THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Kong Sun Holdings Limited (the "**Company**"), you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the licensed securities dealer, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for any securities.

KongSun 江山

KONG SUN HOLDINGS LIMITED
江山控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 295)

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO AN ACQUISITION OF MANUFACTURING BUSINESS;
(2) VERY SUBSTANTIAL ACQUISITION RELATING TO AN ACQUISITION OF PROPERTY HOLDING COMPANIES;
(3) PLACING OF CONVERTIBLE BONDS;
(4) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL; AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting of the Company (the "**EGM**") to be held at Unit A, 1/F, Lippo Leighton Tower, 103 Leighton Road, Hong Kong on 17 January 2008 at 10:30 a.m. is set out from page 273 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy, in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

31 December 2007

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisitions Announcement"	the announcement of the Company dated 12 October 2007 in relation to the Tree Acquisition and the Properties Acquisition
"Articles of Association"	the articles of association of the Company, and "Article" shall mean an article of the Articles of Association
"Board"	the board of Directors
"Bonus Shares"	the issue of three new Shares per Conversion Share to the holders of Convertible Bonds credited as fully paid upon their exercise of the conversion rights attached to the Convertible Bonds
"Brightpower"	Brightpower Assets Management Limited, a company incorporated in BVI and an indirect wholly-owned subsidiary of Hua Yi
"CB Announcement"	the announcement of the Company dated 26 October 2007 in relation to the CB Placing
"CB Placing"	the proposed placing of the Convertible Bonds pursuant to the CB Placing Agreement
"CB Placing Agreement"	the placing agreement dated 24 April 2007 and entered into between the Company and the Placing Agent for the proposed placing of the Convertible Bonds
"CB Supplemental Agreement"	the supplemental agreement date 19 September 2007 and entered into between the Company and the Placing Agent extending the Long Stop Date amending a term of the Instrument constituting the Convertible Bonds
"Coast"	Coast Holdings Limited, a private limited company incorporated in Hong Kong and held as to 51% by Vendor A and as to 49% by Vendor B
"Coast Shares"	100,000 issued shares of HK$1.00 each in the share capital of Coast, constituting the entire issued share capital of Coast, that are beneficially held as to 51% by Vendor A and as to 49% by Vendor B as at the date of the Properties Acquisition Agreement
"Companies Ordinance"	Companies Ordinance (Chapter 32 of Laws of Hong Kong)

"Company"	Kong Sun Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares are listed on the Stock Exchange
"Conversion Shares"	new Shares falling to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds
"Convertible Bonds"	the 8% convertible bonds in the principal amount of HK$100 million due in three years from the date of issue to be issued by the Company pursuant to the CB Placing Agreement as amended by the CB Supplemental Agreement
"Directors"	the directors of the Company
"DUAPP"	Dongguan United Arts Plastic Products Limited, a Sino-foreign equity joint venture established in the PRC and whose equity interest are held by FTC and a PRC party as to 90% and 10%, respectively as at the date of the Business Acquisition Agreement
"EGM"	an extraordinary general meeting of the Shareholders to be convened and held to pass the necessary resolutions in relation to the Tree Acquisition Agreement as amended by the Tree Supplemental Agreement, the Properties Acquisition Agreement as amended by the Properties Supplemental Agreement, the CB Placing Agreement as amended by the CB Supplemental Agreement, the increase in authorised share capital of the Company and the transactions contemplated respectively thereunder
"Enlarged Group"	the Group as enlarged after completion of both the Tree Acquisition and the Properties Acquisition and the issuance of the Convertible Bonds
"Eternal Gain"	Eternal Gain Investments Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
"FTC"	FT China Limited, a private limited company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hua Yi before completion of the Tree Acquisition
"FTC Shares"	2 issued shares of HK$1.00 each in the share capital of FTC, constituting the entire issued share capital of FTC, that are beneficially held by Brightpower as at the date of the Tree Acquisition Agreement

"FTFE"	FT Far East Limited, a private limited company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hua Yi before completion of the Tree Acquisition
"FTFE Shares"	2 issued shares of HK$1.00 each in the share capital of FTFE, constituting the entire issued share capital of FTFE, that are beneficially held by Brightpower as at the date of the Tree Acquisition Agreement
"Group"	the Company and its subsidiaries
"Guaranteed Debt"	the guarantee by Vendor A to Lead Power that the Properties Sale Loans as at the Properties Completion Date will not be less than HK$33,800,000
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hua Yi"	Hua Yi Copper Holdings Limited (Stock Code: 559), a limited liability company incorporated in Bermuda whose shares are listed on the main board of the Stock Exchange
"Hua Yi Group"	Hua Yi and its subsidiaries (having the meaning ascribed to it in the Companies Ordinance)
"Independent Third Party"	third party independent of the Company and its connected persons (as defined under the Listing Rules)
"Joint Venture Agreement"	the joint venture contract dated 8 September 1993 entered into between FTC and a party in the PRC in relation to, among other things, the establishment and management of DUAPP
"KPI"	Kingston Property Investment Limited, a private limited company incorporated in Hong Kong and held as to 51% by Vendor A and as to 49% by Vendor B
"KPI Shares"	100,000 issued shares of HK$1.00 each in the share capital of KPI, constituting the entire issued share capital of KPI, that are beneficially held as to 51% by Vendor A and as to 49% by Vendor B as at the date of the Properties Acquisition Agreement
"Latest Practicable Date"	28 December 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Lead Power"	Lead Power Investments Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 September 2007 or such other date as the parties to the CB Placing Agreement may otherwise agree, such date has been extended to 31 December 2007 pursuant to the CB Supplemental Agreement and further extended to 29 February 2008 pursuant to the Second CB Supplemental Agreement
"Maturity Date"	three years from the date of issue of the Convertible Bonds
"Memorandum"	the memorandum of association of the Company
"Net Asset Value"	at the relevant time, the surplus (if any) of the assets of the Tree Sale Companies over their liabilities (excluding share capital and any liability in respect of loan stock or shareholder's loans, in particular, the Tree Sale Loan)
"Placing Agent"	Kingston Securities Limited (itself and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company)
"PRC"	People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Properties"	collectively, Property 1, Property 2 and Property 3
"Properties Acquisition"	the sale and purchase of the Properties Sale Shares and the Properties Assignment pursuant to the Properties Acquisition Agreement
"Properties Acquisition Agreement"	the sale and purchase agreement dated 28 June 2007 entered into between the Vendors and Lead Power in relation to the sale and purchase of the Properties Sale Shares and the Properties Assignment
"Properties Aggregate Consideration"	HK$33.8 million, being the aggregate of the consideration payable by Lead Power to the Vendors for the Properties Sale Shares and the consideration payable by Eternal Gain to the Vendors for the Properties Assignment
"Properties Assignment"	the assignment by Vendor A to Lead Power at Properties Completion Date of Properties Sale Loan

"Properties Completion Date"	date of completion of the Properties Acquisition Agreement, being the date falling the third Business Day after all the conditions for the Properties Acquisition have been fulfilled or at such other time as the parties to the Properties Acquisition Agreement may agree
"Properties Long Stop Date"	30 September 2007, which has been extended to 31 December 2007 under the Properties Supplemental Agreement and further extended to 29 February 2008 under the Second Properties Supplemental Agreement
"Properties Promissory Note"	the Properties Promissory Note in the agreed form to be executed on the Properties Completion Date by the Company in favour of Vendor A for the purposes of settling HK$33.8 million of the Properties Aggregate Consideration
"Properties Sale Companies"	KPI and Coast
"Properties Sale Loan"	the aggregate indebtedness in the amount of HK$19,348,836 owed to Vendor A by Coast and HK$22,055,412 owed to Vendor A by KPI
"Properties Sale Shares"	the Coast Shares and the KPI Shares
"Properties Subsidiaries"	DUAPP and WPP
"Properties Supplemental Agreement"	the supplemental agreement dated 19 September 2007 and entered into between the Vendors and Lead Power extending the Properties Long Stop Date and amending the interest rate of the Properties Promissory Note
"Properties Valuer"	AA Property Services Limited, a professional property surveyor and valuer and an Independent Third Party
"Property 1"	9th Floor, Wings Building, Nos. 110-116 Queen's Road Central, 53-61 Stanley Street, Hong Kong
"Property 2"	10th Floor, Wings Building, Nos. 110-116 Queen's Road Central, 53-61 Stanley Street, Hong Kong
"Property 3"	Workshop 5 on 4th Floor, Fullagar Industrial Building, No. 234 Aberdeen Main Road, Hong Kong
"Second CB Supplemental Agreement"	the second supplemental agreement dated 17 December 2007 and entered into between the Company and the Placing Agent further extending the Long Stop Date to 29 February 2008

"Second Properties Supplemental Agreement"	the second supplemental agreement dated 17 December 2007 and entered into between the Vendors and Lead Power further extending the Properties Long Stop Date to 29 February 2008
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.1 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Term Sheet"	the binding term sheet dated 16 February 2007 entered into between the Company and Placing Agent in relation to the conditional issue of the Convertible Bonds
"Tree Acquisition"	the sale and purchase of the Tree Sale Shares and the Tree Assignment pursuant to the Tree Acquisition Agreement
"Tree Acquisition Agreement"	the sale and purchase agreement dated 19 May 2007 entered into between Brightpower, Eternal Gain and the Company in relation to the sale and purchase of the Tree Sale Shares and the Tree Assignment
"Tree Aggregate Consideration"	HK$60 million, being the aggregate of the consideration payable by Eternal Gain to Brightpower for the Tree Sale Shares and the consideration payable by Eternal Gain to Brightpower for the Tree Assignment
"Tree Assignment"	The assignment by Brightpower to Eternal Gain at Tree Completion Date of Tree Sale Loan
"Tree Bond Maturity Date"	the date being the expiry of 3 years from the date of issue of the Tree Convertible Bonds
"Tree Bonds Instrument"	the instrument to be executed by Eternal Gain by way of a deed poll constituting the Tree Convertible Bonds
"Tree Completion Date"	date of completion of the Tree Acquisition Agreement, being the date falling the third Business Day after all the conditions for the Tree Acquisition have been fulfilled or at such other time as the parties may agree
"Tree Conversion Period"	the period commencing from the date of issue of the Tree Convertible Bonds and expiring on the third anniversary of such date

