

## *Notes to The Condensed Financial Statements*

### **1. Principal Accounting Policies**

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

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

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

### **2. Segment Information**

#### *(a) Business segments*

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

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

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

## 2. Segment Information (Continued)

### (a) Business segments (Continued)

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

### (b) Geographical segments

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

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

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

### 3. Finance Costs

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

### 4. Loss Before Tax

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

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

### 5. Income Tax

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

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

## 5. **Income Tax** *(Continued)*

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

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

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

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

## 6. **Loss Per Share**

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

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

## 7. Trade Receivables

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

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

## 8. Trade Payables

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

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

## 9. Interest-bearing Bank Loans and Other Borrowings

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

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

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

## 10. Share Capital

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

## 11. Contingent Liabilities

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

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



## 11. Contingent Liabilities *(Continued)*

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

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

## 11. Contingent Liabilities *(Continued)*

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

## 12. Operating Lease Arrangements

### (a) As lessor

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

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

### (b) As lessee

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

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

## 13. Related Party Transactions

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

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

*Notes:*

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

## **14. Subsequent Events**

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

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

## **Interim Dividend**

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

## **Management Discussion and Analysis**

### **Review of operations**

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

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

### **Property development and investment business**

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