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## **KONG SUN HOLDINGS LIMITED**

### **江山控股有限公司**

*(incorporated in Hong Kong with limited liability)*

(Stock Code: 295)

**(1) VERY SUBSTANTIAL ACQUISITION RELATING TO  
AN ACQUISITION OF MANUFACTURING BUSINESS  
AND  
(2) VERY SUBSTANTIAL ACQUISITION RELATING TO  
AN ACQUISITION OF PROPERTY HOLDING COMPANIES  
AND  
(3) TERMINATION OF A MEMORANDUM OF UNDERSTANDING**

**(1) TREE ACQUISITION**

On 19 May 2007, Brightpower, Eternal Gain and the Company entered into Tree Acquisition Agreement whereby Brightpower agreed to sell and Eternal Gain agreed to purchase the Tree Sale Shares at HK\$1. In addition, pursuant to the Tree Acquisition Agreement, Brightpower will at the Tree Completion Date assign all its benefits and rights in respect of the Tree Sale Loan to Eternal Gain at HK\$59,999,999. The Tree Aggregate Consideration of HK\$60,000,000 will be settled partly by way of the Company executing on the Tree Completion Date the Tree Promissory Note in an amount of HK\$20 million to Brightpower and partly by way of the Company issuing on the Tree Completion Date the Tree Convertible Bonds with an aggregate principal amount of HK\$40 million to Brightpower or its nominee as Brightpower may direct.

On 19 September 2007, Brightpower, Eternal Gain and the Company entered into the Tree Supplemental Agreement extending the Tree Long Stop Date from 30 September 2007 to 31 December 2007, amending the terms of the Tree Convertible Bonds giving the Company a right to mandatorily convert all the outstanding Tree Convertible Bonds at any time during the Tree Conversion Period and changing the Guaranteed Profit and Guaranteed NAV from 2007 to 2008.

The Tree Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. A circular containing, amongst other things, further details of the Tree Acquisition will be despatched to the Shareholders as soon as practicable.

**(2) PROPERTIES ACQUISITION**

On 28 June 2007, the Vendors and Lead Power entered into the Properties Acquisition Agreement whereby the Vendors agreed to sell and Lead Power agreed to purchase the Properties Sale Shares at HK\$2. In addition, pursuant to the Properties Acquisition Agreement, Vendor A will at the Properties Completion Date assign all its benefits and rights in respect of the Properties Sale Loan to Lead Power at HK\$33,799,998. The Properties Aggregate Consideration of HK\$33,800,000 will be settled by way of the Company executing on the Properties Completion Date the Properties Promissory Note in an aggregate amount of HK\$33.8 million to the Vendors.

On 19 September 2007, the Vendors and Lead Power entered into the Properties Supplemental Agreement extending the Properties Long Stop Date from 30 September 2007 to 31 December 2007 and reducing the interest payable under the Properties Promissory Note to 3% per annum.

The Properties Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. A circular containing, amongst other things, further details of the Properties Acquisition will be despatched to the Shareholders as soon as practicable.

**(3) MOU**

On 16 February 2007, the Company entered into a MOU with Green & Good in connection with the Company's possible acquisition of certain equity interests in the issued share capital of the Target. The MOU is non-legally binding and only sets forth the parties' intention to proceed with the discussions and negotiations of the proposed acquisition in accordance with the principles as set forth in the MOU. The material terms of the MOU could not be finalized by the parties to the MOU and parties to the MOU agreed not to proceed with the proposed acquisition under the MOU.

**(4) SUSPENSION OF TRADING**

Trading in the Shares was suspended with effect from 9:30 a.m. on 17 June 2004 at the request of the Company and will remain suspended until further notice.

**(1) TREE ACQUISITION**

**The Tree Acquisition Agreement (as amended by the Tree Supplemental Agreement dated 19 September 2007)**

Date: 19 May 2007

Parties: (1) Brightpower as the vendor

(To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Brightpower and its ultimate beneficial owner is a third party independent of the Company and its connected persons as defined in the Listing Rules)

(2) Eternal Gain as the purchaser

(3) Company

Summary: Brightpower has agreed to sell and Eternal Gain has agreed to purchase the Tree Sale Shares at HK\$1. In addition, upon Tree Completion Date, Brightpower will assign to Eternal Gain all its benefits and rights in respect of Tree Sale Loan to Eternal Gain at HK\$59,999,999.

Conditions: Completion of the Tree Acquisition is conditional on the following conditions being satisfied on or before the Tree Long Stop Date:

- (1) the approval by the Shareholders of the Tree Acquisition Agreement and the transactions contemplated thereunder, including without limitation, the issue of Tree Convertible Bonds (including the allotment and issue of the Tree Conversion Shares) and the execution of Tree Promissory Note, in accordance with the Listing Rules; and
- (2) the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Tree Conversion Shares (subject only to allotment and matters ancillary thereto).

None of the above conditions may be waived by any of Brightpower, Eternal Gain and the Company.