"Tree Conversion Shares"	new Shares falling to be allotted and issued upon exercise of the conversion rights attached to the Tree Convertible Bonds
"Tree Convertible Bonds"	the 4% unsecured convertible bonds due three years from the date of issue for an aggregate principal amount of HK$40 million constituted by the Tree Bonds Instrument
"Tree Extension Letter"	the extension letter dated 17 December 2007 and signed by Brightpower, Eternal Gain and the Company further extending the Tree Long Stop Date to 29 February 2008
"Tree Long Stop Date"	30 September 2007, which has been extended to 31 December 2007 under the Tree Supplemental Agreement and further extended to 29 February 2008 under the Tree Extension Letter
"Tree Maturity Date"	three years from the date of issue of the Tree Convertible Bonds
"Tree Promissory Note"	the Tree Promissory Note in the agreed form to be executed on the Tree Completion Date by the Company in favour of Brightpower for the purposes of settling HK$20 million out of the Tree Aggregate Consideration
"Tree Sale Companies"	FTFE, FTC and the Properties Subsidiaries
"Tree Sale Loan"	the indebtedness in the amount of HK$80,786,000 owed to Brightpower by FTFE
"Tree Sale Shares"	the FTFE Shares and the FTC Shares
"Tree Supplemental Agreement"	the supplemental agreement dated 19 September 2007 and entered into between Brightpower, Eternal Gain and the Company extending the Tree Long Stop Date and amending the Tree Convertible Bonds by the addition of the right of mandatory conversion at the option of the Company
"Vendor A"	Ms. Chu Yuet Wah
"Vendor B"	Ms. Ma Siu Fong
"Vendors"	Vendor A and Vendor B
"WPP"	Weihai Plastic Products Company Limited, a company established in the PRC and a wholly-owned subsidiary of FTC

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, all amounts in RMB have been translated in HK$ at a rate of RMB1.00 = HK$1.03 and all amounts in US$ have been translated in HK$ at a rate of US$1.00 = HK$7.80 for illustration purposes only.

KONG SUN HOLDINGS LIMITED
江山控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 295)

Executive Directors:
Mr. Tse On Kin *(Chairman)*
Mr. Chan Chi Yuen
Mr. Kong Li Szu

Independent non-executive Directors:
Dr. Wong Yuen Kuen
Ms. Lo Miu Sheung, Betty
Mr. Chan Chiu Hung, Alex

Registered office and principal place of business:
Unit A, 1st Floor
Lippo Leighton Tower
103, Leighton Road
Causeway Bay, Hong Kong

31 December 2007

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO AN ACQUISITION OF MANUFACTURING BUSINESS; (2) VERY SUBSTANTIAL ACQUISITION RELATING TO AN ACQUISITION OF PROPERTY HOLDING COMPANIES; (3) PLACING OF CONVERTIBLE BONDS; (4) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL; AND (5) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Company published the Acquisitions Announcement on 12 October 2007 in relation to the Tree Acquisition and the Properties Acquisition and the CB Announcement on 26 October 2007 in relation to the CB Placing.

The Board also proposes to increase the authorized share capital of the Company.

The purpose of this circular is to provide you with, among other things, further details of (i) the Tree Acquisition; (ii) the Properties Acquisition; (iii) the CB Placing; (iv) further information of the Group; and (v) notice of the EGM.

(1) TREE ACQUISITION

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

Date: 19 May 2007

Parties:

(1) Brightpower as the vendor (To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Brightpower and its ultimate beneficial owner is an Independent Third Party)

(2) Eternal Gain as the purchaser

(3) Company

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

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

(1) the approval by the Shareholders of the Tree Acquisition Agreement and the transactions contemplated thereunder, including without limitation, the issue of Tree Convertible Bonds (including the allotment and issue of the Tree Conversion Shares) and the execution of Tree Promissory Note, in accordance with the Listing Rules; and

(2) the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Tree Conversion Shares (subject only to allotment and matters ancillary thereto).

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

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

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

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

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

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

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

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

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

Net Asset Value Guarantee:

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

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

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

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

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

Completion:

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

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

Tree Supplemental Agreement:

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

(1) extend the Tree Long Stop Date to 31 December 2007;

(2) amend the terms of the Tree Convertible Bonds by giving the Company a right to mandatorily convert all the outstanding Tree Convertible Bonds at any time during the Tree Conversion Period;

(3) change the period for the Guaranteed Profit for the financial year ending 30 June 2007 to 30 June 2008; and

(4) change the date for the Guaranteed NAV period from 30 June 2007 to 30 June 2008.

Tree Extension Letter: Pursuant to the Tree Extension Letter, parties to the Tree Acquisition Agreement has agreed to further extend the Tree Long Stop Date to 29 February 2008.

Save as the Tree Long Stop Date, all other terms and conditions of the Tree Acquisition Agreement and the Tree Supplemental Agreement remain unchanged and valid.

II. The Tree Promissory Note

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

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

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

III. The Tree Convertible Bonds

For the purpose of settling HK40 million out of the Tree Aggregate Consideration, Brightpower, Eternal Gain and the Company agreed that the Company shall upon Tree Completion Date execute and deliver the Tree Bonds Instrument in favour of Brightpower or its nominee as Brightpower may direct.

The Tree Convertible Bonds are convertible into Shares in accordance with the terms of the Tree Bonds Instrument. The initial conversion price is HK$0.10 per Tree Conversion Share, subject to adjustments. In the event that Brightpower exercises the conversion rights attached to Tree Convertible Bonds, initially up to 400,000,000 new Shares would be allotted and issued to Brightpower (assuming that no subdivision or consolidation of shares of Eternal Gain or other event(s) which may result in an adjustment of the initial conversion price takes place during the period between Tree Completion Date and the date when Brightpower exercises the conversion rights attaching to Tree Convertible Bonds). As at the Latest Practicable Date, Brightpower has not decided its intention in relation to the conversion of the Tree Convertible Bonds.

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

(i) a premium of 300% to the closing price of HK$0.025 per Share as quoted on the Stock Exchange on 16 June 2004, being the last trading day before the date of the Acquisitions Announcement;

(ii) a premium of approximately 297% to the average of the closing prices of approximately HK$0.0252 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to 16 June 2004, being the last trading day before the date of the Acquisitions Announcement;

(iii) a premium of approximately 248% over the audited consolidated net asset value of the Company per Share for the year ended 31 December 2006; and

(iv) the nominal price of the Share of HK$0.10 each.

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

(1)	Principal amount	:	HK$40 million
(2)	Interest rate	:	4% per annum
(3)	Conversion Period	:	Commencing from the date of issue of the Tree Convertible Bonds and expiring on the third anniversary thereof
(4)	Redemption Period	:	Any time during the period between 20 months after the issue of the Tree Convertible Bonds and before the Tree Bond Maturity Date

(5)	Bond Maturity Date	:	The date being the expiry of 3 years from the date of issue of the Tree Convertible Bonds
(6)	Initial conversion price	:	HK$0.10 per Tree Conversion Share, subject to adjustments in each of the following cases (details provisions are set out in the Tree Bonds Instrument):

(i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such;

(iv) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 80 per cent. of the market price;

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share initially receivable for such securities is less than 80 per cent. of the market price, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 80 per cent. of the market price;

(vi) an issue being made by the Company wholly for cash of Shares at a price per Share less than 80 per cent. of the market price; and

(vii) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share less than 80 per cent. of the market price.

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

The following tables illustrates the shareholding of the Company upon full conversion of the Tree Convertible Bonds which will not result in a change of control of the Company.

Shareholders	**Shares in issue as at the date of this announcement**		**Shares in issue upon full conversion of Tree Convertible Bonds**	
	Shares	*%*	*Shares*	*%*
Kong Fa	1,053,850,042	41.15	1,053,850,042	35.59
KSE	403,375,794	15.75	403,375,794	13.62
Kong Look Sen (deceased) *(Note 1)*	22,760,695	0.89	22,760,695	0.77
Kong Li Jer *(Note 2)*	22,760,695	0.89	22,760,695	0.77
Mr. Kong	22,760,695	0.89	22,760,695	0.77
Subtotal for Kong's Family	1,525,507,921	59.57	1,525,507,921	51.52
Brightpower	–	–	400,000,000	13.51
Public				
Existing public shareholders	1,035,659,000	40.43	1,035,659,000	34.97
Subtotal for public Shareholders	1,035,659,000	40.43	1,035,659,000	34.97
Total	2,561,166,921	100	2,961,166,921	100

Notes:

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

2. Brother of Mr. Kong.

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

IV. Information on Brightpower and Hua Yi

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

V. Information on the Tree Sale Companies

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

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

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

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

As at 30 June 2007, the Tree Sale Companies had an aggregate unaudited net liabilities of approximately HK$8,190,000 based on the audited financial statements of each of FTFE and FTC for the year ended 30 June 2007. The following table shows certain financial information of each of FTFE, FTC and its subsidiaries for the 18 months ended 30 June 2005, the year ended 30 June 2006 and the year ended 30 June 2007 (prepared based on Hong Kong Financial Reporting Standards):

FTFE

	18 months ended 30 June 2005 (audited) *HK$'000*	Year ended 30 June 2006 (audited) *HK$'000*	Year ended 30 June 2007 (audited) *HK$'000*
Turnover	68,099	87,605	81,013
Net profit/(loss) before taxation and extraordinary items	(5,694)	1,044	(392)
Net profit/(loss) after taxation and extraordinary items	(5,694)	(357)	(392)

FTC and its subsidiaries (consolidated)

	18 months ended 30 June 2005 (audited) *HK$'000*	Year ended 30 June 2006 (audited) *HK$'000*	Year ended 30 June 2007 (audited) *HK$'000*
Turnover	58,625	76,558	70,881
Net profit/(loss) before taxation and extraordinary items	3,673	328	(408)
Net profit/(loss) after taxation and extraordinary items	4,050	(661)	(234)

VI. Reasons for and benefits of the Tree Acquisition

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

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

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

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

VII. Listing Rules implication

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

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

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

VI. Financial Effects

Effect of the Tree Acquisition on the earnings and assets and liabilities of the Company.

(1) Financial effects on earnings of the Company :

The Company will have its annual turnover increase from HK$ Nil (for the year ended 31 December 2006) to HK$81 million and loss attributable to equity holders of the Company be increased by HK$1.7 million to HK$14.3 million (HK$12.6 million for the year ended 31 December 2006) as a result of the Tree Acquisition.

