

KongSun  江山

KONG SUN HOLDINGS LIMITED

Interim Report 2002

江山控
股有
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司

2002

The Board of Directors (the “Board”) of Kong Sun Holdings Limited (the “Company”) is pleased to announce that the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 together with the comparative figures for the corresponding period in 2001 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

		For the six months ended 30 June	
		2002	2001
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
TURNOVER	2	134,791	25,844
Other revenue and gains	2	4,874	1,758
Cost of inventories sold		(105,193)	(4,464)
Staff costs		(7,217)	(5,648)
Depreciation and amortisation		(3,976)	(3,473)
Other operating expenses		(6,531)	(9,145)
PROFIT FROM OPERATING ACTIVITIES	3	16,748	4,872
Finance costs		(1,321)	(2,147)
Share of profits less losses of associates (after amortisation of goodwill of HK\$4,799,000)		(6,810)	–
PROFIT BEFORE TAXATION		8,617	2,725
Tax	4	–	(121)
PROFIT BEFORE MINORITY INTERESTS		8,617	2,604
Minority interests		(1,383)	(758)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		7,234	1,846
EARNINGS PER SHARE	5		
– Basic		0.34 cents	0.28 cents
– Diluted		0.33 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2002

		30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		46,035	47,092
Investment properties		222,809	200,010
Properties under development		225,452	211,513
Goodwill:			
Goodwill		15,760	17,768
Negative goodwill		(2,958)	(3,302)
Interests in associates		83,414	104,946
Intangible assets		2,626	2,797
Long term investments		41,573	21,982
Deposits and advances		96,756	56,351
		731,467	659,157
CURRENT ASSETS			
Short term investments		57	149
Inventory		1,353	2,186
Properties held for sales		36,563	28,964
Trade receivables	7	28,262	25,594
Trade receivables in respect of securities transactions	8	3,363	3,055
Loan receivables		33,446	37,330
Other receivables		94,007	45,904
Pledged time deposits	16	4,025	24,011
Cash held on behalf of securities clients		85	110
Cash and cash equivalents		10,818	15,076
		211,979	182,379
CURRENT LIABILITIES			
Trade and bills payables	9	28,529	29,787
Trade payables in respect of securities transactions	10	2,047	2,559
Other payables		21,448	26,702
Tax payable		706	866
Interest-bearing bank loans and other borrowings		9,273	28,518
		62,003	88,432
NET CURRENT ASSETS			
		149,976	93,947
TOTAL ASSETS LESS CURRENT LIABILITIES			
		881,443	753,104

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
<i>Notes</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES	881,443	753,104
NON-CURRENT LIABILITIES		
Finance lease payables	238	–
Interest-bearing bank loans and other borrowings	123,156	124,662
Deferred tax	501	501
	<u>123,895</u>	<u>125,163</u>
Minority interests	90,822	89,440
	<u>666,726</u>	<u>538,501</u>
CAPITAL AND RESERVES		
Issued capital	241,118	205,518
Reserves	425,608	332,983
	<u>666,726</u>	<u>538,501</u>

Kong Look Sen
Director

Kong Li Szu
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Share Capital	Share premium account	General reserves	Investment property revaluation reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2002	205,518	235,318	18,000	11,543	(3,528)	71,650	538,501
Exchange adjustments	-	-	-	-	4,342	-	4,342
Issue of shares	35,600	81,400	-	-	-	-	117,000
Share issue expenses	-	(351)	-	-	-	-	(351)
Net profit for the period	-	-	-	-	-	7,234	7,234
At 30 June 2002	<u>241,118</u>	<u>316,367</u>	<u>18,000</u>	<u>11,543</u>	<u>814</u>	<u>78,884</u>	<u>666,726</u>
At 1 January 2001	58,800	57,536	18,000	-	419	54,495	189,250
Exchange adjustments	-	-	-	-	(419)	-	(419)
Issue of shares	36,036	47,153	-	-	-	-	83,189
Share issue expenses	-	(553)	-	-	-	-	(553)
Net profit for the period	-	-	-	-	-	1,846	1,846
At 30 June 2001	<u>94,836</u>	<u>104,136</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>56,341</u>	<u>273,313</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(45,732)	10,973
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(37,045)	(65,423)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>94,306</u>	<u>69,778</u>
INCREASE IN CASH AND CASH EQUIVALENTS	11,529	15,328
Cash and cash equivalents at beginning of period	(9,846)	10,772
Effects of foreign exchange rate changes, net	<u>3,384</u>	<u>765</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>5,067</u></u>	<u><u>26,865</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,818	27,244
Bank overdrafts	<u>(5,751)</u>	<u>(379)</u>
	<u><u>5,067</u></u>	<u><u>26,865</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” (“SSAP 25”) issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except for the adoption of the following new and revised SSAPs, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the period:

