KONG SUN HOLDINGS LIMITED
江山控股有限公司
(incorporated in Hong Kong with limited liability)
(Stock Code: 295)

2004 RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Kong Sun Holdings Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 with comparatives figure for the year ended 31 December 2003 as follows:

	Notes	Year ended 31 December 2004 HK$'000	2003 HK$'000
Turnover	3	**12,329**	123,558
Other income		**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	4	**435**	(131,444)
Net loss on properties and investments	5	**(241)**	(39,115)
Write-off of deposits and expenses for proposed investments		**–**	(36,553)
Loss from operations	6	**(21,807)**	(315,684)
Finance costs – Interests on bank and other borrowings		**(4,460)**	(7,387)
Results attributable to associates		**(3,732)**	(17,726)
Loss from ordinary activities before taxation		**(29,999)**	(340,797)
Taxation	7	**(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)
Loss per share – Basic	8	**(1.17 cents)**	(13.32cents)

Notes:

1. **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.

(b) The Group is making their best endeavour to recover the consideration receivables due from Beijing Tianheng Property Development Joint Stock Company Limited.

(c) Kong Sun Enterprise Sdn. Bhd. and Kong Fa Holding Limited, 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.

2. 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.

3. TURNOVER AND 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:

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.

Business segments

The following tables present revenue and loss for the Group's business segments.

	Continuing operations				**Discontinued operations**									
	Property investment and development		**Financial services**		**Trading of computer products and office equipment**		**Information technology**		**Securities broking and investment**		**Eliminations**		**Consolidated**	
	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*
Segment revenue:														
Sales to external customers	**8,764**	22,860	**3,565**	11,266	**–**	89,412	**–**	20	**–**	–	**–**	–	**12,329**	123,558
Intersegment sales	**–**	1,834	**2,065**	10,712	**–**	2	**–**	–	**–**	–	**(2,065)**	(12,548)	**–**	–
Other revenue	**872**	1,716	**3**	6	**–**	193	**–**	1	**–**	–	**–**	–	**875**	1,916
Total	**9,636**	26,410	**5,633**	21,984	**–**	89,607	**–**	21	**–**	–	**(2,065)**	(12,548)	**13,204**	125,474
Segment results	**(11,892)**	(52,828)	**(2,493)**	(50,932)	**–**	(14,199)	**–**	(2,214)	**–**	–	**(2,065)**	(12,548)	**(16,450)**	(132,721)
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													**–**	(7,362)
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)

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 for the Group's geographical segments.

	PRC							
	Hong Kong		Mainland China		Malaysia		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**4,135**	102,964	**60**	500	**8,134**	20,094	**12,329**	123,558

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 4(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.

4. DISCONTINUED OPERATIONS

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

(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.

(b) Information technology operations

On 1 December 2003, the directors determined to cease the Group's information technology operations engaging in 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.

(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. 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. 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.

(d) Securities broking and investment operations

On 18 October 2004, 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 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.

5. NET LOSS ON PROPERTIES AND INVESTMENTS

	2004	2003
	HK$'000	*HK$'000*
Loss on disposal of investment properties	**–**	(4,771)
Deficit on revaluation of investment properties	**(982)**	(21,295)
Gain on disposal of subsidiaries	**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**	–
	(241)	(39,115)

6. LOSS FROM OPERATIONS

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

	2004	2003
	HK$'000	*HK$'000*
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
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)		
– 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.*

7. TAXATION

The amount of taxation charged to the income statement represents:

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

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.

8. 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.

FINAL DIVIDEND

The Board does not recommend to declare a dividend for the year ended 31 December 2004 at the forthcoming Annual General Meeting (2003: Nil).

EXTRACT FROM AUDITORS' 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 Note 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 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.

CONTINGENT LIABILITIES

(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 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 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.

    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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 1.

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

(e) On 13 May 2004, an action was commenced by Koffman Securities 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 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 Industrial and 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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 1.

(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 1.

(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. They are also of the opinion that the above debts will be settled upon the completion of several measures as referred to in Note 1.

(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). 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).

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 of Hong Kong Limited (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.

EMPLOYEES

As at 31 December 2004, the Group has a work force of 8. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff member are covered by the Group's health and medical scheme, discretionary bonus and mandatory provident fund scheme.

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

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$ 180.0 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 shareholder returns. The robust performance of the PRC's economy, together with improving conditions in Hong Kong and Malaysia are expected to set the Group well on track to succeed in its restructuring and future development.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CODE OF BEST PRACTICE

In the opinion of the Board of the Company, the Company has endeavored to comply with the Code of Best Practice 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 (b) full board meeting was not held every six months during the year.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 24 July 2006.

CLOSURE OF REGISTER

The Register of Shareholders of the Company will be closed from 19 July 2006 to 24 July 2006, both days inclusive, during which period no transfer will be effected.

In order to qualify for attending the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 18 July 2006.

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.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcements for the year ended 31 December 2004 containing all the information required in paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

The Board as at the date hereof comprises:

Kong Lok King
(Chairman and Managing Director)
Kong Li Jer
(Executive Director)
Kong Li Szu
(Executive Director)

Ip Man Tin, David
(Independent non-executive Director)
Chan Chiu Hung, Alex
(Independent non-executive Director)
Lo Tat Shing
(Independent non-executive Director)

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

Hong Kong, 16 June 2006

Please also refer to the published version of this announcement in The Standard.