KongSun 江山

Kong Sun Holdings Limited

Stock Code: 295

ANNUAL REPORT 2006

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Tse On Kin *(Chairman)* Kong Li Szu Chan Chi Yuen
INDEPENDENT NON-EXECUTIVE DIRECTORS	Chan Chiu Hung, Alex Lo Miu Sheung, Betty Wong Yun Kuen
QUALIFIED ACCOUNTANT AND COMPANY SECRETARY	Mak Wai Ho, Brandon
REGISTERED OFFICE	Unit A, 1st Floor Lippo Leighton Tower 103 Leighton Road, Causeway Bay Hong Kong
AUDITORS	CCIF CPA Limited 20th Floor, Sunning Plaza 10 Hysan Avenue, Causeway Bay Hong Kong
SOLICITORS	Michael Li & Co. Henry Fok & Co.
SHARE REGISTRARS AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Center 183 Queen's Road East Hong Kong
STOCK CODE	295
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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the annual results of Kong Sun Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended December 31, 2006.

The Company and the Group had gone through a hard time during the year. Intense cost reduction programs have been carried on and addition source of finance has been kept seeking during the year. Loss for the year continued to narrow this year but the lack of constant income to the Group had made the financial position of the Group precarious. Seeking new investment opportunities for a secure and steady income to the Group as well as the restructuring of existing indebtedness will be the primary target of the Group for the coming year.

The Group's results for the year under review generally reflected the financial difficulties of the Group which has been facing. Loss for the year continued to narrowed to HK$12,664,000 as compared to HK$99,741,000 recorded in last year. Loss per share has also been reduced to HK0.49 cents as compared to HK3.89 cents in the previous year. Further reduction in deficit and possible return to profitability will be our next target for the years to come.

The major investment of the Group now rests in Malaysia and the Group will actively seek for investment opportunities with potential to re-establish steady investment income and more importantly, to improve shareholder returns.

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

TSE ON KIN

Chairman

Hong Kong, 10 September 2007

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 2006 and the results under review generally reflected the situation. Loss attributable to shareholders has been reduced to HK$12,664,000 as compared to HK$99,741,000 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 and residential projects in Malaysia. The lingering development progress in Malaysia and the lack of steady income-generating assets of the Group had resulted in the poor performance of the Group.

OTHER INVESTMENT OPPORTUNITIES

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

FINANCIAL REVIEW

As at 31 December 2006, the total shareholders fund of the Group amounted to approximately HK$74 million, compared to approximately HK$80 million as at 31 December 2005. The debt ratio (based on the sum of current liability and long-term liability over the equity) of the Group as at 31 December 2006 was 0.88 while the ratio as at 31 December 2005 was 0.72.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group has only retained its property investment in Malaysia. As the operating income of the Group continues to shrink, focus for the year will be on resolving the financial difficulties encountered by the Group. The Group will actively seek for financial resources and restructure its existing liabilities so as to strengthen its financial base and will also restructure its existing operation to improve shareholder returns. On the other hand, the Group has tried to increase shareholders' return and strengthen the assets base of the Group by acquiring (i) a life-like plant business and, (ii) property investment business in Hong Kong after the balance sheet date (please see Non-Adjusting Post Balance Events for details of the acquisitions). The injection of the new businesses plus the robust performance of the PRC's economy, together with improving conditions in Hong Kong and Malaysia are expected to set the Group well on track to succeed in its restructuring and future development.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tse On Kin

Chairman

aged 45, has over 19 years of experience of in corporate planning, operation, human resources and new markets development. Mr. Tse has a Bachelor degree in Public Policy and Administration from York University in Canada. Mr. Tse is currently the chairman of New Times Group Holdings Limited, a non-executive director of China Science Conservational Power Limited and Climax International Company Limited. Mr. Tse was also the former chairman of China Science Conservational Power Limited, an executive director of China National Resources Development Holdings Limited and Mexan Limited and the vice-chairman and chief executive officer of Great Wall Cybertech Limited.

Mr. Kong Li Szu

Executive Director

aged 36, is the son of the late Mr. Kong Look Sen. He was appointed as an Executive Director of the Company since 1998. Mr. Kong holds a bachelor degree and a master degree in Civil Engineering from Washington University and Stanford University respectively. He is well experienced in civil works and China investment and trades. Mr. Kong is responsible for the day-to-day operation, strategic planning and development of the Group.

Mr. Chan Chi Yuen

Executive Director

aged 41, holds a Bachelor degree with honours in Business Administration and a Master of Science in Corporate Governance and Directorship. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance. Mr. Chan is currently an executive director of A-Max Holdings Limited and Prosticks International Holdings Limited, a non-executive director of New Times Group Holdings Limited and an independent non-executive director of China Science Conversational Power Limited, Hong Kong Health Check and Laboratory Holdings Company Limited, Tak Shun Technology Group Limited and Premium Land Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chiu Hung

Independent Non-executive Director

aged 41, holds a Bachelor degree in Business Administration, major in Finance. He has been working with several listed and multinational companies for over 13 years. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, an associate member of The Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is currently an independent non-executive director of A-Max Holdings Limited and Vitop Bioenergy Holdings Limited.

Ms. Lo Miu Sheung, Betty

Independent Non-executive Director

aged 45, graduated from University of Hong Kong with a Bachelor degree in Laws (LL.B). Ms. Lo is a qualified solicitor in Hong Kong and has over 18 years of experience in general legal practice. Ms. Lo is also an executive director of Climax International Company Limited and an independent non-executive director of Golden Resorts Group Limited.

Dr. Wong Yun Kuen

Independent Non-executive Director

aged 49, received his Ph.D. degree from Harvard University, and was "Distinguished Visiting Scholar" in Finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Finance Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong is also an executive director of UBA Investments Limited, an independent non-executive director of Harmony Asset Limited, Grand Field Group Holdings Limited, Ultra Group Holdings Limited, Poly Investments Holdings Limited, Bauhaus International (Holdings) Limited, Golden Resorts Group Limited, Tak Shun Technology Group Limited, Prosticks International Holdings Limited and Climax International Company Limited. Dr. Wong was a former independent non-executive director of Haywood Investment Limited.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are property investment and development.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 12 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 145.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32 and other details of the reserves of the Company and the Group are set out in Note 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$329,049,000, may be distributed in the form of fully paid bonus shares.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 146. This summary does not form part of the audited financial statements.

DIRECTORS' REPORT

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Company and the Group during the year are set out in Note 13 and Note 14 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 30 to the financial statements.

SHARE OPTIONS

Details of the share options of the Company during the year is set out in Note 31 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Kong Lok King *(Chairman and Managing Director)*	– resigned on 15 February 2007
Tse On Kin *(Chairman)*	– appointed on 20 April 2007
Kong Li Jer	– resigned on 15 February 2007
Kong Li Szu	
Cham Yiu Keung	– appointed 20 June 2006 and resigned on 20 April 2007
Chan Chi Yuen	– appointed on 15 February 2007

Independent non-executive directors

Ku Suen Fai	– resigned on 23 March 2006
Sin Wai Chiu Joseph	– resigned on 28 March 2006
Ip Man Tin David	– resigned on 17 October 2006
Chan Chiu Hung, Alex	– appointed on 9 June 2006
Lo Tat Shing	– appointed on 9 June 2006 and resigned on 9 May 2007
Lo Miu Sheung, Betty	– appointed on 15 February 2007
Wong Yun Kuen	– appointed on 20 April 2007

DIRECTORS' REPORT

In accordance with the Company's articles of association, Mr. Tse On Kin, Mr. Chan Chi Yuen, Dr. Wong Yun Kuen, Ms. Lo Miu Sheung, Betty and Mr. Chan Chiu Hung, Alex will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and the senior management of the Company are set out on page 6 to 7.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in Note 38 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries of fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 December 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Merchant Code"), were as follows:

Long Position in the shares of the Company

Name of director	*Notes*	**Number of shares held and nature of interest**			**Percentage of issued share capital**
		Personal	**Corporate**	**Total**	
Kong Look Sen (deceased)	*(1)*	22,760,695	1,457,225,836	1,479,986,531	57.79
Kong Li Jer	*(1)*	22,760,695	1,457,225,836	1,479,986,531	57.79
Kong Li Szu	*(2)*	22,760,695	1,053,850,042	1,076,610,737	42.04

Notes:

(1) The corporate interests in 1,457,225,836 shares comprise of 1,053,850,042 shares being held by Kong Fa Holding Limited ("Kong Fa") and 403,375,794 shares by Kong Sun Enterprise Sdn. Bhd. ("KSE"), respectively. Mr. Kong Look Sen, who was a director and shareholder of Kong Fa and KSE, had passed away on 6 July 2004 and all his shares are being held under Estate. Mr. Kong Li Jer is a the director and shareholder of Kong Fa and KSE.

(2) The corporate interest of 1,053,850,042 shares is held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, at 31 December 2006, none of the directors or chief executives of the Company or their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives or their spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Number of ordinary shares held	Percentage of issued share capital
Kong Fa	1,053,850,042	41.15
KSE	403,375,794	15.75

Save as disclosed above, at 31 December 2006, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

CONNECTED TRANSACTIONS

Saved as disclose in Note 38 to the financial statements, there are no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or other similar rights at 31 December 2006. There has been no exercise of convertible securities, options, warrants or similar rights during the year.

PURCHASE, REDEMPTION OR SALE OF COMPANY'S LISTED SECURITIES

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

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2006, the Group had total assets of HK$138,026,000 which were financed by current liabilities of HK$29,499,000, finance lease payables of HK$12,000, bank loans and other borrowings of HK$33,169,000, non-current liabilities of HK$1,800,000, minority interests of HK$13,000 and shareholders' equity of HK$73,533,000. The Group's working capital ratio at the balance sheet date was approximately 0.64:1.

The Group has been unable to meet certain scheduled repayments due to its bankers and creditors during the year ended 31 December 2006 and up to the date of this annual report. As a consequence, there are various lawsuits against the Group from a number of bankers for the repayment of the amounts due by the Group. Hence, bank and other borrowings of approximately HK$30,399,000 and the interest thereon of approximately HK$8,207,000 are immediately due and payable. Further details of the breach of the loan agreements are set out in Note 27 to the financial statements.

DIRECTORS' REPORT

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in Note 33 to the financial statements.

EMPLOYEES AND EMPLOYMENT POLICIES

At 31 December 2006, the Group employed 4 staffs. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus and mandatory provident fund schemes.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant post balance sheet events of the Group are set out in Note 39 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of Hong Kong.

AUDIT COMMITTEE

The Audit Committee has three independent non-executive directors of the Company. 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 2005 with the management.

AUDITORS

RSM Nelson Wheeler was the auditors of the Group for the year ended 31 December 2003 and 2004 and had resigned as auditors of the Group on 17 July 2006. CCIF CPA Limited had been appointed as auditors of the Group for the year ended 31 December 2005. A resolution for the reappointment of CCIF CPA Limited as auditors of the Group will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse On Kin
Chairman
Hong Kong, 10 September 2007

CORPORATE GOVERNANCE REPORT

The Board of the Directors (the "Board") is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2006.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as promulgated by The Stock Exchange of Hong Kong Limited ("Stock Exchange") came into effect for accounting period commencing on 1st January 2005 (save for the provisions on internal controls which came into effect for accounting periods commencing from 1st July 2005 onwards.)

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") as set out in the CG Code. Throughout the year under review, the Company has complied with the Code Provisions, save for the deviation from Code Provision A.2.1 and A.4.1 which are explained in the relevant paragraph in this report.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

CORPORATE GOVERNANCE

Under the code provision A.2.1, the role of Chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the Company is now performing both roles as the Company considers it is more effective to have both roles performed by the same person at the present situation.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, none of the existing independent non-executive directors of the Company is appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company, which stipulates that one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code in this respect.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic, decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the Company Secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

Composition

The Board currently comprises three executive directors, and three independent non-executive directors from different business and professional fields. The directors, including independent non-executive directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

The Board of the Company comprises the following directors:

Executive Directors:
Mr. Tse On Kin
Mr. Kong Li Szu
Mr. Chan Chi Yuen

Independent non-executive Directors:
Mr. Chan Chiu Hung, Alex *(Chairman of Audit Committee and member of Remuneration Committee)*
Ms. Lo Miu Sheung, Betty *(Member of Audit and Remuneration Committee)*
Dr. Wong Yun Kuen *(Chairman of Remuneration Committee and member of Audit Committee)*

The profiles of each director are set out in the "Biographical Details of Directors" section in this Annual Report.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(Continued)*

Composition *(Continued)*

Mr. Ku Suen Fai, Mr. Sin Wai Chiu, Joseph and Mr. Ip Man Tin, David had tendered their resignations as independent non-executive directors and members of audit committed of the Company on 23 March 2006, 28 March 2006 and 17 October 2006 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 as well as members of the audit committee of the Company. On 15 February 2007 and 20 April 2007, Ms. Lo Miu Sheung, Betty and Mr. Wong Yun Kuen were also appointed as independent non-executive directors as well as members of the audit committee of the Company respectively and on 9 May 2007, Mr. Lo Tat Shing had tendered his resignation as independent non-executive directors and members of audit committed of the Company. The audit committee now comprises three independent non-executive directors of the Company, namely, Mr. Chan Chiu Hung, Alex, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

Induction for Directors

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary. The directors are continually updated with legal and regulatory developments, and business and market changes to facilitate the discharge of the responsibilities.

Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 4 times during the year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(Continued)*

Board and board committee meetings *(Continued)*

Practices and conduct of meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings sufficient details of matters considered and decisions reached are kept by the secretary of the meetings are open for inspection by the directors. The attendance of individual members of the Board and other Board Committees meetings during the year ended 31 December 2006 is set out in the table below:

	Meetings attended/held		
	Board of Directors	**Audit Committee**	**AGM**
Executive directors			
Mr. Kong Li Szu	8/8	N/A	1/1
Mr. Kong Li Jer (resigned on 15 February 2007)	3/8	N/A	0/1
Mr. Kong Lok King (resigned on 15 February 2007)	0/8	N/A	0/1
Mr. Cham Yiu Keung (appointed on 20 June 2006 and resigned on 20 April 2007)	5/8	N/A	0/1

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(Continued)*

Board and board committee meetings *(Continued)*

Practices and conduct of meetings (Continued)

	Meetings attended/held		
	Board of Directors	Audit Committee	AGM
Independent non-executive directors			
Mr. Chan Chiu Hung, Alex (appointed on 9 June 2006)	3/8	2/2	1/1
Mr. Lo Tat Shing (appointed on 9 June 2006 and resigned on 9 May 2007)	2/8	2/2	0/1
Mr. Ku Suen Fa (resigned on 23 March 2006)	0/8	0/2	0/1
Mr. Sin Wai Chiu, Joseph (resigned on 28 March 2006)	0/8	0/2	0/1
Mr. Ip Man Tin, David (resigned on 17 October 2006)	1/8	1/2	1/1

Board committees

The Board has established 2 committees, namely the Audit Committee and the Remuneration Committee, (the Remuneration Committee has been established on 9 June 2006) for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

The majority of the members of each Board committees are independent non-executive directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration committee

The Remuneration Committee comprises three independent non-executive directors of the Company, namely Mr. Chan Chiu Hung, Alex, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. Dr. Wong Yun Kuen is the Chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(Continued)*

Board and board committee meetings *(Continued)*

Audit committee

Pursuant to the requirements of the Corporate Governance Code and Listing Rule 3.21, the Company has established an Audit Committee, comprising three independent non-executive directors of the Company, namely Mr. Chan Chiu Hung, Alex, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. Mr. Chan Chiu Hung, Alex is the chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of management, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2006 to review the financial results and report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

CONTINUING DISCLOSURE REQUIREMENTS UNDER CHAPTER 13 OF THE LISTING RULES

a) Pledging of shares by the controlling shareholder and loan agreements with covenants relating to specific performance of the controlling shareholder under Rules 13.17 and 13.18 of the Listing Rules:

In accordance with the disclosure requirements of Rules 13.17 and 13.18 of the Listing Rules, the following disclosures are included in respect of one of the Company's bank loan facilities, which the controlling shareholder of the Company to secure the bank loan facility of the Company and certain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan facility letter dated 25 October 2002 between the Company and Industrial and Commercial International Capital Limited ("ICIC"), relating to a 30-month term loan facility of HK$20 million, a termination event would arise if 20% of the market of certain of the Company's shares owned by Kong Fa and pledged with ICIC for the facility falls below 110% of the outstanding loan balance.