Consideration: The Tree Aggregate Consideration of HK\$60,000,000 was determined after arm's length negotiation between Brightpower, Eternal Gain and the Company by reference to the aggregate unaudited net assets position of the Tree Sale Companies as at 31 December 2006 being HK\$12,048,000, the amount of the Tree Sale Loan being HK\$80,786,000 as well as the current and future prospects of the Tree Sale Companies by providing an adequate flow of income stream to the Company as a whole as set out in the section headed "Reasons for and Benefits of the Business Acquisition".

Payment terms: The Tree Aggregate Consideration will be settled partly by way of the Company executing on the Tree Completion Date the Tree Promissory Note in an amount of HK\$20 million to Brightpower and partly by way of the Company issuing on the Tree Completion Date the Tree Convertible Bonds with an aggregate principal amount of HK\$40 million to Brightpower or its nominee as Brightpower may direct.

Profit Guarantee: Brightpower has agreed to warrant and guarantee to Eternal Gain that the audited consolidated net profits after tax and any extraordinary or exceptional items of Tree Sale Companies will, in aggregate, be not less than HK\$7,000,000 for the financial year ending 30 June 2008 ("**Guaranteed Profit**").

If the actual aggregate audited consolidated net profits after tax and any extraordinary or exceptional items of the Tree Sale Companies for the financial year ending 30 June 2008\* (the "**Actual Profit**") is less than the Guaranteed Profit, Brightpower shall be entitled to set off the difference against the payment obligations of the Company under Tree Promissory Note by the Company on a dollar to dollar basis.

If Tree Sale Companies record an aggregate consolidated loss for the year ending 30 June 2008\*, the Actual Profit shall be deemed to be nil. If the Actual Profit exceeds the Guaranteed Profit, no amount will be payable to Brightpower.

However, Brightpower's payment obligations under the Guaranteed Profit and the Guaranteed NAV (see below) provisions under the Tree Acquisition Agreement are limited to the amount of the Tree Promissory Note of HK\$20 million only.

\* *The original period for the Guaranteed Profit under the Tree Acquisition Agreement was for the financial year ending 30 June 2007 and was subsequently changed to 30 June 2008 pursuant to the Tree Supplemental Agreement.*

Net Asset Value  
Guarantee:

Brightpower has agreed to warrant and guarantee to Eternal Gain that the audited consolidated Net Asset Value of the Tree Sale Companies as at 30 June 2008\* as shown in the 2008\* Audited Accounts will not, in aggregate, be less than HK\$70,000,000 (“**Guaranteed NAV**”).

If the actual audited consolidated Net Asset Value of the Tree Sale Companies as at 30 June 2008\* (the “**Actual NAV**”) is less than the Guaranteed NAV, Brightpower shall be entitled to set off the difference against the payment obligations of the Company under Tree Promissory Note by the Company on a dollar to dollar basis.

If Tree Sale Companies record, in aggregate, a consolidated net liabilities position in the 2008\* Audited Accounts, the Actual NAV for such financial year shall for the purpose of this net asset value guarantee be deemed to be nil. If the Actual NAV exceeds the Guaranteed NAV, no amount will be payable to Brightpower.

The Guaranteed Profit and the Guaranteed NAV are two independent guarantees given by Brightpower.

\* *The original date for the Guaranteed NAV under the Tree Acquisition Agreement was 30 June 2007 and was subsequently changed to 30 June 2008 pursuant to the Tree Supplemental Agreement.*

Completion:

Completion of the Tree Acquisition is expected to take place on the third Business Day after all the conditions of the Tree Acquisition Agreement have been fulfilled on or before the Tree Long Stop Date or at such other date as Brightpower, Eternal Gain and the Company may agree.

Completion of the Tree Acquisition is not inter-conditional to the Properties Acquisition, or vice versa.

Tree Supplemental  
Agreement:

Pursuant to the Tree Supplemental Agreement, parties to the Tree Acquisition Agreement has agreed to:

- (1) extend the Tree Long Stop Date to 31 December 2007;
- (2) amend the terms of the Tree Convertible Bonds by giving the Company a right to mandatorily convert all the outstanding Tree Convertible Bonds at any time during the Tree Conversion Period;
- (3) change the period for the Guaranteed Profit for the financial year ending 30 June 2007 to 30 June 2008; and
- (4) change the date for the Guaranteed NAV from 30 June 2007 to 30 June 2008.

## II. The Tree Promissory Note

For the purpose of settling HK\$20 million out of the Tree Aggregate Consideration, Brightpower, Eternal Gain and the Company agreed that the Company shall on the Tree Completion Date execute and deliver the Tree Promissory Note to and in favour of Brightpower.

The following is a summary of the key terms of the Tree Promissory Note:

- (1) Principal amount : HK\$20 million
- (2) Interest rate : 4% per annum commencing from 1 month after the Tree Completion Date
- (3) Default interest rate : 8% per annum
- (4) Repayment : The Tree Promissory Note is repayable in one lump sum on or before six months from the Tree Completion Date or 1 month after the resumption of trading of the Shares on the Stock Exchange, whichever is earlier, or such other date as mutually agreed in writing by the Company and Brightpower (“**Tree Note Maturity Date**”)
- (5) Redemption Period : The Company has the option to redeem the Tree Promissory Note in whole or in part at any time after three months from the date of the issue of Tree Promissory Note up to the date immediately prior to the Tree Note Maturity Date

## III. The Tree Convertible Bonds

For the purpose of settling HK\$40 million out of the Tree Aggregate Consideration, Brightpower, Eternal Gain and the Company agreed that the Company shall on the Tree Completion Date execute and deliver the Tree Bonds Instrument in favour of Brightpower or its nominee as Brightpower may direct.