- SSAP 1 (Revised): “Presentation of Financial Statements”
- SSAP 11 (Revised): “Foreign Currency Transaction”
- SSAP 15 (Revised): “Cash Flow Statements”
- SSAP 33: “Discontinuing Operations”
- SSAP 34: “Employee Benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 11 (Revised) prescribed the basis for the translation of foreign currency transactions and financial statements. SSAP 11 (Revised) has had no major impact on these condensed consolidated financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

SSAP 33 prescribes the basis for reporting information about discontinuing and discontinued operations. SSAP 33 has had no major impact on these condensed consolidated financial statements.

1. Accounting Policies *(continued)*

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on these condensed consolidated financial statements.

Certain comparative figures have been restated to conform with current period's presentation.

2. Segment Information

(a) Business segments

The following tables present revenue and profit/(loss) for the Group's business segments.

	Property investment and development		Trading of computer products		Securities broking and investment	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:						
Sales to external customers	20,530	7,482	109,761	4,495	1,747	2,675
Intersegment sales	1,164	1,271	-	-	-	-
Other revenue	655	647	91	-	115	193
Total	<u>22,349</u>	<u>9,400</u>	<u>109,852</u>	<u>4,495</u>	<u>1,862</u>	<u>2,868</u>
Segment results	<u>13,733</u>	<u>3,616</u>	<u>2,882</u>	<u>(789)</u>	<u>(289)</u>	<u>(244)</u>
Interest income and unallocated gains						
Unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses and amortisation of goodwill of associates						
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

(b) Geographical segments

The following tables present revenue and profit/(loss) for the Group's geographical segments.

	PRC			
	Hong Kong		Mainland China	
	For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001
	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:				
Sales to external customers	<u>110,034</u>	<u>17,067</u>	<u>5,223</u>	<u>499</u>
Segment results	<u>356</u>	<u>3,399</u>	<u>2,175</u>	<u>334</u>

Financial services		Information technology		Corporate and others		Elimination		Consolidation	
For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2,355	7,919	398	3,273	-	-	-	-	134,791	25,844
36	530	4	15	-	-	(1,204)	(1,816)	-	-
2	582	-	18	1	-	-	-	864	1,440
<u>2,393</u>	<u>9,031</u>	<u>402</u>	<u>3,306</u>	<u>1</u>	<u>-</u>	<u>(1,204)</u>	<u>(1,816)</u>	<u>135,655</u>	<u>27,284</u>
<u>157</u>	<u>5,098</u>	<u>(358)</u>	<u>(1,171)</u>	<u>(9)</u>	<u>(140)</u>	<u>(1,204)</u>	<u>(1,816)</u>	14,912	4,554
								4,010	318
								<u>(2,174)</u>	-
								16,748	4,872
								<u>(1,321)</u>	<u>(2,147)</u>
								<u>(6,810)</u>	-
								8,617	2,725
								-	<u>(121)</u>
								8,617	2,604
								<u>(1,383)</u>	<u>(758)</u>
								<u>7,234</u>	<u>1,846</u>

Singapore		Malaysia		Elimination		Consolidated	
For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
2002	2001	2002	2001	2002	2001	2002	2001
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
-	1,582	19,534	6,696	-	-	134,791	25,844
-	<u>(1,459)</u>	<u>12,381</u>	<u>2,280</u>	-	-	<u>14,912</u>	<u>4,554</u>

3. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	105,193	4,464
Depreciation	1,797	1,911
Amortisation of goodwill of subsidiaries	2,008	1,204
Negative goodwill recognised as income	(344)	–
Amortisation of trading right	171	171
Amortisation of self-developed software	–	187
Unrealised profit on short term listed investments	(9)	(19)
Bank interest income	(38)	(319)
	<u> </u>	<u> </u>

4. Tax

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Tax charge for the period	<u> </u>	<u> </u>
	–	121

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising from Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$7,234,000 (2001: HK\$1,846,000) and on the weighted average of 2,125,969,000 (2001: 657,329,000) shares in issue during the period.