At 31 December 2006, Kong Fa had pledged 596,052,085 ordinary shares of HK$0.10 each of the Company to secure the loan facility and the outstanding loan balance was approximately HK$7,060,000. Further details of the related loan facility are set out in Note 27 to the financial statements.

b) Advance to entities under Rule 13.13 of the Listing Rules:

(i) At 31 December 2006, the Group had a loan receivable of approximately HK$39,510,000 and the accrued loan interest receivable of approximately HK$5,358,000 due from a shareholder of the Group's associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. However, the loan and the accrued interest receivables remain outstanding and overdue. A provision of approximately HK$5,358,000 had been made against the accrued interest receivable in previous year. The loan receivable balance of HK$39,510,000 represented approximately 54% of the Group's net assets at 31 December 2006. The Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria secured thereto for settlement of the outstanding receivables.

CORPORATE GOVERNANCE REPORT

CONTINUING DISCLOSURE REQUIREMENTS UNDER CHAPTER 13 OF THE LISTING RULES *(Continued)*

b) Advance to entities under Rule 13.13 of the Listing Rules: *(Continued)*

(ii) At 31 December 2006, the Group had an amount of approximately HK$78,679,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 90.1% interest of the registered capital of Kong Sheng. This consideration receivable is unsecured and interest fee and has been fully provided for the year ended 31 December 2006.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2006 directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis. The reporting responsibilities of the Company's independent auditors are set out in the Report of Auditors on page 24 to 27.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2006 amounted to HK$380,000.

There was no non-audit service rendered to the Company by its external auditors during the year under review.

INVESTOR RELATIONS AND COMMUNICATIONS

To promote the relationship between the Company and investor and to enhance the transparency of the operation of the enterprise, the Board is committed to providing clear and updated information on the Company to shareholders through the publication of notices, circulars, interim and annual reports to shareholders.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and for reviewing its effectiveness, is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group.

The management is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

INDEPENDENT AUDITOR'S REPORT

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KONG SUN HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the consolidated financial statements of Kong Sun Holdings Limited (the "Company") set out on pages 28 to 147, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibility *(Continued)*

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the scope limitation paragraphs of the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(1) Scope limitation – Prior year's audit scope limitation affecting opening balances and comparative figures

As detailed in our report dated 5 July 2007, we disclaimed our opinion on the Group's financial statements for the year ended 31 December 2005 because of the significance of the possible effects of the limitation in evidence made available to us that, in particular, we were unable to obtain sufficient and appropriate evidence to satisfy ourselves as to whether, as detailed in note 21 to the financial statements, the impairment against and the carrying amount of consideration receivables were fairly stated and free from material misstatement. Any adjustments that might have found to be necessary in respect thereof had we obtained sufficient and appropriate evidence would have had a consequential effect on (i) the net assets of the Company and the Group as at 31 December 2005, and (ii) the Group's loss and cash flows for the current year and the prior year and the related disclosures in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, we were not able to express our opinion as to whether the balances brought forward as at 1 January 2006 and the comparative figures were fairly stated in the financial statements.

(2) Scope limitation – Consideration receivables

As detailed in note 21 to the financial statements, as at 31 December 2006, the Group had consideration receivables with carrying amount of nil stated net of an impairment of approximately HK$83,517,000 which was made in prior years. In the opinion of the directors of the Company, they were not able to obtain adequate information in assessing the financial ability of the debtors in relation to the consideration receivables of approximately HK$7,609,000 and HK$75,908,000 due from Pioneer Heritage Sdn. Bhd. and Beijing Tianheng Property Development Joint Stock Company Limited respectively, and thus determined that an impairment of approximately HK$83,517,000 against the outstanding consideration receivables as at 31 December 2006 was considered necessary. Due to the lack of sufficient and appropriate evidence, we were not able to satisfy ourselves as to whether the impairment determined by the directors of the Company against the consideration receivables, and in consequence the carrying amount of the consideration receivables as at 31 December 2006 were fairly stated.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

(3) Material uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(a) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2(a) to the financial statements which indicated that the Group incurred consolidated loss attributable to equity holders of the Company of approximately HK$12,663,000 for the year ended 31 December 2006, the Group's current liabilities exceeded it's consolidated current assets by approximately HK$22,700,000 as at 31 December 2006, and the Company's current liabilities exceeded its current assets by approximately HK$49,056,000 as at 31 December 2006, the financial statements have been prepared on a going concern basis, the validity of which depends upon the attainment of profitable and positive cash flow operations, the ongoing financial support by the shareholders of the Company, the availability of additional external funding and the favourable outcome of the negotiation in respect of rescheduling the repayment terms of the Group's indebtedness to ensure that adequate cash resources are available to meet the Group's future working capital and financial requirements. We consider that appropriate disclosures have been made. However, in view of the existence of the material uncertainties in relation to the measures mentioned above that may cast significant doubt on the Group's ability to continue as a going concern, we have disclaimed our opinion. The financial statements do not include any adjustments that would be necessary if the various measures as described above fail to take place. Any adjustment to the financial statements may have a consequential significant effect on the financial position of the Group as at 31 December 2006, the loss and cash flows of the Company or the Group for the year then ended and the related disclosures in the financial statements. Additionally, we were not able to quantify the adjustments that would be required if these financial statements were not to be prepared on a going concern basis.

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs (1) to (2) above.

Any adjustments that might have found to be necessary in respect of the matters set out in paragraphs (1) to (2) would have a consequential effect on the financial position of the Company or the Group as at 31 December 2006, the loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT

Disclaimer of opinion: disclaimer on view given by the financial statements

Because of the significance of (i) the effects of the scope limitations in evidence made available to us in each of the areas as set out in paragraphs (1) to (2) in the basis for disclaimer of opinion section and (ii) the material uncertainties relating to the going concern basis, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to matters described in the scope limitation paragraphs (1) to (2) above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 10 September 2007

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 *HK$'000*	2005 *HK$'000*
Turnover	*4*	–	221
Other revenue	*5*	40	614
Cost of properties sold		–	(102)
Staff costs	*6(b)*	(598)	(1,143)
Depreciation and amortisation		–	(40)
Other operating expenses		(3,917)	(85,020)
Write down of property development		–	(2,080)
Loss from operations		(4,475)	(87,550)
Finance costs	*6(a)*	(4,549)	(4,360)
Share of results of associates		(3,640)	(7,831)
Loss before taxation	*6*	(12,664)	(99,741)
Taxation	*7(a)*	–	–
Loss for the year		(12,664)	(99,741)
Attributable to:			
Equity holders of the Company	*10, 30(a)*	(12,663)	(99,735)
Minority interests	*30(a)*	(1)	(6)
Loss for the year	*30(a)*	(12,664)	(99,741)
Dividends		–	–
Loss per share	*11*		
Basic		HK(0.49) cents	HK(3.89) cents
Diluted		N/A	N/A

The notes on pages 35 to 147 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Non-current assets					
Fixed assets					
– Investment properties	13		–		–
– Property, plant and equipment	14		–		–
			–		–
Land lease prepayments	15		–		–
Goodwill	17		–		–
Interest in associates	18		91,509		88,572
Available-for-sale securities	19		6,537		6,537
			98,046		95,109
Current assets					
Property development	22	–		–	
Land lease prepayments	15	–		–	
Trade and other receivables	23	396		414	
Loan and interest receivables	20	39,510		39,510	
Consideration receivables	21	–		2,771	
Pledged deposits	24	40		37	
Cash and cash equivalents	25	34		82	
		39,980		42,814	
Current liabilities					
Trade and other payables	26	29,451		25,398	
Bank and other borrowings	27	33,169		30,404	
Obligations under finance leases	28	12		19	
Tax payable	29(a)	48		48	
		62,680		55,869	
Net current liabilities			(22,700)		(13,055)
Total assets less current liabilities			75,346		82,054
Non-current liabilities					
Bank and other borrowings	27		1,800		1,800
NET ASSETS			73,546		80,254

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 *HK$'000*	2005 *HK$'000*
CAPITAL AND RESERVES	*30(a)*		
Share capital		256,116	256,116
Reserves		(182,583)	(175,876)
Total equity attributable to equity holders of the Company		73,533	80,240
Minority interests		13	14
TOTAL EQUITY		73,546	80,254

Approved and authorised for issue by the board of directors on 10 September 2007

Kong Li Szu	**Chan Chi Yuen**
Director	*Director*

The notes on pages 35 to 147 form part of these financial statements.

BALANCE SHEET

As at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Non-current assets					
Property, plant and equipment	14		–		–
Investments in subsidiaries	16		78,555		84,639
			78,555		84,639
Current assets					
Trade and other receivables	23	47		83	
Cash and cash equivalents	25	3		3	
		50		86	
Current liabilities					
Trade and other payables	26	19,716		17,281	
Bank and other borrowings	27	29,390		26,625	
		49,106		43,906	
Net current liabilities			(49,056)		(43,820)
NET ASSETS			29,499		40,819
CAPITAL AND RESERVES	30(b)				
Share capital			256,116		256,116
Reserves			(226,617)		(215,297)
TOTAL EQUITY			29,499		40,819

Approved and authorised for issue by the board of directors on 10 September 2007

Kong Li Szu	**Chan Chi Yuen**
Director	*Director*

The notes on pages 35 to 147 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987
Loss for the year	–	–	–	–	–	–	(99,735)	(99,735)	(6)	(99,741)
Exchange difference on translation of financial statements of overseas entities	–	–	–	–	–	8	–	8	–	8
At 31 December 2005 and 1 January 2006	256,116	329,049	20	18,000	9,329	732	(533,006)	80,240	14	80,254
Loss for the year	–	–	–	–	–	–	(12,663)	(12,663)	(1)	(12,664)
Exchange difference on translation of financial statements of overseas entities	–	–	–	–	–	5,956	–	5,956	–	5,956
At 31 December 2006	256,116	329,049	20	18,000	9,329	6,688	(545,669)	73,533	13	73,546

The notes on pages 35 to 147 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 *HK$'000*	2005 *HK$'000*
Operating activities			
Loss before taxation		(12,664)	(99,741)
Adjustments for:			
Depreciation		–	33
Amortisation of land lease prepayments		–	7
Loss on disposal of subsidiaries, net		–	8
Finance costs		4,549	4,360
Share of results of associates		3,640	7,831
Bank interest income		(1)	(9)
Impairment loss of consideration receivables		–	75,908
Write down of property development		–	2,080
Impairment loss of trade receivables		–	645
Impairment loss of other receivables		179	1,344
Operating loss before changes in working capital		(4,297)	(7,534)
Decrease in property development		–	108
(Increase)/decrease in trade and other receivables		(144)	296
Decrease in consideration receivables		2,771	–
Increase in trade and other payables		899	3,027
Cash generated used in operations		(771)	(4,103)
Tax paid			
Hong Kong profits tax refund		–	62
Net cash used in operating activities		(771)	(4,041)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 *HK$'000*	2005 *HK$'000*
Investing activities			
Proceeds from sale of property, plant and equipment		–	370
Proceeds from sale of investment properties		–	15,488
Advances to associates		–	(192)
Repayment from associates		11	–
Bank interest received		1	9
Net cash generated from investing activities		12	15,675
Financing activities			
Proceeds from new bank and other borrowings		3,935	4,771
Repayment of bank and other borrowings		(1,170)	(12,080)
Capital element of finance lease rental payments		(7)	(2)
Other borrowing costs paid		(2,051)	(1,563)
Net cash generated from/(used in) financing activities		707	(8,874)
Net (decrease)/increase in cash and cash equivalents		(52)	2,760
Cash and cash equivalents at 1 January		82	(2,678)
Effect of foreign exchange rate changes		4	–
Cash and cash equivalents at 31 December	*25*	34	82

The notes on pages 35 to 147 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

Kong Sun Holdings Limited (the "Company") is a limited company incorporated in Hong Kong and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company in the Stock Exchange was suspended with effect from 9:30 a.m. on 17 June 2004, at the request of the Company. The address of the registered office of the Company is disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statement of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Company is an investment holding company. Its subsidiaries were engaged in the following businesses:

- property investment and development; and

- provision of financial services.

The associates of the Group were principally engaged in the business of property development.

2. BASIS OF PREPARATION

(a) Material uncertainties relating to the going concern basis

The Group incurred a consolidated loss attributable to equity holders of the Company of approximately HK$12,663,000 for the year ended 31 December 2006. As at 31 December 2006, the Group had consolidated net current liabilities of approximately HK$22,700,000 and the Company had net current liabilities of approximately HK$49,056,000.

The Group experienced financial difficulties and has defaulted the repayments of certain bank and other borrowings. As at 31 December 2006, the bank and other borrowings of approximately HK$30,399,000 and the interest thereon of approximately HK$8,207,000 are immediately due for repayment in full on demand. Various lawsuits have been taken against the Group from a number of bankers and creditors for the repayment of the indebtedness due by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2. BASIS OF PREPARATION *(Continued)*

(a) Material uncertainties relating to the going concern basis *(Continued)*

The directors are of the opinion that the Group is able to continue as a going concern and to meet in full its financial obligations as and when they fall due. In view of the liquidity problems faced by the Group, the directors have adopted the following measures with a view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis:

(i) Attainment of profitable and positive cash flow operations

The directors continue to implement cost control measures over overheads and various general and administrative expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

(ii) Ongoing financial support by the shareholders of the Company

Kong Sun Enterprise Sdn. Bhd., a substantial shareholder of the Company and Kong Fa Holding Limited, a controlling shareholder and the holding company of the Company, have undertaken to provide continuous financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group.

(iii) Additional external funding

The directors are considering various alternatives to strengthen the capital base of the Group through various fund raising exercises.

(iv) Rescheduling of the repayment terms of indebtedness

The Group is actively negotiating 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2. BASIS OF PREPARATION *(Continued)*

(a) Material uncertainties relating to the going concern basis *(Continued)*

In the opinion of the directors, in light of all the measures adopted and arrangements implemented, the Group will have sufficient cash resources to satisfy its future working capital and other financial requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position as at 31 December 2006.

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

(b) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRSs'), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKASs') and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adopted for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the current and prior year presented. The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting year (see note 42).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2. BASIS OF PREPARATION *(Continued)*

(c) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

(d) Functional and presentation currency

These consolidated financial statements are presented in Hong Kong dollars rounded to the nearest thousand, which is the same as the functional currency of the Company.

(e) Use of estimate and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total income statement for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries and minority interests *(Continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(h)), unless the investment is classified as held for sale (or include in a disposal group that is classified as held for sale).

(b) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 3(c) and (h)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(h)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in income statement.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 3(h)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Other investments in debt and equity securities *(Continued)*

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 3(h)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement. When these investments are derecognised or impaired (see note 3(h)), the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in as fair value or from the retirement or disposal of an investment property is recognised in income statement. Rental income from investment properties is accounted for as described in note 3(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(g)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 3(g).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(h)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 3(g)); and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 25 years.