(2) Financial effects on assets and liabilities of the Company :

The total assets of the Company will be increased by HK$144 million to HK$286 million while total liabilities of the Company will then be increased by HK$41 million to HK$114 million, thus an increase of total net assets of the Company by HK$103 million to HK$172 million, as a result from the Tree Acquisition. Liquidity position of the Company will be improved since the net current liabilities will be reduced by HK$36 million to become net current assets of HK$9 million after the Tree Acquisition.

Details of the above effects could be referred to Scenario A of the unaudited pro forma combined income statement and balance sheet in Appendix IV.

(2) PROPERTIES ACQUISITION

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

Date: 28 June 2007

Parties:

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

(2) Lead Power as the purchaser

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

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

(a) Lead Power being satisfied with the results of the due diligence review on the Properties Sale Companies;

(b) all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the Properties Acquisition Agreement and the transactions contemplated thereby having been obtained;

(c) the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of an ordinary resolution to approve the Properties Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the execution of the Properties Promissory Note and the Properties Share Charge;

(d) Lead Power having received from a firm of professional surveyors and valuers chosen by Lead Power a property valuation report on the Properties showing as at 15 June 2007 the value of Property 1 to be not less than HK$16,000,000, the value of Property 2 to be not less than HK$16,800,000 and value of Property 3 to be not less than HK$1,000,000; and

(e) the warranties given by the Vendors remaining true and accurate in all respects.

The Company has engaged the Property Valuer (an Independent Third Party and a third party independent of the Vendors and their connected persons as defined in the Listing Rules) to prepare the property valuation report set out in condition (d) above. The valuation is prepared based on open market basis by the Property Valuer assuming sale with the benefit of vacant possession with reference to comparable market transactions. A copy of the valuation report is set out in Appendix VI to this circular.

As at the Latest Practicable Date, conditions (a), (b) and (d) have been fulfilled.

Debt Guarantee:	Vendors have agreed to warrant and guarantee to Lead Power the Guaranteed Debt. If the actual amount of the Properties Sale Loans as at Properties Completion Date is less than the Guaranteed Debt, Vendor A shall be entitled to set off the difference against the payment obligations of the Company under Properties Promissory Note by the Company on a dollar to dollar basis.
Security:	Lead Power has agreed to charge, inter alia, all its interest in the Coast Shares and KPI Shares respectively in favour of Vendor A to secure the performance by the Lead Power of its obligations under the Properties Promissory Note.
Consideration:	The Properties Aggregate Consideration of HK$33,800,000 was determined after arm's length negotiation between the Vendors and Lead Power by reference to the aggregate valuation of the Properties conducted by an independent property valuer as at 15 June 2007 which the preliminary draft and indication by the valuer showed that the value of the Properties were not less than HK$33,800,000 in aggregate.
Payment terms:	The Properties Aggregate Consideration will be settled by way of the Company executing upon Properties Completion Date the Properties Promissory Note in an amount of HK$33.8 million to the Vendors.
Completion:	Completion of the Properties Acquisition is expected to take place on the third Business Day after all the conditions of the Properties Acquisition Agreement have been fulfilled on or before the Properties Long Stop Date or at such other date as the Vendors and Lead Power may agree. Completion of the Properties Acquisition is not inter-conditional to the Tree Acquisition, or vice versa.
Properties Supplemental Agreement:	On 19 September 2007, the Vendors and Lead Power entered into the Properties Supplemental Agreement extending the Properties Long Stop Date from 30 September 2007 to 31 December 2007 and reducing the interest payable under the Properties Promissory Note to 3% per annum.
Second Properties Supplemental Agreement:	Pursuant to the Second Properties Supplemental Agreement, parties to the Properties Acquisition Agreement has agreed to further extend the Properties Long Stop Date to 29 February 2008. Save as the Properties Long Stop Date, all other terms and conditions of the Properties Acquisition Agreement and the Properties Supplemental Agreement remain unchanged and valid.

II. The Properties Promissory Note

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

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

(1)	Principal amount	:	HK$33.8 million
(2)	Interest rate	:	The original interest rate was determined by reference to the Hong Kong Dollars prime lending rated quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time commencing from the Properties Completion Date. However, pursuant to the Properties Supplemental Agreement, parties to the Properties Acquisition Agreement has agreed to amend the interest rate at 3% per annum.
(3)	Default interest rate	:	6% over Hong Kong Dollars prime lending rated quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time
(4)	Repayment	:	Properties Promissory Note is repayable on or before sixty months from Properties Completion Date, or such other date as mutually agreed in writing by the Company and Vendor A ("**Properties Note Maturity Date**") The interest accrued shall be payable by the Company to Vendor A as follows: (a) First interest payment obligation shall be payable within one month after trading of shares of the Issuers has been resumed or six (6) months from the date of Properties Acquisition whichever is earlier; (b) Subject to (a) above, interest accrued thereafter shall be payable by the Company within three (3) business days after the last day of each calendar month thereafter; (c) All outstanding interest accrued shall be immediately due and payable on the Properties Note Maturity Date.
(5)	Redemption Period	:	the Company has the option to redeem the Properties Promissory Note in whole or in part at any time after three months from the date of the issue of the Properties Promissory Note up to the date immediately prior to the Properties Note Maturity Date.

III. Information on the Properties Sale Companies

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

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

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

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

KPI

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

Coast

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

IV. Reasons and benefits for the Properties Acquisition

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

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

V. Listing Rules implication

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

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

VI. Financial Effects

Effect of the Properties Acquisition on the earnings and assets and liabilities of the Company.

(1) Financial effects on earnings of the Company

The Company will have its annual turnover from HK$ Nil (for the year ended 31 December 2006) to HK$1.5 million and loss attributable to equity holders of the Company be increased by HK$3.2 million to HK$15.4 million (HK$12.6 million for the year ended 31 December 2006) as a result of the Properties Acquisition.

(2) Financial effects on assets and liabilities of the Company :

The Company will have its total assets increased by HK$33 million to HK$175 million and total liabilities increased by HK$36.8 million to HK$109.5 million while total net assets of the Company will be reduced by HK$3.3 million to HK$65.8 million as a result of the Properties Acquisition. Liquidity position of the Company will be improved by the constant cash inflow of monthly rental income of approximately HK$130,000 though the net current liabilities of the Company will be slightly increased by HK$2.8 million to HK$29.9 million as a result of the Properties Acquisition.

Details of the above effects could be referred to Scenario B of the unaudited pro forma combined income statement and balance sheet in Appendix IV.

(3) PLACING OF THE CONVERTIBLE BONDS

I. The Convertible Bonds

The Term Sheet

On 16 February 2007, the Company entered into the Term Sheet with the Placing Agent in respect of the conditional issue of the Convertible Bonds in the principal amount of HK$100 million. Details of the Convertible Bonds would be subject to the execution by the parties of the definitive agreement.

The CB Placing Agreement

On 24 April 2007, the Company and the Placing Agent entered into the CB Placing Agreement whereby details of the terms and conditions of the proposed issued of the Convertible Bonds were finalised.

The holders of the Convertible Bonds will be entitled to convert the Convertible Bonds into Conversion Shares at the Conversion Price and upon such conversion, will be entitled to receive three Bonus Shares.

The Board noted that the Company is at the third stage of delisting procedure and with difficult financial position the Company is facing, the Company has, upon arm's length negotiation, agreed with the Placing Agent, that the entitlement of the holders of the Convertible Bonds will be entitled to three Bonus Shares for each Conversion Share upon conversion of the Convertible Bonds at the Conversion Price of HK0.10 per Conversion Share will attract potential placees to subscribe for the Convertible Bonds.

Given the fully underwritten basis, the Company can be assured of the amounts of the proceeds that will be available to the Company when the Convertible Bonds are issued, and therefore can allocate with certainty its financial resources and will be able to generate HK$100 million cash in which approximately HK$52 million will be used to repay its outstanding indebtedness, HK$20 million will be used to settle the promissory note issued as consideration for the Tree Acquisition, and the remaining as general working capital, which in turn will reduce bank interest expenses and further improve the overall financial position of the Group. In view of the above, the Board considers the terms of the CB Placing Agreement as amended by the CB Supplemental Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The principal terms of the Convertible Bonds are set out in the section "II. Principal terms of the Convertible Bonds" below.

The Placing Agent will receive a placing commission of 2.5% of the principal amount of the Convertible Bonds.

The CB Supplemental Agreement

On 19 September 2007, the Company and the Placing Agent entered into the CB Supplemental Agreement extending the Long Stop Date from 30 September 2007 to 31 December 2007 and amending the term of the Instrument constituting the Convertible Bonds by the addition of a right to the Company to mandatorily demand conversion of the Convertible Bonds into Conversion Shares during the Conversion Period.

Second CB Supplemental Agreement

On 17 December 2007, the parties to the CB Placing Agreement entered into the Second CB Supplemental Agreement agreeing to further extend the Long Stop Date to 29 February 2008.

Save as the Long Stop Date, all other terms and conditions of the CB Placing Agreement and the CB Supplemental Agreement remain unchanged and valid.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of the Placing Agent and its ultimate beneficial owners being Ms. Chu Yuet Wah and Ms. Ma Siu Fong is an Independent Third Party. Ms. Chu Yuet Wah and Ms. Ma Siu Fong are the vendors of the Properties Acquisition, details of which were set out in the Acquisitions Announcement and the ultimate beneficial owners of Kingston Finance Limited, a major creditor of the Company.