5. Earnings per Share *(continued)*

The diluted earnings per share is based on 2,160,580,000 ordinary shares which is the weight average number of ordinary shares in issue during the period plus the weight average number of 34,611,000 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

Diluted earnings per share for the period ended 30 June 2001 had not been calculated as there was no dilutive potential ordinary shares in that period.

6. Interim Dividend

The Board resolved that no interim dividend was declared for the period ended 30 June 2002 (2001: Nil).

7. Trade Receivables

The ageing analysis of trade receivables is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current	14,571	16,655
1-3 months	6,513	7,867
4-6 months	1,314	1,011
7-12 months	5,864	61
Over 1 year	3,734	3,734
	<hr/>	<hr/>
	31,996	29,328
Provision	(3,734)	(3,734)
	<hr/>	<hr/>
	<u>28,262</u>	<u>25,594</u>

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables; overdue balances are regularly reviewed by senior management.

8. Trade Receivables in Respect of Securities Transactions

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Trade receivables in respect of securities transactions	3,613	3,305
Provision	(250)	(250)
	<u>3,363</u>	<u>3,055</u>

Trade receivables in respect of securities transactions are due for settlement two days after the transaction date. Except for the balances which have been provided for, all the remaining balances are current.

9. Trade and Bills Payables

The ageing analysis of trade payables is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current	16,149	18,496
1-3 months	11,701	10,427
4-6 months	195	270
7-12 months	484	594
	<u>28,529</u>	<u>29,787</u>

10. Trade Payables in Respect of Securities Transactions

The ageing analysis of trade payables in respect of securities transactions is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current	<u>2,047</u>	<u>2,559</u>

11. Share Capital

	30 June 2002		31 December 2001	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.1 each	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period	2,055,184,836	205,518	588,003,571	58,800
Issue of shares	56,000,000	5,600	591,572,223	59,157
Subscription of shares	<u>300,000,000</u>	<u>30,000</u>	<u>875,609,042</u>	<u>87,561</u>
At end of the period	<u>2,411,184,836</u>	<u>241,118</u>	<u>2,055,184,836</u>	<u>205,518</u>

During the period, the following movements in share capital were recorded:

- (a) On 29 April 2002, the Company, through its indirect wholly-owned subsidiary Kong Sun Resources Limited, entered into an acquisition agreement with Koffman Securities Limited, an independent third party, relating to an acquisition of a property comprises a three-storey office space for a consideration of HK\$21 million. The consideration was satisfied by the issue and allotment of 56 million new shares of the Company at an issue price of HK\$0.375 per shares. The acquisition was completed on 10 May 2002.
- (b) On 4 February 2002, a conditional placing and subscription agreement was entered into between the Company, Kong Fa and a wholly-owned subsidiary of Beijing Enterprises Holdings Limited (“Beijing Enterprises”), a company incorporated and publicly listed in Hong Kong. Pursuant to the agreement, Kong Fa agreed to place 100,000,000 existing ordinary shares of the Company to Beijing Enterprises; and to subscribe for 300,000,000 new ordinary shares of the Company, both at HK\$0.32 per share. The subscription of shares by Kong Fa constituted a connected transaction under the Listing Rules. The transaction was completed on 29 May 2002.

The Company operates a share option scheme (the “Scheme”), further details of which are also set out under the heading “Share option scheme” in the Report of the Directors on page 22.

11. Share Capital *(continued)*

At the balance sheet date, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 68,282,085 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$12,277,000 before the related share issue expenses.

At the beginning of the period, the Company had outstanding warrants of HK\$70,560,428 before the related share issue expenses at the adjusted prices of HK\$0.6 each. During the period, no warrants were exercised and such warrants expired on 25 April 2002.

12. Related Party Transactions

The Group had the following material transactions with related parties during the period:

	<i>Notes</i>	For the six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Proceeds received from Kong Fa for subscription of shares	(i)	65,664	86,775
Management fees received from Equal Gain Sdn. Bhd. ("Equal Gain") in which Kong Sun Enterprise Sdn. Bhd. ("KSE") has a controlling equity interest	(ii)	<u>247</u>	<u>177</u>

Notes:

- (i) On 4 February 2002, Kong Fa placed 100,000,000 shares to the Beijing Enterprises at a price of HK\$0.32 per share. In return, the Company issued and allotted 300,000,000 shares at the same price to Kong Fa. The placing and subscription was completed on 29 May 2002. Details of the transaction were contained in note 11(b).
- (ii) Certain employees of the Group provided management services to KSE and Equal Gain, and management fees were received based on their costs plus a mark-up.

13. Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

As at 30 June 2002, the Company had contingent liabilities in respect of guarantees amounting to HK\$24,000,000 (as at 31 December 2001: HK\$18,000,000) given to banks for the general banking facilities granted to subsidiaries of the Company.

14. Operating Lease Arrangements

(a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	11,993	8,956
In the second to fifth years, inclusive	7,801	6,881
	<u>19,794</u>	<u>15,837</u>

14. Operating Lease Arrangements *(continued)*

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	1,071	1,188
In the second to fifth years, inclusive	429	392
	<u>1,500</u>	<u>1,580</u>

15. Commitments

(a) Capital commitments

At 30 June 2002, the Group had contracted capital commitments amounting to HK\$36,734,000 (as at 31 December 2001: HK\$53,188,000).

(b) Other commitments

At 30 June 2002, the Group had consultancy fees of HK\$355,000 (as at 31 December 2001: HK\$460,000) payable under non-cancellable consultancy agreements expiring within one year.

16. Pledge of Assets

At 30 June 2002, the following assets of the Group were pledged to secure the Group's credit facilities:

- (a) The Group's bank deposits approximately HK\$4,025,000 (as at 31 December 2001: HK\$24,011,000) were pledged to a bank to secure banking facilities.
- (b) The Group's has pledged its land and buildings and investment properties situated in Hong Kong and the PRC in an aggregate carrying value of approximately HK\$74,923,000 (as at 31 December 2001: HK\$74,272,000) to secure its general banking facilities.
- (c) The Group's investment properties situated in Malaysia which had an aggregate carrying value of approximately HK\$160,160,000 (as at 31 December 2001: HK\$160,160,000) had pledged to secure other borrowings.

17. Post Balance Sheet Events

On 11 June 2002, the Group entered into a conditional sale and purchase agreement with Koffman Financial Group Limited ("KFG") and Koffman Securities Limited ("Koffman"), independent third parties. The Group agreed to dispose of 80% interests in its subsidiary, Coin Fall Limited ("Coin Fall"). At the same time, the Group entered into a conditional sale and purchase agreement with KFG to purchase 20% interests in Koffman. The transactions were completed on 26 August 2002.

18. Approval of the Interim Financial Statements

These condensed interim financial statements were approved by the Board on 18 September 2002.

INTERIM DIVIDEND

The Board of Directors resolved that no interim dividend was declared for the period ended 30 June 2002 (2001: Nil).

WARRANTS

No warrants has been exercised during the period. The warrants has expired on 25 April 2002. The Circular detailing the expiry of subscription rights attaching to the 2002 Warrants has been despatched to the warrant holders and shareholders for information only on 18 March 2002.

EMPLOYEE SHARE OPTION SCHEME

The Company has adopted the Employee Share Option Scheme granting share options to the full time employees (including the executive directors) at the Annual General Meeting held on 31 May 2001. On 7 July 2001, the Company granted 68,282,085 share options at an exercise price of HK\$0.17984 to the eligible employees. During the period, no share options has been granted and exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The reporting period proved to be a period of accelerated activity for the Group despite the difficult economic environment. The Group recorded stellar growth of 422% in turnover to HK\$134.8 million. This jump was mainly due to the growing turnover from the property development and trading of computer products. Profit from operating activities and net profit also registered impressive growth of 244% and 292% to HK\$16.7 million and HK\$7.2 million respectively. Earnings per share were reported at 0.34 HK cents. (2001: 0.28 HK cents).

During the period, the Company's principal activity is investment holding while its business comprised of property development and investment, information technology, environmental protection, finance and other investment activities.

In February, the Group introduced Beijing Enterprises Holdings Limited (Stock Code: 392), a leading conglomerate, as a strategic shareholder through the placement of 100 million existing shares at HK\$0.32 each to its wholly-owned subsidiary, New Profit Investments Limited. The Group's profile was also enhanced following the successful listing of Grandy Applied Environmental Technology Corporation ("Grandy") on the GEM Board of the Stock Exchange of Hong Kong Limited on 10 May 2002 (Stock Code: 8143). As at the report date, the Group had a 14.36% interest in Grandy.

Property

During the period, the property business generated turnover of HK\$20.5 million, representing a rise of 174% compared to the corresponding period.