– Leasehold improvements	over the shorter of the unexpired term of lease and their estimated useful lives
– Office furniture and equipment	3 – 6 years
– Motor vehicles	4 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis, and if classified as investment property, is accounted for as if held under a finance lease (see note 3(e)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, of lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(h). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 3(e)) or is held for development for sale (see note 3(i)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discontinuing is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in income statement. The amount of the cumulative loss that is recognised in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Impairment losses recognised in income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– land lease prepayments;

– investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and

– goodwill.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflow largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property development

Property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– *Property under development for sale*

The cost of properties under development for sale comprises specially identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 3(s)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– *Completed properties for sale*

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(h)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(p)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans

Contributions to the Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and mandatory central pension schemes organised by the local governments in Singapore and Malaysia are recognised as an expense in the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisable or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Sale of properties

Revenue from sale of completed properties is recognised upon the signing of sale and purchase agreements.

Revenue from pre-sale of properties under development is recognised by reference to the degree of completion of the development and the terms of payment for properties pre-sold, with due allowance for contingencies where appropriate in respect of agreements entered into before 1 January 2005, while the completion method is adopted for agreements entered into on or after 1 January 2005 pursuant to Hong Kong Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* issued by the HKICPA.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. TURNOVER

The principal activities of the Group were property investment and development, and provision of financial services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

4. TURNOVER *(Continued)*

Turnover represents gross rental income and proceeds from sale of properties. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Gross rental income from investment properties	–	119
Gross proceeds from properties sold	–	102
	–	221

5. OTHER REVENUE

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	1	9
Sundry	39	605
	40	614

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2006	2005
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances and other borrowings		
wholly repayable within five years	4,548	4,358
Finance charges on obligations under finance leases	1	1
Other borrowing costs	–	1
Total borrowing costs	4,549	4,360
(b) Staff costs (including directors' remuneration)		
Contributions to defined contribution retirement plans	11	29
Salaries, wages and other benefits	587	1,114
	598	1,143
(c) Other items		
Amortisation of land lease prepayments	–	7
Depreciation of property, plant and equipment	–	33
Auditors' remuneration	380	453
Operating lease charges: minimum lease payments	223	235
Loss on disposal of a subsidiary *	–	8
Impairment loss of		
– consideration receivables *		
subsidiaries *(notes 21(a) and (b))*	–	68,256
short term investment *(note 21(c))*	–	7,652
	–	75,908
– trade receivables * *(note 23(a))*	–	645
– other receivables * *(note 23(b))*	179	1,344
Cost of property development *(note 22(d))*	–	2,182
Net foreign exchange loss *	–	305
Rental income from investment properties		
less direct outgoings of nil (2005: HK$67,000)	–	(52)

* Included in "Other operating expenses" as disclosed in the consolidated income statement

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the years ended 31 December 2006 and 2005.

No provision for overseas taxation has been made as the overseas subsidiaries has no estimated assessable profits arising from their jurisdictions for the years ended 31 December 2006 and 2005.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2006 *HK$'000*	2005 *HK$'000*
Loss before taxation	(12,664)	(99,741)
Notional tax on loss before taxation, calculated at the applicable rate of 17.5%	(2,216)	(17,455)
Tax effect of non-taxable income	(1)	(64)
Tax effect of non-deductible expenses	1,585	16,728
Tax effect of tax losses not recognised	714	1,973
Effect of different taxation rate used in other jurisdictions	(82)	(541)
Others	–	(641)
Actual tax expense	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2006

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Kong Li Szu	–	–	–	–
Kong Li Jer (resigned on 15/2/2007)	–	–	–	–
Kong Lok King (resigned on 15/2/2007)	–	–	–	–
Cham Yiu Keung (appointed on 20/6/2006 and resigned on 20/4/2007)	70	–	–	70
Independent non-executive directors:				
Ku Suen Fai (resigned on 23/2/2006)	15	–	–	15
Ip Man Tin, David (resigned on 17/10/2006)	100	–	–	100
Sin Wai Chiu, Joseph (resigned on 24/3/2006)	30	–	–	30
Chan Chiu Hung (appointed on 9/6/2006)	58	–	–	58
Lo Tat Shing (appointed on 9/6/2006 and resigned on 9/5/2007)	49	–	–	49
	322	–	–	322

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2005

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	2005 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Kong Li Szu	160	–	–	160
Kong Li Jer	–	–	–	–
Kong Lok King	–	–	–	–
Independent non-executive directors:				
Fai Cheong Hau (deceased on 3/4/2005)	–	–	–	–
Ku Suen Fai	90	–	–	90
Ip Man Tin, David	75	–	–	75
Sin Wai Chiu, Joseph	75	–	–	75
Chan Shing Hoi, Alfred (resigned on 15/5/2005)	74	–	–	74
	474	–	–	474

For the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Company or as a compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 31 December 2006 and 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one (2005: two) individual are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Salaries and other emoluments	265	756
Retirement scheme contributions	11	19
	276	775

The emoluments of the one (2005: two) individual with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
Nil – HK$1,000,000	1	2

For the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK$11,320,000 (2005: a loss of HK$135,453,000) which has been dealt with in the financial statements of the Company (note 30(b)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to equity holders of the Company of HK$12,663,000 (2005: HK$99,735,000) and the weighted average number of 2,561,167,000 (2005: 2,561,167,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The diluted loss per share is not presented as there were no diluted potential ordinary shares in existence during the years ended 31 December 2006 and 2005.

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting segment format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group is currently engaged in property investment and development, and provision for financial services. These segments are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

12. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Property investment and development		Financial services		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Revenue from external customers	–	221	–	–	–	221
Other revenue from external customers	–	605	–	–	–	605
Total	–	826	–	–	–	826
Segment result	(825)	(14,724)	–	–	(825)	(14,724)
Bank interest income					1	9
Unallocated corporate operating income					39	–
Unallocated corporate operating expenses					(3,690)	(72,835)
Loss from operations					(4,475)	(87,550)
Finance costs					(4,549)	(4,360)
Share of results of associates	(3,640)	(7,831)	–	–	(3,640)	(7,831)
Loss before taxation					(12,664)	(99,741)
Taxation					–	–
Loss for the year					(12,664)	(99,741)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

12. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2006

	Property investment and development		Financial services		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities						
Segment assets	6,600	9,416	39,512	39,512	46,112	48,928
Interest in associates	91,509	88,572	–	–	91,509	88,572
	98,109	97,988	39,512	39,512	137,621	137,500
Unallocated corporate assets					405	423
Total assets					138,026	137,923
Segment liabilities	10,243	6,085	19	19	10,262	6,104
Unallocated corporate liabilities					54,218	51,565
Total liabilities					64,480	57,669
Other information						
Depreciation of property, plant and equipment	–	33	–	–	–	33
Amortisation of land lease prepayments	–	7	–	–	–	7
Impairment of						
– trade receivables	–	645	–	–	–	645
– other receivables	179	1,344	–	–	179	1,344
– consideration receivables	–	75,908	–		–	75,908

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

12. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

Notes:

(a) Unallocated corporate assets mainly represent other receivables, prepayments and deposits, cash and deposits with banks, which are shared among the companies of the Group and which cannot be allocated to specific segments.

(b) Unallocated corporate liabilities mainly represent accrued charges, other payables, interest payables, and bank and other borrowings, which are shared among the companies of the Group and which cannot be allocated to specific segments.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Malaysia		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	–	119	–	102	–	221
Segment assets	32,447	49,249	105,579	88,674	138,026	137,923
Segment liabilities	54,402	49,023	10,078	8,646	64,480	57,669
Capital expenditure incurred during the year	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

13. INVESTMENT PROPERTIES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Valuation		
At 1 January	–	15,666
Disposal of a subsidiary	–	(178)
Disposals	–	(15,488)
At 31 December	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

14. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Building held for own use	Leasehold improvements	Office furniture and equipment	Motor vehicles	Total fixed assets
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2005	267	60	1,763	150	2,240
Disposal of a subsidiary	(267)	–	–	–	(267)
Disposals	–	(60)	(1,763)	(150)	(1,973)
At 31 December 2005, 1 January 2006 and 31 December 2006	–	–	–	–	–
Accumulated amortisation and depreciation					
At 1 January 2005	139	53	1,743	150	2,085
Charge for the year	6	7	20	–	33
Disposal of a subsidiary	(145)	–	–	–	(145)
Written back on disposals	–	(60)	(1,763)	(150)	(1,973)
At 31 December 2005, 1 January 2006 and 31 December 2006	–	–	–	–	–
Net book value					
At 31 December 2006	–	–	–	–	–
At 31 December 2005	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Office furniture and equipment 2006	Office furniture and equipment 2005
	HK$'000	*HK$'000*
Cost		
At 1 January	–	8
Disposals	–	(8)
At 31 December	–	–
Accumulated depreciation		
At 1 January	–	8
Written back on disposals	–	(8)
At 31 December	–	–
Net book value		
At 31 December	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

15. LAND LEASE PREPAYMENTS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Net book value at 1 January	–	255
Disposals	–	(248)
Amortised during the year	–	(7)
Net book value at 31 December	–	–

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	5,000	5,000
Less: Impairment loss	(5,000)	(5,000)
	–	–
Amounts due from subsidiaries	618,187	620,566
Less: Impairment loss	(522,497)	(518,788)
	95,690	101,778
Amounts due to subsidiaries	(17,135)	(17,139)
	78,555	84,639

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Amounts due from/to subsidiaries

The amounts due from/to subsidiaries were unsecured, interest-free and had no fixed terms of repayment. In the opinion of the directors, the amounts due from/to subsidiaries were not repayable within one year from the balance sheet date as the Company has given undertakings to provide continuous financial support to the subsidiaries by subordinating its rights to demand repayment of all sums due by the subsidiaries to their creditors.

(b) Impairment on investments in subsidiaries

In view of the uncertainty of the recovery of the outstanding balance in that the subsidiaries sustained losses and had poor operating performance and that the subsidiaries were not financially capable of repaying to the Company, the directors concluded that it is appropriate to make an impairment of:

(i) HK$5,000,000 (2005: HK$5,000,000) on the investment cost in a subsidiary, namely Peace Hill Securities Company Limited ("Peace Hill"). The main assets of Peace Hill are the investments in (i) an associate, namely Koffman Securities Limited, operating in the business of securities broking and investment that were reported as discontinued operations in 2004, and (ii) a subsidiary, namely Dual Aim Sdn. Bhd., remaining inactive during 2006 that sustained loss since the acquisition by Peace Hill in 2001. After considering the poor operating performance of Peace Hill and its investments, the directors are of the view that Peace Hill would not have any value to the Company and the carrying amount of the investment in Peace Hill is fully written down to nil; and

(ii) HK$522,497,000 (2005: HK$518,788,000) on amounts due from subsidiaries, after considering the profitability, financial positions, cash flows and future prospects of these subsidiaries, and certain key assumptions. Further details are set out in note 16(c)(i) and (ii).

The recoverable amount of the investments in subsidiaries based upon which impairment loss is arrived at is its value in use and is determined using discounted cash flows. The discount rate used is 26.4%, which is determined with reference to the borrowing rates of the Group as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(c) Movements of provision for impairment losses on amounts due from subsidiaries are analysed as follows:

	The Company	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	518,788	418,929
Charge for the year	3,709	99,859
At 31 December	522,497	518,788

At 31 December 2006, the provision for impairment losses on investments in subsidiaries by business segment are as follows:

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Property investment and development	307,345	303,699
Financial services	203,564	203,564
Securities broking and investment #	2,385	2,385
Trading of computer products and office equipment *	7,473	7,413
Information technology *	1,730	1,727
	11,588	11,525
	522,497	518,788

Reported as discontinued operations in 2004

* Reported as discontinued operations in 2003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(c) Movements of provision for impairment losses on amounts due from subsidiaries are analysed as follows: *(Continued)*

(i) Provision for impairment losses in relation to the subsidiaries engaged in property investment and development business, and financial services business:

In 2006, the operating performance of the subsidiaries engaged in the property investment and development business and in the financial services business was unsatisfactory due to intense competition. In the opinion of the directors, while the businesses continued to operate, it is uncertain that sufficient cash flows would be generated by the subsidiaries in the foreseeable future as the subsidiaries suffered financial difficulties and sustained loss. The directors concluded that it is appropriate to make an impairment of approximately HK$307,345,000 (2005: HK$303,699,000) and HK$203,564,000 (2005: HK$203,564,000) on the amounts due from the subsidiaries operating in the property investment and development business and the financial services business respectively.

(ii) Provision for impairment losses in relation to the subsidiaries engaged in business which have been discontinued in 2003 and 2004:

The business of trading of computer products and office equipment, and information technology were discontinued in 2003 and that of securities broking and investment were discontinued in 2004. As a result, subsidiaries engaged in these operations became inactive when their operations were discontinued. In view of the uncertainty of the recovery of the amounts due from these inactive subsidiaries which were no longer able to generate sufficient cash flow to repay the Company in the foreseeable future, the directors are of the opinion that it is appropriate to make a full impairment on the aggregate amount of approximately HK$11,588,000 (2005: HK$11,525,000) due from the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(d) The following list contains only the particulars of subsidiaries which principally affect the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Bakeland Company Limited	Hong Kong	15,120 shares of HK$100 each	94.45%	–	94.45%	Inactive
Best Spot Investments Limited ("Best Spot")	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Bestwick Limited	Hong Kong	2 shares of HK$1 each	100%	100%	–	Investment holding
Dual Aim Management Sdn. Bhd.	Malaysia	3 shares of MYR1 each	100%	–	100%	Provision of management services
Dual Aim Sdn. Bhd.	Malaysia	250,000 shares of MYR1 each	100%	–	100%	Property development
Healthy Profit Enterprises Limited	British Virgin Islands	1 share of US$1 each	100%	–	100%	Investment holding
Hua Chiao Development Limited ("Hua Chiao")	Hong Kong	650,000 shares of HK$1 each	100%	–	100%	Investment holding
Jiang Sun Group Pte. Limited *	Singapore	2 shares of S$1 each	100%	–	100%	Inactive
Kong Sun (China) Investment Limited	British Virgin Islands	1 share of US$1 each	100%	100%	–	Investment holding
Kong Sun Industrial Limited	Hong Kong	2 shares of HK$1 each	100%	–	100%	Inactive
Kong Sun Resources Limited ("Kong Sun Resources")	Hong Kong	2 shares of HK$1 each	100%	–	100%	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(d) The following list contains only the particulars of subsidiaries which principally affect the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated. *(Continued)*

			Proportion of ownership interest			
Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Kong Sun Technology Limited	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Pacpo Hong Kong Company Limited ("Pacpo Hong Kong")	Hong Kong	2 shares of HK$1 each	100%	100%	–	Investment holding
Pacpo Investments Limited	Hong Kong	2 shares of US$1 each	100%	100%	–	Provision of loan finance services
Peace Hill Securities Company Limited	Hong Kong	5,000,000 shares of HK$1 each	100%	100%	–	Investment holding
Xswim Digital Limited	Hong Kong	2 shares of HK$1 each	54%	–	54%	Investment holding
Xswim (Holding) Limited ("Xswim Holding")	British Virgin Islands	1,111 shares of US$1 each	54%	–	54%	Investment holding
Xswim Technology Limited ("Xswim Technology")	Hong Kong	2 shares of HK$1 each	54%	–	54%	Inactive

* Company not audited by CCIF CPA Limited. The financial statements of the subsidiary not audited by CCIF CPA Limited reflect total net assets and total turnover constituting approximately 5% and 0% respectively of the related consolidated totals.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

17. GOODWILL

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At 1 January and 31 December	9,929	9,929
Accumulated impairment losses		
At 1 January and 31 December	9,929	9,929
Carrying amount		
At 31 December	–	–

18. INTEREST IN ASSOCIATES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	76,941	74,004
Goodwill on acquisition of United Victoria	14,568	14,568
	91,509	88,572

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

18. INTEREST IN ASSOCIATES *(Continued)*

(a) The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
United Victoria Sdn. Bhd. ("United Victoria")*	Incorporated	Malaysia	800,000 ordinary shares of MYR1 each	50%	–	50%	Investment holding
Aset Nusantara Development Sdn. Bhd. ("Aset Nusantara")*	Incorporated	Malaysia	250,000 ordinary shares of MYR1 each	21%	–	42%	Property development

* Companies not audited by CCIF CPA Limited.

