



KongSun  **江山**

江山控股有限公司
Kong Sun Holdings Limited
(Stock Code: 0295)

Annual Report 2004



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Kong Lok King <i>(Chairman and Managing Director)</i> Kong Li Jer Kong Li Szu
INDEPENDENT NON-EXECUTIVE DIRECTORS	Ip Man Tin, David Chan Chiu Hung, Alex <i>(appointed on 9 June 2006)</i> Lo Tat Shing <i>(appointed on 9 June 2006)</i>
QUALIFIED ACCOUNTANT AND COMPANY SECRETARY	Mak Wai Ho, Brandon
REGISTERED OFFICE	Unit A, 1st Floor, Lippo Leighton Tower 103 Leighton Road, Causeway Bay Hong Kong
AUDITORS	RSM Nelson Wheeler 7th Floor, Allied Kajima Building 138 Gloucester Road Hong Kong
SOLICITORS	Cham & Co.
PRINCIPAL BANKERS	DBS Bank (Hong Kong) Limited Asia Commercial Bank Limited The Bank of China (HK) Limited
SHARE REGISTRARS AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Center 183 Queen's Road East Hong Kong
STOCK CODE	295
CONTACT INFORMATION	Tel : 2868 1190 Fax : 2530 1770 Email : ksh@kongsun.com.hk

On behalf of the Board of Directors, I am pleased to present the annual results of Kong Sun Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2004.

This has been a difficult year for Kong Sun Holdings Limited and its subsidiaries. Cost reduction programs had been vigorously implemented during the year by ceasing some deficit operations and realizing some low-yield properties of the Group. On one hand, loss for the year has been substantially narrowed when compared with last year; but on another, the sharp reduction in cash flow resulting from the cost reduction program has aggravated the tight financial conditions the Group already faced. Exploring new source of finance and restructuring the existing indebtedness will be the prime target of the Group for the coming year.

The Group's results for the year under review generally reflected the financial difficulties the Group has experienced. Due to the cessation of the Group's computer trading business, turnover has been substantially reduced to HK\$12,329,000, a 90% decrease as compared with that of last year. However, loss for the year has also been narrowed to HK\$29,962,000 as compared to HK\$341,083,000 recorded in last year. Loss per share stood at HK\$1.17 cents as compared to HK\$13.32 cents in the previous year. Further reduction in deficit and possible return to profitability will be our next target for the years to come.

The Group still maintains a diversified investment portfolio in Malaysia and Hong Kong and the Group will leverage the existing asset base to re-establish steady investment income and more importantly, to improve shareholder returns.

Finally, I would like to take this opportunity to extend my sincere thanks to all our business partners, shareholders, directors and staff for their support and contribution to the Group during the past year. We look forward to a new and interesting year.

KONG LOK KING

Chairman

Hong Kong, 16 June 2006

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 year ended 31 December 2004 and the results under review generally reflected the situation. The Group recorded a consolidated turnover of HK\$12,329,000, a 90% decrease as compared with that of last year. Loss attributable to shareholders, however, has been narrowed to HK\$29,962,000 as compared to HK\$341,083,000 recorded in last year. Improving the financial condition of the Group becomes the primary target of the management in the coming year.

Property development and investment

The Group's property development and investment business, comprising commercial, industrial and residential projects in Malaysia, Mainland China and Hong Kong, recorded a turnover of HK\$8,764,000, accounted for 71% of total turnover for the year. 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 of approximately HK\$8,158,000 from a then subsidiary for the year 2003 constituted the considerable reduction in total turnover for the year.

Other investments

The Group's financial business recorded a turnover of HK\$3,565,000 during the year, representing a 68% decline as compared to the corresponding period of last year. The decline was mainly due to the Group's contraction in the financial services as a result of its own financial difficulties.

In order to avoid the sustained loss caused by unfavourable economic environment and the continued decline in turnover, the Group has ceased its securities broking and investment operation in October 2004.

Trading of computer products and office equipment

The cease of the operation of the trading of computer products and office equipment in last year also accounted for the non-existence of a turnover of approximately HK\$89,412,000.

Notwithstanding the continued deficit in our operating results, the Group will focus on seeking new source of finance to form a better foundation to improve the Group's performance in the future.

Financial review

As at 31 December 2004, the total shareholders fund of the Group amounted to HK\$ 180 million, compared to HK\$ 209.5 million as at 31 December 2003. The debt ratio (based on the sum of current liability and long-term liability over the equity) of the Group as at 31 December 2004 was 0.35 while the ratio as at 31 December 2003 was 0.34.

Total bank and other borrowings amounted to HK\$43.1 million and were mainly secured by legal charge on the Group's investment properties, time deposits and other forms of charges.

The Group's income and expenditure were mainly dominated in HKD, RMB, SGD and MYR. The Group's business operation and investment of the Group are translated in Hong Kong, the PRC, Singapore and Malaysia and its revenue and expenditure in HKD, RMB, SGD and MYR.

Prospects

The Group has only retained its property investment in Malaysia and Hong Kong. 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 shareholders' 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.

Biographical Details of Directors and Senior Management

Mr. Kong Lok King

Chairman and Managing Director

aged 67, is the brother of the late Mr. Kong Look Sen and uncle of both Mr. Kong Li Jer and Kong Li Szu. He has been a physician by profession. Dr. Kong obtained his Doctor of Medicine degree from Taiwan University. He is currently a director of Kong's Business Enterprises of U.S. which is engaged in the business of hospitality.

Mr. Kong Li Jer

Executive Director

aged 37, joined the Group in 1997. He is the son of the late Mr. Kong Look Sen. He graduated from Council University in the USA with a bachelor degree in Architecture. He is also an Architect and has extensive experience in the planning and designing of housing development projects. Mr. Kong is primarily responsible for the strategic planning and management project of the Group.

Mr. Kong Li Szu

Executive Director

aged 35, is the son of the late Mr. Kong Look Sen. He was appointed as an Executive Director of the Company since 1998. Mr. Kong holds a bachelor degree and a master degree in Civil Engineering from Washington University and Stanford University respectively. He is well experienced in civil works and China investment and trades. Mr. Kong is responsible for the day-to-day operation, strategic planning and development of the Group.

Mr. Chan Chiu Hung, Alex

Independent Non-executive Director

aged 40, holds a Bachelor degree in Business Administration, major in Finance. He has been working with several listed and multinational companies for over 12 years. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of A-Max Holdings Limited and Vitop Bioenergy Holdings Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Lo Tat Shing

Independent Non-executive Director

aged 35, has over 9 years experience in information technology and networking industry.

Mr. Ip Man Tin, David

Independent Non-executive Director

aged 59, is a member of the Chartered Institute of Marketing and a Certified Management Consultant of the International Council of Management Consulting Institutes. He holds Bachelor of Arts and Master of Public Administration degrees. Mr. Ip has more than 24 years of public administration and more than 10 years of public company management experience in Hong Kong and United Kingdom. He has extensive consultancy experience across industry sectors.

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

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

To the SHAREHOLDERS of

KONG SUN HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 16 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1. Scope limitation – Consideration receivables

As detailed in Notes 25(b) and 25(c) to the financial statements, the Group has consideration receivables of approximately HK\$78,679,000 due from Beijing Tianheng Property Development Joint Stock Company Limited (“Beijing Tianheng”), representing the outstanding consideration receivables in aggregate upon disposal of 80.1% interest of the registered capital of Kong Sheng Property Development Limited (“Kong Sheng”), a then subsidiary of the Company and upon disposal of 10% interest of the registered capital of Kong Sheng (the “consideration receivables”). In January 2005, Beijing Tianheng defaulted on the second payment of the consideration receivables of approximately HK\$18,691,000. The directors of the Company remain confident that the entire amount of approximately HK\$78,679,000 can be recovered in full. However, we were unable to obtain the financial information of Beijing Tianheng to satisfy ourselves as to the ability of Beijing Tianheng to

1. Scope limitation – Consideration receivables (Continued)

settle the consideration receivables. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the recoverability of the consideration receivables of approximately HK\$78,679,000. Any adjustment to the consideration receivables would have a consequential effect on the net assets of the Group and the Company as at 31 December 2004, the net loss of the Group for the year then ended and the related disclosures in the financial statements.

2. Scope limitation – Fundamental uncertainty relating to going concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2 to the financial statements which explain the current liquidity difficulties of the Group and the circumstances giving rise to fundamental uncertainty relating to the Group's ability to continue as a going concern. The directors of the Company are taking active steps to improve the financial and liquidity position of the Group. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the procurement of new equity or financing; the recovery of the consideration receivables; the continuous financial support of the Company's substantial shareholders, Kong Sun Enterprise Sdn. Bhd. and Kong Fa Holding Limited; the rescheduling of the repayment terms of certain of the Group's existing indebtedness; and the attainment of profitable business opportunities to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. However, because of the complexity of the Group's financial position and the inconclusive state of the Group's discussions and negotiations with its bankers and creditors, the directors have not been able to provide us with a detailed plan as to how the Group might remain a going concern thereby supporting the basis on which they have prepared the financial statements. Although we are aware that a significant amount of effort has been put into this aspect of the Group's affairs, we have been unable to determine that the directors' assessment is correct. Accordingly, we disclaim our opinion on account of this scope limitation.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Disclaimer of opinion

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's results and cash flows for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

16 June 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	5	12,329	123,558
Other income	5	1,055	4,360
Cost of inventories sold		–	(88,082)
Cost of properties pre-sold		(8,268)	(13,794)
Staff costs		(2,931)	(7,998)
Depreciation and amortisation		(295)	(5,147)
Other operating expenses		(23,891)	(121,469)
Gain/(Loss) on discontinued operations	6	435	(131,444)
Net loss on properties and investments	8	(241)	(39,115)
Write off of deposits and expenses for proposed investments		–	(36,553)
Loss from operations	9	(21,807)	(315,684)
Finance costs	12	(4,460)	(7,387)
Results attributable to associates	13	(3,732)	(17,726)
Loss from ordinary activities before taxation		(29,999)	(340,797)
Taxation	14	(164)	(1,264)
Loss before minority interests		(30,163)	(342,061)
Minority interests		201	978
Net loss attributable to the shareholders	15	(29,962)	(341,083)
Loss per share			
– Basic	16	(1.17 cents)	(13.32 cents)