II. Principal terms of the Convertible Bonds

Issuer:	the Company
Placing Agent:	Kingston Securities Limited
Basis:	Fully underwritten basis
Placees:	Not less than six placees to be procured by the Placing Agent who, and each of their ultimate beneficial owners (where appropriate), are third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company. The placees and their ultimate beneficial owners (where appropriate) will also be third parties independent of (a) Brightpower and its ultimate beneficial owners and their respective associates; and (b) Ms. Chu Yuet Wah and Ms. Ma Siu Fong and their respective associates. The Placing Agent will not place to any placee an amount of the Convertible Bonds which will entitle each holder of the Convertible Bonds and their respective associates to become a substantial shareholder (as defined under the Listing Rules) of the Company upon full conversion of their respective Convertible Bonds and the issue of the corresponding Bonus Shares. The Placing Agent has given an undertaking to the Company that it will appoint sub-placing agents (where appropriate) to ensure sufficient amounts of the Convertible Bonds will be placed to sufficient number of placees so that the Placing Agent will not have to underwrite such amounts of the Convertible Bonds entitling it to convert into 30% or more of the equity interest in the Company upon full conversion, and the Placing Agent's equity interest in the Company will not be more than the Kong's family's interest in the Company, holding in aggregate 1,525,507,921 Shares as at the date of this announcement.
Amount:	HK$100 million
Maturity Date:	Three years from the date of issue of the Convertible Bonds
Conversion Period:	The Convertible Bonds can be converted, at the option of the holders of the Convertible Bonds, at any time and from time to time from the date of issue of the Convertible Bonds to and include the Maturity Date
Coupon:	8% per annum, payable semi-annually in arrears
Security:	The Convertible Bonds will be unsecured

Conversion Price:	HK$0.10 per Conversion Share The conversion price will be subject to adjustments for, amongst other things, consolidations or subdivisions of Shares, capital distributions, bonus issues, rights issues and other usual events which may have a dilution effect on the Conversion Shares to be allotted and issued to the holders of the Convertible Bonds upon the exercise of the conversion right attached to under the Convertible Bonds.
Conversion Shares:	1,000,000,000 Conversion Shares will be issued pursuant to a specific mandate to be sought at the EGM to approve the Convertible Bonds and the transactions contemplated thereunder. The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue at the date of allotment and issue of such Conversion Shares.
Transferability:	With the prior notification to the Company, the Convertible Bonds (or any part thereof) may be transferred or assigned by the holders of the Convertible Bonds in whole or in multiples of HK$1,000,000 to any party other than a connected person of the Company. Any proposed transfer to a connected person of the Company or its associates shall be subject to the prior consent of the Company, and where applicable, compliance by the holders of the Convertible Bonds with the relevant laws and regulations, including but not limited to the Listing Rules.
Bonus Shares:	Upon exercise of the conversion right attached to the Convertible Bonds for the Conversion Shares, the holders of the Convertible Bonds will be entitled to receive three Bonus Shares for every Conversion Share so converted. 3,000,000,000 Bonus Shares will be credited as fully paid by way of capitalization of an amount of not less than HK$300 million in the share premium account of the Company earmarked for this purpose. Assuming full conversion of the Convertible Bonds, 1,000 million Conversion Shares and 3,000 million Bonus Shares will be issued to the holders of the Convertible Bonds on the basis of three Bonus Shares for each Conversion Share. The aggregate 4,000 million Conversion Shares and Bonus Shares to be issued represent approximately 156% of the existing issued share capital of the Company and approximately 61% of the enlarged issued share capital of the Company.

The Bonus Shares will be issued pursuant to a specific mandate to be sought at the EGM to approve the Convertible Bonds and the transactions contemplated thereunder.

The Bonus Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue at the date of allotment and issue of such Bonus Shares.

Redemption: The Company has the right to redeem at any time during the Conversion Period all or part of the outstanding Convertible Bonds in multiples of HK$1,000,000 at its par value.

The Convertible Bonds may be redeemed by the holders of the Convertible Bonds after end of the 24th month from the date of issue of the Convertible Bonds to the Maturity Date or upon occurrence of an event of default and if so requested in writing by the holders of the Convertible Bonds. The following events will constitute an event of default:

(i) non-payment of any amount due under any Convertible Bonds;

(ii) appointment of receivership, declaration of insolvency or a bankruptcy petition against the Company;

(iii) the Group as a whole ceases to carry on its ordinary course of business;

(iv) adverse material change in the business nature of the Group as a whole;

(v) material cross default by the Company or any of its subsidiaries;

(vi) trading in the Shares on the Stock Exchange being suspended for a period of more than ten (10) consecutive trading days excluding any suspension for the purposes of clearing any announcement and circular in relation to any transactions conducted on the part of the Company under the Listing Rules; or

(vii) material adverse change in the financial condition of the Company or any of its subsidiaries.

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

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

(i) a premium of 300% over the closing price of HK$0.025 per Share as quoted on the Stock Exchange on 16 June 2004, being the last trading day before the date of the CB Announcement;

(ii) a premium of approximately 297% over the average of the closing prices of approximately HK$0.0252 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to 16 June 2004, being the last trading day before the date of the CB Announcement;

(iii) a premium of approximately 248% over the audited consolidated net asset value of the Company per Share of approximately HK$0.029 as at 31 December 2006; and

(iv) the nominal price of the Share of HK$0.10 each.

Since three Bonus Shares will be issued upon successful conversion of one Conversion Share, for illustration purpose, the average price of HK$0.025 for each of the Conversion Share and the three Bonus Shares represents:

(i) the same price of HK$0.025 per Share as quoted on the Stock Exchange on 16 June 2004, being the last trading day before the date of the CB Announcement;

(ii) a discount of approximately 0.79% to the average of the closing prices of approximately HK$0.0252 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to 16 June 2004, being the last trading day before the date of the CB Announcement;

(iii) a discount of approximately 12.96% to the audited consolidated net asset value of the Company per Share of HK$0.029 as at 31 December 2006; and

(iv) a discount of 75% to the nominal price of the Share of HK$0.10 each.

The following table illustrates the shareholding structure of the Company upon full conversion of the Convertible Bonds, issue of the Bonus Shares and full conversion of the Tree Convertible Bonds which will not result in a change of control of the Company.

Shareholders	Shares in issue as at the date of the resumption proposal		Shares in issue upon full conversion of Convertible Bonds and issue of the Bonus Shares		Shares in issue upon full conversion of Convertible Bonds and issue of Bonus Shares and the conversion of the Tree Convertible Bonds	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Kong Fa	1,053,850,042	41.15	1,053,850,042	16.06	1,053,850,042	15.14
KSE	403,375,794	15.75	403,375,794	6.15	403,375,794	5.79
Kong Look Sen (deceased) *(Note 1)*	22,760,695	0.89	22,760,695	0.35	22,760,695	0.33
Kong Li Jer *(Note 2)*	22,760,695	0.89	22,760,695	0.35	22,760,695	0.33
Mr. Kong	22,760,695	0.89	22,760,695	0.35	22,760,695	0.33
Subtotal for Kong's Family	1,525,507,921	59.56	1,525,507,921	23.25	1,525,507,921	21.91
Brightpower	–	–	–	–	400,000,000	5.75
Public						
Existing public shareholders	1,035,659,000	40.44	1,035,659,000	15.78	1,035,659,000	14.88
Holders of Convertible Bonds *(Note 3)*	–	–	4,000,000,000	60.96	4,000,000,000	57.46
Subtotal for public Shareholders	1,035,659,000	40.44	5,035,659,000	76.75	5,035,659,000	72.34
Total	2,561,166,921	100	6,561,166,921	100	6,961,166,921	100

Notes:

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

2. Brother of Mr. Kong.

3. Not less than six placees to be procured by the Placing Agent. The Placing Agent undertakes that no Convertible Bond holder will take up upon conversion 30% or more of the equity interest nor become a substantial holder. Thus, there will not be a change in control of the Company upon the completion of full conversion of the Convertible Bonds.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the Bonus Shares which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds.

The Company has undertaken to the Stock Exchange that it will notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company.

III. Conditions precedent to the issue of the Convertible Bonds

The issue of the Convertible Bonds is conditional upon the following conditions being satisfied on or before the Long Stop Date:

(a) the Stock Exchange approving the resumption of trading in the Shares of the Company;

(b) the obtaining of the necessary shareholders' approval of the Company at the EGM in relation to the CB Placing Agreement, the CB Supplemental Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds, the allotment and issue of up to 1,000,000,000 Conversion Shares; and the allotment and issue of up to 3,000,000,000 Bonus Shares;

(c) 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 and the Bonus Shares; and

(d) the Shareholders passing at the EGM the necessary resolution approving the increase of the authorised shares capital of the Company from HK$400,000,000 to HK$4,000,000,000.

If the above conditions are not satisfied on the Long Stop Date, or such later time or date as may be agreed between the Placing Agent and the Company in writing, the Placing Agent may, at any time thereafter, terminate its obligations under the CB Placing Agreement by notice in writing to the Company, whereupon the obligations of the Placing Agent under the CB 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.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

IV. Use of proceeds

The net proceeds of approximately HK$97 million (being gross proceeds of HK$100 million net of professional service fee of HK$3 million) from the issue of the Convertible Bonds will be used as to approximately HK$52 million (including HK$10,046,000, HK$40,154,000 and HK$1,800,000 for trade and other payable, current bank and other borrowing and non-current bank and other borrowing respectively) to repay all the Group's outstanding indebtedness (including the outstanding indebtedness owed by the Group to Kingston Finance Limited), HK$20 million will be used to settle the Tree Promissory Note, and the remaining balance as general working capital of the Group.

V. Listing Rules implication

As at the Latest Practicable Date, as the Company did not have a general mandate to issue and allot Shares, the issue of the Conversion Shares upon the conversion of the Convertible Bonds and the issue of the Bonus Shares will be made under a specific mandate to be obtained from the Shareholders at the EGM.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, none of the Shareholders have any material interest in the CB Placing Agreement and the CB Supplemental Agreement. Accordingly, no Shareholder is required to abstain from voting in EGM to be convened to approve the CB Placing Agreement, the CB Supplemental Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds, the allotment and issue of up to 1,000,000,000 Conversion Shares; and the allotment and issue of up to 3,000,000,000 Bonus Shares.

The Directors, including the independent non-executive Directors, believe the terms of the CB Placing Agreement and the CB Supplemental Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In view of the extent of the dilution effect of the Convertible Bonds, the Company will disclose by way of an announcement all relevant details of the conversion of the Convertible Bonds in the following manner:

(i) the Company will make a monthly announcement (the "**Monthly Announcement**") on or before the tenth business day following the end of each calendar month and will include the following details in a table form:

a. whether there is any conversion of the Convertible Bonds during the previous calendar month. If there is a conversion, details thereof including the conversion date, number of the Conversion Shares issued and the Conversion Price for each conversion. If there is no conversion during the previous calendar month, a negative statement to that effect;

b. the amount of outstanding Convertible Bonds after the conversion, if any;

c. the total number of new Shares issued pursuant to other transactions during the previous calendar month, including the new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

d. the total issued share capital of the Company as at the commencement and the last day of the previous calendar months;

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of the Conversion Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be); and

(iii) if the Company forms the view that any issue of Conversion Shares will trigger the disclosure requirements under Listing Rule 13.09(1), then the Company will make such disclosures regardless of the issue of any announcements in relation to the Convertible Bonds as mentioned in (i) and (ii) above.

(4) OVERALL FINANCIAL EFFECTS

Effect of the Free Acquisition, the Properties Acquisition and the placing of the Convertible Bonds on the earnings and assets and liabilities of the Company.