NOTES TO THE FINANCIAL STATEMENTS

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18. INTEREST IN ASSOCIATES *(Continued)*

(b) Goodwill on acquisition of United Victoria

The balance of the goodwill related to the acquisition of United Victoria, which holds 42% equity interest in Aset Nusantara. The major asset of Aset Nusantara represents its land use right in Malaysia with the carrying amount of approximately HK$755,753,000 as at 31 December 2006 (2005: HK$702,507,000). In 2006, the directors assessed the recoverable amount of the goodwill and concluded no impairment on goodwill. As the directors have not determined whether the Group will allocate sufficient resources to fund and launch the business development of these associates in accordance with their expansion plans, the recoverable amount of the relevant goodwill has been determined with reference to fair value less costs to sell. With reference to valuation assessed by an independent professional valuer, the directors are of the opinion that the fair value of the land use right of Aset Nusantara as at 31 December 2006 was approximately HK$880,000,000 (2005: HK$875,260,000), resulting in an unrecognised appreciation of approximately HK$124,247,000 (2005: HK$172,753,000), which has not been reflected in the financial information disclosed under note 18(d). Accordingly, the directors are of the opinion that the recoverable amount of the interest in associates is higher than the carrying value of the interest in associates and no impairment loss on goodwill is considered necessary, although the operating performance of the associates was deteriorated. The valuation of the land use right of Aset Nusantara is performed by Raja Hamzah & Associates, an independent valuer and a registered valuer in Malaysia, on an open market basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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18. INTEREST IN ASSOCIATES *(Continued)*

(c) A summary of the financial information of United Victoria, based on its financial statements and adjusted for the alignment of the associate's accounting policies with those of the Group, is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Non-current assets	–	25,477
Current liabilities	(10,518)	(33,228)
Equity	(10,518)	(7,751)
Revenue	–	–
Loss for the year	(2,178)	(9,044)

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18. INTEREST IN ASSOCIATES *(Continued)*

(d) A summary of the financial information of Aset Nusantara, based on its financial statements and adjusted for the alignment of the associate's accounting polices with those of the Group, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Assets		
Non-current assets	40	53
Current assets	798,917	741,259
	798,957	741,312
Liabilities		
Current liabilities	(166,522)	(133,620)
Non-current liabilities	(180,200)	(176,029)
	(346,722)	(309,649)
Equity	452,235	431,663
Revenue	–	6,801
Loss for the year	(12,148)	(15,755)

NOTES TO THE FINANCIAL STATEMENTS

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18. INTEREST IN ASSOCIATES *(Continued)*

(d) A summary of the financial information of Aset Nusantara, based on its financial statements and adjusted for the alignment of the associate's accounting polices with those of the Group, is as follows: *(Continued)*

Aset Nusantara experienced financial difficulties and has defaulted the repayments of certain bank borrowings. As at 31 December 2006 the bank borrowings of HK$10,896,000 and as at the date of approval of the financial statements the bank borrowings of approximately HK$32,899,000 are immediately due for repayment in full on demand. Aset Nusantara is negotiating with its bank with a view to reschedule the repayment terms of its indebtedness.

In addition, Aset Nusantara had the following outstanding litigations as at 31 December 2006:

(i) Service provider of Aset Nusantara

On 20 September 2006, an action was commenced, by a creditor of Aset Nusantara which rendered professional services in 2004 to Aset Nusantara, against Aset Nusantara for an immediate full repayment of the outstanding service fee of approximately HK$40,000 together with interest and cost of approximately HK$1,000.

On 12 January 2007, the creditor obtained a judgement in default for winding up against Aset Nusantara. On 3 September 2007, the service provider and Aset Nusantara reached an agreement whereby Aset Nusantara agreed to pay the creditor a total sum of approximately HK$42,000 including the outstanding service fee of approximately HK$40,000, interest of approximately HK$1,000 and litigation expense of approximately HK$1,000 by six monthly instalments. A full provision of approximately HK$42,000 has been accounted for in the financial statements of Aset Nusantara.

(ii) Material supplier of Aset Nusantara

Aset Nusantara defaulted the payment of material supplies of approximately HK$150,000 due to a material supplier of Aset Nusantara in 2006. On 8 February 2006, an action was commenced by the material supplier against Aset Nusantara for an immediate full repayment of approximately HK$150,000 together with cost of approximately HK$2,000. Up to 31 December 2006, Aset Nusantara repaid to the material supplier an amount of approximately HK$102,000.

NOTES TO THE FINANCIAL STATEMENTS

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18. INTEREST IN ASSOCIATES *(Continued)*

(d) A summary of the financial information of Aset Nusantara, based on its financial statements and adjusted for the alignment of the associate's accounting polices with those of the Group, is as follows: *(Continued)*

(ii) Material supplier of Aset Nusantara (Continued)

In September 2007, the material supplier and Aset Nusantara reached an agreement whereby Aset Nusantara agreed to pay the material supplier the remaining outstanding amount of approximately HK$50,000 by five monthly instalments commencing from September 2007. A full provision of approximately HK$50,000 has been provided for in the financial statements of Aset Nusantara.

(iii) Customers of Aset Nusantara

Pursuant to some sale and purchase agreements signed between Aset Nusantara and its customers, Aset Nusantara is obliged to hand over properties to its customers within thirty-six calendar months from the date of sales and purchases agreements. Aset Nusantara failed to hand over the properties on time and accordingly it is obliged to pay its customers damages on a daily basis of 10% per annum on the price until delivery of the properties to customers. Although Aset Nusantara had delivered the properties to these customers in October 2006, several actions were commenced by customers against Aset Nusantara for:

i) an aggregate damages of approximately HK$42,000 and other costs of approximately of HK$2,000 during the year ended 31 December 2006; and

ii) a further damage of approximately HK$100,000 and other costs of approximately of HK$2,000 subsequent to 31 December 2006.

Subsequent to 31 December 2006, the customers and Aset Nusantara reached a consensus on schedule of payment. Up to the date of approval of the financial statements, Aset Nusantara paid the customers damages of approximately HK$116,000 and the other cost of approximately HK$2,000 to customers according to the schedule of payment. A full provision of the damages of approximately HK$142,000 and other costs of approximately HK$4,000 have been accounted for in the financial statements of Aset Nusantara.

NOTES TO THE FINANCIAL STATEMENTS

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18. INTEREST IN ASSOCIATES *(Continued)*

(d) A summary of the financial information of Aset Nusantara, based on its financial statements and adjusted for the alignment of the associate's accounting polices with those of the Group, is as follows: *(Continued)*

(iii) Customers of Aset Nusantara (Continued)

In addition, during the year ended 31 December 2006, several actions were commenced by some customers of Aset Nusantara, who paid deposits to Aset Nusantara for acquisition of properties from Aset Nusantara and Aset Nusantara has not handed over the properties to these customers, against Aset Nusantara for the refund of an aggregate deposit of approximately HK$304,000 and damages of approximately HK$329,000. Subsequent to 31 December 2006, the customers and Aset Nusantara reached a consensus on schedule of payment. Up to the date of approval of the financial statements, Aset Nusantara refunded approximately HK$110,000 and paid damages of approximately HK$47,000 to the customers according to the schedule of payment. A full provision of the deposit refund of approximately HK$304,000 and damages of approximately HK$329,000 have been accounted for in the financial statements of Aset Nusantara.

The directors are of the opinion that Aset Nusantara is able to continue as going concern and to meet in full its financial obligations as and when they fall due. With reference to the recoverable amount of the assets held by Aset Nusantara, the directors are of the opinion that Aset Nusantara will have sufficient cash resources to satisfy its future working capital and other financial requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements of Aset Nusanatara on a going concern basis, notwithstanding the financial and liquidity position of Aset Nusantara as at 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

19. AVAILABLE-FOR-SALE SECURITIES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	6,537	6,537

(a) Unlisted investments in securities are classified as available-for-sale securities and carried at cost less impairment, if any, as they do not have a quoted market price in an active market to determine their fair value.

(b) At 31 December 2006, the long term investment represented the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a company incorporated in Malaysia having issued share capital of MYR50,000,000. Pioneer Heritage is principally engaged in property holding in Malaysia.

(c) The directors are of the opinion that there was no evidence that the available-for-sale securities were impaired at 31 December 2006 and 2005 and the fair value of the investment at 31 December 2006 and 2005 was not materially different from its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

20. LOAN AND INTEREST RECEIVABLES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Loan receivables		
Secured		
– amount due from a shareholder of an associate *(note (a))*	39,510	39,510
Unsecured		
– amount due from an independent third party *(note (b)(i))*	–	6,667
– amounts due from others *(note (b)(ii))*	49,683	59,153
	49,683	65,820
Gross loan receivables	89,193	105,330
Less: Impairment loss		
Unsecured loan receivables		
– amount due from an independent third party *(note (b)(i))*	–	(6,667)
– amounts due from others *(note (b)(ii))*	(49,683)	(59,153)
	(49,683)	(65,820)
Net loan receivables	39,510	39,510
Interest receivables		
Secured loan receivables		
– amount due from a shareholder of an associate *(note (a))*	5,358	5,358
Unsecured loan receivables		
– amounts due from others *(note (b)(ii))*	4,526	4,994
Gross interest receivables	9,884	10,352
Less: Impairment loss	(9,884)	(10,352)
Net interest receivables	–	–
	39,510	39,510

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

20. LOAN AND INTEREST RECEIVABLES *(Continued)*

(a) Secured loans and interest receivables

Amount due from a shareholder of an associate

At 31 December 2006, the Group had a loan receivable of approximately HK$39,510,000 (2005: HK$39,510,000) and a loan interest receivable of approximately HK$5,358,000 (2005: HK$5,358,000) due from a shareholder of an associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest is charged at 4% over prime rate per annum. The loan is secured by, as collateral, a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. However, the loan and the interest receivables remain outstanding and overdue at 31 December 2006 and up to the date of approval of the financial statements.

In view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the loan receivable and the interest receivable, and in the absence of any financial information in relation to the Borrower, the directors concluded that it is appropriate to fully impair the interest receivable of approximately HK$5,358,000 (2005: HK$5,358,000). On the other hand, since the loan receivable is secured by collateral, it is appropriate not to provide for impairment on loan receivable. The impairment of approximately HK$5,358,000 on the interest receivable was firstly recognised in 2004 as the Borrower defaulted the payment of interest which was long overdue.

Since the year ended 31 December 2005, the Group no longer recognised the interest income on the loan receivable, in view of an uncertainty in relation to the collectibility, cash flow and fair value of the interest.

In the opinion of the directors, the Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria and the collateral is not expected to be realised within twelve months after the balance sheet date.

At 31 December 2006, the fair value of the collateral was approximately HK$45,675,000 (2005: HK$47,273,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

20. LOAN AND INTEREST RECEIVABLES *(Continued)*

(b) Unsecured loan and interest receivables

(i) Amount due from an independent third party

At 31 December 2006, the Group had a loan receivable of nil (2005: HK$6,667,000) due from an independent third party.

In 2005, in view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the outstanding balance which is unsecured and in the absence of any financial information in relation to the debtor, the directors concluded to make a full impairment on the loan and interest receivables of approximately HK$6,667,000. The impairment of approximately HK$6,667,000 on the loan receivable was firstly recognised in 2003 as the debtor defaulted the repayment in accordance with the repayment schedule and that the amount under consideration was overdue.

In 2006, the directors concluded that it is appropriate to write off the loan receivable of approximately HK$6,667,000 (2005: Nil) against provision for impairment losses in light of the bankruptcy of the debtor.

(ii) Amounts due from others

At 31 December 2006, the Group had loan receivables of approximately HK$49,683,000 (2005: HK$59,153,000) and interest receivables of HK$4,526,000 (2005: HK$4,994,000) due from some independent third parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

20. LOAN AND INTEREST RECEIVABLES *(Continued)*

(b) Unsecured loan and interest receivables *(Continued)*

(ii) Amounts due from others (Continued)

In 2005, in view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the outstanding balance which is unsecured and in the absence of any financial information in relation to the debtors, the directors concluded to make a full impairment on the loan receivables of approximately HK$59,153,000 (2004: HK$59,153,000) and on interest receivables of approximately HK$4,994,000 (2004: HK$4,994,000). The impairment of approximately HK$59,153,000 and HK$4,994,000 on the loan receivables and the interest receivables respectively was firstly recognised in 2003 as the debtors defaulted the repayment in accordance with the repayment schedule and that the amount under consideration was overdue.

In 2006, in view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the outstanding balance which is unsecured and that the Group lost contact with the debtors, the directors concluded that it is appropriate to make a full impairment on the loan receivables of approximately HK$49,683,000 (2005: HK$59,153,000) and on interest receivables of approximately HK$4,526,000 (2005: HK$4,994,000). In addition, the directors concluded it is appropriate to write off the loan receivables of approximately HK$9,470,000 (2005: Nil) and interest receivables of approximately HK$468,000 (2005: Nil) against provision for impairment losses in light of the bankruptcy or winding up of the debtors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

20. LOAN AND INTEREST RECEIVABLES *(Continued)*

(c) Movements of provision for impairment losses on loan and interest receivables are analysed as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Loan receivables		
At 1 January	65,820	65,820
Write-offs		
– amount due from an independent third party *(note (b)(i))*	(6,667)	–
– amount due from others *(note (b)(ii))*	(9,470)	–
At 31 December	49,683	65,820
Interest receivables		
At 1 January	10,352	10,352
Write-offs		
– amount due from others *(note (b)(ii))*	(468)	–
At 31 December	9,884	10,352

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Net proceeds on disposal of:		
Subsidiaries		
Pioneer Heritage – amount due from Pioneer Heritage *(note (a))*	7,609	7,609
Kong Sheng – amount due from Beijing Tianheng *(note (b))*	68,256	71,027
	75,865	78,636
Short term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	7,652	7,652
	83,517	86,288
Impairment loss on net proceeds on disposal of:		
Subsidiaries		
Pioneer Heritage – amount due from Pioneer Heritage *(note (a))*	(7,609)	(7,609)
Kong Sheng – amount due from Beijing Tianheng *(note (b))*	(68,256)	(68,256)
Short term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	(7,652)	(7,652)
	(83,517)	(83,517)
	–	2,771

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(a) Disposal of 65% interest in Pioneer Heritage, a subsidiary, and amount due from Pioneer Heritage (Receivable: HK$7,609,000; Impairment: HK$7,609,000)

Included above is an amount of approximately HK$7,609,000 (2005: HK$7,609,000) due from Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), an investee company of the Group, representing the outstanding net consideration receivable on disposal of 65% equity interest in Pioneer Heritage pursuant to the Principal Agreement as mentioned below.

The Group had previously accounted for the investment in its 70% equity interest in Pioneer Heritage as a subsidiary. On 28 February 2003, Hua Chiao, a wholly owned subsidiary of the Company, entered into an agreement (the "Principal Agreement") with United Merit Sdn. Bhd. ("United Merit") to dispose of its 65% equity interest in Pioneer Heritage for a consideration of approximately HK$85,280,000. The disposal of the 65% equity interest in Pioneer Heritage was completed on 28 July 2003. During the year ended 31 December 2003, the consideration of approximately HK$85,280,000 was partially settled by cash of approximately HK$8,484,000. Under a supplemental agreement entered into between Hua Chiao and United Merit and a written consent released by Pioneer Heritage both dated 28 July 2003, the balance of the consideration of approximately HK$69,187,000 was satisfied by way of set off against the indebtedness of approximately HK$69,187,000 due by the Group to Pioneer Heritage. The remaining balance of the consideration of approximately HK$7,609,000 was taken over by Pioneer Heritage from United Merit. The aforesaid balance due from Pioneer Heritage is unsecured, non-interest bearing and has no fixed terms of repayment.