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Fixed assets	17	410	880
Investment properties	18	15,666	27,117
Goodwill	19	–	–
Interests in associates	21	96,403	100,299
Long term investment	22	6,537	6,537
Loan and interest receivables	24	39,510	41,303
Consideration receivables	25	59,988	78,636
		218,514	254,772
Current assets			
Short term investment	23	–	10,507
Properties held for sale	26	2,188	2,278
Trade receivables	27	396	539
Loan and interest receivables	24	–	2,783
Consideration receivables	25	18,691	5,935
Other receivables	28	2,061	2,827
Amount due from an associate	21	123	–
Pledged time deposits	29	37	764
Cash and cash equivalents	29	862	857
		24,358	26,490
Current liabilities			
Trade payables	30	4,609	5,221
Other payables	31	15,154	9,634
Tax payable		48	61
Finance lease payables	33	6	204
Bank and other borrowings	34	43,053	50,367
		62,870	65,487
Net current liabilities		(38,512)	(38,997)
Total assets less current liabilities		180,002	215,775

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current liabilities			
Finance lease payables	33	15	21
Bank and other borrowings	34	–	5,987
		<u>15</u>	<u>6,008</u>
Minority interests			
		<u>20</u>	<u>221</u>
NET ASSETS		<u>179,967</u>	<u>209,546</u>
Capital and reserves			
Share capital	36	256,116	256,116
Reserves	38	(76,149)	(46,570)
SHAREHOLDERS' FUNDS		<u>179,967</u>	<u>209,546</u>

Kong Li Szu
Director

Kong Li Jer
Director

BALANCE SHEET

AT 31 DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Fixed assets	17	–	1
Interests in subsidiaries	20	215,519	247,925
		<u>215,519</u>	<u>247,926</u>
Current assets			
Other receivables	28	131	1,229
Cash and cash equivalents	29	3	104
		<u>134</u>	<u>1,333</u>
Current liabilities			
Other payables	31	7,844	5,451
Bank and other borrowings	34	31,537	36,434
		<u>39,381</u>	<u>41,885</u>
Net current liabilities		<u>(39,247)</u>	<u>(40,552)</u>
Total assets less current liabilities		<u>176,272</u>	<u>207,374</u>
Non-current liabilities			
Bank and other borrowings	34	–	5,987
NET ASSETS		<u>176,272</u>	<u>201,387</u>
Capital and reserves			
Share capital	36	256,116	256,116
Reserves	38	(79,844)	(54,729)
SHAREHOLDERS' FUNDS		<u>176,272</u>	<u>201,387</u>

Kong Li Szu
Director

Kong Li Jer
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium account	Capital redemption reserve	General reserve	Investment property revaluation reserve	Exchange fluctuation reserve	Special reserve (Note)	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	256,116	329,049	20	18,000	483	(2,716)	-	(62,226)	538,726
Exchange realignment	-	-	-	-	-	562	-	-	562
Interest on change of long term investment to associate	-	-	-	-	-	-	9,329	-	9,329
Net gains not recognised in the income statement	-	-	-	-	-	562	9,329	-	9,891
Reserves realised upon disposal of subsidiaries	-	-	-	-	(4,262)	2,495	-	-	(1,767)
Negative balance of reserve transferred to the income statement	-	-	-	-	3,779	-	-	-	3,779
Net loss for the year	-	-	-	-	-	-	-	(341,083)	(341,083)
At 31 December 2003 and 1 January 2004	256,116	329,049	20	18,000	-	341	9,329	(403,309)	209,546
Exchange realignment and net gains not recognised in the income statement	-	-	-	-	-	383	-	-	383
Net loss for the year	-	-	-	-	-	-	-	(29,962)	(29,962)
At 31 December 2004	256,116	*329,049	*20	* 18,000	*-	*724	*9,329	*(433,271)	179,967

* These reserve accounts comprise the consolidated reserves of approximately HK\$(76,149,000) (2003: HK\$(46,570,000)) in the consolidated balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium account	Capital redemption reserve	General reserve	Investment property revaluation reserve	Exchange fluctuation reserve	Special reserve (Note)	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retained by:									
Company and subsidiaries	256,116	329,049	20	18,000	-	724	-	(415,464)	188,445
Associates	-	-	-	-	-	-	9,329	(17,807)	(8,478)
At 31 December 2004	<u>256,116</u>	<u>329,049</u>	<u>20</u>	<u>18,000</u>	<u>-</u>	<u>724</u>	<u>9,329</u>	<u>(433,271)</u>	<u>179,967</u>
Company and subsidiaries	256,116	329,049	20	18,000	-	341	-	(385,027)	218,499
Associates	-	-	-	-	-	-	9,329	(18,282)	(8,953)
At 31 December 2003	<u>256,116</u>	<u>329,049</u>	<u>20</u>	<u>18,000</u>	<u>-</u>	<u>341</u>	<u>9,329</u>	<u>(403,309)</u>	<u>209,546</u>

Note:

Special reserve represents adjustment relating to the Group's share of post acquisition profits and reserves in an investee company which became an associate of the Group in 2003.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from ordinary activities before taxation	(29,999)	(340,797)
Adjustments for:		
Depreciation	295	2,294
Amortisation of goodwill	–	2,853
Loss on disposal of investment properties	–	4,771
Gain on disposal of investment properties relating to discontinued operations (included in “gain/(loss) on discontinued operations” shown on the face of the consolidated income statement)	(435)	–
(Gain)/Loss on disposal of subsidiaries, net	(3)	115,526
Impairment loss of goodwill (included in “gain/(loss) on discontinued operations” shown on the face of the consolidated income statement)	–	6,417
Impairment loss recognised in relation to an associate (included in “gain/(loss) on discontinued operations” shown on the face of the consolidated income statement)	–	3,402
Deficit on revaluation of investment properties	982	21,295
Gain on strike off of subsidiaries	(30)	–
Loss on disposal of associates	–	19,148
Gain on disposal of a short term investment	(708)	–
Write off of deposits and expenses for proposed investments	–	36,553
Finance costs	4,460	7,387
Results attributable to associates	3,732	17,726
Negative goodwill arising on acquisition of subsidiaries recognised as income	–	(386)
Bank interest income	(19)	(59)
Write back of accruals	–	(2,000)
Loss on disposal of fixed assets	21	24,559
Impairment loss of fixed assets	161	360
Provision for doubtful debts	13,638	82,076
Write off of other receivables	71	–
Write off of amounts due from associates	–	84
Operating (loss)/profit before working capital changes	(7,834)	1,209
Decrease in inventories	–	28
Decrease in properties held for sale	90	12,622
Decrease in trade receivables	143	10,075
(Increase)/Decrease in loan and interest receivables	(782)	8,089
Increase in other receivables	(935)	(16,246)
Decrease in trade payables	(612)	(5,324)
Increase in other payables	10,997	1,752
Cash generated from operations	1,067	12,205
Hong Kong profits tax paid	(13)	–
Overseas taxes paid	–	(62)
Net cash generated from operating activities	1,054	12,143

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(7)	(207)
Proceeds from disposal of fixed assets		–	9,402
Proceeds from disposal of investment properties		2,735	7,629
Additions to properties under development		–	(3,377)
Disposal of subsidiaries	39(a), (b)	(4)	7,521
Deconsolidation of a subsidiary	39(c)	–	(25)
Capital contribution to an associate		–	(1,941)
Advances to associates		(123)	(84)
Proceeds from disposal of interests in associates		–	300
Proceeds from disposal of short term investment		3,563	–
Refund of advances for potential investment		–	2,000
Bank interest received		19	59
Net cash from investing activities		<u>6,183</u>	<u>21,277</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest element on finance lease payments		(26)	(11)
Interest paid		(2,291)	(11,089)
Net repayments in trust receipt loans		–	(7,878)
Net repayments in invoice financing loans		(2,210)	(8,297)
Capital element of finance lease rental payments		(204)	(60)
New bank and other borrowings		1,050	33,537
Repayment of bank and other borrowings		(2,900)	(40,470)
Capital contributed by minority shareholders		–	1,891
Repayment to minority interests		–	(306)
Net cash used in financing activities		<u>(6,581)</u>	<u>(32,683)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		656	737
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(3,680)	(4,784)
Effect of foreign exchange rate changes, net		383	367
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u>(2,641)</u>	<u>(3,680)</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		862	857
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		37	764
Bank overdrafts		(3,540)	(5,301)
		<u>(2,641)</u>	<u>(3,680)</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

1. GENERAL

The Company is a limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company in the Stock Exchange has been suspended since 17 June 2004 at the request of the Company and will remain suspended until further notice.

The Company is an investment holding company. During the year ended 31 December 2004, its subsidiaries were engaged in the following principal activities:

- property investment and development
- financial services

In the prior year, the Group was also engaged in trading of computer products and office equipment, and provision of information technology training and software development services but such activities were discontinued during the prior year (discontinued operations - Note 6).

Its associates were principally engaged in property development, securities broking, underwriting and placing services, and management and consultancy services during the year ended 31 December 2004. On 18 October 2004, one of its associates, Koffman Securities Limited ("Koffman Securities") ceased its securities broking, underwriting and placing services, and management and consultancy services due to the continuous decline in turnover for the previous years. Following the cessation of business of Koffman Securities, the directors resolved on 20 October 2004 to cease the securities broking and investment operations of the Group (discontinued operations - Note 6).

In the opinion of the directors, the Company's ultimate holding company is Kong Fa Holding Limited ("Kong Fa"), which is incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

At 31 December 2004, the Group had net current liabilities of approximately HK\$38,512,000. For the years ended 31 December 2004 and 2003, the Group also incurred significant losses from operations of approximately HK\$21,807,000 and HK\$315,684,000 respectively. During the year ended 31 December 2004, the Group experienced financial difficulties and had no unutilised banking facilities available to support its operational requirements. The Group has defaulted in respect of the repayments of certain bank and other borrowings. Hence, bank and other borrowings of approximately HK\$42,003,000 and the interest thereon of approximately HK\$2,813,000 (outstanding balances at 31 December 2004) are immediately due for repayment in full on demand. As a consequence, various lawsuits have been taken against the Group from a number of bankers and creditors for the repayment of the amounts due by the Group.