Malaysia

The residential housing project at Melaka proceeded well during the period. In addition, the Group's 70% owned Hypermarket at Johor Bahru registered satisfactory rental income of HK\$6.8 million for the period. The average occupancy rate was over 90% which helped to generate stable rental income for the Group.

PRC

The Group's flagship investment in the Beijing XiCheng Feng Sheng Area is in progress. The site, comprising high-end residential and commercial premises, is located within close proximity to Beijing's financial hub and occupies a total buildable floor area above ground of approximately 44,800 square metres. Construction of the project is expected to complete by the coming years and a sales campaign is scheduled for the second half of the year. As one of the few prestigious properties sited in the neighborhood and leveraging the Group's in-depth experience in property development, the Feng Sheng project will set new industry benchmarks and bring a fresh look to XiCheng district.

The occupancy rate at commercial premises and car parks at Hanzhong Guangchang, Shanghai remained at the fruitful level of 100%, helping to generate stable and recurrent income for the Group.

Hong Kong

During the period, the Group acquired an investment property for rental purposes at a consideration of HK\$21 million through the issue of 56 million new shares at HK\$0.375 per Share. The property, situated at Causeway Bay, occupies a total floor area of about 5,653 square feet. With the purchase, the Group is guaranteed a rental income of HK\$1 million per year for a term of 5 years, equivalent to a satisfactory yield of approximately 5% annually. At the same time, the rest of the Group's portfolio continued to register high occupancy rates, generating stable returns for the Group.

Information Technology

During the period, contribution from the trading of computer products continued to rocket, boosting the Group's total turnover to new highs. The trading business was mainly undertaken by Xswim Technology Limited. Xswim was acquired by the Group in April 2001 and has grown rapidly to become a major contributor to the Group's turnover. This has helped to maintain robust cash flows for the Group's expansion.

Environmental Protection

After a series of active acquisitions, the Group's environmental protection portfolio now encompasses provisions for pollution combat solutions, anti-flooding system monitoring and trading of niche environmental protection products to customers in both Hong Kong and the PRC. With the successful listing of Grandy, the Group has turned a fledgling investment into a fast growing company stake. As the environmental protection business is still in its initial development stages, its contribution during the period was not significant. However, given clear market positioning and development strategies, this business is expected to be a major growth driver in the coming years.

In addition to its existing portfolio, the Group acquired a 22.5% stake at a consideration of HK\$22.5 million during the period in Envirochem Enterprises Limited which utilizes advance satellite technology to monitor environmental changes. The investment will complement the Group's anti-flooding business, allowing the Group to diversify its scope and open new income streams.

Finance

Performance of the finance business largely reflected the conditions prevailing in the market as a whole. As a result of lower average market turnover, income from securities broking and investment and provision of financial services fell significantly. Against this background, the Group's focus was to maintain operations at the most efficient levels to alleviate pressure resulting from reduced level of business activities. This strategy has enabled the Group to minimize the impact of a sluggish market. During the period, the Group agreed to dispose of its 80% interest in the brokerage arm to Koffman Securities Limited in return for 20% interest in Koffman. It was completed on 26 August 2002. The management regards this strategic move as a necessary step to broad the Group's finance portfolio under the existing market environment.

Prospects

The global outlook remains unpredictable, with much depending on the speed and extent of a full recovery. However, conditions in the Asian market, particularly the PRC are expected to rally. As such, the bulk of the Group's new investment is likely to be in the PRC.

While expansion of core businesses is the Group's priority for the second half-year, the management will give equal emphasis to reviewing the existing portfolio to maintain the most efficient mix of activities. To this end, the management will seek to create additional synergies among different portfolios. The Group's proposed introduction of an "intelligent living community" integrates advanced I.T. initiatives with property development, is a prime example.

Looking ahead, property development and investment will remain the Group's core business and its contribution is expected to grow continuously. Another major growth area will be the environmental protection business as reflected in the winning of several new contracts by the Environmental Division subsequent to the reporting period.

In view of the sluggish finance sector, the Group will carefully reassess its portfolio in the finance business with an aim to enhance industry diversity. In addition, the Group will not only maintain a balanced growth strategy in its I.T. business but also will actively seek to tap the "intelligent building" market in the PRC given the immense potential within the sector. With solid market presence, the management is confident that the finance and I.T. businesses will take off once market conditions improve.

To maximize portfolio returns, the Group will maintain an open attitude towards further investment opportunities. With well-defined expansion strategies and strong financial position, the management remains optimistic to the outlook in the second half of the year.