In view of the uncertainty of the recovery of the outstanding balance in that there was no repayment in the outstanding balance which is unsecured and in the absence of adequate financial information in relation to Pioneer Heritage, the directors concluded that it is appropriate to make a full impairment on the outstanding net consideration receivables of approximately HK$7,609,000 (2005:HK$7,609,000). The impairment of approximately HK$7,609,000 on the consideration receivable was firstly recognised in 2004 as over the years the Group and Pioneer Heritage were unable to reach a consensus on the terms and schedule of repayment and that the amount under consideration was overdue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$68,256,000; Impairment: HK$68,256,000)

Included above is an amount of approximately HK$68,256,000 (2005: HK$71,027,000) due from Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng"), representing the outstanding net consideration receivable on disposal of the 80.1% interest in the registered capital of Kong Sheng Property Development Limited ("Kong Sheng"), a 90.1% subsidiary of the Company prior to the sale in 2003.

On 16 January 2003, Best Spot, a wholly owned subsidiary of the Company, entered into an agreement (the "First Transfer Agreement") with the then joint venture partner of Kong Sheng, Beijing Xicheng Housing Construction Development Company ("Beijing Xicheng") whereby Best Spot agreed to transfer 20.1% of the registered capital of Kong Sheng to Beijing Xicheng for a consideration of approximately HK$22,429,000 (the "First Transfer"). Best Spot was given an option to repurchase the said 20.1% interest of the registered capital of Kong Sheng for a consideration of approximately HK$25,121,000 within one year from the date of the First Transfer Agreement. The First Transfer was approved by Beijing Municipal Bureau of Commerce on 29 January 2003. Upon completion of the First Transfer, the then registered capital of Kong Sheng was owned as to 70% by Best Spot and as to 30% by Beijing Xicheng.

On 22 April 2003, Best Spot entered into an agreement (the "Second Transfer Agreement") with Beijing Tianheng whereby Best Spot agreed to transfer 60% of the registered capital of Kong Sheng to Beijing Tianheng for a consideration of approximately HK$67,290,000 (the "Second Transfer"). Best Spot was given an option to repurchase the said 60% interest of the registered capital of Kong Sheng for a consideration of approximately HK$75,364,000 within one year from the date of the Second Transfer Agreement. The Second Transfer (together with a transfer of 30% of the registered capital of Kong Sheng owned by Beijing Xicheng to Beijing Tianheng) was subsequently approved by Beijing Municipal Bureau of Commerce on 16 June 2003. The then registered capital of Kong Sheng was owned as to 10% by Best Spot and as to 90% by Beijing Tianheng. Upon completion of the First and Second Transfers resulting in the disposal of 80.1% interest in Kong Sheng, the Group's investment in the 10% interest in Kong Sheng was accounted for as short term investment in accordance with the Group's accounting policy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$68,256,000; Impairment: HK$68,256,000) *(Continued)*

On 10 March 2004, Best Spot issued a confirmation to Beijing Tianheng informing Beijing Tianheng that Best Spot would not exercise the option to repurchase the 20.1% interest and the 60% interest in the registered capital of Kong Sheng. In addition, Best Spot gave its authorisation to Beijing Tianheng to enter into a conditional agreement dated 20 April 2004 (the "Guoco Properties Agreement") on its behalf with Guoco Properties Limited ("Guoco Properties") to dispose of the remaining 10% of the registered capital of Kong Sheng to Guoco Properties for a cash consideration of HK$11,215,000 (the "Third Transfer"). The Guoco Properties Agreement came into effect upon the Third Transfer being approved by Beijing Municipal Bureau of Commerce on 29 September 2004. Upon completion of the Third Transfer, the Group no longer have any interest in Kong Sheng.

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

(i) HK$5,935,000 within 60 days after the Guoco Properties Agreement coming into effect (the "First Payment");

(ii) HK$18,691,000 within three months from the date the Guoco Properties Agreement being approved by the original approving authority in the PRC and the new business licence of Kong Sheng showing that Beijing Tianheng and Guoco Properties are the joint venture parties is being issued (the "Second Payment"); and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$68,256,000; Impairment: HK$68,256,000) *(Continued)*

(iii) HK$52,336,000 within 30 working days from the date on which Beijing Tianheng has completed the "seven connected and one levelling (七通一平)" and all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement has been completed.

During the year ended 31 December 2004, a sum of approximately HK$5,935,000, representing the First Payment, was received by the Group.

The Second Payment due from Beijing Tianheng was originally due for repayment in January 2005, which is within three months from the date Guoco Properties Agreement being approved by the original approving authority in the PRC on 29 September 2004 and the new business licence of Kong Sheng being issued. However, in 2005, Beijing Tianheng was in negotiation with Guoco Properties in respect of the basis of loss allocation as a consequence of changing the construction plan of the property development in Xicheng District, Beijing, the PRC. It was agreed to defer the settlement of Guoco Properties' consideration payable to Beijing Tianheng pending the outcome of the loss allocation between the parties. Consequently, Beijing Tianheng also deferred the Second Payment to the Group until at such time when final agreement is reached between Beijing Tianheng and Guoco Properties.

During the year ended 31 December 2006, Beijing Tianheng repaid the amount of approximately HK$2,771,000 to the Group. However, no further repayment was made to the Group in respect of the remaining balance of the consideration receivable of approximately HK$68,256,000. Up to 31 December 2006, a sum of approximately HK$8,706,000 (2005: HK$5,935,000), representing HK$5,935,000 as the First Payment and HK$2,771,000 as part of the Second Payment, was received by the Group. In view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the outstanding balance which is unsecured, and in that the balance remained outstanding up to the date of approval of the financial statements, the directors concluded that in the absence of any financial information in relation to Beijing Tianheng, it is appropriate to make a full impairment on the consideration receivable of approximately HK$68,256,000 (2005: HK$68,256,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$68,256,000; Impairment: HK$68,256,000) *(Continued)*

On the other hand, pursuant to a revocable deed of assignment (the "Deed of Assignment") entered into between Best Spot and Public Bank (Hong Kong) Limited ("Public Bank") dated 20 November 2004, the Group agreed to assign RMB6,000,000 (equivalent to approximately HK$5,607,000) from its right, title and interest in the aforesaid net balance of approximately HK$76,962,000 to Public Bank as collateral of the outstanding bank borrowings together with the interest thereon and the litigation expenses due to Public Bank. However, Beijing Tianheng delayed the repayments for the reason as mentioned above. Up to the date of approval of the financial statements, Public Bank has not received any payment from Beijing Tianheng. At as 31 December 2006, the outstanding bank borrowings, interest thereon and litigation expense due to Public Bank were approximately HK$3,779,000 (2005: HK$3,779,000) (note 27(a)(ii)), HK$467,000 (2005: HK$309,000) and HK$279,000 (2005: HK$279,000) respectively.

(c) Disposal of 10% interest in Kong Sheng, a short term investment, and amount due from Beijing Tianheng (Receivable: HK$7,652,000; Impairment: HK$7,652,000)

Included above is an amount of approximately HK$7,652,000 (2005: HK$7,652,000) due from Beijing Tianheng, representing the outstanding net consideration receivable on the Third Transfer as detailed in note (b) above.

Pursuant to the Guoco Properties Agreement, Best Spot disposed of its remaining 10% of the registered capital of Kong Sheng to Beijing Tianheng for a cash consideration of HK$11,215,000. During the year ended 31 December 2004, a sum of approximately HK$3,563,000 was received by Best Spot. The remaining balance of the consideration receivable of approximately HK$7,652,000 was withheld by Beijing Tianheng. Best Spot was informed by Beijing Tianheng that the said amount of approximately HK$7,652,000 would be repaid within 30 working days from the date when Beijing Tianheng has completed the "seven connected and one levelling (七通一平)" and that all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement has been completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

21. CONSIDERATION RECEIVABLES *(Continued)*

(c) Disposal of 10% interest in Kong Sheng, a short term investment, and amount due from Beijing Tianheng (Receivable: HK$7,652,000; Impairment: HK$7,652,000) *(Continued)*

In view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the net consideration receivable which is unsecured, and in light of the fact that the balance remained outstanding up to the date of approval of the financial statements and in the absence of any financial information in relation to Beijing Tianheng, the directors concluded that it is appropriate to make a full impairment on the consideration receivable of approximately HK$7,652,000 (2005: HK$7,652,000).

(d) Movements of provision for impairment losses are analysed as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	83,517	7,609
Charge for the year		
– amount due from Beijing Tianheng *(note (b))*	–	68,256
– amount due from Beijing Tianheng *(note (c))*	–	7,652
At 31 December	83,517	83,517

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

22. PROPERTY DEVELOPMENT

	The Group	
	2006	2005
	HK$'000	*HK$'000*
At net realisable value		
Property under development for sale	–	–

(a) Property under development for sale is situated on the land held under long leases in Malaysia.

(b) The Group experienced financial difficulties and was not financially capable of completing the property under development for sale. As a result, the development work was suspended in 2005 and the directors resolved to terminate further development of the property in 2006. In the opinion of the directors, the property is of nil value to the Group and it is appropriate to write down the carrying amount of property under development for sale to nil.

(c) No borrowing costs were capitalised as cost of property development during the years ended 31 December 2006 and 2005.

(d) The amount of property development recognised as an expense during the year is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount of property development sold	–	102
Write down of property development	–	2,080
	–	2,182

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables *(note (a))*	–	–	–	–
Other receivables *(note (b))*	21	13	–	–
Prepayments and deposits	49	86	47	83
Amount due from an associate *(note (c))*	326	315	–	–
	396	414	47	83

(a) Trade receivables

The following is an ageing analyse of trade debtors as of the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
More than 3 months but within 12 months	–	73
Over 1 year	14,937	14,864
	14,937	14,937
Less: Impairment	(14,937)	(14,937)
	–	–

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

23. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2006, trade receivables of the Group of approximately HK$14,937,000 (2005: HK$14,937,000) were determined to be impaired and full provision had been made, in light of the fact that these trade receivables were long overdue for over one year as at the balance sheet date without any settlement during the year and remained outstanding, and/or were due from debtors with financial difficulties.

No cash deposits had been placed by the related trade debtors with the Group (2005: Nil).

Movements of provision for impairment losses are analysed as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	14,937	14,292
Charge for the year	–	645
At 31 December	14,937	14,937

(b) Other receivables

In 2006, the directors concluded that it is appropriate to make an impairment of approximately HK$4,629,000 (2005: HK$4,450,000) on other receivables of the Group, of which approximately HK$179,000 (2005: HK$1,344,000) was charged to the income statement for the year ended 31 December 2006, in light of the fact that some of the other receivables were long outstanding for over one year as at the balance sheet date without any settlement during the year and remained outstanding and that some other receivables were due from debtors with financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

23. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Amount due from an associate

The amount due from Aset Nusantara Development Sdn. Bhd., is unsecured, interest-free and has no fixed terms of repayment.

(d) All of the trade and other receivables are expected to be recovered within one year.

24. PLEDGED DEPOSITS

Pledged deposits represent deposits pledged to a bank for issuance of a guarantee letter for constructions.

At 31 December 2006, the pledged deposits carried interest at the rate of 3.88% (2005: 2.75%) per annum.

25. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and deposit with banks, denominated in				
– Hong Kong dollars	9	31	3	3
– Singapore dollars	9	8	–	–
– Malaysian Ringgit	16	43	–	–
Cash and cash equivalents	34	82	3	3

Deposits with banks are interest bearing at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

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26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(note (a))*	4,000	4,000	–	–
Accrued charges *(note (b))*	12,165	12,254	6,739	7,444
Other payables *(note (c))*	–	–	4,246	4,088
Provision for long service payments to employees	–	190	–	190
Interest payables	8,460	5,962	7,740	5,559
Deposits received from ex-tenants	127	127	–	–
Amount due to a shareholder *(note (d))*	1,448	1,127	–	–
Amounts due to related companies *(note (e))*	700	229	–	–
Amounts due to directors *(note (f))*	2,551	1,509	991	–
	29,451	25,398	19,716	17,281

(a) Trade payables

The following is an ageing analysis of trade creditors as of the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
More than 3 months but within 6 months	–	877
Over 1 year	4,000	3,123
	4,000	4,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

26. TRADE AND OTHER PAYABLES *(Continued)*

(b) Accrued charges

Included in accrued charges of the Group and of the Company is a sum of approximately HK$633,000 (2005: HK$311,000) representing accrued salaries and directors' fee due to the directors of the Company. An analysis of accrued salaries and directors' fee is as follows:

	The Group and the Company	
	2006	2005
	HK$'000	*HK$'000*
Mr. Cham Yiu Keung	70	–
Mr. Ku Suen Fai	246	231
Mr. Ip Man Tin, David	140	40
Mr. Sin Wai Chiu, Joseph	70	40
Mr. Lo Tat Shing	49	–
Mr. Chan Chiu Hung	58	–
	633	311

(c) Other payables

The amount represents the financial obligations of the Company in respect of the guarantee issued by the Company in favour of Pubic Bank for banking facilities granted to Xswim Technology, a non-wholly owned subsidiary of the Company. Xswim Technology defaulted the repayment to Public Bank and Public Bank claimed against the Company under guarantee given by the Company. In the opinion of the directors, it is probable that an outflow of economic benefits will be required by the Company to settle its financial obligations. Accordingly, an amount of approximately HK$4,246,000 (2005: HK$4,088,000), consisting of bank borrowings of approximately HK$3,779,000 (2005: HK$3,779,000) and interest thereon of approximately HK$467,000 (2005: HK$309,000) due by Xswim Technology to Public Bank, was provided for by the Company during the year ended 31 December 2006. Further details of the banking borrowings of Xswim Technology and the litigation against the Company are set out in note 27(a)(ii) and note 36(b) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

26. TRADE AND OTHER PAYABLES *(Continued)*

(d) Amount due to a shareholder

The amount due to Kong Sun Enterprise Sdn. Bhd., a substantial shareholder of the Company, is unsecured, interest-free and has no fixed terms of repayment.

(e) Amounts due to related companies

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment. An analysis of amounts due to related companies is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Equal Gain Sdn. Bhd. ("Equal Gain")	212	158
Pioneer Heritage, an investee company of the Group *(see note 19)*	488	71
	700	229

Kong Fa Holding Limited, a controlling shareholder of the Company, held 100% interest in Equal Gain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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26. TRADE AND OTHER PAYABLES *(Continued)*

(f) Amounts due to directors

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment. An analysis of amounts due to directors is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Kong Li Szu	2,367	1,337	991	–
Mr. Kang Li Jer	184	172	–	–
	2,551	1,509	991	–

(g) All of the trade and other payables are expected to be settled within one year.

27. BANK AND OTHER BORROWINGS

At 31 December 2006, the bank and other borrowings were repayable as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year or on demand				
– bank borrowings	12,683	12,683	8,904	8,904
– other borrowings	20,486	17,721	20,486	17,721
	33,169	30,404	29,390	26,625
After 2 years but within 5 years				
– other borrowings	1,800	1,800	–	–
	34,969	32,204	29,390	26,625

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

At 31 December 2006, the bank and other borrowings were secured as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings				
– secured *(note (a))*	9,973	9,973	6,194	6,194
– unsecured *(note (b))*	2,710	2,710	2,710	2,710
	12,683	12,683	8,904	8,904
Other borrowings				
– secured *(note (c))*	14,700	13,700	14,700	13,700
– unsecured *(note (d))*	7,586	5,821	5,786	4,021
	22,286	19,521	20,486	17,721
	34,969	32,204	29,390	26,625

Included in bank and other borrowings in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
	'000	*'000*	*'000*	*'000*
United States Dollars	US$484	US$484	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(a) Secured bank borrowings

(i) Industrial and Commercial International Capital Limited ("ICIC")

At 31 December 2006, the Group's and the Company's bank borrowings of approximately HK$6,194,000 (2005: HK$6,194,000) bear interests at 4.25% (2005: 4.25%) per annum over prime rate quoted by ICIC. The bank borrowings are secured by pledge of approximately 596,052,000 ordinary shares of HK$0.10 each of the Company owned by a shareholder, Kong Fa Holding Limited, and personal guarantee executed by Mr. Kong Li Szu, the Company's director.