The Tree Convertible Bonds are convertible into Shares in accordance with the terms of the Tree Bonds Instrument. The initial conversion price is HK\$0.10 per Tree Conversion Share, subject to adjustments. In the event that Brightpower exercises the conversion rights attached to Tree Convertible Bonds, initially up to 400,000,000 new Shares would be allotted and issued to Brightpower (assuming that no subdivision or consolidation of shares of Eternal Gain or other event(s) which may result in an adjustment of the initial conversion price takes place during the period between the Tree Completion Date and the date when Brightpower exercises the conversion rights attaching to Tree Convertible Bonds).

The initial conversion price of HK\$0.10 per Tree Conversion Share represents:

- (i) a premium of 300% over the closing price of HK\$0.025 per Share as quoted on the Stock Exchange on 16 June 2004, being the last trading day before the date of this announcement; and
- (ii) a premium of approximately 297% over the average of the closing prices of approximately HK\$0.0252 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to 16 June 2004, being the last trading day before the date of this announcement;
- (iii) a premium of approximately 248% over the audited consolidated net asset value of the Company per Share for the year ended 31 December 2006; and
- (iv) the nominal price of the Share of HK\$0.10 each.

The following is a summary of the key terms of the Tree Convertible Bonds:–

- (1) Principal amount : HK\$40 million
- (2) Interest rate : 4% per annum
- (3) Conversion Period : Commencing from the date of issue of the Tree Convertible Bonds and expiring on the third anniversary thereof
- (4) Redemption Period : Any time during the period between 20 months after the issue of the Tree Convertible Bonds and before the Tree Bond Maturity Date
- (5) Bond Maturity Date : The date being the expiry of 3 years from the date of issue of the Tree Convertible Bonds
- (6) Initial conversion price : HK\$0.10 per Tree Conversion Share, subject to adjustments in each of the following cases (details provisions are set out in the Tree Bonds Instrument):
  - (i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;
  - (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);

- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such;
- (iv) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 80 per cent. of the market price;
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share initially receivable for such securities is less than 80 per cent. of the market price, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 80 per cent. of the market price;
- (vi) an issue being made by the Company wholly for cash of Shares at a price per Share less than 80 per cent. of the market price; and
- (vii) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share less than 80 per cent. of the market price.

(7) Mandatory Conversion: Pursuant to the Tree Supplemental Agreement, parties to the Tree Acquisition Agreement have agreed that at any time during the Conversion Period, the Company has the right to mandatorily convert all the outstanding amount of the Tree Convertible Bonds into Tree Conversion Shares



The following tables illustrates the shareholding of the Company upon full conversion of the Tree Convertible Bonds.

Shareholders	Shares in issue as at the date of this announcement		Shares in issue upon full conversion of Tree Convertible Bonds	
	Shares	%	Shares	%
Kong Fa	1,053,850,042	41.15	1,053,850,042	35.59
KSE	403,375,794	15.75	403,375,794	13.62
Kong Look Sen (deceased) (Note 1)	22,760,695	0.89	22,760,695	0.77
Kong Li Jer (Note 2)	22,760,695	0.89	22,760,695	0.77
Mr. Kong	22,760,695	0.89	22,760,695	0.77
<i>Subtotal for Kong's Family</i>	<i>1,525,507,921</i>	<i>59.57</i>	<i>1,525,507,921</i>	<i>51.52</i>
Brightpower	–	–	400,000,000	13.51
Public				
Existing public shareholders	1,035,659,000	40.43	1,035,659,000	34.97
<i>Subtotal for public Shareholders</i>	<i>1,035,659,000</i>	<i>40.43</i>	<i>1,035,659,000</i>	<i>34.97</i>
Total	2,561,166,921	100.00	2,961,166,921	100.00

Notes:

1. Father of Mr. Kong who passed away on 6 July 2004.
2. Brother of Mr. Kong.

The Company shall apply for the approval of the Stock Exchange for the listing of and permission to deal in the Tree Conversion Shares and such approval constitutes one of the conditions for completion of the Tree Acquisition.

#### IV. Information on Brightpower and Hua Yi

Brightpower is a company incorporated in BVI principally engaged in the manufacturing and trading of life-like plants and a wholly-owned subsidiary of Hua Yi whose shares are listed on the Main Board of the Stock Exchange. Hua Yi is an investment holding company and the Hua Yi Group is principally engaged in the manufacture and trading of copper rods, life-like plants and the production, distribution and licensing of television programmes.

#### V. Information on the Tree Sale Companies

As at the date of the Tree Acquisition Agreement, Hua Yi, through Brightpower, indirectly owns the entire issued share capital of each of FTFE and FTC. FTFE is principally engaged in trading of life-like decorative plants while FTC is principally engaged in manufacture of life-like decorative plants through DUAPP.

