7. Trade Receivables

The aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Current	–	–
1-3 months	589	237
4-6 months	–	47
7-12 months	237	–
Over 1 year	14,091	14,404
	14,917	14,688
Less: Provision	(14,292)	(14,292)
	625	396

8. Trade Payables

The aged analysis of trade payables at the balance sheet date, based on payment due date, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Current	–	–
4-6 months	453	35
7-12 months	35	236
Over 1 year	4,393	4,338
	4,881	4,609

9. Interest-bearing Bank Loans and Other Borrowings

As at 30 June 2005, The Group's interest-bearing bank loans and other borrowings are secured by the followings:

- (i) pledge of approximately 596,052,000 ordinary shares of HK\$0.10 each of the Company owned by Kong Fa Holdings Limited;
- (ii) assignment of considerations receivables of RMB6,000,000 under the Deed of Assignment;
- (iii) personal guarantees from the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu;
- (iv) corporate guarantee executed by Best Spot Investments Limited ("Best Spot"), a wholly-owned subsidiary of the Company; and
- (v) charge over all the issued share capital of Best Spot, the main assets of which is the considerations receivables of HK\$78,679,000.

Except for an amount of HK\$1,050,000 due to an independent third party, the remaining bank loans and other borrowings bear interest at rates ranging from 8% p.a. to 26.4% p.a..

10. Share Capital

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Authorised:		
4,000,000,000 (2004: 4,000,000,000) ordinary shares of HK\$0.10 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:		
2,561,166,921 (2004: 2,561,166,921) ordinary shares of HK\$0.10 each	<u>256,116</u>	<u>256,116</u>

11. Contingent Liabilities

The Group had the following contingent liabilities as at 30 June 2005:

- (a) Pursuant to an exclusive franchisee agreement dated 1 January 2003 (“the Agreement”) entered into between Xswim Technology Limited (“Xswim Technology”), a 54% owned subsidiary of the Company, and Champ Capital Limited (the “franchisee”), Xswim Technology agreed to buy back the underlying franchise licence at HK\$15,000,000 upon termination of the Agreement, both in the case of normal or early termination, and guaranteed to spend HK\$1,000,000 as merchandising assistance in form of advertising and promotion. As the franchisee had breached the Agreement, Xswim Technology had terminated the Agreement with effect from 28 November 2003. No action has been taken by the franchisee in respect of the abovementioned clause. Based on the legal advice obtained, the directors strongly believe that the franchisee would not be able to exercise the option to resell the underlying franchise licence to the Group. Hence, no provision has been made in the financial statements.
- (b) On 3 November 2003, an action was commenced by Mr. Cheung Yik Wang (“CYW”), who claims himself as an investor of Easternet Limited which owns 46% of Xswim Holding Limited (a 54% owned subsidiary of the Company), against Mr. Kong Li Szu (as 1st defendant), the Company’s director, and the Company (as 2nd defendant) for recovering a sum of HK\$11,600,000 together with the interest and costs in connection with a cheque issued by the Company which was dishonoured upon presentation of payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong Li Szu. A defence was filed by the Company on 19 January 2004. CYW had also filed a reply to defence on 17 February 2004. Up to the date of this report, no hearing date has been fixed. Based on the legal advice obtained, the directors strongly believe that the Group has reasonable good chances of successfully defending this action. Hence, no provision has been made in the financial statements.
- (c) On 11 February 2004, an action was commenced by Asia Commercial Bank Limited (“ACB”) against Xswim Technology (as 1st defendant) for an immediate full repayment of certain invoice financing loans of approximately US\$725,000 together with interest, cost and/or other relief. The action was also made against the Company (as 2nd defendant) and the Company’s director, Mr. Kong Li Szu (as 3rd defendant) under guarantees given by the Company and the director in favour of ACB in respect of the invoice financing loans granted to Xswim Technology. This case was heard by the High Court of Hong Kong on 31 May 2004 and a final judgement was issued in favour of ACB. The defendants were required to repay the said bank loans in full together with the interest thereon and to bear the litigation expenses.

11. Contingent Liabilities *(Continued)*

Pursuant to the Deed of Assignment, the Group agreed to assign RMB6,000,000 from its right, title and interest in the Group's consideration receivable due from Beijing Tianheng to ACB as settlement of the above debts owed to ACB. In the opinion of the directors, adequate provision has been made in respect of the above debts.