In addition, since the shares of the Company have been suspended for trading with effect from 9:30 a.m. on 17 June 2004, the directors are not able to determine whether the Company are in compliance with the minimum requirement under the agreement of a loan facility granted to the Company in respect of the fair value of the pledged securities.

In 2003, the Company defaulted the repayments of the borrowings due to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company for the immediate full repayment of the outstanding borrowings together with interest thereon, cost and/or the relief. Further details are set out in note 36(a).

(ii) Public Bank (Hong Kong) Limited (formerly known as Asia Commercial Bank Limited) ("Public Bank")

At 31 December 2006, the Group's bank borrowings of approximately HK$3,779,000 (2005: HK$3,779,000) bears interest at 8% (2005: 8%) per annum over the best lending rate quoted by Public Bank and is secured by the following:

– assignment of consideration receivables of RMB6,000,000 (equivalent to approximately HK$5,607,000) under the Deed of Assignment (note 21(b)); and

– corporate guarantee executed by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(a) Secured bank borrowings *(Continued)*

(ii) Public Bank (Hong Kong) Limited (formerly known as Asia Commercial Bank Limited) ("Public Bank") (Continued)

In 2003, the Group defaulted the repayments of the borrowings due to Public Bank. As a consequence, on 11 February 2004, an action was commenced by Public Bank against Xswim Technology, a non-wholly owned subsidiary of the Company, and the Company for the immediate full repayment of the outstanding borrowings together with interest thereon, cost and/or other relief. Further details are set out in note 36(b).

(b) Unsecured bank borrowings

DBS Bank (Hong Kong) Limited ("DBS")

At 31 December 2006, the Group and the Company had bank borrowings of approximately HK$2,710,000 (2005: HK$2,710,000) due to DBS, of which approximately HK$502,000 (2005: HK$502,000) bears interest at 26.4% (2005: 26.4%) per annum and approximately HK$2,208,000 (2005: HK$2,208,000) bear interest at the prime rate quoted by DBS. The two former subsidiaries of the Company issued guarantees in favour of DBS in respect of these bank borrowings.

In 2004, the Company defaulted the repayments of the borrowings due to DBS. As a consequence, on 21 December 2005, an action was commenced by DBS against the Company for the immediate full repayment of the outstanding borrowings together with interest thereon, cost and/or the relief. Further details are set out in note 36(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(c) Other borrowings, secured

i) At 31 December 2006, the Group's and the Company's other borrowings of approximately HK$13,700,000 (2005: HK$13,700,000) due to a financial institution bears interest at 15% (2005: 15%) per annum and are secured by the following:

(i) personal guarantees from the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer (a director of the Company until 15 February 2007) and Mr. Kong Li Szu;

(ii) corporate guarantee executed by Best Spot, a wholly owned subsidiary of the Company; and

(iii) charge over all the issued share capital of Best Spot. Best Spot previously held 90.1% interest of the registered capital of Kong Sheng. During the year ended 31 December 2003 and 2004, the Group disposed of 80.1% and 10% respectively interest of the registered capital of Kong Sheng, details of which are set out in note 21(b).

In July 2003, the Group failed to repay in full the other borrowings in accordance with the repayment schedule. In addition, according to the loan agreement, the Group should obtain prior written consent from the financial institution for the disposal of Kong Sheng. However, no such prior written consent was obtained in respect of the disposal. Up to the date of approval of the financial statements, no action has been taken by the financial institution in respect of the non-compliance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(c) Other borrowings, secured *(Continued)*

ii) At 31 December 2006, the Group's and the Company's other borrowings of approximately HK$1,000,000 (2005: Nil) due to a financial institution bear interest at 15% per annum and secured by the following:

(i) personal guarantees from the Company's directors. Mr. Kong Li Jer (a director of the Company until 15 February 2007) and Mr. Kong Li Szu.

(ii) corporate guarantee executed by Best Spot, a wholly owned subsidiary of the Company; and

(iii) charge over all the issued share capital of Best Spot.

During May 2006 to June 2006, the Group borrowed an aggregate sum of HK$1,000,000 from a financial institution. In November 2006, the Group failed to repay in full in accordance with the repayment schedule.

(d) Other borrowings, unsecured

(i) At 31 December 2005, the Group's and the Company's other borrowings of approximately HK$1,050,000 due to an independent third party are interest-free and have no fixed terms of repayment. The borrowings were repaid in full during the year ended 31 December 2006.

(ii) At 31 December 2006, the Group's other borrowings of approximately HK$1,800,000 (2005: HK$1,800,000) due to an independent third party bears interest at 1% over the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. The borrowings are repayable in April 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(d) Other borrowings, unsecured *(Continued)*

(iii) A potential investor

At 31 December 2006, the Group's and the Company's other borrowings of approximately HK$3,016,000 (2005: HK$2,971,000) due to an independent third party (the "Potential Investor") are interest-free and secured by corporate guarantees executed by Kong Fa Holding Limited ("Kong Fa"), a controlling shareholder of the Company, and Kong Sun Enterprises Sdn. Bhd. ("KSE"), a substantial shareholder of the Company. Mr. Kong Li Jer, a director of the Company until 15 February 2007, is a director and a shareholder of Kong Fa and KSE. Mr. Kong Li Szu, a director of the Company, is a director and a shareholder of Kong Fa.

Pursuant to the agreement dated 13 April 2005 entered into between the Company and the Potential Investor, the Potential Investor grants a credit facility of HK$5,000,000 to the Company and has the right to require the Company to immediately repay the then outstanding borrowings if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 13 April 2005. On 10 October 2005, the Company and the Potential Investor entered into a supplemental agreement, by which the Potential Investor has the right to require the Company to immediately repay the then outstanding borrowings if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 10 October 2005.

In 2006, the Group defaulted the repayments of the borrowings due to the Potential Investor. As a consequence, on 13 September 2006, an action was commenced by the Potential Investor against the Company for the immediate full repayment of the outstanding borrowings together with costs. Further details are set out in note 36(d).

(iv) At 31 December 2006, the Group's and the Company's other borrowings of approximately HK$2,770,000 (2005: Nil) due to an independent third party are interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

27. BANK AND OTHER BORROWINGS *(Continued)*

(e) Breach of covenants

The Group's and the Company's credit facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group and the Company were to breach the covenants, the amounts drawn down would become payable on demand. At 31 December 2006, the Group and the Company had defaulted payment of principal of approximately HK$30,399,000 and approximately HK$26,620,000 respectively (2005: HK$26,383,000 and HK$22,604,000 respectively) and interest payables of approximately HK$8,207,000 and approximately HK7,740,000 respectively (2005: HK$5,869,000 and HK$5,559,000 respectively). These amounts have been classified as current liabilities. An analysis of defaulted borrowings and interest thereon is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Principal				
– bank borrowings	12,683	12,683	8,904	8,904
– other borrowings	17,716	13,700	17,716	13,700
	30,399	26,383	26,620	22,604
Interest payables	8,207	5,869	7,740	5,559
	38,606	32,252	34,360	28,163

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

28. OBLIGATIONS UNDER FINANCE LEASES

The Group

	2006		2005	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Present value of minimum lease payments	**Total minimum lease payments**	**Present value of minimum lease payments**	**Total minimum lease payments**
Within one year	12	16	19	24
Less: total future interest expenses		(4)		(5)
Present value of lease obligations		12		19

The Group leases office equipment under finance leases expiring five years. At the end of the lease term, the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. At the balance sheet date, the net book value of the equipment held under finance leases of the Group was nil (2005: Nil).

During the year ended and at 31 December 2006, the Group defaulted in the payment of the finance lease rentals in respect of the capital element of approximately HK$3,000 (2005: HK$4,000) and interest element of approximately HK$1,000 (2005: HK$1,000). The directors are of the opinion that the lessor had a right to demand the Group for the immediate full repayment of the outstanding finance lease rentals. Accordingly the obligations of all outstanding finance lease rentals, including capital element of approximately HK$4,000 (2005: HK$9,000) and interest element of approximately HK$2,000 (2005: HK$3,000) originally repayable after 1 year but within 2 years at 31 December 2006 have been reclassified under current liabilities. Subsequent to the balance sheet date, the Group repaid in full the obligations under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

29. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation

Tax payable of approximately HK$48,000 (2005: HK$48,000) in the consolidated balance sheet represents provision for Hong Kong profits tax for the prior years.

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
	Depreciation allowances in excess of the related depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax arising from:			
At 1 January 2005	463	(463)	–
Charged/(credited) to income statement	(463)	463	–
At 31 December 2005, 1 January 2006 and 31 December 2006	–	–	–

(c) Deferred taxation not recognised

At the balance sheet date and for the year, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$140 million (2005: HK$140 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

30. CAPITAL AND RESERVES

(a) The Group

	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987
Loss for the year	–	–	–	–	–	–	(99,735)	(99,735)	(6)	(99,741)
Exchange difference on translation of financial statements of overseas entities	–	–	–	–	–	8	–	8	–	8
At 31 December 2005 and 1 January 2006	256,116	329,049	20	18,000	9,329	732	(533,006)	80,240	14	80,254
Loss for the year	–	–	–	–	–	–	(12,663)	(12,663)	(1)	(12,664)
Exchange difference on translation of financial statements of overseas entities	–	–	–	–	–	5,956	–	5,956	–	5,956
At 31 December 2006	256,116	329,049	20	18,000	9,329	6,688	(545,669)	73,533	13	73,546

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

30. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital	Share premium	Capital redemption reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	256,116	329,049	20	(408,913)	176,272
Loss for the year	–	–	–	(135,453)	(135,453)
At 31 December 2005 and 1 January 2006	256,116	329,049	20	(544,366)	40,819
Loss for the year	–	–	–	(11,320)	(11,320)
At 31 December 2006	256,116	329,049	20	(555,686)	29,499

(c) Share capital

Authorised and issued share capital

	2006		2005	
	Number of shares	Share capital	Number of shares	Share capital
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	4,000,000	400,000	4,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	2,561,167	256,116	2,561,167	256,116

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

30. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) General reserve

The general reserve is for general business development.

(iii) Special reserve

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

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy 3(r).

(e) Distributability of reserves

As at 31 December 2006 and 2005, the Company had no reserve available for distribution to equity holders of the Company.

(f) Accumulated losses retained by associates of the Group

Included in the accumulated losses as at 31 December 2006 of the Group is a loss of HK$29,278,000 (2005: a loss of HK$25,638,000) retained by associates of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

31. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 30 June 2003, whereby the Board of Directors (the 'Board') of the Company are authorised to grant options to selected participants, including employees and directors of any company in the Group, to subscribe for shares of the Company. The exercise price of the options is determined by the Board at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant. No option was granted by the Company under the scheme since its adoption.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of a subsidiary in 2005

In July 2005, the Group disposed of a subsidiary, namely Kong Sun Telecoms Limited, which was engaged in the business of property investment in Hong Kong, to an independent third party (the "Purchaser") for a consideration of HK$160,000, which was set off against the indebtedness due by the Group to the Purchaser. The net assets of the subsidiary at the date of disposal were as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Disposal of a subsidiary in 2005 *(Continued)*

	2005
	HK$'000
Net assets disposed of:	
Investment properties	178
Other receivables	1
Other payables	(11)
	168
Loss on disposal of a subsidiary	(8)
Total consideration	160
Satisfied by:	
Amount set off against accrued charges and other payables due by the Group to the Purchaser	160

There was no contribution from the subsidiary disposed of during the year to the Group's turnover in 2005. The subsidiary disposed of during the year ended 2005 contributed loss for that year of approximately HK$2,000 up to the date of disposal.

33. EMPLOYEE RETIREMENT BENEFITS

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

33. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Other than Hong Kong

The Group's subsidiaries in Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. Contributions based on a percentage, ranging from 12% to 13%, of the employee's salaries and bonus, if applicable, and were charged to the income statement as incurred. The maximum contributions by the subsidiaries for each employee for the Group's subsidiaries in Singapore are fixed by the Singapore government at S$585 (equivalent to approximately HK$2,755) per month for monthly salaries and bonus payment. The employees of the Group's subsidiaries in Singapore and Malaysia are also required to contribute 20% and 11% of their gross salaries and bonus, if applicable to such fund respectively. The local governments are responsible for the entire pension obligations payable to retired employees.

34. FINANCIAL INSTRUMENTS

Risk management is of fundamental importance to the business operation of the Group. The major types of risk inherent in the Group's business are credit risk, liquidity risk, interest rate risk, foreign currency risk, economic risk and business risk. The Group's risk management objective is to maximise shareholder value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

(a) Credit risk

The Group's credit risk is primarily attributable to loan and interest receivables, consideration receivables, and trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all debtors requiring credit over a certain amount.

At the balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group has no significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities.

The Group's policy is to regularly assess current and expected liquidity requirements and to ensure that it maintains reserves of cash and readily realisable marketable securities to meet its operating needs and possible liquidity requirements in the short and long term.

(c) Interest rate risk

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks. The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises in treasury management. Management considers the Group's exposure to interest rate risk is normal.

(d) Foreign currency risk

The Group's exposure to foreign exchange risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies and net investment in foreign subsidiaries. As most of the Group's monetary assets and liabilities and net investment in foreign subsidiaries are denominated in Hong Kong dollars or Malaysian Ringgit, management does not consider there is any significant currency risk. The Group did not employ any financial instruments for hedging purpose.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

34. FINANCIAL INSTRUMENTS *(Continued)*

(e) Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in Malaysia. Although the Government of Malaysia has been pursuing economic reform policies for the past years, no assurance can be given that the Malaysia Government will continue to pursue such policies or that such policies may not be significantly altered.

(f) Business risk

A substantial portion of the Group's operations is conducted in Hong Kong and Malaysia. This includes risks associated with, among others, the political, economic and legal environment in Hong Kong and Malaysia.

(g) Sensitivity analysis

In managing interest rate and foreign currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's profit or loss. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated profit or loss.

At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before taxation by approximately HK$291,000 (2005: HK$281,000) so far as the effect on interest-bearing financial instrument is concerned.

(h) Fair value

All financial assets and liabilities are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

(i) Estimation of fair values

Fair value of listed investments is usually based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values of listed investments are determined using valuation techniques when quoted prices are not considered to be a reliable indicator of fair value. Unlisted investments for which fair values cannot be reliably measured are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

34. FINANCIAL INSTRUMENTS *(Continued)*

(i) Estimation of fair values *(Continued)*

The fair values of debtors, bank balances and other liquid funds, creditors and accruals, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of finance lease liabilities is estimated as the present value of future cash flows, discounted at current market rates for similar financial instruments.

35. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 year	–	72

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION

(a) Industrial and Commercial International Capital Limited ("ICIC")

As explained in noted 27(a)(i), in 2003, the Group defaulted the repayments of the borrowings due to ICIC. ICIC formally demanded the Company for the immediate repayment of the borrowings in full together with accrued interest thereon. However, the Company was not able to make full repayment to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company as 1st defendant for the immediate full repayment of the outstanding borrowings of approximately HK$6,499,000 together with interest thereon of approximately HK$447,000, cost and/or the 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 borrowings granted to the Company. This case was heard by The High Court of The Hong Kong Special Administrative Region on 8 November 2004 and judgement was issued in favour of ICIC. The Company was required to repay the said bank borrowings in full together with the interest thereon and to bear the litigation expense. At 31 December 2006, the outstanding bank borrowings, interest thereon and litigation expense due to ICIC were approximately HK$6,194,000 (2005: HK$6,194,000) (note 27(a)(i)), HK$196,000 (2005: HK$866,000) and HK$311,000 (2005: HK$311,000) respectively.