In 1993, FTC entered into a joint venture contract with a party in the PRC to establish DUAPP. As at the date of the Tree Acquisition Agreement, FTC and a PRC party named “廣東省東莞輕工業進品出口有限公司” (a third party independent of the Company and its connected persons as defined in the Listing Rules) (the “**PRC party**”) own a 90% and 10% equity interest of DUAPP respectively. Pursuant to the Joint Venture Agreement and a supplemental agreement to it, the PRC party agreed to waive its entitlement to share in the profits and losses of DUAPP in return for an annual management fee of HK\$100,000 and all of the assets of DUAPP would be assigned to FTC upon the expiry of the Joint Venture Agreement on 4 November 2018. Accordingly, all assets, liabilities and the operating results of DUAPP are consolidated into Hua Yi’s financial statements as if it is a wholly-owned subsidiary of the Hua Yi Group.

DUAPP is principally engaged in manufacture of life-like decorative plants. WPP is a dormant company and has ceased carrying on any business.

As at the date of the Tree Acquisition Agreement, (a) Brightpower owns the entire issued share capital of FTFE and FTC respectively, (b) FTC owns 90% equity interest of DUAPP but having a full effective control of DUAPP through contractual arrangement with the PRC party and (c) FTC owns 100% of WPP.

As at 31 December 2006, the Tree Sale Companies had an aggregate unaudited net assets value of approximately HK\$12,048,000 based on the unaudited management accounts of each of FTFE and FTC for the 6 months ended 31 December 2006. FTC has not consolidated accounts of DUAPP and WPP. The following table shows certain financial information of each of FTFE, FTC and DUAPP for the 18 months ended 30 June 2005, the year ended 30 June 2006 and the six months ended 31 December 2006 (prepared based on Hong Kong Financial Reporting Standard):

	<b>FTE</b>		
	<b>18 months ended</b>	<b>Year ended</b>	<b>Six months ended</b>
	<b>30 June 2005</b>	<b>30 June 2006</b>	<b>31 December 2006</b>
	(audited)	(audited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	68,099	87,605	61,965
Net profit/(loss) before taxation and extraordinary items	(5,694)	1,044	3,388
Net profit/(loss) after taxation and extraordinary items	(5,694)	(357)	3,388

	<b>FTC</b>		
	<b>18 months ended</b>	<b>Year ended</b>	<b>Six months ended</b>
	<b>30 June 2005</b>	<b>30 June 2006</b>	<b>31 December 2006</b>
	(audited)	(audited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3,620	–	–
Net profit/(loss) before taxation and extraordinary items	(8,130)	(688)	555
Net profit/(loss) after taxation and extraordinary items	(7,753)	(1,677)	555

	<b>DUAPP</b>		
	<b>18 months ended</b>	<b>Year ended</b>	<b>Six months ended</b>
	<b>30 June 2005</b>	<b>30 June 2006</b>	<b>31 December 2006</b>
	(audited)	(audited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	55,005	76,558	54,957
Net profit/(loss) before taxation and extraordinary items	(2,667)	(774)	3,662
Net profit/(loss) after taxation and extraordinary items	(2,667)	(774)	3,662

## **VI. Reasons for and benefits of the Tree Acquisition**

Although the Board is aware that the Tree Sales Companies were making losses in the past years, the Board has reviewed the financial position and the business operations of the Tree Sales Companies which have been improving. Further, the Company's position is safeguarded by the provisions of the Guaranteed Profit and the Guaranteed NAV of the Tree Sales Companies for the financial year ending 30 June 2008. Accordingly, the Board considers that the Tree Acquisition of the life-like plants business would complement the Group's current business with ensured profitability based on the Guaranteed Profit. Further, the business of the Tree Sale companies would provide an additional flow of income stream to the Company and enhance the operation level of the Group as a whole. There will be no immediate impact on the cash outflow to the Company as the Tree Aggregate Consideration will be payable by the Tree Promissory Note and the Tree Convertible Bonds, further taking into account that the Company has a mandatory right to demand conversion of the Tree Convertible Bonds into new Shares during the Tree Conversion Period. The Directors consider the Tree Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Mr. Chan Chi Yuen, an executive Director, has several years of experience in the same business of like-like plants while he was a Financial Controller of Hua Yi (formerly known as FT Holdings International Limited) and was responsible for the operation of the business of the Tree Sale Companies then. He resigned from Hua Yi in 2004 and ceased to have any business connections with Hua Yi and the Tree Sale Companies.

With the expertise of Mr. Chan Chi Yuen, the Company believes that the Tree Acquisition will strengthen the asset and revenue positions of the Group as a whole.

Upon completion of the Tree Acquisition, the Tree Sale Companies will become subsidiaries of the Company and their results will be consolidated in the accounts of the Company with effect from the Tree Completion Date.

## **VII. Listing Rules implication**

The Company considered that the calculation of the relevant percentage ratios should be based upon the latest financial results of the Company, which has recently been published by the Company. As a result, there has been a delay for the publication of this announcement.