- (d) On 30 March 2004, an action was commenced by the landlord of the office premises of the Group against Pacpo Hong Kong Limited, a wholly owned subsidiary of the Company, for overdue rental, building management and miscellaneous fees, together with arrears of rent up to the date of delivery of vacant possession of the said office premises, interests, cost and/or other relief. A judgement was issued in favour of the landlord on 21 June 2004. However, only approximately HK\$226,000 in aggregate was settled. In December 2004, the Group and the landlord entered into a settlement arrangement under which the Group is obliged to pay the outstanding debts by 14 instalments, the first of which is to be paid in January 2005. In the meantime, the landlord shall withhold any action to enforce the judgement. Full provision for the unsettled amount of approximately HK\$486,000 has been made in the financial statements. However, the Group has defaulted in settlement of the aforesaid amount. The directors consider that the Group should be able to seek to resolve the unsettled amount with the landlord, the outcome will not have material financial effect on the Group.
- (e) On 13 May 2004, an action was commenced by Koffman Securities Limited against Kong Sun Resources Limited (as 1st defendant), a wholly owned subsidiary of the Company, and the Company's director, Mr. Kong Li Szu (as 2nd defendant) for specific performance of an option to repurchase certain investment properties of the Group (previously sold to the Group satisfied by the issuance of 56,000,000 ordinary shares of the Company) at a consideration of HK\$21,000,000; the sum of approximately HK\$12,889,000 being the total amount of outstanding differences in the price of the aforesaid consideration shares disposed of and the oral guarantee amount of HK\$0.375 per consideration share together with damages, interest, cost and/or other relief. Up to the date of this report, no hearing date has been fixed. Based on the legal advice obtained, the directors strongly believe that the Group has reasonable good chances of successfully defending this action as the alleged option relied mainly oral agreement by the director which was denied. Hence, no provision has been made in the financial statements.

11. Contingent Liabilities *(Continued)*

- (f) On 20 July 2004, an action was commenced by Industrial & Commercial International Capital Limited ("ICIC") against the Company (as 1st defendant) for an immediate full repayment of the fixed term loan of approximately HK\$6,399,000 together with interest, cost and/or other relief. The action was also made against the Company's director, Mr. Kong Li Szu (as 2nd defendant) under a guarantee given by the director in favour of ICIC in respect of the fixed term loan granted to the Company. This case was heard by the High Court of Hong Kong on 8 November 2004 and a judgement was issued in favour of ICIC. The defendants were required to repay the said bank loan in full together with the interest thereon and to bear the litigation expenses. However, the Group has defaulted in payment of the aforesaid judgement debt, a winding-up petition was filed by ICIC against the Company on 13 December 2005. In April 2006, the Company entered into a settlement agreement with ICIC and the winding-up petition was dismissed accordingly. In the opinion of the directors, adequate provision has been made in respect of the above debts.
- (g) As at 30 June 2005, the Company has defaulted on payment of valuation fee due to a service provider. On 2 February 2005, an action was commenced by the service provider against the Company for approximately HK\$100,000 being overdue valuation fee together with interest, cost and/or other relief. A judgement was issued in favour of the service provider on 25 April 2005. In the opinion of the directors, adequate provision has been made in respect of the above debts.
- (h) On 21 December 2005, an action was commenced by DBS Bank (Hong Kong) Limited ("DBS") against the Company for an immediate full repayment of certain bank loans of approximately HK\$3,327,000 together with interest, cost and/or other relief. In the opinion of the directors, adequate provision has been made in respect of the above debts.
- (i) At the balance sheet date, the Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$243,000 at 30 June 2005 (2004: HK\$243,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A partial provision of HK\$190,000 (2004: HK\$190,000) has been made by the directors in respect of such possible payments only, as it is considered not probable that the entire long service payments will materialise.

12. Operating Lease Arrangements

(a) As lessor

At 30 June 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	<u> -</u>	<u> 110</u>

(b) As lessee

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	<u> 108</u>	<u> -</u>

13. Related Party Transactions

The Group had the following significant related party transactions during the period:

		For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
	<i>Notes</i>	HK\$'000	HK\$'000
Administrative fees income	<i>(i)</i>	<u> 50</u>	<u> 58</u>

Notes:

- (i) This related to management services provided by the Group to Kong Sun Enterprises Sdn. Bhd. ("KSE"), a substantial shareholder of the Company. The management fees was charged based on the costs incurred by the Group plus a mark-up.

14. Subsequent Events

The Group had the following significant event took place subsequent to the balance sheet date:

On 2 June 2006, a winding-up petition (“Petition”) was filed by Mr. Cheung Yam Loi (“Mr. Cheung”), an ex-employee of Pacpo Investment, a wholly-owned subsidiary of the Company, to the High Court against Pacpo Investments for an amount of HK\$220,000, representing the outstanding balance of judgement sum awarded to Mr. Cheung by the Labour Tribunal on 2 December 2005. The Petition will be heard in the High Court on 2 August 2006 and the Group is now seeking legal advice on the matter and is confident of reaching settlement with Mr. Cheung.

Interim Dividend

The Board of Directors has resolved not to declare an interim dividend for the six months ended 30 June 2005 (2004: Nil).

Management Discussion and Analysis

Review of operations

The Company’s principal activity continued to be investment holding whilst its subsidiaries are mainly engaged in property investment and development.