Notwithstanding that, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In order to improve the Group's financial position, immediate liquidity and cash flows, the following measures or arrangements have been implemented:

- (a) The Group is in the process of identifying/negotiating with potential investors for new equity or financing to the Group.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

2. BASIS OF PRESENTATION *(Continued)*

- (b) The Group is making their best endeavour to recover the consideration receivables due from Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng") (details of which are set out in Notes 25(b) and 25(c)).
- (c) Kong Sun Enterprise Sdn. Bhd. ("KSE") and Kong Fa, the Company's substantial shareholders, agreed to continue to provide financial support to the Group for its operations and to meet its obligations in the foreseeable future.
- (d) The Group is in active negotiations with its bankers and creditors with a view to reschedule the repayment terms of its indebtedness. Nevertheless, the Group is also actively exploring the availability of alternative sources of financing should its negotiations with its current bankers and creditors not be fully successful.
- (e) The Group has been taking ongoing action to tighten cost controls over various general and administrative expenses; and to explore profitable business opportunities.

In the opinion of the directors, in light of various measures or arrangements implemented to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to reclassify non-current assets and liabilities as current assets and liabilities, respectively, to restate the assets to their recoverable amounts and to provide for any further liabilities that might arise. The effects of these potential adjustments have not been reflected in the financial statements.

3. NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted the new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of the new HKFRSs but is not yet in a position to state whether the new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the HKICPA and the requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised as income in the income statement and any related accumulated exchange fluctuation reserve.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(b) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or holds more than half of its issued share capital or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for on the basis of dividends received and receivable.

(c) Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) **Joint venture companies** *(Continued)*

A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

(d) **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets of the associates plus goodwill/(negative goodwill) arising on acquisition, less provision for impairment losses, if any.

Equity accounting is discontinued when the carrying amount of the interest in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(e) **Goodwill**

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on a straight-line basis over its estimated useful life of five years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) **Goodwill** *(Continued)*

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(f) **Negative goodwill**

Negative goodwill arising on acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised as income in the income statement on a systematic basis over the remaining average useful lives of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the income statement is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised as income in the income statement and any relevant reserves as appropriate.

(g) **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Fixed assets and depreciation *(Continued)*

Depreciation is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	4%
Leasehold improvements	Over the remaining lease terms or the estimated useful lives, whichever is shorter
Office furniture and equipment	15% – 33 $\frac{1}{3}$ %
Motor vehicles	17% – 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market value on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement.

(i) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of assets (including fixed assets, goodwill and certain non-current assets), or whether there is any indication that an impairment loss previously recognised in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) **Impairment of assets** *(Continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(j) **Properties under development held for sale**

Properties under development held for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are included as developed properties held for sale in current assets at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

(k) **Profit on sale of properties under development**

When properties under development held for sale have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the stage of completion of the properties, limited to the extent of non-refundable progress payments received. No profit is recognised until the construction work has progressed to the stage where the eventual completion of the project, and the estimated profit thereon, can be determined with a reasonable degree of certainty.

(l) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

(m) **Leased assets**

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) **Leased assets** *(Continued)*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on a straight-line basis over the lease terms.

(n) **Long term investments**

Long term investments are investments in equity securities intended to be held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for documented purpose, and are stated at cost less any provision for impairment losses, on an individual investment basis. The carrying amounts of the long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events which led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Gains or losses on disposals of long term investments representing the difference between the net sales proceeds and the carrying amounts and are recognised in the income statement as they arise.

(o) **Short term investments**

Short term investments are investments in equity securities other than long term investments and are stated at their fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of short term investments are recognised in the income statement.

Gains or losses on disposals of short term investments representing the difference between the net sales proceeds and the carrying amounts and are recognised in the income statement as they arise.

(p) **Provision and contingent liabilities**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provision and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) from the pre-sale of properties under development, on the percentage of completion basis as explained under “profit on sale of properties under development”;
- (iii) rental income, on a time proportion basis over the lease terms;
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (v) management fees, consultancy service income, IT training and software development services income, when the related services are rendered; and
- (vi) dividend income, when the right to receive payment is established.

(r) Taxation

Income tax comprises current tax and movements in deferred tax assets and liabilities.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted by the balance sheet date.

Deferred taxation is the taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(s) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(t) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(u) Employee benefits

(i) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) **Employee benefits** *(Continued)*

(ii) *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(iii) *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Malaysia are required to participate in a central pension scheme operated by the local government. These subsidiaries are required to contribute a specific percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) **Employee benefits** *(Continued)*

(iv) *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(v) **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash at banks and on hand, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

5. REVENUE AND TURNOVER

Turnover represents gross rental income, proceeds from pre-sale of properties (adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), interest income from loan receivables, and net invoiced value of goods sold and services rendered after allowances for returns and trade discounts.

An analysis of turnover and other income is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Continuing operations		
Gross rental income *	630	10,924
Proceeds from pre-sale of properties	8,134	11,936
Interest income from loan receivables	3,565	11,266
	<u>12,329</u>	<u>34,126</u>
Discontinued operations (<i>Note 6</i>)		
Sale of goods	–	89,412
IT training and software development services income	–	20
	<u>–</u>	<u>89,432</u>
	<u>12,329</u>	<u>123,558</u>
Other income		
Management fees	718	886
Negative goodwill arising on acquisition of subsidiaries recognised as income	–	386
Bank interest income	19	59
Write back of accruals	–	2,000
Sundry income	318	1,029
	<u>1,055</u>	<u>4,360</u>

* During the year ended 31 December 2004, gross rental income from the property investment and development segment of approximately HK\$60,000 (2003: HK\$500,000) was derived from the geographical segment of Mainland China which were regarded as discontinued operations (*Note 6(c)*).

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6. DISCONTINUED OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Gain on disposal of investment properties in Mainland China (<i>Note (c)</i>)	435	–
Impairment loss of goodwill (<i>Notes (a) and (c)</i>)	–	(6,417)
Loss on disposal of a subsidiary relating to discontinued operations (<i>Note (c)</i>)	–	(121,625)
Impairment loss recognised in relation to an associate (<i>Note (d)</i>)	–	(3,402)
Gain/(Loss) on discontinued operations	<u>435</u>	<u>(131,444)</u>

(a) Trading of computer products and office equipment operations

On 1 December 2003, the directors determined to cease the Group's trading of computer products and office equipment operations. The operations of the subsidiaries comprising this segment were terminated accordingly and were reported as discontinued operations.

The turnover, other income, expenses, results, cash flows, total assets and total liabilities relating to the aforesaid discontinued operations included in last year's financial statements are as follows:

	2003 HK\$'000
Turnover	89,412
Other income	221
Cost of inventories sold	(88,082)
Staff costs	(832)
Depreciation and amortisation	(2,830)
Other operating expenses	(11,907)
Impairment loss of goodwill	(6,403)
Loss from operations	<u>(20,421)</u>
Finance costs	(1,125)
Results attributable to an associate	(7,628)
Loss before minority interests	<u>(29,174)</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6. DISCONTINUED OPERATIONS *(Continued)*

(a) Trading of computer products and office equipment operations *(Continued)*

	2003 HK\$'000
Net cash from operating activities	4,644
Net cash used in investing activities	(2,069)
Net cash used in financing activities	(17,300)
Total net cash outflow	<u>(14,725)</u>
Total assets	<u>–</u>
Total liabilities	<u>–</u>

(b) Information technology operations

On 1 December 2003, the directors determined to cease the Group's information technology operations engaging in the provision of information technology training and software development services. The operations of the subsidiaries comprising this segment were terminated accordingly and were reported as discontinued operations.

The turnover, other income, expenses, results, cash flows, total assets and total liabilities relating to the aforesaid discontinued operations included in last year's financial statements are as follows:

	2003 HK\$'000
Turnover	20
Other income	1
Staff costs	(90)
Depreciation	(114)
Other operating expenses	(604)
Loss before minority interests	<u>(787)</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6. DISCONTINUED OPERATIONS (Continued)

(b) Information technology operations (Continued)

	2003 HK\$'000
Net cash used in operating activities	(7)
Net cash from investing activities	7
Total net cash flow	—
Total assets	—
Total liabilities	—

(c) Geographical segment of Mainland China

During last year, the Group disposed of 80.1% interest of the registered capital of a subsidiary, which was principally engaged in property development in Xicheng District, Beijing, details of which are set out in Note 25(b). The loss on disposal of a subsidiary relating to discontinued operations of approximately HK\$121,625,000 was charged to the income statement for the year ended 31 December 2003, details of which are set out in Note 39(a). There was no income tax arising from the disposal.

On 20 February 2004, the Group entered into certain sale and purchase agreements to dispose of all its investment properties in Mainland China. The disposal was completed and settled in May 2004. The investment properties with carrying value of approximately HK\$8,589,000 were disposed of at a total consideration, net of selling expenses, of approximately HK\$9,024,000. The net selling price as disclosed in last year's financial statements was approximately HK\$8,589,000 as the expected disposal costs were over-estimated by approximately HK\$435,000. The resulting gain on disposal of investment properties in Mainland China of approximately HK\$435,000 was credited to this year's income statement. There was no income tax arising from the disposal. Part of the sale proceeds was used to repay all the related outstanding bank borrowings and the remaining balance was used as the Group's working capital.