As the relevant percentage ratio exceeds 100% under Rule 14.06 of the Listing Rules, the Tree Acquisition constitutes a very substantial acquisition of the Company under Rule 14.08 of the Listing Rules and the Tree Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Tree Promissory Note, the Tree Convertible Bonds and the Tree Conversion Shares) is subject to the approval of the Shareholders under Rule 14.49 of the Listing Rules. To the best of the Directors' knowledge, no Shareholders has a material interest in the Tree Acquisition other than their respective shareholding interests in the Shares and accordingly no Shareholders is required to abstain from voting in an extraordinary general meeting of the Company to be convened to approve the Tree Acquisition.

The Directors, including the independent non-executive Directors, believe the terms of the Tree Acquisition Agreement, the Tree Promissory Note and the Tree Convertible Bonds are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

A circular containing, inter alia, further information on the Tree Acquisition, and a notice convening an extraordinary general meeting of the Company will be despatched to the Shareholder as soon as practicable.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Tree Conversion Shares.

## (2) PROPERTIES ACQUISITION

### I. Properties Acquisition Agreement (as amended by the Properties Supplemental Agreement dated 19 September 2007)

Date: 28 June 2007

Parties: (1) Chu Yuet Wah and Ma Siu Fong as the Vendors

(Ma Siu Fong is the mother of Chu Yuet Wah. Chu Yuet Wah holds 51% and Ma Siu Fong holds 49% of the equity interests in Kingston Finance Limited, one of the major creditors of the Company. Both Chu Yuet Wah and Ma Siu Fong are merchants and private investors. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendors, Kingston Finance Limited and its ultimate beneficial owners are third parties independent of the Company and its connected persons as defined in the Listing Rules.)

(2) Lead Power as the purchaser

Summary: The Vendors have agreed to sell and Lead Power has agreed to purchase the Properties Sale Shares at HK\$2. In addition, on the Properties Completion Date, Vendor A will assign to Lead Power all her benefits and rights in respect of Properties Sale Loan to Lead Power at HK\$33,799,998.

Conditions: Completion of the Properties Acquisition is conditional on the following conditions being satisfied (or waived by Lead Power as to conditions (a) and (e) below) on or before the Properties Long Stop Date:

- (a) Lead Power being satisfied with the results of the due diligence review on the Properties Sale Companies;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the Properties Acquisition Agreement and the transactions contemplated thereby have been obtained;
- (c) the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of an ordinary resolution to approve the Properties Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the execution of the Properties Promissory Note and the Properties Share Charge;

- (d) Lead Power having received from a firm of professional surveyors and valuers chosen by Lead Power a property valuation report on the Properties showing as at 15 June 2007 the value of Property 1 to be not less than HK\$16,000,000, the value of Property 2 to be not less than HK\$16,800,000 and value of Property 3 to be not less than HK\$1,000,000; and
- (e) the warranties given by the Vendors remaining true and accurate in all respects.

The Company has engaged AA Property Services Limited (a third party independent of the Company and its connected persons as defined in the Listing Rules and a third party independent of the Vendors and their connected persons as defined in the Listing Rules) to prepare the property valuation report set out in condition (d) above. The valuation is prepared based on open market basis by the valuer assuming sale with the benefit of vacant possession with reference to comparable market transactions.

- Debt Guarantee: Vendors have agreed to warrant and guarantee to Lead Power the Guaranteed Debt. If the actual amount of the Properties Sale Loans as at Properties Completion Date is less than the Guaranteed Debt, Vendor A shall be entitled to set off the difference against the payment obligations of the Company under Properties Promissory Note by the Company on a dollar to dollar basis.
- Security: Lead Power has agreed to charge, inter alia, all its interest in the Coast Shares and KPI Shares respectively in favour of Vendor A to secure the performance by Lead Power of its obligations under the Properties Promissory Note.
- Consideration: The Properties Aggregate Consideration of HK\$33,800,000 was determined after arm's length negotiation between the Vendors and Lead Power by reference to the aggregate valuation of the Properties conducted by an independent property valuer as at 15 June 2007 which the preliminary draft and indication by the valuer showed that the value of the Properties were not less than HK\$33,800,000 in aggregate.
- Payment terms: The Properties Aggregate Consideration will be settled by way of the Company executing on the Properties Completion Date the Properties Promissory Note in an amount of HK\$33.8 million to the Vendors.

Completion: Completion of the Properties Acquisition is expected to take place on the third Business Day after all the conditions of the Properties Acquisition Agreement have been fulfilled on or before the Properties Long Stop Date or at such other date as the Vendors and Lead Power may agree.

Completion of the Properties Acquisition is not inter-conditional to the Tree Acquisition, or vice versa.

Properties Supplemental Agreement: On 19 September 2007, the Vendors and Lead Power entered into the Properties Supplemental Agreement extending the Properties Long Stop Date from 30 September 2007 to 31 December 2007 and reducing the interest payable under the Properties Promissory Note to 3% per annum.