Following the Group's default in the settlement of the 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 whereby the Company agreed to repay ICIC by monthly instalment of HK$200,000 each commencing from May 2006 until the resumption of trading in the shares of the Company in the Stock Exchange when the then remaining balance will have to be settled by six equal monthly instalments and the winding-up petition will be dismissed. However, from May 2006 to February 2007, the Company has only repaid to ICIC an amount of approximately HK$630,000. No action has been taken by ICIC in respect of the Group's default in repayment in accordance with the settlement agreement.

In February 2007, the then outstanding balance of approximately HK$6,939,000 in relation to the bank borrowings together with interest thereon and the litigation expense due by the Company to ICIC was assigned by ICIC to an independent third party.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(b) Public Bank (Hong Kong) Limited (formerly known as Asia Commercial Bank Limited) ("Public Bank")

As explained in noted 27(a)(ii), in 2003, Xswim Technology, a non-wholly owned subsidiary of the Company, defaulted the repayments of certain bank borrowings due to Public Bank. Public Bank formally demanded Xswim Technology for the immediate repayment of the borrowings in full together with accrued interest thereon. However, Xswim Technology was not able to make full repayment to Public Bank. As a consequence, on 11 February 2004, an action was commenced by Public Bank against Xswim Technology as 1st defendant for the immediate full repayment of approximately US$725,000 (equivalent to approximately HK$5,655,000) together with interest thereon, costs and/or other relief. The action was also made against the Company as 2nd defendant and the Company's director, Mr. Kong Li Szu ("Mr. Kong") as 3rd defendant under guarantees given by the Company and Mr. Kong in favour of Public Bank in respect of the bank borrowings granted to Xswim Technology. This case was heard by The High Court of The Hong Kong Special Administrative Region on 31 May 2004 and judgement was issued in favour of Public Bank. Xswim Technology was required to repay the said bank borrowings in full together with the interest thereon and to bear the litigation expense. Up to 31 December 2006, the Group repaid to Public Bank an amount of approximately HK$2,729,000 (2005: HK$2,459,000), consisting of bank borrowings of approximately HK$1,876,000 (2005: HK$1,876,000) and interest of approximately HK$853,000 (2005: HK$583,000). At 31 December 2006, the outstanding bank borrowings, interest thereon and litigation expense due to Public Bank were approximately HK$3,779,000 (2005: HK$3,779,000) (note 27(a)(ii)), HK$467,000 (2005: HK$309,000) and HK$279,000 (2005: HK$279,000) respectively.

On 15 June 2004, the Group received a statutory demand from the solicitors of Public Bank, demanding for the payment of the then outstanding amounts together with interest thereon within 21 days from 15 June 2004. Up to the date of approval of the financial statements, the said 21 day period has already expired but no winding up proceedings have been commenced by Public Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(b) Public Bank (Hong Kong) Limited (formerly known as Asia Commercial Bank Limited) ("Public Bank") *(Continued)*

Pursuant to a revocable deed of assignment entered into between Best Spot and Public Bank dated 20 November 2005 as referred to note 21(b), the Group agreed to assign RMB6,000,000 (equivalent to approximately HK$5,607,000) from its right, title and interest in the Group's consideration receivables due from Beijing Tianheng to Public Bank as collateral of the borrowings together with the interest thereon and litigation expense due to Public Bank. However, Beijing Tianheng delayed the repayments. Up to the date of approval of the financial statements, Public Bank has not received any payment from Beijing Tianheng.

On 23 May 2007, Public Bank agreed to withhold legal actions against Xswim Technology, the Company and Mr. Kong for three months commencing from 23 May 2007.

On 17 August 2007, the Group and Public Bank reached an arrangement whereby after the Group would pay Public Bank a sum of approximately HK$3,067,000 by 2 instalments that the first instalment of approximately HK$1,533,000 is payable on 17 August 2007 and the remaining balance of approximately HK$1,534,000 is payable on the day of the resumption of trading of the shares of the Company on the main board of the Stock Exchange or 15 November 2007 whichever is earlier, Public Bank would waive the remaining balance. On 17 August 2007, the Group repaid to Public Bank an amount of approximately HK$1,533,000. A full provision of HK$3,067,000 has been accounted for in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(c) DBS Bank (Hong Kong) Limited ("DBS")

As explained in note 27(b), in 2005, the Group defaulted the repayments of the borrowings due to DBS. DBS formally demanded the Company for the immediate repayment of the borrowings in full together with accrued interest thereon. However, the Company was not able to make full repayment to DBS. As a consequence, on 21 December 2005, an action was commenced by DBS against the Company as 1st defendant for the immediate full repayment of the outstanding borrowings of approximately HK$2,710,000 together with interest thereon of approximately HK$617,000 up to 21 December 2005 cost and/or the relief. The action was also made against the Company's two former subsidiaries as 2nd defendant and 3rd defendant under guarantees given by these two former subsidiaries in favour of DBS in respect of the borrowings granted to the Company. This case was heard by The High Court of The Hong Kong Special Administrative Region on 29 January 2007 and judgement was issued in favour of DBS. The Company was required to repay in full the said bank borrowings together with the interest thereon and to bear the litigation expense. At 31 December 2006, the outstanding bank borrowings and interest thereon due to DBS were approximately HK$2,710,000 (2005: HK$2,710,000) (note 27(b)) and HK$637,000 (2005: HK$617,000) respectively.

In June 2007, the Group repaid in full the bank borrowings together with the interest thereon and the litigation expense to DBS.

(d) A potential investor

As explained in note 27(d)(iii) to the financial statements, pursuant to the agreements dated 13 April 2005 and 10 October 2005, an independent third party (the "Potential Investor") granted the Company a credit facilities of HK$5,000,000 which are secured by corporate guarantees executed by shareholders of the Company, Kong Fa Holdings Limited and Kong Sun Enterprises Sdn. Bhd., and had the right to require the Company to immediately repay the then outstanding borrowings, if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 10 October 2005. In April 2006, when the trading in the shares of the Company in the Stock Exchange was not resumed, the potential investor demanded the full repayment by the Company of the then outstanding borrowings of approximately HK$3,136,000 but the Company defaulted the repayments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(d) A potential investor *(Continued)*

On 13 September 2006, an action was commenced by a Potential Investor against the Company and Mr. Kong Li Szu ("Mr. Kong"), a director of the Company. Pursuant to the statement of claim dated 13 September 2006 (the "First Statement"), the Potential Investor claimed for the immediate full repayment of approximately HK$3,136,000 together with costs against (i) the Company as 1st defendant and (ii) Mr. Kong as 2nd defendant under alleged guarantee given by Mr. Kong in favour of the Potential Investor in respect of the borrowings granted to the Company. The First Statement was amended on 4 December 2006 (the "Second Statement"). Pursuant to the Second Statement, the alleged claim under the First Statement was amended to approximately HK$578,000 after Mr. Kong placed with the Potential Investor deposits of approximately HK$2,558,000. In April 2007, the Company repaid to the Potential Investor an amount of approximately HK$350,000. On 16 May 2007, the Potential Investor, the Company and Mr. Kong entered into a deed of settlement whereby in consideration of the Company paying the Potential Investor an amount of approximately HK$350,000, the Potential Investor agreed to waive the remaining balance of approximately HK$228,000 and dismiss the First Statement and the Second Statement.

(e) Mr. Cheung Yik Wang

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 which is a 54% owned subsidiary of the Company, against Mr. Kong Li Szu ("Mr. Kong") as 1st defendant, the Company's director, and the Company as 2nd defendant for recovering a sum of HK$11,600,000 together with interest and costs in connection with a cheque issued on 20 December 2002 by the Company to CYW which was dishonoured upon presentation for payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong. A defence was filed by the Company on 19 January 2004. CYW also filed a reply to defence on 17 February 2004. Up to the date of approval of the financial statements, this action is still in progress and no hearing date has been fixed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(e) Mr. Cheung Yik Wang *(Continued)*

In the opinion of the directors, in 2002, Xswim Holdings, a non-wholly owned subsidiary of the Company, and its subsidiaries ("Xswim Group") advanced the Company an aggregate of approximately HK$15,241,000. In 2002, the Company repaid Xswim Group HK$5,600,000 leaving a balance of approximately HK$9,641,000 outstanding (the "Outstanding Balance") and requested CYW to advance HK$2,000,000 (the "Intended Loan") to the Company. As a result, the Company and Mr. Kong respectively issued on 20 December 2002 a cheque with an amount of HK$11,600,000 each payable to CYW as securities for the Outstanding Balance and the Intended Loan, although CYW has never advanced the Intended Loan to the Company. The Company repaid in full the Outstanding Balance to Xswim Group in 2003. Upon the full repayment of the Outstanding Balance in 2003, in the opinion of the directors, the Company no longer had legal or financial obligations to pay CYW and thus refused to present the cheque previously issued to CYW in 2003.

With the advices by the Company's legal adviser, the directors are of the opinion that the Group has proper and valid defences to the CYW's action and accordingly, no provision for loss has been accounted for in these financial statements.

(f) Ex-landlord

On 30 March 2004, an action was commenced by the landlord of the office premises of the Group (the "Ex-landlord") against Pacpo Hong Kong, a wholly owned subsidiary of the Company, for overdue rental, building management and miscellaneous fees, together with arrears of rental up to the date of delivery of vacant possession of the said office premises, interests, cost and/or other relief of approximately HK$207,000. This case was heard by The High Court of The Hong Kong Special Administrative Region on 21 June 2004 and judgement was issued in favour of the Ex-landlord. Accordingly, the Group is liable to pay the Ex-landlord approximately HK$712,000. However, the Group only settled approximately HK$226,000 in aggregate to the Ex-landlord. In December 2004, the Group and the Ex-landlord entered into a settlement arrangement, under which the Group agrees to pay the outstanding debts of approximately HK$486,000 by 14 monthly 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. However, the Group has defaulted the settlement of the aforesaid amount. Up to the date of approval of the financial statements, no action has been taken by the Ex-landlord in respect of the default in repayments of the unsettled amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(f) Ex-landlord *(Continued)*

A full provision of the unsettled amount of approximately HK$486,000 has been made in these financial statements.

(g) Koffman Securities Limited ("Koffman Securities")

On 13 May 2004, an action was commenced by Koffman Securities against Kong Sun Resources, as 1st defendant, a wholly owned subsidiary of the Company, and the Company's director, Mr. Kong Li Szu ("Mr. Kong"), as 2nd defendant, for specific performance of an option to repurchase certain investment properties (the "Premises") of the Group. The Premises was previously sold to the Group in 2002 for a consideration of HK$21,000,000 by Koffman Securities satisfied by the issuance of 56,000,000 ordinary shares of the Company (the "Consideration Shares") the Premises, which was subsequently disposed of by the Group in 2005. It is alleged that Kong Sun Resources and Mr. Kong gave an oral guarantee that:

(i) Kong Sun Resources would make good and pay to Koffman Securities of those Consideration Shares sold at a market price not less than HK$0.375 per share in the period of thirty six months commencing from 10 June 2002 so that Koffman Securities would receive not less than HK$0.375 per Consideration Share; and

(ii) Kong Sun Resources granted Koffman Securities an option to repurchase the Premises for a consideration of HK$21,000,000 at any time within a period of five years commencing from 10 May 2002, as security for the due and punctual performance of the alleged obligation mentioned in (i) above.

Koffman Securities claimed (i) against Kong Sun Resources to transfer the Premises to Koffman Securities for a consideration of HK$21,000,000 or such consideration as the court may determine, and (ii) against Kong Sun Resources and Mr. Kong the sum of approximately HK$12,889,000 being the total amount of outstanding differences in the price of the Consideration Shares disposed of and the alleged 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, this action is still in progress and no hearing date has been fixed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(g) Koffman Securities Limited ("Koffman Securities") *(Continued)*

With the advices by the Company's external legal adviser, the directors are of the opinion that the Group has proper and valid defences to this action in that Kong Sun Resources has never made the alleged guarantee to Koffman Securities and accordingly the Group had no legal or financial obligations to Koffman Securities in respect of the alleged claims. Accordingly, no provision for commitment or loss has been accounted for in these financial statements.

(h) Legal service provider

On 15 June 2006, an action was commenced by a creditor of the Group (the "Creditor") which rendered legal services in 2004 and 2005 to the Group, against Kong Sun Resources as 1st defendant, a wholly owned subsidiary of the Company, and Mr. Kong Li Szu ("Mr. Kong") as 2nd defendant, a director of the Company, for an immediate full repayment of the services fee of approximately HK$334,000 together with interest, cost and/or other relief.

On 15 June 2006, another action was commenced by the Creditor against the Company as 1st defendant, Mr. Kong as 2nd defendant and the personal representative for the estate of Kong Look Sen as 3rd defendant for an immediate full repayment of the services of approximately HK$867,000 together with interest, cost and/or other relief.

In March 2007, the Group and the Creditor reached an agreement that, after the Group would pay the Creditor a sum of approximately HK$850,000 by eight monthly instalments, the Creditor would waive the remaining balance. A full provision of HK$850,000 has been accounted for in these financial statements.

From March 2007 to the date of approval of the financial statements, the Group repaid a sum of approximately HK$750,000 to the Creditor.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(i) Valuation service provider

In 2004, the Company defaulted the 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. Judgement was issued in favour of the service provider on 25 April 2005.

However, the Company defaulted the full payments of the judgement debt. The service provider presented a winding-up petition to The High Court of The Hong Kong Special Administrative Region on 21 December 2006 for the winding-up of the Company. On 21 February 2007, the Company and the service provider reached a settlement agreement whereby the Company agreed to pay the service provider approximately HK$188,000 and the service provider agreed to withdraw the winding-up petition. An order for dismissal of the winding-up petition was granted by the court on 5 March 2007.

As at 31 December 2006, a full provision of approximately HK$188,000 (2005: HK$138,000) has been accounted for in these financial statements, of which approximately HK$100,000 (2005: HK$100,000) was in relation to valuation fee and approximately HK$88,000 (2005: HK$38,000) in relation to interest and litigation costs.

In February 2007, the Group repaid in full a sum of approximately HK$188,000 to the service provider.

(j) An ex-employee

On 2 June 2006, a winding-up petition was filed by Mr. Cheung Yam Loi ("Mr. Cheung"), an ex-employee of Pacpo Investments, a wholly owned subsidiary of the Company, to The High Court of The Hong Kong Special Administrative Region against Pacpo Investments for an amount of HK$220,000, representing the outstanding balance of the judgment sum awarded to Mr. Cheung by the Labour Tribunal on 2 December 2005. In July 2006, the Company and Mr. Cheung reached a settlement agreement whereby the Company agreed to pay to Mr. Cheung an amount of HK$220,000 and Mr. Cheung agreed to withdraw the winding-up petition. Subsequently the winding-up petition was dismissed. A full provision of HK$220,000 was accounted for by Pacpo Investments during the year ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

36. LITIGATION *(Continued)*

(j) An ex-employee *(Continued)*

In July 2006, the Group repaid in full a sum of HK$220,000 to Mr Cheung.

37. CONTINGENT LIABILITIES

(a) Champ Capital Limited

Pursuant to an exclusive franchisee agreement dated 1 January 2003 ("the Franchisee Agreement") entered into between Xswim Technology, a non-wholly owned subsidiary of the Company, and Champ Capital Limited (the "Franchisee"), Xswim Technology granted the Franchisee an exclusive right to trade the computer products and office equipment of Xswim Technology in Guangdong Province and Beijing, the PRC, for a period from 1 January 2003 to 1 April 2007. In addition, Xswim Technology agreed to buy back the underlying franchise licence for HK$15,000,000 upon termination of the Agreement, both in the case of normal or early termination, and to spend HK$1,000,000 as merchandising assistance in promoting the products of Xswim Technology.