As a consequence of the above, the geographical segment of Mainland China of the Group were reported as discontinued operations.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6. DISCONTINUED OPERATIONS (Continued)

(c) Geographical segment of Mainland China (Continued)

The turnover, other income, expenses, results, cash flows, total assets and total liabilities relating to the aforesaid discontinued operations as of and for the period up to the dates of disposal are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	60	500
Other income	139	625
Staff costs	(145)	(575)
Depreciation and amortisation	–	(39)
Other operating expenses	(116)	(821)
Impairment loss of goodwill	–	(14)
Deficit on revaluation of investment properties	–	(12,069)
	<u>(62)</u>	<u>(12,393)</u>
Loss before minority interests		
Net cash used in operating activities	(2)	(777)
Net cash used in investing activities	–	(3,377)
Net cash used in financing activities	–	(2,858)
	<u>(2)</u>	<u>(7,012)</u>
Total net cash outflow		
Total assets	<u>8,589</u>	<u>252,290</u>
Total liabilities	<u>–</u>	<u>111,124</u>
		2004 HK\$'000
Net book value of investment properties in Mainland China		8,589
Gain on disposal of investment properties in Mainland China		435
Net selling price		9,024

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6. DISCONTINUED OPERATIONS *(Continued)*

(d) Securities broking and investment operations

On 18 October 2004, Koffman Securities ceased its securities broking, underwriting and placing services, and management and consultancy services due to the continuous decline in turnover for the previous years. Following the cessation of business of Koffman Securities, the directors resolved on 20 October 2004 to cease the securities broking services and the trading in listed equity investments operations. The operations of the subsidiaries comprising this segment were terminated accordingly and were reported as discontinued operations.

The turnover, other income, expenses, results, cash flows, total assets and total liabilities relating to the aforesaid discontinued operations as of and for the years ended 31 December 2004 and 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover and other income	–	–
Impairment loss recognised in relation to an associate	–	(3,402)
Loss from operations	–	(3,402)
Results attributable to an associate	–	(2,162)
Loss before minority interests	–	(5,564)
Total assets	–	–
Total liabilities	–	–

There was no cash inflow or outflow in relation to the securities broking and investment operations for both years.

7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: on a primary segment reporting basis, by business segment; and on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according 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 other business segments. Summary details of the business segments are as follows:

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

7. SEGMENT INFORMATION *(Continued)*

Continuing operations:

- (a) the property investment and development segment invests in land and buildings for its rental income potential and engages in property development;
- (b) the financial services segment engages in the provision of loan finance and corporate finance consultancy services; and
- (c) the corporate and other segment comprises mainly corporate income and expenses items.

Discontinued operations:

- (d) the trading of computer products and office equipment segment engages in the trading of computer products, related accessories and office equipment;
- (e) the information technology segment engages in the provision of information technology training and software development services; and
- (f) the securities broking and investment segment engages in the provision of securities broking services and the trading in listed equity investments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

7. SEGMENT INFORMATION (Continued)

Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

	Continuing operations						Discontinued operations						Consolidated			
	Property investment and development		Financial services		Trading of computer products and office equipment		Information technology		Securities broking and investment		Eliminations		2004		2003	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	8,764	22,660	3,565	11,266	-	88,412	-	20	-	-	-	-	12,329	123,568	-	-
Intersegment sales	-	1,834	2,065	10,712	-	-	-	-	-	-	(2,065)	(2,548)	-	-	-	-
Other revenue	872	1,716	3	6	-	193	-	1	-	-	-	-	875	1,916	-	-
Total	9,636	26,410	5,633	21,984	-	88,607	-	21	-	-	(2,065)	(12,548)	13,204	125,474	-	-
Segment results	(11,892)	(52,828)	(2,483)	(50,932)	-	(14,199)	-	(2,214)	-	-	(2,065)	(12,548)	(16,450)	(132,721)	(8,037)	(315,684)
Bank interest income and unallocated gains													180	2,444		
Corporate and other unallocated expenses													(5,537)	(185,407)		
Loss from operations													(21,807)	(315,684)		
Finance costs													(4,460)	(7,387)		
Share of results of associates													639	(2,766)		
Amortisation of goodwill arising on acquisition of associates													(4,371)	(8,037)		
Impairment loss recognised in relation to associates													-	(7,382)		
Negative goodwill arising on acquisition of associates recognised as income													-	439		
Loss from ordinary activities before taxation													(29,999)	(340,797)		
Taxation													(164)	(1,264)		
Loss before minority interests													(30,163)	(342,061)		
Minority interests													201	978		
Net loss attributable to the shareholders													(29,962)	(341,083)		

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

7. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Continuing operations				Discontinued operations				Corporate and other unallocated		Consolidated			
	Property investment and development		Financial services		Trading of computer products and office equipment		Information technology		Securities broking and investment		2003		2004	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2004	2003	2004	2003	2004
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	106,550	133,336	39,562	44,867	-	-	-	-	-	-	-	146,112	178,803	
Interests in associates	96,526	100,299	-	-	-	-	-	-	-	-	-	96,526	100,299	
Corporate and other unallocated assets	-	-	-	-	-	-	-	-	-	234	2,160	234	2,160	
Total assets	203,076	234,235	39,562	44,867	-	-	-	-	-	234	2,160	242,872	281,262	
Segment liabilities	9,361	6,749	34	78	-	-	-	-	-	-	-	9,395	6,827	
Corporate and other unallocated liabilities	-	-	-	-	-	-	-	-	-	53,490	64,668	53,490	64,668	
Total liabilities	9,361	6,749	34	78	-	-	-	-	-	53,490	64,668	62,885	71,495	
Other segment information:														
Depreciation	172	1,896	84	251	-	-	-	114	-	39	-	295	2,294	
Amortisation	-	56	-	-	-	-	-	-	-	-	-	-	2,853	
- Subsidiaries	4,371	2,913	-	-	2,797	-	-	-	-	-	-	4,371	6,037	
- Associates	-	-	-	-	-	-	-	-	-	-	-	-	-	
4,371	2,989	-	-	2,797	-	-	-	-	-	-	-	4,371	10,890	
Deficit on revaluation of investment properties	982	21,295	-	-	-	-	-	-	-	-	-	982	21,295	
Impairment loss	161	295	-	-	-	-	-	-	-	-	-	161	360	
- Fled assets	-	-	-	-	65	-	-	-	-	-	-	-	-	
- Goodwill arising on acquisition of subsidiaries	-	14	-	-	6,403	-	-	-	-	-	-	-	6,417	
- Associates	-	-	-	-	7,362	-	-	3,402	-	-	-	-	10,764	
161	309	-	-	13,860	-	-	-	3,402	-	-	-	161	17,541	
Write off of other receivables	62	-	-	-	-	-	-	-	-	9	-	71	-	
Provision for doubtful debts	7,900	1,227	5,738	66,561	-	-	-	-	-	-	-	13,638	82,076	
Capital expenditure	7	35	-	45	-	-	-	-	-	-	-	7	207	

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

7. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's operations are principally located in the People's Republic of China (the "PRC") and Malaysia.

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments.

	PRC							
	Hong Kong		Mainland China		Malaysia		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	<u>4,135</u>	<u>102,964</u>	<u>60</u>	<u>500</u>	<u>8,134</u>	<u>20,094</u>	<u>12,329</u>	<u>123,558</u>
Other segment information:								
Segment assets	<u>135,262</u>	<u>143,506</u>	<u>-</u>	<u>19,101</u>	<u>107,610</u>	<u>118,655</u>	<u>242,872</u>	<u>281,262</u>
Capital expenditure	<u>-</u>	<u>206</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>1</u>	<u>7</u>	<u>207</u>

In 2004, included in the geographical segment of Hong Kong are segment revenue from trading of computer products and office equipment operations; and information technology operations of HK\$Nil (2003: approximately HK\$89,432,000) shown under discontinued operations in business segments.

Following the disposals as set out in Note 6(c), the whole geographical segment of Mainland China was reported as discontinued operations. In 2004, segment revenue from property investment and development operations of approximately HK\$60,000 (2003: HK\$500,000) was derived from the geographical segment of Mainland China.

8. NET LOSS ON PROPERTIES AND INVESTMENTS

	Note	2004 HK\$'000	2003 HK\$'000
Loss on disposal of investment properties		-	(4,771)
Deficit on revaluation of investment properties		(982)	(21,295)
Gain on disposal of subsidiaries	39(b)	3	6,099
Gain on strike off of subsidiaries		30	-
Loss on disposal of associates		-	(19,148)
Gain on disposal of a short term investment		708	-
		<u>(241)</u>	<u>(39,115)</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

9. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting) the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Auditors' remuneration		
– Current year	877	852
– Under-provision for previous year	–	430
	877	1,282
Depreciation		
– Owned fixed assets	284	2,259
– Leased fixed assets	11	35
	295	2,294
Loss on disposal of fixed assets	21	24,559
Impairment loss of fixed assets (included in other operating expenses)	161	360
Goodwill		
– Amortisation	–	2,853
– Impairment loss (included in “gain/(loss) on discontinued operations” shown on the face of the consolidated income statement)	–	6,417
	–	9,270

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

9. LOSS FROM OPERATIONS (Continued)

	2004 HK\$'000	2003 HK\$'000
Provision for doubtful debts		
– Consideration receivables	7,609	–
– Loan and interest receivables	5,358	66,561
– Trade receivables	–	10,591
– Other receivables	671	4,924
	13,638	82,076
Write off of other receivables	71	–
Write off of amounts due from associates	–	84
Minimum lease payments under operating leases for land and buildings	547	1,284
Staff costs (excluding directors' emoluments – Note 10)		
– Wages and salaries	2,069	6,745
– Pension scheme contributions *	78	215
	2,147	6,960
Foreign exchange losses, net	249	470
Rental income, net	(412)	(10,434)

* At the balance sheet date, the Group had no forfeited contributions (2003: Nil) available to reduce its future pension scheme contributions.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

10. DIRECTORS' EMOLUMENTS

The emoluments of the directors are summarised as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	120	120
	<u>120</u>	<u>120</u>
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	652	904
Pension scheme contributions	12	14
	<u>664</u>	<u>918</u>
	<u><u>784</u></u>	<u><u>1,038</u></u>

The number of directors whose emoluments fell within the following band is as follows:

	Number of directors	
	2004 HK\$'000	2003 HK\$'000
Nil to HK\$1,000,000	<u><u>6</u></u>	<u><u>5</u></u>

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

11. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals in the Group during the year included one (2003: one) executive director of the Company and details of whose emoluments are disclosed in Note 10 above. The emoluments of the remaining four (2003: four) non-directors, highest paid individuals are summarised as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,562	1,721
Pension scheme contributions	36	32
Compensation for loss of office		
– Contractual payments	–	480
	<u>1,598</u>	<u>2,233</u>