## II. The Properties Promissory Note

For the purpose of settling HK\$33.8 million out of the Properties Aggregate Consideration, the Vendors and Lead Power agreed that the Company shall on the Properties Completion Date execute and deliver Properties Promissory Note in favour of the Vendors.

The following is a summary of the key terms of Properties Promissory Note:

- (1) Principal amount : HK\$33.8 million
- (2) Interest rate : The original interest rate was determined by reference to the Hong Kong Dollars prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time commencing from the Properties Completion Date.

However, pursuant to the Properties Supplemental Agreement, parties to the Properties Acquisition Agreement has agreed to amend the interest rate at 3% per annum.

- (3) Default interest rate : 6% over Hong Kong Dollars prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time
- (4) Repayment : Properties Promissory Note is repayable on or before sixty months from Properties Completion Date, or such other date as mutually agreed in writing by the Company and Vendor A (“**Properties Note Maturity Date**”)

The interest accrued shall be payable by the Company to Vendor A as follows:

- (a) First interest payment obligation shall be payable within one month after trading of shares of the Issuers has been resumed or six (6) months from the date of Properties Acquisition whichever is earlier;
  - (b) Subject to (a) above, interest accrued thereafter shall be payable by the Company within three (3) business days after the last day of each calendar month thereafter;
  - (c) All outstanding interest accrued shall be immediately due and payable on the Properties Note Maturity Date.
- (5) Redemption Period : the Company has the option to redeem the Properties Promissory Note in whole or in part at any time after three months from the date of the issue of the Properties Promissory Note up to the date immediately prior to the Properties Note Maturity Date

### **III. Information on the Properties Sale Companies**

As at the date of the Properties Acquisition Agreement, the Vendors own the entire issued share capital of each of KPI and Coast both are principally engaged in property investment. Coast is the owner of Property 1 whereas KPI is the owner of Property 2 and Property 3.

As at 20 June 2007, Properties Sale Companies had an aggregate unaudited net liabilities value of approximately HK\$21.51 million. As at 31 March 2007, the Properties Sale Companies had an aggregate net liabilities value of approximately HK\$24,112,000.

The rental income generated by the Properties in the past two years ended 31 March 2006 and 2007 of the Properties Sale Companies were HK\$1,277,500.00 and HK\$1,561,000.00 respectively.

The following table shows certain financial information of each of KPI and Coast for the 3 years ended 31 March 2005, 2006 and 2007 The 2005 financial statements were prepared based on Hong Kong Financial Reporting Standard and the 2006 and 2007 financial statements were prepared based on the Small and Medium-sized Entity Financial Reporting Standard:



	<b>KPI</b>		
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31 March 2005</b>	<b>31 March 2006</b>	<b>31 March 2007</b>
	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	898	920	1,174
Net profit/(loss) before taxation and extraordinary items	(2,341)	6,739	545
Net profit/(loss) after taxation and extraordinary items	(2,432)	6,633	397

	<b>Coast</b>		
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31 March 2005</b>	<b>31 March 2006</b>	<b>31 March 2007</b>
	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	344	358	391
Net profit/(loss) before taxation and extraordinary items	2,465	960	125
Net profit/(loss) after taxation and extraordinary items	2,432	915	75

#### **IV. Reasons and benefits for the Properties Acquisition**

The Board noted that the Properties Sales Companies had an aggregate net liabilities value which was due to the fact that the value of the Properties had not reflected the increase in their market value in their financial results, and the existence of the Properties Sale Loan owing to the Vendors by the Properties Sales Companies. Upon completion, the Company will have acquired the Properties and the Properties Sale Loan with a discount to the effect that the Company will have acquired both the Properties and the Properties Sale Loan equal to the value of the Properties based on the valuation conducted by the professional valuer. The net assets acquired by the Group is approximately HK\$33.8 million which is in line with the Properties Aggregate Consideration and rental income will be attributable to the Group subsequent to the Properties Acquisition. The Properties Acquisition, upon completion, will generate stable rental income to the Group and contribute to the total assets level of the Group. Further, the business of the Properties Sale Companies would provide an additional flow of income stream to the Company and enhance the operation level of the Group as a whole. There will be no immediate impact on the cash outflow to the Company as the Properties Aggregate Consideration will be payable by the Properties Promissory Note. The Directors consider the Properties Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Upon completion of the Properties Acquisition, the Properties Sale Companies will become subsidiaries of the Company and their results will be consolidated in the accounts of the Company with effect from the Properties Completion Date.

## **V. Listing Rules implication**

The Company considered that the calculation of the relevant percentage ratios should be based upon the latest financial results of the Company, which has recently been published by the Company. As a result, there has been a delay for the publication of this announcement.

As the relevant percentage ratio exceeds 100% under Rule 14.06 of the Listing Rules, the Properties Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is subject to the approval of the Shareholders under the Listing Rules. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, none of the Shareholders have any material interest in the Properties Acquisition, and there is no arrangement, agreement, understanding amongst the Company and its connected persons, the Vendors and their associates, Kingston Finance Limited and its associates. Accordingly, no Shareholder is required to abstain from voting in an extraordinary general meeting of the Company to be convened to approve the Properties Acquisition.