(1) Financial effects on earnings of the Company

The Company will have its annual turnover from HK$ Nil (for the year ended 31 December 2006) to HK$82.6 million and loss attributable to equity holders of the Company be increased by HK$11 million to HK$23 million as a result of the Tree Acquisition, the Properties Acquisition and the placing of the Convertible Bonds.

(2) Financial effects on assets and liabilities of the Company

The Company will have its net assets increased by approximately HK$196.5 million to approximately HK$265.6 million. Liquidity position of the Company will be vastly improved since the net current liabilities of the Company will be eliminated and turned to net current assets of HK$81.5 million, an increase of HK$108.6 million in net current assets as a result of the Tree Acquisition, the Properties Acquisition of the placing of the Convertible Bonds.

Details of the above effects could be referred to Scenario C of the unaudited pro forma combined income statement and balance sheet in Appendix IV.

(5) INCREASE IN AUTHORIZED SHARE CAPITAL

In order to ensure that sufficient number of unissued Shares are available for the issue of the Tree Conversion Shares, the Conversion Shares and the Bonus Shares and to accommodate for future expansion and growth, the Board proposes to increase the authorized share capital of the Company from HK$400,000,000 divided into 4,000,000,000 Shares to HK$4,000,000,000 divided into 40,000,000,000 Shares each by the creation of an additional 3,600,000,000 unissued Shares of HK$0.10 each. Such new Shares, upon issue, shall rank pari passu in all respects with the then existing Shares.

The increase in the authorized share capital of the Company is a condition precedent to the CB Placing Agreement.

The proposed increase in authorized share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. No Shareholder is required to abstain from voting on such resolution.

(6) THE EGM

At the EGM to be convened, the necessary ordinary resolutions will be proposed to consider and, if thought fit, to approve (1) the Tree Acquisition Agreement as amended by the Tree Supplemental Agreement and the transactions contemplated respectively thereunder including the issue of the Tree Convertible Bonds and the Tree Conversion Shares upon exercise of the conversion rights attached to the Tree Convertible Bonds; (2) the Properties Acquisition Agreement as amended by the Properties Supplemental Agreement and the transactions contemplated respectively thereunder; (3) the CB Placing Agreement as amended by the CB Supplemental Agreement and the transactions contemplated respectively thereunder including the issue of the Convertible Bonds, the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds and the issue of the Bonus Shares; and (4) the increase in the authorised share capital of the Company.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, none of the Shareholders have any material interests in the Tree Acquisition, Properties Acquisition and the issuance of the Convertible Bonds, and no Shareholder is required to abstain from voting the relevant resolutions in the EGM.

The notice of EGM is set out on pages 273 to 276 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy, in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PROCEDURE TO DEMAND A POLL AT THE EGM

According to the existing Article 60, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded. Subject to the Company Ordinances, a poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person or by proxy entitled to vote at the meeting; or

(c) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(d) any Shareholder or Shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Subject to the Shareholders passing the special resolution at the extraordinary general meeting to be held on 15 November 2007 amending the existing M&A, the existing Article 60 will be replaced by the following new Article 60:

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the chairman of the meeting; or

(b) by at least three shareholders present in person (or, in the case of a Member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by any Member or Members present in person (or, in the case of a Member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right vote at the meeting; or

(d) by any Member or Members present in person (or, in the case of a Member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the Listing Rules, by the chairman of the meeting, any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five (5) per cent or more of the total voting rights at such meeting.

Unless a poll is so demanded and the demand id not withdrawn, a declaration by the chairman that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or nor carried by a particular majority or lost shall be final and conclusive, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

The Board will notify the Shareholders attending the EGM as to which Article 60 will be used for the EGM.

(7) RECOMMENDATIONS

The Directors consider that each of the terms of the Tree Acquisition Agreement as amended by the Tree Supplemental Agreement, the Properties Acquisition Agreement as amended by the Properties Supplemental Agreement, the CB Placing Agreement as amended by the CB Supplemental Agreement and the transactions contemplated respectively thereunder are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the aforesaid agreements and the transactions contemplated respectively thereunder.

The Directors further consider that the proposed increase in the authorized share capital of the Company are beneficial to and in the best interests of the Company and the Shareholders as a whole as it provides flexibility for future expansion and growth of the Company and is one of the condition precedent to the CB Placing Agreement. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM for approving the increase in the authorised share capital of the Company.

ADDITIONAL INFORMATION

The principal activities of the Group are property investment and development.

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

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of
The Board of Directors of
Kong Sun Holdings Limited
Tse On Kin
Chairman

I. FINANCIAL INFORMATION

1. Three years summary

Income statement

	Year ended 31 December 2006 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2004 *HK$'000*
TURNOVER	–	221	12,329
Other revenue	40	614	1,055
Cost of properties sold	–	(102)	(8,268)
Staff costs	(598)	(1,143)	(2,931)
Depreciation and amortisation	–	(40)	(295)
Other operating expenses	(3,917)	(85,020)	(23,891)
Gain on discontinued operations	–	–	435
Net loss on properties and investments	–	–	(241)
Write down of property development	–	(2,080)	–
LOSS FROM OPERATIONS	(4,475)	(87,550)	(21,807)
Finance costs	(4,549)	(4,360)	(4,460)
Share of results of associates	(3,640)	(7,831)	(3,732)
LOSS BEFORE TAXATION	(12,664)	(99,741)	(29,999)
Taxation	–	–	(164)
LOSS FOR THE YEAR	(12,664)	(99,741)	(30,163)
ATTRIBUTABLE TO:			
Equity holders of the Company	(12,663)	(99,735)	(29,962)
Minority interests	(1)	(6)	(201)
	(12,664)	(99,741)	(30,163)

Balance sheet

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Investment properties	–	–	15,666
Property, plant and equipment	–	–	410
Interest in associates	91,509	88,572	96,526
Available-for-sale securities	6,537	6,537	6,537
	98,046	95,109	119,139
CURRENT ASSETS			
Property development	2,188	–	–
Trade and other receivables	396	414	2,457
Loan and interest receivables	39,510	39,510	39,510
Consideration receivables	–	2,771	78,679
Pledged deposits	40	37	37
Cash and cash equivalents	34	82	862
	39,980	42,814	123,733
CURRENT LIABILITIES			
Trade and other payables	29,451	25,398	19,763
Bank and other borrowings	33,169	30,404	43,053
Obligations under finance leases	12	19	6
Tax payable	48	48	48
	62,680	55,869	62,870
NET CURRENT LIABILITIES	(22,700)	(13,055)	60,863
TOTAL ASSETS LESS CURRENT LIABILITIES	75,346	82,054	180,002
NON-CURRENT LIABILITIES			
Bank and other borrowings	1,800	1,800	–
Obligations under finance leases	–	–	15
NET ASSETS	73,546	80,254	179,987
CAPITAL AND RESERVES			
Share capital	256,116	256,116	256,116
Reserves	(182,583)	(175,876)	(76,149)
Total equity attributable to equity holders of the Company	73,533	80,240	179,967
Minority interests	13	14	20
	73,546	80,254	179,987

2. Latest published audited consolidated financial results of the Company for the year ended 31 December 2006 with notes

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

(Expressed in Hong Kong dollars)

		2006		2005	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

	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

BALANCE SHEET

As at 31 December 2006

(Expressed in Hong Kong dollars)

		2006		2005	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

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

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)

	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

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.

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.

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).

(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.

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.

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.

(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)).

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).

(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.

(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.

(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)).

(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.

– 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.

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.

(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)).

(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.

(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.

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.

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.

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.

(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.

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.

(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.

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.

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

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*

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	**2005**
	HK$'000	*HK$'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	–	–

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

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.

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)).

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.

	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)

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:

(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	–	–	–	–	–	–

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	–	–

14. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Building held for own use HK$'000	Leasehold improvements HK$'000	Office furniture and equipment HK$'000	Motor vehicles HK$'000	Total fixed assets 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	–	–	–	–	–

(b) The Company

	Office furniture and equipment 2006 HK$'000	Office furniture and equipment 2005 HK$'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	–	–

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

(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.

(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*

(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.

(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.

Name of company	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
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

Name of company	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
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.*

17. GOODWILL

	The Group 2006 HK$'000	2005 HK$'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

(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.*

(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.

(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	**2005**
	HK$'000	*HK$'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)

(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)

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.

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.

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.

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.

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

(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).

(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.

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.

(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

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

(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.

(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.

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

(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).

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.

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

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

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.

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.

(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.

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

(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.

(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.

(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

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	–	–

(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.

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).

(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.

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.

(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.

(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

28. OBLIGATIONS UNDER FINANCE LEASES

The Group

	2006		**2005**	
	Present value of minimum lease payments	**Total minimum lease payments**	**Present value of minimum lease payments**	**Total minimum lease payments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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.

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.

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

(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

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.

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:

	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.

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.

(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.

(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.

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.

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.

(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.

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.

(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.

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.

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.

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.

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.

(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.

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.

(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.

(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:

	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.

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;

– 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.

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.

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.

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.

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;

– 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.

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.

(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.