The number of non-director, highest paid individuals whose emoluments fell within the following band is as follows:

	Number of employees	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Nil - HK\$1,000,000	<u>4</u>	<u>4</u>

12. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years		
– Bank loans and overdrafts	2,247	3,370
– Other loans	2,187	8,448
Interest on finance leases	26	11
Total interest	<u>4,460</u>	<u>11,829</u>
Less: Interest capitalised	–	(4,442)
	<u>4,460</u>	<u>7,387</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

13. RESULTS ATTRIBUTABLE TO ASSOCIATES

	2004 HK\$'000	2003 HK\$'000
Results attributable to associates comprises:		
Share of results of associates	639	(2,766)
Amortisation of goodwill arising on acquisition of associates	(4,371)	(8,037)
Impairment loss recognised in relation to associates	–	(7,362)
Negative goodwill arising on acquisition of associates recognised as income	–	439
	<u>(3,732)</u>	<u>(17,726)</u>

14. TAXATION

The amount of taxation charged to the income statement represents:

	2004 HK\$'000	2003 HK\$'000
Current year		
Hong Kong profits tax	–	48
Elsewhere	–	913
	<u>–</u>	<u>961</u>
Under-provision in previous year		
Elsewhere	–	45
	<u>–</u>	<u>45</u>
Deferred taxation		
Current year	–	106
Under-provision in previous year	–	11
	<u>–</u>	<u>117</u>
Share of taxation attributable to associates	<u>164</u>	<u>141</u>
	<u>164</u>	<u>1,264</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

14. TAXATION (Continued)

- (a) No provision for Hong Kong profits tax has been made in the current year as the Group has sufficient tax losses brought forward to set off against current year's assessable profits. 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.
- (b) Reconciliation between tax expense and the Group's loss from ordinary activities before taxation at applicable tax rate is as follows:

	2004 HK\$'000	2003 HK\$'000
Loss from ordinary activities before taxation	(29,999)	(340,797)
Calculated at Hong Kong profits tax rate of 17.5% (2003: 17.5%)	(5,250)	(59,639)
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	62	(250)
Tax effect of non-taxable income	(225)	(1,612)
Tax effect of non-deductible expenses	3,404	53,894
Tax effect of temporary differences not recognised	(113)	3,426
Tax effect of tax losses not recognised	2,567	5,571
Tax effect of utilisation of tax losses not previously recognised	(281)	(182)
Under-provision in previous year	-	56
Taxation	<u>164</u>	<u>1,264</u>

15. NET LOSS ATTRIBUTABLE TO THE SHAREHOLDERS

The net loss attributable to the shareholders for the year ended 31 December 2004 includes a loss dealt with in the financial statements of the Company amounting to approximately HK\$25,115,000 (2003: HK\$334,961,000).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss attributable to the shareholders for the year of approximately HK\$29,962,000 (2003: HK\$341,083,000), and the weighted average number of approximately 2,561,167,000 (2003: 2,561,167,000) ordinary shares in issue during the year.

There were no dilutive potential shares during the year ended 31 December 2004 and 2003, therefore, no diluted loss per share has been presented.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

17. FIXED ASSETS

Group

	Land and building HK\$'000	Leasehold improvements HK\$'000	Office furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2004	800	126	2,513	150	3,589
Exchange adjustments	–	1	3	–	4
Additions	–	–	7	–	7
Disposals	–	(67)	(760)	–	(827)
At 31 December 2004	800	60	1,763	150	2,773
Accumulated depreciation and impairment losses					
At 1 January 2004	350	92	2,164	103	2,709
Exchange adjustments	–	1	3	–	4
Charge for the year	22	7	228	38	295
Impairment loss for the year	45	–	107	9	161
Disposals	–	(47)	(759)	–	(806)
At 31 December 2004	417	53	1,743	150	2,363
Net book value					
At 31 December 2004	383	7	20	–	410
At 31 December 2003	450	34	349	47	880

The Group's land and building are held under medium term leases and are situated in Hong Kong.

On 31 August 2005, the Group's land and building were disposed of at a consideration of HK\$370,000. No significant gain or loss was resulted in this transaction.

The net book value of the Group's fixed assets held under finance lease included in the total amount of office furniture and equipment at 31 December 2004 amounted to approximately HK\$Nil (2003: HK\$41,000).

Particulars of the Group's land and building are set out on page 85.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

17. FIXED ASSETS (Continued)

Company

	Office furniture and equipment <i>HK\$'000</i>
Cost	
At 1 January 2004	15
Disposals	(7)
At 31 December 2004	8
Accumulated depreciation	
At 1 January 2004	14
Charge for the year	1
Disposals	(7)
At 31 December 2004	8
Net book value	
At 31 December 2004	–
At 31 December 2003	1

18. INVESTMENT PROPERTIES

Valuation	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At 1 January	27,117	206,598
Exchange adjustments	–	195
Disposals	(10,469)	(12,400)
Disposal of a subsidiary	–	(149,760)
Deficit on revaluation	(982)	(17,516)
At 31 December	15,666	27,117

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

18. INVESTMENT PROPERTIES (Continued)

Subsequent to the balance sheet date, the Group's investment properties were disposed of at a total consideration of approximately HK\$15,648,000. At 31 December 2004, the investment properties were stated at valuation which was determined by the directors with reference to their subsequent selling prices. In the opinion of the directors, these subsequent selling prices approximated the open market value at the balance sheet date. Deficit arising on revaluation of investment properties of approximately HK\$982,000 has been charged to the income statement.

The carrying amounts of investment properties of the Group held for use in operating leases were approximately HK\$3,988,000 (2003: HK\$26,939,000), further summary details of which are included in Note 41(a).

Certain of the Group's investment properties with a value of approximately HK\$15,488,000 (2003: HK\$26,939,000) were pledged to secure banking facilities granted to the Group.

The Group's investment properties, situated in Hong Kong, are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>
Long term leases	11,500
Medium term leases	4,166
	<hr/>
	15,666
	<hr/> <hr/>

Particulars of the Group's investment properties are set out on page 85.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

19. GOODWILL

	Group <i>HK\$'000</i>
Gross amount	
At 1 January 2004	18,580
Strike off of a subsidiary	(1,102)
At 31 December 2004	17,478
Accumulated amortisation and impairment losses	
At 1 January 2004	18,580
Strike off of a subsidiary	(1,102)
At 31 December 2004	17,478
Net book value	
At 31 December 2004	—
At 31 December 2003	—

20. INTERESTS IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted investments, at cost	5,000	5,000
Amounts due from subsidiaries	439,867	544,646
Loans to subsidiaries	211,579	224,127
Amounts due to subsidiaries	(16,998)	(7,904)
	639,448	765,869
Less: Provision for impairment losses	(423,929)	(517,944)
	215,519	247,925

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The loans to subsidiaries, of which approximately HK\$41,303,000 (2003: HK\$202,256,000) bears interest with Hong Kong prime rate per annum, are unsecured and are not repayable within one year from the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

20. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bakeland Company Limited	Hong Kong	HK\$1,512,000	–	94.45	Property holding
Best Spot Investments Limited (“Best Spot”)	Hong Kong	HK\$2	–	100	Investment holding
Bestwick Limited	Hong Kong	HK\$2	100	–	Investment holding
Dual Aim Management Sdn. Bhd.	Malaysia	MYR3	–	100	Provision of management services
Dual Aim Sdn. Bhd.	Malaysia	MYR250,000	–	100	Property development
Healthy Profit Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Hua Chiao Development Limited (“Hua Chiao”)	Hong Kong	HK\$650,000	–	100	Investment holding
Jiang Sun Group Pte. Limited *	Singapore	S\$2	–	100	Property holding
Kong Sun (China) Investment Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Kong Sun Industrial Limited	Hong Kong	HK\$2	–	100	Property holding
Kong Sun Resources Limited (“Kong Sun Resources”)	Hong Kong	HK\$2	–	100	Property holding

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

20. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 December 2004 are as follows (Continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kong Sun Technology Limited	Hong Kong	HK\$2	–	100	Investment holding
Kong Sun Telecoms Limited	Hong Kong	HK\$2	–	100	Property holding
Pacpo Hong Kong Company Limited ("Pacpo Hong Kong")	Hong Kong	HK\$2	100	–	Investment holding
Pacpo Investments Limited ("Pacpo Investments")	Hong Kong	US\$2	100	–	Provision of loan finance services
Peace Hill Securities Company Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding
Xswim Digital Limited	Hong Kong	HK\$2	–	54	Investment holding
Xswim (Holding) Limited ("Xswim Holding")	British Virgin Islands/ Hong Kong	US\$1,111	–	54	Investment holding
Xswim Technology Limited ("Xswim Technology")	Hong Kong	HK\$2	–	54	Inactive

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

21. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	81,835	81,360
Goodwill (Note)	14,568	18,939
	<u>96,403</u>	<u>100,299</u>
Amount due from an associate	<u>123</u>	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Note:

	Goodwill HK\$'000
Gross amount	
At 1 January 2004	23,470
Strike off of associates	<u>(1,617)</u>
At 31 December 2004	21,853
Accumulated amortisation and impairment losses	
At 1 January 2004	4,531
Amortisation provided during the year	4,371
Strike off of associates	<u>(1,617)</u>
At 31 December 2004	<u>7,285</u>
Net book value	
At 31 December 2004	<u>14,568</u>
At 31 December 2003	<u>18,939</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

21. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

(Continued)

Particulars of the principal associates at 31 December 2004 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Group	Principal activities
Aset Nusantara Development Sdn. Bhd. ("Aset Nusantara")	Corporate	Malaysia	MYR250,000	21	Property development
United Victoria Sdn. Bhd. ("United Victoria")	Corporate	Malaysia	MYR800,000	50	Investment holding

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

- (a) The above associates are indirectly held by the Company.
- (b) United Victoria is an investment holding company. The main asset of United Victoria is a direct investment in an associate, Aset Nusantara, which is principally engaged in property development in Malaysia.
- (c) Under the equity method of accounting, the Group's share of losses of its associate is discontinued when the carrying amount of the interest in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate. At 31 December 2004 the Group's share of certain associates' losses exceeded its carrying amount of the interests in associates. Accordingly, the losses of these associates were not equity accounted for.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

21. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

(Continued)

A summary of the financial information of Aset Nusantara, prepared based on the financial statements of Aset Nusantara for the relevant years, after making such adjustments as appropriate (including adjustments mainly for the fair value of properties under development held for sale upon the Group's acquisition thereof), is as follows:

	2004 HK\$'000	2003 HK\$'000
Non-current assets	72	91
Current assets	735,397	742,122
Current liabilities	(102,379)	(126,224)
Non-current liabilities	(185,672)	(170,845)
Net assets	<u>447,418</u>	<u>445,144</u>
Turnover	<u>30,437</u>	<u>53,862</u>
Profit from ordinary activities before taxation	<u>3,056</u>	<u>7,503</u>

22. LONG TERM INVESTMENT

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	<u>6,537</u>	<u>6,537</u>

At 31 December 2004, the long term investment represented the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a company incorporated in Malaysia with issued share capital of MYR50,000,000, which was principally engaged in property holding in Malaysia.