The Directors, including the independent non-executive Directors, believe the terms of the Properties Acquisition Agreement and the Properties Promissory Note are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

A circular containing, inter alia, further information on the Properties Acquisition will be despatched to the Shareholders as soon as practicable.

## **(3) MOU**

On 16 February 2007, the Company entered into a MOU with Green & Good (a third party independent of the Company and its connected persons as defined in the Listing Rules) in connection with the Company's possible acquisition of certain equity interests in the issued share capital of the Target, principally engaged in the exploitation and management of timber resources in the PRC and processing and sales of a wide range of timber products. The MOU is non-legally binding and only sets forth the parties' intention to proceed with the discussions and negotiations of the proposed acquisition in accordance with the principles as set forth in the MOU. The material terms of the MOU cannot be finalized by the parties to the MOU and parties to the MOU agree not to proceed with the proposed acquisition under the MOU.

## **(4) SUSPENSION OF TRADING**

The principal activities of the Group are property investment and development, trading business, and provision of financial services.

Trading in the Shares was suspended with effect from 9:30 a.m. on 17 June 2004 at the request of the Company and will remain suspended until further notice.

## DEFINITIONS

“Board”	the board of Directors
“Brightpower”	Brightpower Assets Management Limited, a company incorporated in BVI and an indirect wholly-owned subsidiary of Hua Yi
“Coast”	Coast Holdings Limited, a private limited company incorporated in Hong Kong and held as to 51% by Vendor A and as to 49% by Vendor B
“Coast Shares”	100,000 issued shares of HK\$1.00 each in the share capital of Coast, constituting the entire issued share capital of Coast, that are beneficially held as to 51% by Vendor A and as to 49% by Vendor B as at the date of the Properties Acquisition Agreement
“Company”	Kong Sun Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“DUAPP”	Dongguan United Arts Plastic Products Limited, a Sino-foreign equity joint venture established in the PRC and whose equity interest are held by FTC and a PRC party as to 90% and 10%, respectively as at the date of the Business Acquisition Agreement
“Eternal Gain”	Eternal Gain Investments Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
“FTFE”	FT Far East Limited, a private limited company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hua Yi
“FTFE Shares”	2 issued shares of HK\$1.00 each in the share capital of FTFE, constituting the entire issued share capital of FTFE, that are beneficially held by Brightpower as at the date of the Tree Acquisition Agreement
“FTC”	FT China Limited, a private limited company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hua Yi
“FTC Shares”	2 issued shares of HK\$1.00 each in the share capital of FTC, constituting the entire issued share capital of FTC, that are beneficially held by Brightpower as at the date of the Tree Acquisition Agreement

“Green & Good”	Green & Good Group Limited (綠之嘉集團有限公司), a company incorporated in the British Virgin Islands with limited liability
“Group”	the Company and its subsidiaries
“Guaranteed Debt”	the guarantee by Vendor A to Lead Power that the Properties Sale Loans as at the Properties Completion Date will not be less than HK\$33,800,000
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Hua Yi”	Hua Yi Copper Holdings Limited (Stock Code: 559), a limited liability company incorporated in Bermuda whose shares are listed on the main board of the Stock Exchange
“Hua Yi Group”	Hua Yi and its subsidiaries (having the meaning ascribed to it in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong))
“Joint Venture Agreement”	the joint venture contract dated 8 September 1993 entered into between FTC and a party in the PRC in relation to, among other things, the establishment and management of DUAPP
“KPI”	Kingston Property Investment Limited, a private limited company incorporated in Hong Kong and held as to 51% by Vendor A and as to 49% by Vendor B
“KPI Shares”	100,000 issued shares of HK\$1.00 each in the share capital of KPI, constituting the entire issued share capital of KPI, that are beneficially held as to 51% by Vendor A and as to 49% by Vendor B as at the date of the Properties Acquisition Agreement
“Lead Power”	Lead Power Investments Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
“MOU”	the non-binding memorandum of understanding dated 16 February 2007 made between the Company and Green & Good
“Net Asset Value”	at the relevant time, the surplus (if any) of the assets of the Tree Sale Companies over their liabilities (excluding share capital and any liability in respect of loan stock or shareholder’s loans, in particular, the Tree Sale Loan)
“Properties”	collectively, Property 1, Property 2 and Property 3