Financial Review

The financial position of the Group remain healthy and liquid. As at 30 June 2002, the total shareholders' fund of the Group amounted to HK\$666.7 million, compared to HK\$538.5 million as at 31 December 2001. The debt ratio (based on the sum of current debt and long-term debt over the equity) and current ratio of the Group as at 30 June 2002 were 0.20 and 3.42 respectively while the ratio as at 31 December 2001 were 0.28 and 2.06 respectively.

The bank and other borrowings of the Group were about HK\$132.7 million of which HK\$104 million (equivalent to MYR50 million) was denominated in Malaysian Ringgit. The bank and other borrowings bore interest at prime rate minus 2.25% to prime rate plus 2% while the borrowing of MYR50 million bore interest at 2.5% above the banker's base lending rate in Malaysia. The Group's bank loans and other borrowings are secured by mortgages over the Group's land and buildings, investment properties and certain time deposits.

The Group's business operation and investment of the Group are transacted in Hong Kong, the PRC, Singapore and Malaysia, and its revenue and expenditure mainly denominated in HKD, RMB, SGD and MYR. Since the effect from the 911 terrorist attack in 2001 declines, it is expected the fluctuation of foreign rate is minimal.

During the period, Kong Fa Holding Limited holds a controlling stake in the Group, agreed to subscribe for 300 million new shares at HK\$0.32 per share. Net proceed from the subscription amounted to HK\$95.5 million and the transaction was completed on 29 May, 2002.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the interests of the directors and their associates in the securities of the Company or its associated corporations are within the meaning of the Securities (Disclosure of Interests) Ordinance (The Law of Hong Kong Chapter 396) ("SDI Ordinance") which have been notified to the Company or its associated corporations and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Company or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein are as follows:

(a) Interests in the Company

(i) Shares

Name of directors	Nature of interest	Number of ordinary shares of HK\$0.1 each
Kong Look Sen	Corporate (Note 1)	1,390,433,836
Kong Li Jer	Corporate (Note 1)	1,390,433,836
Kong Li Szu	Corporate (Note 2)	997,058,042

Notes:

- The interests in 1,390,433,836 shares comprised of 997,058,042 shares being held by Kong Fa Holding Limited ("Kong Fa") and 393,375,794 shares held by Kong Sun Enterprise Sdn. Bhd. ("KSE") respectively. Messrs. Kong Look Sen and Kong Li Jer are the directors and shareholders of Kong Fa and KSE.
- The interests in 997,058,042 shares held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.

(ii) Share option scheme

Name of Directors	Number of share options granted as at 30 June 2002	Date of grant of share options	Exercisable period of share options	Consideration paid upon acceptance of the share options	Exercise price of share options HK\$	Price of Company's shares at grant date of options HK\$
Kong Look Sen	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Jer	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Szu	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23

(b) Interests in Grandy Applied Environmental Technology Corporation

Shares

Name of director	Nature of interest	Number of ordinary shares of HK\$0.01 each
Kong Li Szu	Corporate (<i>Note</i>)	119,229,995

Note: The interests in 119,229,995 shares being held by Count Wealth Investments Limited, a wholly-owned subsidiary of the Company, of which Mr. Kong Li Szu is a director.

Save as disclosed above and other than certain nominee interests in the subsidiaries held in trust for the Company, none of the directors nor their associates had or were deemed to have any beneficial interest in the securities of the Company or any of its associated corporations pursuant to the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were the substantial shareholders of the Company:

Names	Number of shares held
Kong Fa	997,058,042
KSE	393,375,794

Save as disclosed above, there were no parties whom were known to the Directors to be the registered holders or have any interest or right to subscribe for 10% or more of the issued share capital of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2002.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors of the Company, Messers. Fai Cheong Hau and Ku Suen Fai. The Audit Committee has reviewed with the Management the unaudited consolidated results for the six months ended 30 June 2002, corporate governance and internal control of the Group.

EMPLOYEES

The Group has a workforce of 59 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, share option scheme, mandatory provident fund scheme and recreational activities. The Group will provide training and development to staff when necessary.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules ("Listing Rules") Governing The Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the period covered by this report, except the independent non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

APPRECIATION

Taking this opportunity, we would like to extend our gratitude to our shareholders for their support and to our staff for their dedication and contribution.

By Order of the Board
Kong Sun Holdings Limited
Kong Look Sen
Chairman and Managing Director

Hong Kong, 19 September 2002