The directors considered that the carrying amount of the Group's interest in Pioneer Heritage was not materially different from its fair value at 31 December 2004.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

23. SHORT TERM INVESTMENT

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	–	10,507

During the year ended 31 December 2004, Best Spot, a wholly owned subsidiary of the Company, gave its authorisation to Beijing Tianheng to enter into a conditional agreement dated 20 April 2004 (the “Guoco Properties Agreement”) on its behalf with Guoco Properties Limited (“Guoco Properties”) to dispose of the remaining 10% interest of the registered capital of Kong Sheng Property Development Limited (“Kong Sheng”), a sino-foreign equity joint venture enterprise established in the PRC, which was principally engaged in property development in Xicheng District, Beijing, for a cash consideration of approximately HK\$11,215,000. The Guoco Properties Agreement came into effect upon the aforesaid transfer approved by Beijing Municipal Bureau of Commerce on 29 September 2004. Consequently, the Group did not have any interest in the registered capital of Kong Sheng. The resulting gain on disposal of short term investment of approximately HK\$708,000 has been credited to the income statement.

24. LOAN AND INTEREST RECEIVABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
Loan receivables		
– Secured	46,177	48,510
– Unsecured	59,153	59,153
Gross loan receivables	105,330	107,663
Less: Provision	(65,820)	(65,820)
	39,510	41,843
Interest receivables	10,352	7,237
Less: Provision	(10,352)	(4,994)
	–	2,243
	39,510	44,086
Amount shown under non-current assets	39,510	41,303
Amount shown under current assets	–	2,783
	39,510	44,086

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

24. LOAN AND INTEREST RECEIVABLES (Continued)

At 31 December 2004, the Group had a loan receivable of approximately HK\$39,510,000 (2003: HK\$39,510,000) and the accrued loan interest receivable of approximately HK\$5,358,000 (2003: HK\$1,793,000) 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. However, the loan and the accrued interest receivables remain outstanding and overdue. 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. As the realisation has yet to complete, the outstanding receivables have been classified as non-current assets. A provision of approximately HK\$5,358,000 has been made against the accrued interest receivable in the current year. In the opinion of the directors, sufficient provision has been made and no additional provision is required.

25. CONSIDERATION RECEIVABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
The amounts represent:		
Net proceeds on disposal of subsidiaries (Notes (a) and (b))	78,636	84,571
Net proceeds on disposal of short term investment (Note (c))	7,652	–
	<u>86,288</u>	84,571
Less: Provision	(7,609)	–
	<u>78,679</u>	<u>84,571</u>
Amount due for settlement within one year (Note (b)(ii) and shown under current assets)	18,691	5,935
Amount due for settlement after one year (Notes (b)(iii) and (c) and shown under non-current assets)	59,988	78,636
	<u>78,679</u>	<u>84,571</u>

- (a) Included above is an amount of approximately HK\$7,609,000 due from Pioneer Heritage, an investee company of the Group, representing the outstanding net consideration receivable on disposal of 65% equity interest in Pioneer Heritage pursuant to an agreement dated 28 February 2003 entered between Hua Chiao, a wholly owned subsidiary of the Company, and United Merit Sdn. Bhd. ("United Merit"). The aforesaid balance due from Pioneer Heritage is unsecured, interest-free and has no fixed terms of repayment. However, over the past few years, the Group was unable to agree the repayment terms and date with Pioneer Heritage. Consequently, the directors decided to make full provision for the amount as the recoverability of the sum became more and more uncertain.

25. CONSIDERATION RECEIVABLES *(Continued)*

- (b) Included above is an amount of approximately HK\$71,027,000 due from Beijing Tianheng, representing the outstanding net consideration receivable on disposal of 80.1% interest of the registered capital of Kong Sheng. On 16 January 2003, Best Spot entered into an agreement (the "First Transfer Agreement") with the then joint venture partner of Kong Sheng, Beijing Xicheng Housing Construction Development Company ("Beijing Xicheng") whereby Best Spot agreed to transfer 20.1% interest of the registered capital of Kong Sheng to Beijing Xicheng at a consideration of approximately HK\$22,429,000 (the "First Transfer"). 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.

On 22 April 2003, Best Spot entered into an agreement (the "Second Transfer Agreement") with Beijing Tianheng whereby Best Spot agreed to transfer 60% interest of the registered capital of Kong Sheng to Beijing Tianheng at a consideration of approximately HK\$67,290,000 (the "Second Transfer"). The Second Transfer (together with a transfer of 30% interest 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.

Pursuant to a settlement agreement dated 10 May 2004 (the "Settlement Agreement") entered between Best Spot and Beijing Tianheng, Beijing Tianheng agreed to pay an aggregate amount of approximately HK\$89,719,000 to Best Spot in respect of the First and Second Transfers and refund an aggregate amount of approximately HK\$93,458,000 to Best Spot in respect of the total advance development costs paid by Best Spot under a property development contract. On the other hand, Best Spot would compensate Beijing Tianheng an aggregate amount of approximately HK\$106,215,000 in respect of losses incurred by Beijing Tianheng as a result of Best Spot's defaults in paying the predetermined advance development costs under several property development contracts. The net consideration receivable due from Beijing Tianheng under the Settlement Agreement became approximately HK\$76,962,000 and the repayment terms are as follows:

- (i) HK\$5,935,000 (the "First Payment") within 60 days after the Guoco Properties Agreement (details of which are set out in Note 23) coming into effect;
- (ii) HK\$18,691,000 (the "Second Payment") within three months from the date the Guoco Properties Agreement is being approved by the original approving authority in the PRC and the new business licence of Kong Sheng showing that Beijing Tianheng and Guoco Properties are the joint venture parties is being issued; and
- (iii) HK\$52,336,000 (the "Third Payment") within 30 working days from the date on which Beijing Tianheng has completed the "seven connected and one levelling (七通一平)" and all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

25. CONSIDERATION RECEIVABLES (Continued)

Pursuant to a deed of assignment (the “Deed of Assignment”) entered between Best Spot and Asia Commercial Bank Limited (“ACB”) dated 20 November 2004, the Group agreed to assign RMB6,000,000 from its right, title and interest in the aforesaid net consideration receivable to ACB as settlement of the outstanding bank loans together with the interest thereon and the litigation expenses owed to ACB under the final judgement made by the High Court of Hong Kong (details of which are set out in Note 40(c)).

During the year ended 31 December 2004, the sum of approximately HK\$5,935,000, representing the First Payment has been settled. The amount due from Beijing Tianheng in relation to the disposal of 80.1% interest of the registered capital of Kong Sheng was therefore reduced to approximately HK\$71,027,000.

- (c) Included above is an amount of approximately HK\$7,652,000 due from Beijing Tianheng, representing the balance of consideration on disposal of 10% interest of the registered capital of Kong Sheng (details of which are set out in Note 23). During the year ended 31 December 2004, an amount of approximately HK\$3,563,000 was received by Best Spot. The balance of the consideration receivable of approximately HK\$7,652,000 was withheld by Beijing Tianheng. Best Spot was informed by Beijing Tianheng that the aforesaid amount of approximately HK\$7,652,000 will be repaid within 30 working days from the date on which Beijing Tianheng has completed the “seven connected and one levelling (七通一平)” and all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement.

Pursuant to the Settlement Agreement, the Second Payment due from Beijing Tianheng is due for payment in January 2005. The directors have discussed the settlement of the Second Payment with Beijing Tianheng and obtained an understanding that Beijing Tianheng is under negotiation with Guoco Properties in respect of the basis of loss allocation as a consequence of changing the construction plan of the property development in Xicheng District, Beijing. Pending the outcome of the loss allocation between the parties, it was agreed to defer the settlement of Guoco Properties’ consideration payable to Beijing Tianheng. Consequently, Beijing Tianheng also deferred the Second Payment to the Group until final agreement is reached between Beijing Tianheng and Guoco Properties. However, the directors remain confident that the entire amount of the Second Payment, the Third Payment and the balance of consideration on disposal of 10% interest of the registered capital of Kong Sheng of approximately HK\$78,679,000 can be recovered in full. Accordingly, no provision in the financial statements is considered necessary by the directors.

26. PROPERTIES HELD FOR SALE

	Group	
	2004 HK\$'000	2003 HK\$'000
Properties held for sale	<u>2,188</u>	<u>2,278</u>

The Group’s properties held for sale, situated in Malaysia, are held under long term leases and are stated at net realisable value.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

27. TRADE RECEIVABLES

The Group allows a credit period normally ranging from 14 to 90 days to its trade customers.

An aged analysis of trade receivables at the balance sheet date is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current	–	423
1 – 3 months	237	397
4 – 6 months	47	253
7 – 12 months	–	10,056
Over 1 year	14,404	3,735
	14,688	14,864
Less: Provision	(14,292)	(14,325)
Total, net of provision	396	539

28. OTHER RECEIVABLES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Other debtors	1,853	2,266	70	1,189
Prepayments and deposits	146	499	61	40
Tax recoverable	62	62	–	–
	2,061	2,827	131	1,229

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	862	857	3	104
Time deposits	37	764	–	–
	899	1,621	3	104
Less: Pledged time deposits	(37)	(764)	–	–
Cash and cash equivalents	862	857	3	104

At 31 December 2004, the Group's time deposits amounting to approximately HK\$37,000 (2003: HK\$764,000) were pledged to a bank to secure the Group's banking facilities.