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

Latest unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2007:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2007

		For the six months ended 30 June	
		2007	**2006**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Turnover		–	–
Other revenue		929	40
Staff costs		(521)	(283)
Other operating expenses		(2,130)	(1,726)
Loss from operations		(1,722)	(1,969)
Finance costs	*4*	(2,675)	(2,271)
Share of profits less losses of associates		(15)	73
Loss before taxation	*5*	(4,412)	(4,167)
Income tax	*6*	–	–
Loss for the period		(4,412)	(4,167)
Attributable to:			
Equity holders of the Company		(4,412)	(4,181)
Minority interests		–	14
		(4,412)	(4,167)
Loss per share – Basic	7	(0.17 cents)	(0.16 cents)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2007

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Non-current assets					
Interests in associates		91,494	91,509	88,645	88,572
Available-for-sale securities		6,537	6,537	6,537	6,537
		98,031	98,046	95,182	95,109
Current assets					
Trade receivables	8	–	–	–	–
Other receivables		396	396	419	414
Loan and interest receivables		39,510	39,510	39,510	39,510
Pledged deposit		40	40	37	37
Cash and cash equivalents		3,893	34	197	82
		43,839	39,980	40,163	42,814
Current liabilities					
Trade payables	9	4,273	4,000	4,000	4,000
Other payables		26,674	25,451	20,064	21,398
Bank and other borrowings		39,940	33,169	33,327	30,404
Obligations under finance leases		1	12	19	19
Tax payable		48	48	48	48
		70,936	62,680	57,458	55,869
Net current liabilities		(27,097)	(22,700)	(17,295)	(13,055)
Total assets less current liabilities		70,934	75,346	77,887	82,054
Non-current liabilities					
Bank and other borrowings		1,800	1,800	1,800	1,800
		69,134	73,546	76,087	80,254
Capital and reserves					
Share capital	10	256,116	256,116	256,116	256,116
Reserves		(186,995)	(182,583)	(180,043)	(175,876)
Total equity attributable to equity holders of the Company		69,121	73,533	76,073	80,240
Minority interests		13	13	14	14
		69,134	73,546	76,087	80,254

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share Capital	Share premium account	Capital Redemption reserves	General reserves	Investment property revaluation reserve	Exchange fluctuation reserve	Special reserve	Accumulated losses	Total	Minority interest	Total Equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	256,116	329,049	20	18,000	–	732	9,329	(533,006)	80,240	14	80,254
Net loss for the period	–	–	–	–	–	–	–	(4,167)	(4,167)	–	(4,167)
At 30 June 2006	256,116	329,049	20	18,000	–	732	9,329	(537,173)	76,073	14	76,087
Exchange realignment	–	–	–	–	–	5,956	–	–	5,956	–	5,956
Net loss for the period	–	–	–	–	–	–	–	(8,496)	(8,496)	(1)	(8,497)
At 1 January 2007	256,116	329,049	20	18,000	–	6,688	9,329	(545,669)	73,533	13	73,546
Net loss for the period	–	–	–	–	–	–	–	(4,412)	(4,412)	–	(4,412)
At 30 June 2007	256,116	329,049	20	18,000	–	6,688	9,329	(550,081)	69,121	13	69,134

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH USED IN OPERATING ACTIVITIES	(1,308)	(537)
NET CASH GENERATED FROM INVESTING ACTIVITIES	–	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	5,167	652
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,859	115
Cash and cash equivalents at beginning of period	74	119
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,933	234
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,893	197
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	40	37
	3,933	234

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements should be read in conjunction with the 2006 audited financial statements.

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the Group’s audited financial statements for the year ended 31 December 2006.

These condensed consolidated 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 HKICPA, and accounting principles generally accepted in Hong Kong.

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. 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 period presented. The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period.

The following new and revised HKFRSs that affect the Group and are adopted for the first time in the current period’s financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment

The adoption of these new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

3. 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.

(a) Business segments

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

	Property investment and development For the six months ended 30 June		Financial services For the six months ended 30 June		Elimination For the six months ended 30 June		Consolidation For the six months ended 30 June	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Revenue from external customers	–	–	–	–	–	–	–	–
Intersegment sales	–	–	–	–	–	–	–	–
Other revenue and net income from external customers	–	40	–	–	–	–		40
Total	–	40	–	–	–	–		40
Segment results	(322)	(191)	(5)	(35)	–	–	(327)	(226)
Unallocated operating expenses							(1,395)	(1,743)
Loss from operations							(1,722)	(1,969)
Finance costs							(2,675)	(2,271)
Share of profits less losses of associates							(15)	73
Loss before taxation							(4,412)	(4,167)
Income tax							–	–
Loss for the period							(4,412)	(4,167)

	Property investment and development		Financial services		Unallocated corporate assets and liabilities		Consolidated	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities								
Segment assets	6,547	6,600	39,512	39,512	–	–	46,059	46,112
Interests in associates	91,494	91,509	–	–	–	–	91,494	91,509
Unallocated corporate assets	–	–	–	–	4,317	405	4,317	405
Total assets	98,041	98,109	39,512	39,512	4,317	405	141,870	138,026
Segment liabilities	10,552	10,243	19	19	–	–	10,571	10,262
Unallocated corporate liabilities	–	–	–	–	62,165	54,218	62,165	54,218
Total liabilities	10,552	10,243	19	19	62,165	54,218	72,736	64,480

(b) Geographical segments

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

	Hong Kong		Mainland China		Malaysia		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Revenue from external customers	–	–	–	–	–	–	–	–

	Hong Kong		Mainland China		Malaysia		Consolidated	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information								
Segment assets	43,402	32,447	–	–	98,468	105,579	141,870	138,026
Segment liabilities	62,445	54,402	–	–	10,291	10,078	72,736	64,480

4. FINANCE COSTS

	For the six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	2,675	519
Other loans wholly repayable beyond five years	–	1,752
	2,675	2,271

5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Staff cost (including directors' remuneration)		
– Contributions to defined contribution retirement plan	3	11
– Salaries, wages and other benefits	518	272
	521	283

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period ended 30 June 2007 and 2006.

No provision for overseas taxation has been made as the overseas subsidiaries had no estimated assessable profits arising from their jurisdictions during the period ended 30 June 2007 and 2006.

The Group did not have material unprovided deferred tax as at the balance sheet date

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately HK$4,412,000 (2006: HK$4,181,000) and on the weighted average of 2,561,167,000 (2006: 2,561,167,000) shares in issue during the period.

Diluted loss per share for the periods ended 30 June 2007 and 30 June 2006 have not been shown as there were no dilutive potential ordinary shares during those periods.

8. TRADE RECEIVABLES

Trade receivables at the balance sheet date with ageing analysis, based on invoice date, are as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Current	–	–
1-3 months	–	–
3-12 months	–	–
Over 1 year	14,937	14,937
	14,937	14,937
Less: Impairment	(14,937)	(14,937)
	–	–

9. TRADE PAYABLES

Trade payables at the balance sheet date with ageing analysis, based on payment due date, are as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Current	273	–
4-6 months	–	–
7-12 months	–	–
Over 1 year	4,000	4,000
	4,273	4,000

10. SHARE CAPITAL

	30 June 2007 *HK$'000*	31 December 2006 *HK$'000*
Authorised:		
4,000,000,000 (2006: 4,000,000,000) ordinary shares of HK$0.10 each	400,000	400,000
Issued and fully paid:		
2,561,166,921 (2006: 2,561,166,921) ordinary shares of HK$0.10 each	256,116	256,116

11. OPERATING LEASE COMMITMENTS

The Group did not have future minimum lease payments under non-cancellable operating leases as at the balance sheet dates.

12. LITIGATION

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

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.

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.

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

In 2003, Xswim Technology Limited ("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. At 30 June 2007, the outstanding bank borrowings, interest thereon and litigation expense in total due to Public Bank were approximately HK$3,577,000.

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 report, the said 21 day period has already expired but no winding up proceedings have been commenced by Public Bank.

Pursuant to a revocable deed of assignment entered into between Best Spot Investments Limited, a wholly-owned subsidiary of the Company, and Public Bank dated 20 November 2005, 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 Property Development Joint Stock Company Limited ("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 report, 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.

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

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. By a deed of settlement dated 29 June 2007, the Group repaid approximately HK$2,939,000 to DBS as full and final settlement.

(d) A potential investor

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.

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) Limited ("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 report, this action is still in progress and no hearing date has been fixed.

In the opinion of the directors, in 2002, Xswim Holding, 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 Limited ("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 report, no action has been taken by the Ex-landlord in respect of the default in repayments of the unsettled amount.

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 Limited ("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 report, this action is still in progress and no hearing date has been fixed.

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.

From March 2007 to 30 June 2007, the Group repaid a sum of approximately HK$750,000 to the Creditor.

(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.

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

13. CONTINGENT LIABILITIES

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 report.

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.

II. INDEBTEDNESS STATEMENT

As at the close of business on 31 October 2007, the Group had outstanding bank loans and other borrowings of approximately HK$49.5 million (of which approximately HK$32.9 million was secured).

As at 31 October 2007, the Group had contingent liabilities in respect of the obligation to buy back a franchise license and to pay merchandising assistance as a result of the signing of an exclusive franchise agreement with a franchisee on 1 January 2003. No action has ever been taken by the franchisee against the Group. Since the directors are of the opinion that the franchisee would not be entitled or able to either exercise the option to resell the underlying franchise license to the Group or demand the payment of the merchandising assistance, no provision for commitment or loss has been accounted for in the statement.

Save as foresaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding as at 31 October 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgage, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

III. WORKING CAPITAL STATEMENT

The Directors are of the opinion that in the absence of unforeseen circumstances and subject to the completion of the issue of the Convertible Bonds in an aggregate principal amount of HK$100,000,000, the Group will have sufficient working capital up to 31 December 2008. Otherwise, the Directors are of the opinion that the Group would not have adequate fund to enable it to operate as a going concern in the foreseeable future.

IV. MATERIAL ADVERSE CHANGE STATEMENT

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

V. MANAGEMENT DISCUSSION AND ANALYSIS OF EACH OF THE EXISTING GROUP

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.

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.

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.

VI. FINANCIAL AND TRADING PROSPECTS

General information on the trend of the business of the Group

The Group is only maintaining its property investment business of commercial and residential projects in Malaysia. However, due to the lingering development progress in Malaysia, the operating income generated from the segment has been kept shrinking. Operating revenue from Malaysia has decreased from HK$8,134,000 in 2004 to HK$102,000 in 2005 and reduced to nil in 2006. With the trend of decreasing revenue derived from the property investment business in Malaysia, the Group has to seek for other investment opportunities to improve its financial returns.

Trading prospect of the Group

In order to increase the financial returns and to improve the financial performance of the Group, acquisitions of other businesses becomes inevitable and imminent to the Group. The acquisition of the Properties Companies (properties investment business) not only provides a synergy on the management to the existing business of the Group, but it also provides a steady income flow to strengthen the financial base of the Group. The acquisition of the Trees Companies (Christmas trees business), on the other hand, represents a diversification of investment of the existing business portfolio of the Group. Given the already-possessed operating and management skills and personnel as well as the good performance records of the Tree Companies, the acquisition will certainly add invaluable worth to the Group.

VII. FUTURE PROSPECTS OF THE ENLARGED GROUP

With the issuance of Convertible Bonds and completion of the Properties Acquisition and Tree Acquisition, the Company is expected to be able to reduce the existing indebtedness and secure a sufficient level of working capital for operation.

To better control the diverse operations, the Company will be managed by business unit and each team will be comprised of workforce with relevant experience and expertise.

The Company believes that the business unit of life-like decorative plants will continue to prosper and resources will be allocated to further boost the sales and refine the manufacturing process in order to improve the production efficiency and effectively which in turn improve the profitability of the business. The Company will also consider expanding the business to new geographic markets. In future, the Company may consider extending the existing product variety to capture new market segments after thorough feasibility study.