The Group has experienced serious financial difficulties for the six months ended 30 June 2005 and the results under review generally reflected the situation. The Group recorded a consolidated turnover of HK\$506,000, a decrease of approximately 89% in comparison with the corresponding period. Loss attributable to shareholders amounted to HK\$6,486,000 as compared to the amount of approximately HK\$4,463,000 in the last corresponding period. Improving the financial condition of the Group becomes the primary target of the management in the coming year.

Property development and investment business

The Group’s property development and investment business, comprising commercial, industrial and residential projects in Malaysia and Hong Kong, recorded a turnover of HK\$506,000, representing total turnover of the Group for the period. The drop in pre-sale income from the commercial and residential project at Johor Bahru, Malaysia as well as the non-existence of rental income due to the disposal of all commercial and industrial properties in Hong Kong constituted the considerable reduction in total turnover for the period under review.

Financial review

As at 30 June 2005, the total shareholders fund of the Group amounted to HK\$173.4 million, compared to HK\$179.9 million as at 31 December 2004. The debt ratio (based on the total liability over the equity) of the Group as at 30 June 2005 was 0.30 while the ratio as at 31 December 2004 was 0.35.

Total bank and other borrowings amounted to HK\$33.8 million and were mainly secured by legal charge on the Group's land and buildings, investment properties, time deposits and other forms of charges.

The Group has been unable to meet certain scheduled repayments due to its bankers and creditors during the six months ended 30 June 2005 and up to the date of this interim 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\$33.8 million at 30 June 2005 are immediately due and payable.

Prospects

The Group has only retained its property investment in Malaysia. As the operating income of the Group continues to diminish, focus for the year will be on resolving the financial difficulties encountered by the Group. The Group will actively seek for potential investors and/or financing to strengthen its financial base and will restructure its existing operation to improve shareholder returns. The robust performance of the PRC's economy, together with improving conditions in Hong Kong and Malaysia are expected to set the Group well on track to succeed in its restructuring and future development.

Liquidity and Capital Resource

As at 30 June 2005, the net asset value of the Group was HK\$173.4 million. The Group's total bank and other borrowings were decreased by HK\$9.3 million from HK\$43.1 million to HK\$33.8 million while the loan from minority shareholders decreased slightly from HK\$0.02 million to HK\$0.019 million. The total bank and other borrowings of HK\$33.8 million is all repayable within one year.

As at 30 June 2005, the Group's debt ratio, which was calculated as a ratio of current liabilities plus non-current liabilities to total equity, was 0.30 which has no material change with that of the last financial year end.

For the six months ended in 30 June 2005, most assets, liabilities and transactions of the Group are denominated in Renminbi in ("RMB"), Hong Kong Dollars ("HKD") and Malaysian Ringgit ("MYR"). In view of the currency stability on RMB and MYR, they did not have a significant impact on the performance of the Group. Hence, the Group had not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate active to reduce the exchange risks.

Employees and Remuneration Policy

As at 30 June 2005, the Group has a total of 6 employees located in Hong Kong and Malaysia. They are remunerated according to the nature of the job market trends, with built-in merit components incorporated in annual review to reward and motivate individual performance.

Material Acquisitions and Disposals of Investments

During the six months ended 30 June 2005, there were no material acquisitions or disposals of subsidiaries or affiliated companies.

Directors' and Chief Executives' Interest and Short Position in Shares

At 30 June 2005, 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)	<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 interest 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 30 June 2005, none of the directors or chief executives of the Company or their associates had any interest 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.

Share Option Scheme

Pursuant to the share option scheme adopted by the shareholders of the Company on 30 June 2003 (the “Share Option Scheme”), the board of directors (the “Board”) of the Company may for a consideration of HK\$10 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board provided always that it shall be at least the higher of the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the selected eligible person), which must be a business day; and the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the selected eligible person), (as subsequently adjusted pursuant to the terms of the Share Option Scheme, if relevant), provided that the option price per share shall in no event be less than the nominal amount of one share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

The Share Option Scheme became effective for a period of ten years commencing on 30 June 2003.

No options under the Share Option Scheme have been granted to any person since its adoption.

Directors’ and Chief Executives’ Rights to Acquire Shares or Debentures

At no time during the period 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 period.

Directors' Interest 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 interest, whether directly or indirectly subsisted at the end of the period or at any time during the period under review.

Substantial Shareholders' Interests and Short Positions in Shares

At 30 June 2005, 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	403,375,794	15.75

Save as disclosed above, at 30 June 2005, 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.

Purchase, Redemption or Sale of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during six months ended 30 June 2005.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the six months ended 30 June 2005.

Corporate Governance

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. 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. The Company then 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 on 16 May 2005. 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 now 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.

Except as detailed above, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, with deviations from code provisions A.2.1, A.4.1 and B.1 of the Code in respect of the service term and rotation of directors.

Under the code provision A.2.1, the role of Chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the Company is now performing both roles as the Company considers it is more effective to have both roles performed by the same person at the present situation.

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