30. TRADE PAYABLES

An aged analysis of trade payables at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	–	1,500
4 to 6 months	35	–
7 to 12 months	236	487
Over 1 year	4,338	3,234
	4,609	5,221

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

31. OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accruals	14,030	7,658	7,844	5,451
Deposits received	229	248	–	–
Amount due to a substantial shareholder, KSE – <i>Note 32</i>	60	485	–	–
Amount due to a related company – <i>Note 32</i>	157	70	–	–
Amounts due to directors – <i>Note 32</i>	678	1,173	–	–
	<u>15,154</u>	<u>9,634</u>	<u>7,844</u>	<u>5,451</u>

- (a) Included in accruals of the Group are amounts of approximately HK\$437,000 (2003: HK\$870,000) representing accrued salaries due to the Company's directors, Mr. Kong Li Jer, Mr. Ku Suen Fai and Mr. Fai Cheong Hau (deceased).
- (b) Included in accruals of the Company are amounts of approximately HK\$265,000 (2003: HK\$195,000) representing accrued salaries due to the Company's directors, Mr. Ku Suen Fai and Mr. Fai Cheong Hau (deceased).
- (c) Included in accruals of the Group are amounts of approximately HK\$2,813,000 (2003: HK\$670,000) representing interest payable in respect of bank and other borrowings.
- (d) Included in accruals of the Company are amounts of approximately HK\$2,062,000 (2003: HK\$670,000) representing interest payable in respect of bank and other borrowings.

32. AMOUNTS DUE TO A SUBSTANTIAL SHAREHOLDER/A RELATED COMPANY/ DIRECTORS

The amounts due to a substantial shareholder/a related company/directors are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

33. FINANCE LEASE PAYABLES

Group	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable:				
Within one year	7	229	6	204
In the second year	7	7	6	6
In the third to fifth years, inclusive	12	20	9	15
	<u>26</u>	<u>256</u>	<u>21</u>	<u>225</u>
Less: future finance charges	(5)	(31)		
Total net finance lease payables	21	225		
Amounts due for settlement within one year (shown under current liabilities)	(6)	(204)		
Amounts due for settlement after one year (shown under non-current liabilities)	<u>15</u>	<u>21</u>		

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

34. BANK AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	3,540	5,301	3,540	5,094
Invoice financing loans	3,779	5,989	–	–
Bank loans	20,984	31,364	13,247	23,627
Other loans	14,750	13,700	14,750	13,700
	43,053	56,354	31,537	42,421
Amounts due for settlement within one year (shown under current liabilities)	(43,053)	(50,367)	(31,537)	(36,434)
Amounts due for settlement after one year (shown under non-current liabilities)	–	5,987	–	5,987
Secured	37,722	49,721	29,985	41,982
Unsecured	5,331	6,633	1,552	439
	43,053	56,354	31,537	42,421
Bank loans repayable:				
On demand or within one year	20,984	25,377	13,247	17,640
In the second year	–	2,080	–	2,080
In the third to fifth years, inclusive	–	3,907	–	3,907
	20,984	31,364	13,247	23,627
Other loans repayable:				
On demand or within one year	14,750	13,700	14,750	13,700

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

34. BANK AND OTHER BORROWINGS *(Continued)*

- (a) At 31 December 2004, the Group's bank borrowings are secured by the following:
- (i) mortgages over the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$15,488,000 (2003: HK\$26,939,000);
 - (ii) assignment of rentals over certain of the Group's investment properties situated in Hong Kong;
 - (iii) pledge of approximately 596,052,000 ordinary shares of HK\$0.10 each of the Company owned by Kong Fa;
 - (iv) personal guarantee executed by the Company's director, Mr. Kong Li Szu; and
 - (v) assignment of consideration receivable under the Deed of Assignment.
- (b) The Group has defaulted in the repayments of certain invoice financing loans due to ACB. As a consequence, on 11 February 2004, an action was commenced by ACB for an immediate full repayment of the loans granted. 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. Details of the litigation are mentioned in Note 40(c). At 31 December 2004, the invoice financing loans due to ACB amounted to approximately HK\$3,779,000 have been classified as current liabilities.
- (c) The Group has defaulted in the repayments of a fixed term loan due to Industrial and Commercial International Capital Limited ("ICIC"). Since the shares of the Company was suspended trading with effect from 17 June 2004, the directors are not able to determine whether the Group is in compliance with the minimum requirement under the agreement of a loan facility granted to the Group in respect of the fair value of the pledged securities (see (a)(iii) above). Nevertheless, in view of the defaults in the repayments, on 20 July 2004, an action was commenced by ICIC for an immediate full repayment of the fixed term loan. This case was heard by the High Court of Hong Kong on 8 November 2004 and a judgement was issued in favour of ICIC. Details of the litigation are mentioned in Note 40(f). At 31 December 2004, the fixed term loan due to ICIC amounted to approximately HK\$6,399,000 has been classified as current liabilities.
- (d) The Group has defaulted in the repayments of certain bank loans due to DBS Bank (Hong Kong) Limited ("DBS"). As a consequence, on 21 December 2005, an action was commenced by DBS for an immediate full repayment of the loans granted. Details of the litigation are mentioned in Note 40(h). At 31 December 2004, the bank loans due to DBS amounted to approximately HK\$6,847,000 have been classified as current liabilities.
- (e) The Group has defaulted in the repayments of certain bank overdrafts and bank loans of approximately HK\$11,278,000 in aggregate. Hence, the said bank overdrafts and bank loans are considered as immediately due for repayment in full on demand and have been classified as current liabilities.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

34. BANK AND OTHER BORROWINGS *(Continued)*

- (f) Included in other loans is an amount of HK\$13,700,000 due to a financial institution. This loan bears interest at the rate of 15% per annum and is secured by the following:
- (i) personal guarantees from the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu;
 - (ii) corporate guarantee executed by Best Spot; and
 - (iii) charge over all the issued share capital of Best Spot. The main asset of Best Spot was a direct investment in 90.1% interest of the registered capital of Kong Sheng. Following the completion of the First Transfer, the Second Transfer and the Guoco Properties Agreement, Best Spot did not have any interest in the registered capital of Kong Sheng.

The Group has failed to meet the repayment schedule of this loan. As the repayment schedule as stipulated in the loan agreement has not been complied with, this loan should be due for immediate repayment in full and accordingly, has been classified as current liabilities. In addition, according to the loan agreement, the Group should obtain prior written consent from the financial institution for the disposal of Kong Sheng. However, no such prior written consent was obtained in respect of the disposal. Up to the date of approval of the financial statements, no action has been taken by the financial institution in respect of the non-compliance.

- (g) Included in other loans is an amount of HK\$1,050,000 due to an independent third party. This loan is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

35. DEFERRED TAXATION

(a) The movements in deferred tax assets and liabilities are as follows:

Group	Accelerated	Tax	Total
	tax depreciation HK\$'000	losses HK\$'000	
At 1 January 2003	1,052	(555)	497
Charged/(Credited) to the income statement	184	(67)	117
Effect of change in tax rate	52	(52)	–
Disposal of a subsidiary	(614)	–	(614)
At 31 December 2003 and at 1 January 2004	674	(674)	–
Charged/(Credited) to the income statement	(211)	211	–
At 31 December 2004	463	(463)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in the revised Statement of Standard Accounting Practice 12 “Income Taxes”.

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unused tax losses	129,766	114,262	49,761	40,904
Deductible temporary differences	104	45	4	3
	<u>129,870</u>	<u>114,307</u>	<u>49,765</u>	<u>40,907</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 and the Company can utilise the benefits.

At 31 December 2004, 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

36. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
4,000,000,000 (2003: 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 (2003: 2,561,166,921) ordinary shares of HK\$0.10 each	<u>256,116</u>	<u>256,116</u>

37. SHARE OPTIONS

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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	329,049	20	(48,837)	280,232
Net loss for the year	—	—	(334,961)	(334,961)
At 31 December 2003 and 1 January 2004	329,049	20	(383,798)	(54,729)
Net loss for the year	—	—	(25,115)	(25,115)
At 31 December 2004	<u>329,049</u>	<u>20</u>	<u>(408,913)</u>	<u>(79,844)</u>

At 31 December 2004 and 2003, the Company had no reserves available for distribution.

The application of the share premium account is governed by Section 48B of the Companies Ordinance.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary relating to discontinued operations in the prior year

	2003
	<i>HK\$'000</i>
<hr/>	
Net assets disposed of:	
Fixed assets	580
Properties under development	241,818
Other receivables	392
Cash and bank balances	911
Other payables	(62)
Amount due to the Group	(111,062)
Minority interests	(37,910)
	<hr/>
	94,667
Exchange fluctuation reserve realised	3,365
Refund of advance development costs paid for a subsidiary	93,458
Amounts due to the Group written off	17,604
Loss on disposal of a subsidiary relating to discontinued operations	(121,625)
	<hr/>
	87,469
	<hr/>
Satisfied by:	
Reclassification to short term investment	10,507
Cash consideration receivable	89,719
Refund of advance development costs paid for a subsidiary	93,458
Expenses incurred in connection with the disposal of a subsidiary and compensation to minority shareholder	(106,215)
	<hr/>
	87,469
	<hr/>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary relating to discontinued operations is as follows:

	2003
	<i>HK\$'000</i>
<hr/>	
Cash and bank balances disposed of	(911)
	<hr/>

The subsidiary disposed of in the prior year had no significant impact on the Group's turnover and contributed approximately HK\$521,000 to the Group's loss before minority interests for the year ended 31 December 2003.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	–	6,561
Investment properties	–	149,760
Trade receivables	–	1,202
Other receivables	–	21,836
Amounts due from the Group	3,445	69,187
Cash and bank balances	4	102
Other payables	(7)	(8,448)
Amounts due to the Group	–	(2,585)
Tax payable	–	(2,841)
Short term borrowing	–	(104,000)
Deferred taxation	–	(614)
Minority interests	–	(39,678)
	3,442	90,482
Exchange fluctuation reserve realised	–	(870)
Investment property revaluation reserve realised	–	(4,262)
Waiver of amounts due from the Group	(3,445)	–
Amounts due to the Group written off	–	2,585
Negative goodwill disposed of	–	(2,167)
	(3)	85,768
Gain on disposal of subsidiaries	3	6,099
	–	91,867
Satisfied by:		
Long term investments	–	6,537
Cash consideration receivable	–	7,609
Cash consideration received	–	8,534
Set off against the amount due by the Group	–	69,187
	–	91,867

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

An analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration received	–	8,534
Cash and bank balances disposed of	(4)	(102)
	<u>(4)</u>	<u>8,432</u>

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or loss before minority interests for the year ended 31 December 2004.