“Properties Acquisition”	the sale and purchase of the Properties Sale Shares and the Properties Assignment pursuant to the Properties Acquisition Agreement
“Properties Acquisition Agreement”	the sale and purchase agreement dated 28 June 2007 entered into between the Vendors and Lead Power in relation to the sale and purchase of the Properties Sale Shares and the Properties Assignment
“Properties Aggregate Consideration”	HK\$33.8 million, being the aggregate of the consideration payable by Lead Power to the Vendors for the Properties Sale Shares and the consideration payable by Eternal Gain to the Vendors for the Properties Assignment
“Properties Assignment”	The assignment by Vendor A to Lead Power at Properties Completion Date of Properties Sale Loan
“Properties Completion Date”	date of completion of the Properties Acquisition Agreement, being the date falling the third Business Day after all the conditions for the Properties Acquisition have been fulfilled or at such other time as the parties to the Properties Acquisition Agreement may agree
“Properties Long Stop Date”	30 September 2007, which has been extended to 31 December 2007 under the Properties Supplemental Agreement
“Properties Promissory Note”	the Properties Promissory Note in the agreed form to be executed on the Properties Completion Date by the Company in favour of Vendor A for the purposes of settling HK\$33.8 million of the Properties Aggregate Consideration
“Properties Sale Companies”	KPI and Coast
“Properties Sale Loan”	the aggregate indebtedness in the amount of HK\$19,348,836 owed to Vendor A by Coast and HK\$22,055,412 owed to Vendor A by KPI
“Properties Sale Shares”	the Coast Shares and the KPI Shares
“Properties Supplemental Agreement”	the supplemental agreement dated 19 September 2007 and entered into between the Vendors and Lead Power extending the Properties Long Stop Date and amending the interest rate of the Properties Promissory Note
“Property 1”	9th Floor, Wings Building, Nos. 110-116 Queen’s Road Central, 53-61 Stanley Street, Hong Kong

“Property 2”	10th Floor, Wings Building, Nos. 110-116 Queen’s Road Central, 53-61 Stanley Street, Hong Kong
“Property 3”	Workshop 5 on 4th Floor, Fullagar Industrial Building, No. 234 Aberdeen Main Road, Hong Kong
“PRC”	People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	share(s) of HK\$0.1 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Subsidiaries”	DUAPP and WPP
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	綠之嘉木業有限公司 (LEEKA Wood Co. Ltd) ( <i>translated for illustration purpose only</i> ), a wholly foreign owned enterprise established in the PRC on 29 March 2006 with limited liability
“Tree Acquisition”	the sale and purchase of the Tree Sale Shares and the Tree Assignment pursuant to the Tree Acquisition Agreement
“Tree Acquisition Agreement”	the sale and purchase agreement dated 19 May 2007 entered into between Brightpower, Eternal Gain and the Company in relation to the sale and purchase of the Tree Sale Shares and the Tree Assignment
“Tree Aggregate Consideration”	HK\$60 million, being the aggregate of the consideration payable by Eternal Gain to Brightpower for the Tree Sale Shares and the consideration payable by Eternal Gain to Brightpower for the Tree Assignment
“Tree Assignment”	The assignment by Brightpower to Eternal Gain at Tree Completion Date of Tree Sale Loan
“Tree Bonds Instrument “	the instrument to be executed by Eternal Gain by way of a deed poll constituting the Tree Convertible Bonds
“Tree Bond Maturity Date”	the date being the expiry of 3 years from the date of issue of the Tree Convertible Bonds

“Tree Completion Date”	date of completion of the Tree Acquisition Agreement, being the date falling the third Business Day after all the conditions for the Tree Acquisition have been fulfilled or at such other time as the parties may agree
“Tree Conversion Period”	The period commencing from the date of issue of the Tree Convertible Bonds and expiring on the third anniversary of such date
“Tree Conversion Shares”	new Shares falling to be allotted and issued upon exercise of the conversion rights attached to the Tree Convertible Bonds
“Tree Convertible Bonds”	the 4% unsecured convertible bonds due three years from the date of issue for an aggregate principal amount of HK\$40 million constituted by the Tree Bonds Instrument
“Tree Long Stop Date”	30 September 2007, which has been extended to 31 December 2007 under the Tree Supplemental Agreement
“Tree Maturity Date”	three years from the date of issue of the Tree Convertible Bonds
“Tree Promissory Note”	the Tree Promissory Note in the agreed form to be executed on the Tree Completion Date by the Company in favour of Brightpower for the purposes of settling HK\$20 million out of the Tree Aggregate Consideration
“Tree Sale Companies”	FTFE, FTC and the Subsidiaries
“Tree Sale Loan”	the indebtedness in the amount of HK\$80,786,000 owed to Brightpower by FTFE
“Tree Sale Shares”	the FTFE Shares and the FTC Shares
“Tree Supplemental Agreement”	the supplemental agreement dated 19 September 2007 and entered into between Brightpower, Eternal Gain and the Company extending the Tree Long Stop Date and amending the Tree Convertible Bonds by the addition of the right of mandatory conversion at the option of the Company
“Vendor A”	Ms. Chu Yuet Wah
“Vendor B”	Ms. Ma Siu Fong
“Vendors”	Vendor A and Vendor B

“WPP”	Weihai Plastic Products Company Limited, a company established in the PRC and a wholly-owned subsidiary of FTC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America

By Order of the board of directors of  
**Kong Sun Holdings Limited**  
**Tse On Kin**  
*Chairman*

Hong Kong, 12 October 2007

*As at the date of this announcement, the Board of Directors of Kong Sun Holdings Limited comprise three Executive Directors, Mr. Tse On Kin, Mr. Chan Chi Yuen and, Mr. Kong Li Szu; and three Independent Non-executive Directors, Ms. Lo Miu Sheung, Betty, Mr. Chan Chiu Hung, Alex and Dr. Wong Yun Kuen.*