For the business unit of property investment, the Company will identify and attract potential tenants to the properties under the Properties Acquisition. At the same time, the Company will also closely monitor the property market trend and consider further acquisition should opportunities arise.

Other than these operations, the Company will continue to identify feasible projects with the objective to maximise the returns to shareholders and strengthen the foundation of the Company in the long term.

(A) ACCOUNTANTS' REPORT ON FT FAR EAST

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the following accountants' report is available for inspection.

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to FT Far East Limited ("FT Far East") including the income statement and statements of changes in equity for the period from 1 January 2004 to 30 June 2005 and each of the years ended 30 June 2006 and 2007 and the balance sheet of FT Far East as at 30 June 2005, 30 June 2006 and 30 June 2007 and the notes thereto (the "Financial Information") for inclusion in the circular of Kong Sun Holdings Limited dated 31 December 2007 (the "Circular") in connection with the proposed acquisition of FT Far East (the "Acquisition") as described more fully in the section headed "Letter from the Board" contained in the Circular.

FT Far East was established in Hong Kong on 9 August 1994 as a company with limited liability under the Company Ordinance, and it was principally engaged in the trading of Life-Like decorative plant.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRSs"). The financial statements are prepared under the historical cost convention except that certain financial instruments are measured at fair value.

The statutory financial statements of FT Far East, which were prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, 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, were audited during the relevant period by the statutory auditors as indicated below:

Name of company	Financial period	Auditors
FT Far East Limited	Period from 1 January 2004 to 30 June 2005 Years ended 30 June 2006 and 2007	CCIF CPA Limited

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the FT Far East's Financial Information for the relevant period presented in this report in accordance with the basis of presentation set out in Section B below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of FT Far East (as reflected in Section A of this report) for the relevant period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the FT Far East in respect of any period subsequent to 30 June 2007.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the FT Far East, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out in Section B below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the results, changes in equity and cash flows of the FT Far East for each of the relevant period and of the state of the affairs of the FT Far East as at 30 June 2005, 30 June 2006 and 30 June 2007.

A. FINANCIAL INFORMATION

1. INCOME STATEMENT

(Express in Hong Kong dollars)

		1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	Note	*HK$*	*HK$*	*HK$*
TURNOVER	*5 & 10*	68,098,677	87,604,901	81,013,458
COST OF SALES		(60,946,737)	(78,320,014)	(72,561,524)
GROSS PROFIT		7,151,940	9,284,887	8,451,934
OTHER REVENUE	*5*	1,613,508	1,127,109	1,545,692
SELLING EXPENSES		(2,064,411)	(2,291,321)	(1,704,924)
ADMINISTRATIVE EXPENSES		(10,855,014)	(6,828,572)	(6,669,562)
OTHER OPERATING EXPENSES		(1,410,720)	(58,845,666)	(1,172,557)
(LOSS)/PROFIT FROM OPERATIONS		(5,564,697)	(57,553,563)	450,583
FINANCE COSTS	*6*	(129,672)	(63,732)	(58,290)
(LOSS)/PROFIT BEFORE TAXATION	*7*	(5,694,369)	(57,617,295)	392,293
INCOME TAX	*9*	–	(1,401,230)	–
(LOSS)/PROFIT FOR THE YEAR		(5,694,369)	(59,018,525)	392,293

The accompanying notes form part of the financial statements.

2. BALANCE SHEET

(Express in Hong Kong dollars)

	Note	30 June 2005	30 June 2006	30 June 2007
		HK$	*HK$*	*HK$*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	1,054,781	818,283	658,861
CURRENT ASSETS				
Due from fellow subsidiaries	*12*	58,554,157	–	–
Trade receivable	*13*	7,041,370	1,945,208	4,343,466
Deposits and other receivable		291,590	358,149	191,044
Bills receivable		–	602,840	–
Tax recoverable		159,201	–	–
Pledged fixed deposit	*18*	5,026,545	5,198,787	5,388,277
Fixed deposit		–	5,001,227	1,000,000
Cash and bank balances		675,934	3,933,761	2,597,426
		71,748,797	17,039,972	13,520,213
CURRENT LIABILITIES				
Bank overdrafts, secured		1,180,494	69,964	–
Bills payable, secured		403,286	4,423,650	6,313,375
Accounts payable	*14*	948,316	535,972	704,547
Accruals and other payables		1,169,666	954,775	891,381
Due to fellow subsidiaries	*15*	26,438,147	28,393,184	22,417,747
Due to intermediate parent enterprise	*15*	23,687,621	23,643,910	57,142,409
Due to immediate parent enterprise	*15*	57,284,111	57,163,388	23,643,910
		111,111,641	(115,184,843)	(111,113,369)
NET CURRENT LIABILITIES		(39,362,844)	(98,144,871)	(97,593,156)
NET LIABILITIES		(38,308,063)	(97,326,588)	(96,934,295)
CAPITAL AND RESERVES				
Share capital	*16*	2	2	2
Accumulated losses		(38,308,065)	(97,326,590)	(96,934,297)
		(38,308,063)	(97,326,588)	(96,934,295)

The accompanying notes form part of the financial statements.

3. STATEMENTS OF CHANGES IN EQUITY

(Express in Hong Kong dollars)

	Share capital	Accumulated losses	Total
	HK$	*HK$*	*HK$*
At 1 January 2004	2	(32,613,696)	(32,613,694)
Loss for the period	–	(5,694,369)	(5,694,369)
At 30 June 2005 and 1 July 2005	2	(38,308,065)	(38,308,063)
Loss for the year	–	(59,018,525)	(59,018,525)
At 30 June 2006 and 1 July 2006	2	(97,326,590)	(97,326,588)
Profit for the year	–	392,293	392,293
At 30 June 2007	2	(96,934,297)	(96,934,295)

The accompanying notes form part of the financial statements.

4. CASH FLOW STATEMENT

(Express in Hong Kong dollars)

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	30/6/2007
	HK$	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation	(5,694,369)	(57,617,295)	392,293
Adjustments for			
Interest income	(150,682)	(495,764)	(704,144)
Interest expenses	129,672	–	58,290
Depreciation	198,949	237,907	244,000
Amortisation of deferred development expenditure	399,729	–	–
Provision for bad and doubtful debt	730,700	58,694,075	1,172,557
Impairment of deferred development expenditure	590,927	–	–
Impairment of property, plant and equipment	67,289	–	–
OPERATING (LOSS)/PROFIT BEFORE WORKING CAPITAL CHANGES	(3,727,785)	818,923	1,162,996
(Increase)/decrease in trade receivable	(4,237,423)	5,096,162	(2,398,258)
Increase in prepayments, deposits and other receivables	64,811	(66,559)	(13,623)
(Increase)/decrease in bills receivables	–	(602,840)	602,840
Increase in amounts due from fellow subsidiaries	(59,284,857)	(139,918)	(991,829)
Increase/(decrease) in accounts payable and accruals	(1,234,447)	(627,235)	105,181
(Decrease)/increase in bills payables	(9,596,290)	4,020,364	1,889,725
Increase in discounted bills	639,119	–	–
Increase/(decrease) in amount due to fellow subsidiaries	26,438,147	1,955,037	(5,975,437)
Increase in amount due to immediate parent enterprise	24,182,289	–	–
Increase/(decrease) in amount due to immediate parent enterprise	23,687,621	(43,711)	–
Decrease in amount due to intermediate parent enterprise	–	(120,723)	(20,979)
CASH (USED IN)/GENERATED FROM OPERATIONS	(3,068,815)	10,289,500	(5,639,384)
Hong Kong profits tax paid	–	(1,242,029)	–

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	30/6/2007
	HK$	*HK$*	*HK$*
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(3,068,815)	9,047,471	(5,639,384)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchasing of property, plant and equipment	(1,144,492)	(1,409)	(84,578)
Interest received	150,682	495,764	704,144
Increase in pledged fixed deposits	4,973,455	(172,242)	(189,490)
NET CASH GENERATED FROM INVESTING ACTIVITIES	3,979,645	322,113	430,076
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other loans	(2,666,369)	–	–
Interest paid	(129,672)	–	(58,290)
NET CASH USED IN FINANCING ACTIVITIES	(2,796,041)	–	(58,290)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(1,885,211)	9,369,584	(5,267,598)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,380,651	(504,560)	8,865,024
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	(504,560)	8,865,024	3,597,426
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	675,934	3,933,761	2,597,426
Fixed deposits	–	5,001,227	1,000,000
Bank overdrafts	(1,180,494)	(69,964)	–
	(504,560)	8,865,024	3,597,426

The accompanying notes form part of the financial statements.

B. NOTES TO THE FINANCIAL STATEMENT

(Express in Hong Kong dollars)

1. GENERAL INFORMATION

a) PRINCIPAL ACTIVITIES

FT Far East Limited ("the company") is a limited liability company domiciled and incorporated in Hong Kong. The address of its registered office and principal place of business is Unit B, 13/F., Park Sun Building, 97-107, Wo Yip Hop Road, Kwai Chung, New Territories, Hong Kong. Its principal activities are trading of Christmas trees, decorative plants, silk decorative flowers and other decorative products.

b) GOING CONCERN CONCEPT

As at 30 June 2007, the company has net current liabilities and net liabilities of HK$97,593,156 and HK$96,934,295 respectively. The financial statements have been prepared on a going concern basis which assumes the continuing financial support from the intermediate parent enterprise. The intermediate parent enterprise has indicated its intention to provide further financial support to the company.

c) CHANGE IN ACCOUNTING YEAR END DATE FOR 2005

Pursuant to an ordinary resolution passed on 20 August 2005, the accounting year end date of the company had been changed from 31 December to 30 June as to coincide with that of the group. The financial statements presented therefore cover eighteen months from 1 January 2004 to 30 June 2005.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The company's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies is set out in note 3.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required. The company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 24).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The measurement basis used in preparing the financial information is historical cost, except that certain financial instruments are measured at fair value.

The report is prepared using the accounting policies materially consistent with those of Kong Sun Holdings Limited as required in Listing Rule 14.67(4)(a)(i).

b) FIXED ASSETS

Fixed assets represent property, plant and equipment and are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

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

Furniture, fixtures and equipment	20% to 30%
Motor vehicles	20% to 30%
Plant and machinery	$6^2/_3$%

The residual value and the useful life of an asset are reviewed at each financial year-end.

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

c) LEASES

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the company. All other leases are classified as operating leases.