As the Franchisee had breached the Agreement to perform its duty, inter alia, to trade the products of Xswim Technology in Guangdong Province and Beijing, the PRC, Xswim Technology had terminated the Franchisee Agreement with effect from 28 November 2003. Although there were no clauses stipulated in the Franchisee Agreement that the breach would discharge the obligations of Xswim Technology to buy back the franchise licence and to pay the merchandising assistance, the directors are of the opinion that the Group had no legal or financial obligations to buy back the franchise licence and to pay the merchandising assistance when the Franchisee failed to discharge its obligation by, inter alia, trading the products of Xswim Technology in Guangdong Province and Beijing, the PRC. No action has been taken by the Franchisee in respect of the abovementioned clause up to the date of approval of the financial statements.

With the advices by the Company's external legal adviser, the directors are of the opinion that the Franchisee would not be entitled or able to (i) exercise the option to resell the underlying franchise licence to the Group, or (ii) demand the Group payment of the merchandising assistance in promoting the products of Xswim Technology, on the ground that the Franchisee Agreement was likely to be void and not enforceable by the courts of Hong Kong, at which the Franchisee Agreement was construed. Accordingly, no provision for commitment or loss for the franchise licence and merchandising assistance has been accounted for in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

37. CONTINGENT LIABILITIES *(Continued)*

(b) Long service payments

At 31 December 2005, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$243,000 as at 31 December 2005. The contingent liability has arisen because at 31 December 2005, a number of then 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 Hong Kong Employment Ordinance if their employment is terminated under certain circumstances as stipulated in the Hong Kong Employment Ordinance that an employer should pay long service payment when an employee who has been employed under a continuous contract for no less than five years:

(i) is dismissed by reason other than serious misconduct or redundancy;

(ii) is certified by a registered medical practitioner as permanently unfit for the present job and the employee resigns;

(iii) is aged 65 or above and the employee resigns; or

(iv) dies in service.

As at 31 December 2005, a partial provision of approximately HK$190,000 has been recognised in the financial statements in respect of such possible payment as, in the opinion of the directors, it is not probable that the entire long service payments will be materialised and that the situation will result in material future outflow of resources from the Group.

As at 31 December 2006, after the Group paid the long service payments of approximately HK$190,000 in 2006 the Group no longer had employees who were eligible for long service payments and under the Hong Kong Employment Ordinance has been employed under a continuous contract for no less then five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

37. CONTINGENT LIABILITIES *(Continued)*

(c) Corporate guarantees in respect of banking facilities granted to the subsidiaries

The Company issued corporate guarantees to the extent of approximately HK$8,000,000 (2005: HK$8,000,000) in favour of banks for the banking facilities granted to a subsidiary of the Company. The total facilities utilised by the subsidiaries at 31 December 2006 amounted to approximately HK$4,246,000 (2005: HK$4,088,000). At 31 December 2006, the sum of approximately HK$4,246,000 (2005: HK$4,088,000), representing the total facilities utilised by the subsidiaries at 31 December 2006, was accounted for in the financial statements of the Company for the year ended 31 December 2006. Further details are set out in note 26(c) to the financial statements.

At the balance sheet date, contingent liabilities in respect of banking facilities granted to the subsidiaries not provided for in the financial statements were as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees of banking facilities granted to subsidiaries	–	–	–	–

38. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions or balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

38. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Key management personnel remuneration *(Continued)*

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	587	474
Post-employment benefits	11	–
	598	474

Total remuneration is included in "staff costs" (see note 6(b)).

39. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Issue of convertible bonds

On 16 February 2007 and 24 April 2007, the Company and an independent third party (the "Placing Agent") entered into a binding term sheet and a conditional agreement (the "Conditional Placing Agreement") whereby the Company appointed the Placing Agent to arrange subscribers for the issue of convertible bonds in an aggregate principal amount of HK$100,000,000 on a fully underwritten basis. The convertible bonds will be unsecured, interest bearing at 8% per annum and matured after three years from the date of issue of the convertible bonds. The convertible bonds can be redeemable at par in whole or in part by either:

– the Company at any time during the period from the date of issue of the convertible bonds until the date of maturity of the convertible bonds; or

– the holders of the convertible bonds at any time during the period after the twenty-fourth month from the date of issue of the convertible bonds until the date of maturity of the convertible bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(a) Issue of convertible bonds *(Continued)*

The holders of the convertible bonds will have the conversion right as attached to the convertible bonds to convert any of the outstanding principal amount of the convertible bonds into the shares of the Company at an initial conversion price of HK$0.1 per share, subject to adjustments. Upon the exercise of the conversion right, the holders of the convertible bonds will be entitled to a bonus issue of three bonus shares per conversion share. The conversion period commences from the date immediately following the later of the date of issue of the convertible bonds or the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of and permission to deal in conversion shares and bonus shares to the two business days immediately prior to the maturity of the convertible bonds.

If any of the following conditions is not fulfilled at or before 5:00 p.m. on 30 September 2007 or such later time or the date as may be agreed in writing between the Placing Agent and the Company, the Placing Agent may, at any time thereafter, terminate its obligations under the Conditional Placing Agreement by notice in writing to the Company, whereupon the obligations of the Placing Agent under the Conditional Placing Agreement shall forthwith cease and terminate and neither the Company nor the Placing Agent shall have any claim against any of the others, save for any antecedent breach thereof:

– the Stock Exchange granting the approval in principle to the resumption of trading in the shares of the Company following the completion of the resumption proposal of Company;

– the approval by the shareholders of the Company at an extraordinary general meeting to be convened and held for the purposes of approving the issue of the convertible bonds and the transactions contemplated thereunder; the allotment and issue of up to 1,000,000,000 shares of the Company falling to be issued on the exercise of the conversion rights attached to the convertible bonds; and the allotment and issue of up to 3,000,000,000 shares of the Company falling to be issued on the exercise of the conversion rights attached to the convertible bonds;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(a) Issue of convertible bonds *(Continued)*

– the Listing Committee of the Stock Exchange granting or agreeing to grant, subject to allotment, and not having withdrawn or revoked listing of and permission to deal in all the conversion shares which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the convertible bonds; and

– the shareholders of the Company passing at an extraordinary general meeting of the Company the necessary resolution approving the increase of authorised shares capital from HK$400,000,000 to HK$4,000,000,000.

(b) Third stage of delisting procedures

On 16 May 2007, the Company is placed into the third stage of the delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited. The Company will have a period of six months for the submission of a viable resumption proposal and to remedy those matters that gave rise to the Stock Exchange's proposal to cancel the listing of the Company. If the Company does not submit a viable proposal as required, the Stock Exchange will cancel the listing of the Company upon the expiry of the six-month period from 16 May 2007 (i.e. on 15 November 2007).

(c) Acquisition of subsidiaries

(i) Life-like plant business

On 19 May 2007, Eternal Gain Investments Limited ("Eternal Gain"), a wholly owned subsidiary of the Company, the Company and Brightpower Assets Management Limited ("Brightpower"), an independent third party, entered into a sale and purchase agreement (the "FT Agreement") whereby Eternal Gain will acquire from Brightpower the entire issued share capital of two companies, namely FT Far East Limited ("FT Far East") and FT China Limited ("FT China"), held by Brightpower for an aggregate consideration of HK$1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

In addition, upon the completion of the FT Agreement, Brightpower will assign to Eternal Gain all benefits and rights in respect of the indebtedness in the amount of HK$80,786,000 due to Brightpower by FT Far East for a consideration of HK$59,999,999.

The aggregate consideration of HK$60,000,000 will be settled by way of (i) a promissory note in principal amount of HK$20,000,000 and (ii) convertible bonds in principal amount of HK$40,000,000 to be issued by the Company to Brightpower.

The promissory note bears interest at 4% per annum commencing from one month after the completion date of the transaction and is repayable in one lump sum on or before six months from the completion date of the transaction or one month after the resumption of trading of the shares of the Company on the Stock Exchange, whichever is earlier, or such other date as mutually agreed in writing by the Company and Brightpower. The Company has the option to redeem the promissory note in whole or in part at any time after three months from the date of the issue of the promissory note up to the date immediately prior to the maturity of the promissory note.

The convertible bonds bear interest at 4% per annum and mature after three years from the date of issue of the convertible bonds. The holders of the convertible bonds have the right to convert the whole or part of the outstanding principal amount of the convertible bonds into the shares of the Company at an initial conversion price of HK$0.1 per share, subject to amendments, during the conversion period commencing from the date immediately following the date of issue of the convertible bonds to the date immediately prior to the date of maturity of the convertible bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

If any of the following conditions set out in the FT Agreement are not satisfied on or before 30 September 2007 or such later date as the parties may otherwise agree, the FT Agreement will automatically terminate with immediate effect and neither party thereto shall have any obligations and liabilities thereunder:

– the approval by shareholders of the Company of the FT Agreement and the transactions contemplated thereunder, including without limitation, the issue of the convertible bonds and the execution of the promissory note, in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and

– the Stock Exchange granting or agreeing to grant listing of and permission to deal in the conversion shares which is subject only to allotment and matters ancillary thereto.

In accordance with the FT Agreement, Brightpower agreed to warrant and guarantee to Eternal Gain that (i) the audited consolidated net profits after tax of FT Far East and FT China will, in aggregate, be not less than HK$7,000,000 for the financial year ending 30 June 2007 (the “Guaranteed Profit”), and (ii) the audited consolidated net asset value of FT Far East and FT China as shown in the audited consolidated balance sheet of FT Far East and FT China as at 30 June 2007 will not, in aggregate, be less than HK$70,000,000 (the “Guaranteed NAV”).

If (i) the actual aggregate audited consolidated net profits after tax of FT Far East and FT China for the financial year ending 30 June 2007 (the “Actual Profit”) is less than the Guaranteed Profit, or (ii) the actual audited consolidated net asset value of FT Far East and FT China as at 30 June 2007 (the “Actual NAV”) is less than the Guaranteed NAV, Brightpower shall set off the difference against the payment obligations of the Company under the promissory note issued by the Company on a dollar to dollar basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

If FT Far East and FT China shall record in aggregate a consolidated loss for the year ending 30 June 2007, the Actual Profit shall be deemed to be nil. On the other hand, if the Actual Profit exceeds the Guaranteed Profit, no additional consideration will be payable to Brightpower.

If FT Far East and FT China shall record in aggregate a consolidated net liabilities position in the audited consolidated balance sheet as at 30 June 2007, the Actual NAV for such financial year shall for the purpose of this net asset value guarantee be deemed to be nil. On the other hand, if the Actual NAV exceeds the Guaranteed NAV, no additional consideration will be payable to Brightpower.

(ii) Property investment

On 28 June 2007, Lead Power Investments Limited ("Lead Power"), a wholly owned subsidiary of the Company, and two independent third parties (the "Vendors") entered into an agreement (the "CK Agreement") whereby Lead Power will acquire from the Vendors the entire issued share capital of two companies, namely Coast Holdings Limited ("CHL") and Kingston Property Investment Limited ("KPIL"), each for a consideration of HK$1. In addition, pursuant to the CK Agreement, one of the Vendors ("Vendor A") will, at the date of completion of the CK Agreement, assign all the benefits and rights in respect of the indebtedness in the amount of approximately HK$19,396,043 and HK$22,080,208 due to Vendor A by CHL and KPIL respectively for a consideration of HK$15,999,999 and HK$17,799,999 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(ii) Property investment (Continued)

The aggregate consideration of HK$33,800,000 will be settled by way of a promissory note in the principal amount of HK$33,800,000 to be issued by the Company to Vendor A or its nominee as Vendor A may direct. The promissory note bears interest at the Hong Kong Dollars prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and is repayable on or before the end of the sixtieth month from the date of completion of the CK Agreement. Provided that the Company has given to the holder of the promissory note not less than ten business days' prior notice in writing, the Company may redeem the whole or any of the outstanding principal amount of the promissory note, at any time after three months from the date of the issue of the promissory note up to the date immediately prior to the maturity of the promissory note. The promissory note is secured by the charge over the entire issued capital in CHL and KPIL in favour of Vendor A or the nominee as directed by Vender A.

If the following conditions, inter alia, are not satisfied on or before 4:00 p.m. on 30 September 2007, or such later date as the Vendors and the Purchaser may agree, the CK Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other thereunder:

– Lead Power being satisfied with the results of the due diligence review to be conducted;

– all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the CK Agreement and the transactions contemplated thereby having been obtained;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(ii) Property investment (Continued)

– the passing by the shareholders of the Company at an extraordinary general meeting of the Company to be convened and held of an ordinary resolution to approve the CK Agreement and the transactions contemplated thereunder, including but not limited to the execution of the promissory note;

– the Purchaser having received from a firm of professional surveyors and valuers chosen by Lead Power a property valuation report on the properties held by CHL and KPIL showing that as at 15 June 2007 the value of the properties held by CHL and KPIL to be not less than the agreed amounts; and

– the representations, warranties and undertakings provided by the Vendors under the CK Agreement remaining true and accurate in all respects.

Lead Power may at any time waive any of the conditions set out above.

40. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Kong Fa Holding Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Assessment of impairment for non-current assets

The Group has non-current assets. Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to depreciation and amortisation are assessed on an annual basis as to whether there is any indication of impairment loss which suggests that the carrying value of these assets may not be recoverable. Management assesses the recoverable amount of each non-current asset based on its value in use (using relevant rates) or on its fair value less costs to sell (with reference to market prices), depending upon the anticipated future plans for the assets. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

(b) Impairment for bad and doubtful debts

The Group provides impairment loss for bad and doubtful debts based upon evaluation of the recoverability of the trade receivables and other receivables at each balance sheet date. The impairment are based on the ageing of the trade receivables and other receivables balances, the credit-worthness of debtors and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

(c) Write down of property development

If the costs of property development fall below their net realisable values, write down in value of property development is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates require judgement as to the marketing costs and the expected costs to completion of the properties, the legal and regulatory framework and general market conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Deferred taxation

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. In assessing the probability, both positive and negative evidence is considered, including whether it is more likely than not that the operations will have future taxable profits over the period in which the deferred tax assets are deductible or utilised. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred taxation and related financial models and budgets are reviewed at each balance sheet date. The Group uses all readily information including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs in assessing the probability. In addition, actual outcomes in terms of future taxable profits may be higher or lower than estimated at the balance sheet date, which would affect the profit or loss in the future years.

(e) Valuation of buildings and land lease prepayments

In accordance with HKAS 17 *Leases*, the Group's leasehold interest in buildings and land are separated into leasehold buildings and leasehold land. The Group determined the fair value of the leasehold interest in buildings and land being held under an operating lease at the time the lease was first entered into by the Group, by reference to all readily available information. If the fair value of buildings or land, at the time the lease was first entered into by the Group, were to be higher than the estimated, the depreciation of buildings or amortisation of land could be lower than the estimated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

Amendment to HKAS 1	Presentation of Financials Statements: Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December							
	2006	2005		2004		2003		2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued/ Discontinuing operations	
TURNOVER	–	221	–	12,269	60	33,626	89,932	258,109
PROFIT/(LOSS) BEFORE TAXATION	(12,664)	(99,741)	–	(30,372)	373	(171,254)	(169,543)	(130,762)
Taxation	–	–	–	(164)	–	(1,264)	–	(1,619)
PROFIT/(LOSS) FOR THE YEAR	(12,664)	(99,741)	–	(30,536)	373	(172,518)	(169,543)	(132,381)
ATTRIBUTABLE TO:								
Equity holders of the Company	(12,663)	(99,735)	–	(30,335)	373	(172,760)	(168,323)	(133,856)
Minority interests	(1)	(6)	–	(201)	–	242	(1,220)	1,475
	(12,664)	(99,741)	–	(30,536)	373	(172,518)	(169,543)	(132,381)

ASSETS AND LIABILITIES AND MINORITY INTERESTS

TOTAL ASSETS	138,026	137,923	–	242,872	–	262,161	19,101	838,344
TOTAL LIABILITIES	(64,480)	(57,669)	–	(62,885)	–	(71,495)	–	(222,204)
MINORITY INTERESTS	(13)	(14)	–	(20)	–	(221)	–	(77,414)
	73,533	80,240	–	179,967	–	190,445	19,101	538,726