The subsidiaries disposed of in the prior year contributed approximately HK\$8,158,000 to the Group's turnover and a profit of approximately HK\$1,146,000 to the Group's loss before minority interests for the year ended 31 December 2003.

(c) Deconsolidation of a subsidiary in the prior year

	2003 HK\$'000
Net assets deconsolidated:	
Other receivables	458
Cash and bank balances	25
Trade payables	(23)
Minority interests	(212)
	<u>248</u>
Goodwill released upon deconsolidation of a subsidiary	5,440
	<u>5,688</u>
Reclassified as:	
Interest in an associate	<u>5,688</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Deconsolidation of a subsidiary in the prior year (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the deconsolidation of a subsidiary is as follows:

	2003 HK\$'000
Cash and bank balances deconsolidated	(25)

The subsidiary deconsolidated in the prior year had no significant impact on the Group's turnover or loss before minority interests for the year ended 31 December 2003.

(d) Major non-cash transactions

- (i) During the year ended 31 December 2004, repayment of certain accrued charges of approximately HK\$959,000 was satisfied by setting off against the amount due from a debtor under a Deed of Assignment dated 23 July 2004.
- (ii) During the year ended 31 December 2004, the First Payment in respect of the disposal of Kong Sheng of approximately HK\$5,935,000 was settled by setting off against the indebtedness due by the Group to the Company's director, Mr. Kong Li Szu.
- (iii) During the year ended 31 December 2004, repayment of bank and other borrowings approximately HK\$8,169,000 was satisfied by part of the sales proceeds from disposal of investment properties.

40. CONTINGENT LIABILITIES

- (a) Pursuant to an exclusive franchisee agreement dated 1 January 2003 ("the Agreement") entered into between 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

40. CONTINGENT LIABILITIES (Continued)

- (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 (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 approval of the financial statements, 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 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.

Pursuant to the Deed of Assignment (details of which are set out in Note 25(b)), 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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 2.

- (d) On 30 March 2004, an action was commenced by the landlord of the office premises of the Group against Pacpo Hong Kong, 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

40. CONTINGENT LIABILITIES (Continued)

- (e) On 13 May 2004, an action was commenced by Koffman Securities against Kong Sun Resources (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 approval of the financial statements, 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.
- (f) On 20 July 2004, an action was commenced by 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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 2.
- (g) During the year ended 31 December 2004, 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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 2.
- (h) On 21 December 2005, an action was commenced by 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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 2.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

40. CONTINGENT LIABILITIES (Continued)

- (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 31 December 2004 (2003: HK\$238,000), as further explained under the heading "Employee benefits" in Note 4(u)(ii). 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 (2003: HK\$Nil) 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.
- (j) The Company issued corporate guarantees to the extent of approximately HK\$17,000,000 (2003: HK\$36,800,000) to banks for the general banking facilities granted to certain subsidiaries. The total facilities utilised by the subsidiaries at 31 December 2004 amounted to approximately HK\$12,267,000 (2003: HK\$13,727,000).

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	110	433
In the second to fifth years, inclusive	–	159
	<u>110</u>	<u>592</u>

(b) As lessee

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	–	474

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

42. RELATED PARTY TRANSACTIONS

In addition to those related party transactions or balances disclosed in Notes 21, 31 and 32, the Group entered into the following significant related party transactions during the year:

	Notes	2004 HK\$'000	2003 HK\$'000
Rental income from a related company, Alpine Century Sdn. Bhd. ("Alpine Century")	(i)	–	146
Rental income from an associate, Koffman Securities	(ii)	–	1,025
Administrative fee income from KSE	(iii)	117	363
Management service fee to KSE	(iv)	–	146
Rental expense to a related party, Ms. Soo Lee Eng	(v)	–	130
Consultancy fee to an associate, HOL Advisory Services Limited ("HOL")	(vi)	–	519

Notes:

- (i) In the prior year, the rental income received from Alpine Century was charged at a mutually agreed rent. The director, Mr. Kong Look Sen (deceased) was a director and shareholder of Alpine Century. The director, Mr. Kong Li Jer is a director and shareholder of Alpine Century.
- (ii) In the prior year, the rental income related to the lease of certain investment properties to Koffman Securities was charged at a monthly rent of HK\$83,400.
- (iii) This related to management services provided by the Group to KSE, a substantial shareholder of the Company. The administrative fee income was charged based on the costs incurred by the Group plus a mark-up.
- (iv) In the prior year, a monthly management service fee of approximately HK\$20,800 was paid to KSE for marketing and management services provided to the Group.
- (v) Ms. Soo Lee Eng is a close relative of the directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu.
- (vi) In the prior year, this related to investment consultancy services provided by HOL to the Group charged at a monthly basis of HK\$208,333.
- (vii) As further detailed in Notes 34(a)(iv) and 34(f)(i), the directors of the Company have provided personal guarantees for certain bank and other borrowings granted to the Group of approximately HK\$23,878,000 (2003: HK\$26,779,000) plus interest accrued at 31 December 2004.
- (viii) As further detailed in Note 34(a)(iii), Kong Fa has pledged certain shares of the Company to secure a bank loan granted to the Group of approximately HK\$6,399,000 (2003: HK\$7,090,000) plus interest accrued at 31 December 2004.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

43. EVENTS AFTER THE BALANCE SHEET DATE

In addition to those events after the balance sheet date disclosed in Notes 17, 18, 40(f), 40(g) and 40(h), 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 Investments, 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.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 June 2006.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified where appropriate, is set out below.

RESULTS

	Year ended 31 December							
	2004		2003		2002		2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations		
TURNOVER	12,269	60	33,626	89,932	47,360	210,749	181,954	39,430
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION	(30,372)	373	(171,254)	(169,543)	(101,449)	(29,313)	21,992	9,057
Taxation	(164)	-	(1,264)	-	(1,533)	(86)	(1,018)	(1,009)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(30,536)	373	(172,518)	(169,543)	(102,982)	(29,399)	20,974	8,048
Minority interests	201	-	(242)	1,220	(671)	(804)	(3,819)	(1,024)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(30,335)	373	(172,760)	(168,323)	(103,653)	(30,203)	17,155	7,024

ASSETS AND LIABILITIES AND MINORITY INTERESTS

	As at 31 December							
	2004		2003		2002		2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations		
TOTAL ASSETS	242,872	-	262,161	19,101	532,460	305,884	841,536	310,983
TOTAL LIABILITIES	(62,885)	-	(71,495)	-	(109,443)	(112,761)	(213,595)	(64,472)
MINORITY INTERESTS	(20)	-	(221)	-	(39,636)	(37,778)	(89,440)	(57,261)
	179,967	-	190,445	19,101	383,381	155,345	538,501	189,250

Comparative figures for 2001 and prior year have not been restated to reflect the discontinued operations as the directors are of the opinion that the benefit derive from fully restating figures would not justify the cost of such restatement.

LIST OF PROPERTIES HELD BY THE GROUP

Particulars of the properties held by the Group at 31 December 2004 are as follows:

Location	Percentage of existing interest	Lease term	Saleable floor area	Usage
Land and building				
Apartment D, Level 2, Block 14 Park Chalet, The Sea Ranch New Territories	100	Medium term	64.57m ²	Residential
Investment properties				
Units B-C, F-G, 23rd Floor Golden Bear Industrial Centre Nos. 66-82 Chai Wan Kok Street Tsuen Wan New Territories Hong Kong	94.45	Medium term	1,553.61m ²	Industrial
Unit W13, 2nd Floor, Block 3 Kwun Tong Industrial Centre Nos. 448 - 458 Kwun Tong Road Kwun Tong, Kowloon Hong Kong	100	Medium term	32.05m ²	Industrial
11th, 12th, and 13th Floors Ying Kong Mansion Nos. 2 - 6 Yee Wo Street Causeway Bay Hong Kong	100	Long term	525.18m ²	Commercial

Location	Percentage of existing interest	Gross floor area	Usage
Properties held for sale			
Nine shop offices of housing project known as "TAMAN PERUMAHAN RAKYAT LIMA KEDAI" within the Mukim of Pulai, District Johor Bahru, approximately 23km from the Johor Bahru city centre	100	1,474.55m ²	Shops

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kong Sun Holdings Limited (the “Company”) will be held at Unit A, 1/F, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong on 24 July 2006 at 11:00 a.m. to transact the following ordinary business, with or without amendments, as ordinary resolutions:

1. To receive, consider and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2004;
2. To re-elect retiring directors and authorised the Board of Directors to fix their remuneration; and
3. To re-appoint RSM Nelson Wheeler as auditors of the Company and authorise the Board of Directors to fix their remuneration.

By Order of the Board
Kong Sun Holdings Limited
Kong Li Szu
Executive Director

Hong Kong, 28 June 2006

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, to vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a naturally certified copy thereof, must be lodged with the Company’s Share Registrars, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time scheduled of the holding of the meeting or any adjourned meeting.
3. The Register of Members will be closed from 19 July 2006 to 24 July 2006, both days inclusive. During the period, no transfer of shares will be effected. In order to establish entitlement to attend and vote at the forthcoming Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Share Registrars not later than 4:00 p.m. on 18 July 2006.