Operating leases

Lease payments under an operating leave are recognised as an expense on a straight-line basis over the lease term. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as lease premium for land.

Contingent rents are charged as an expense in the periods in which they are incurred.

d) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

– Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and

– Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each balance sheet date, the company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognized in income statement when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.

e) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

f) TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

g) 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 credit. Apart from differences which arise on initial recognition of assets and liabilities, 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation 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.

h) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the company. Provided that it is probable that the economic benefits associated with the revenue transaction will flow to the company and the revenue and the costs, if any, in respect of the transaction can be measured reliably, revenue is recognised when it is probable that the economic benefits will flow to the company and when the revenue can be measured reliably, on the following bases:

i) Sales of goods;

Revenue from the sales of good is recognized when the company has delivered the goods to the customers and the customer has accepted the goods together with the risks and rewards of ownership of the goods.

ii) Interest income

Interest income is recognised using the effective interest method.

i) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. At each balance sheet date, monetary assets and liabilities in foreign currencies are translated at rates of foreign exchange ruling at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated at the foreign exchange rates ruling at the transaction dates. Exchange differences arising in these cases are dealt with in the income statement.

j) RELATED PARTIES

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

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

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

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

(iv) the party is a member of the key management personnel of the Company or the company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence or 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 company or of any entity that is a related party of the company.

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.

k) EMPLOYEE BENEFITS

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.

l) IMPAIRMENT

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;

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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. 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. 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.

m) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for other liabilities of uncertain timing or amount when 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company's management makes assumptions, estimates and judgements in the process of applying the company's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRSs. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

a) Useful lives of property, plant and equipment

The company's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

b) Provision for bad and doubtful debts

Provision for bad and doubtful debts of the company is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may require.

5. TURNOVER AND OTHER REVENUE

Its principal activities are trading of Christmas trees, decorative plants, silk decorative flowers and other decorative products.

Turnover represents the invoiced value of goods sold to customers. Turnover and other revenue consisted of:

	1/1/2004 to 30/6/2005	**Year ended 30/6/2006**	**30/6/2007**
	HK$	*HK$*	*HK$*
Turnover			
Sale of goods	68,098,677	87,604,901	81,013,458
Other revenue			
Interest income on bank balances and overdue receivables	150,682	495,764	704,144
Sale of samples	1,001,898	565,379	663,598
Exchange gains	129,759	48,804	143,660
Others	331,169	17,162	34,290
	1,613,508	1,127,109	1,545,692
Total revenue	69,712,185	88,732,010	82,559,150

6. FINANCE COSTS

	1/1/2004 to 30/6/2005	**Years ended 30/6/2006**	**30/6/2007**
	HK$	*HK$*	*HK$*
Interest on import and discounted bills	(129,672)	(63,732)	(58,290)

7. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after crediting and charging the following:

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	HK$	*HK$*	*HK$*
Cost of inventories sold	60,946,737	78,320,014	72,561,524
Depreciation	198,949	237,907	244,000
Amortisation of deferred development expenditure	399,729	–	–
Bad debts written off	21,804	74,020	–
Provision for bad and doubtful debt	730,700	58,694,075	1,172,557
Staff costs (excluding directors' remuneration)			
Wages and salaries	4,726,576	2,478,479	2,711,348
Retirement benefit scheme contributions	189,489	120,435	126,860
	4,916,065	2,598,914	2,838,208
Auditors' remuneration	300,000	300,000	340,000
Impairment of property, plant and equipment	67,289	–	–
Impairment of deferred development expenditure	590,927	–	–
Interest on bank overdraft and bank loans wholly repayable within 5 years	116,130	–	–
Interest on import and discounted bills	129,672	63,732	58,290

8. DIRECTORS' REMUNERATION

Remuneration of the company's directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	1/1/2004 to 30/6/2005	Years ended 30/6/2006	Years ended 30/6/2007
	HK$	*HK$*	*HK$*
Fees	–	–	–
Other emoluments	708,000	375,000	390,000
	708,000	375,000	390,000

9. INCOME TAX

Hong Kong profits tax has not been provided as the company has available tax losses brought forward from prior years to offset the assessable profits generated during the year. (2006: No Hong Kong profits tax has been provided for the period as the company has no any assessable profits for the year).

Taxation in the income statement represents:

	1/1/2004 to 30/6/2005	Years ended 2006	2007
	HK$	*HK$*	*HK$*
Underprovision in respect of previous years	–	1,401,230	–
Tax charge for the year	–	1,401,230	–

The reconciliation between the company's profit for the year and the tax amount which is calculated based on the domestic income tax rate of 17.5% is as follows:

	1/1/2004 to 30/6/2005	Years ended 2006	2007
	HK$	*HK$*	*HK$*
Profit/(loss) before taxation	(5,694,369)	(57,617,295)	392,293
Tax calculated at domestic income tax rate of 17.5% (2006: 17.5%)	(996,515)	(10,083,026)	68,651
Tax effect of non-taxable incomes	(891)	(8,547)	(14,347)
Tax effect of non-deductible expenses	127,873	10,285,038	206,947
Tax effect of movements in depreciable assets	54,502	(196,685)	18,241
Tax effect of tax losses not recognised	815,031	3,220	–
Tax effect of tax losses utilised	–	–	(279,492)
Underprovision in prior years	–	1,401,230	–
Tax charges for the year	–	1,401,230	–

10. SEGMENT REPORTING

The company operates in Hong Kong and principally engages in one business segment, namely, trading of life-like decorative plant. Accordingly, no business and geographical segment information is presented.

11. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost				
At 1 January 2005	2,390,555	6,807,862	153,001	9,351,418
Additions	–	1,144,492	–	1,144,492
At 1 July 2005	2,390,555	7,952,354	153,001	10,495,910
Additions	–	1,409	–	1,409
Written off	(2,390,555)	(738,616)	–	(3,129,171)
At 30 June 2006	–	7,215,147	153,001	7,368,148
At 1 July 2006	–	7,215,147	153,001	7,368,148
Addition	–	84,578	–	84,578
At 30 June 2007	–	7,299,725	153,001	7,452,726
Accumulated depreciation and impairment				
At 1 January 2005	2,390,555	6,631,335	153,001	9,174,891
Charge for the year	–	198,949	–	198,949
Impairment for the year	–	67,289	–	67,289
At 1 July 2005	2,390,555	6,897,573	153,001	9,441,129
Charge for the year	–	237,907	–	237,907
Written off	(2,390,555)	(738,616)	–	(3,129,171)
At 30 June 2006	–	6,396,864	153,001	6,549,865
At 1 July 2006	–	6,396,864	153,001	6,549,865
Charge for the year	–	244,000	–	244,000
At 30 June 2007	–	6,640,864	153,001	6,793,865
Net book value				
At 30 June 2007	–	658,861	–	658,861
At 30 June 2006	–	818,283	–	818,283
At 30 June 2005	–	1,054,781	–	1,054,781

12. DUE FROM FELLOW SUBSIDIARIES

	Balance at 30 June 2005	Balance at 30 June 2006	Balance at 30 June 2007	Maximum balance outstanding 2005	2006	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
FT China Limited	58,515,202	58,661,148	59,652,977	58,515,202	58,661,148	59,652,977
E-business Integrated Technology Limited	30,473	6,455	6,455	138,691	30,473	,455
FT Strategic Investments Limited	8,482	26,472	26,472	8,490	26,472	26,472
	58,554,157	58,694,075	59,685,904			
Provision for bad and doubtful debt	–	(58,694,075)	(59,685,904)			
	58,554,157	–	–			

The amounts are un-secured, interest free and repayment on demand.

13. TRADE RECEIVABLE

The FT Far East's trading terms with its customers are mainly on credit for creditworthy customers, whereas for other customers, settlement by bank bills or payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. FT Far East seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Account receivables are non-interest-bearing.

An aged analysis of the accounts and bills receivables at each of the balance sheet dates is as follows:

	30 June 2005	30 June 2006	30 June 2007
	HK$	*HK$*	*HK$*
Outstanding balances with ages:			
Within 30 days	6,804,799	1,890,823	4,304,552
31 to 60 days	137,408	16,999	105
61 to 90 days	1,263	3,182	2,833
91 to 180 days	18,268	19,523	19,457
Over 180 days	79,632	14,681	16,519
	7,041,370	1,945,208	4,343,466

14. TRADE PAYABLES

	30 June 2005	30 June 2006	30 June 2007
	HK$	*HK$*	*HK$*
Trade payables	948,316	535,972	574,485

The carrying amounts of trade payable approximate their fair value.

The credit period granted by the creditors generally ranged from 30 to 60 days.

Ageing analysis of trade and bills payables at respective balance sheet dates are as follows:

	30 June 2005	30 June 2006	30 June 2007
	HK$	*HK$*	*HK$*
Within 30 days	615,008	297,478	325,494
31 to 60 days	178,465	153,331	138,736
61 to 90 days	55,531	–	48,291
91 to 180 days	–	–	11,670
Over 180 days	99,312	85,163	50,294
	948,316	535,972	574,485

15. DUE TO FELLOW SUBSIDIARIES/IMMEDIATE PARENT ENTERPRISE/INTERMEDIATE PARENT ENTERPRISE

The amounts were unsecured, interest free and have no fixed terms of repayment.

16. SHARE CAPITAL

	30 June 2005	30 June 2006	30 June 2007
	HK$	*HK$*	*HK$*
Authorised:			
10,000 ordinary shares of HK$1 each	10,000	10,000	10,000
Issued and fully paid:			
2 ordinary shares of HK$1 each	2	2	2

17. DEFERRED TAXATION

At the balance sheet date, the company has unused tax losses of approximately HK$34,225,000 (2006: HK$35,803,000 and 2005: HK$33,008,000) available for offset against future profits. No deferred tax has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The company has no significant unprovided deferred tax liability at the balance sheet date (2006: Nil).

18. PLEDGED FIXED DEPOSIT

The fixed deposit of the company has been pledged to a bank to secured banking facilities granted to the company.

19. CONTINGENT LIABILITIES

a) The company has 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 HK$560,000 as at 30 June 2007 (2006: HK$140,000 and 2005: HK$200,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of periods of service to the company in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. Provision has not been made in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the company.

b)

	30 June 2005	**30 June 2006 & 2007**
	HK$	*HK$*
Bills discounted with recourse	639,119	–

20. OPERATING LEASES COMMITMENT

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30 June 2005	**30 June 2006**	**30 June 2007**
	HK$	*HK$*	*HK$*
Within one year	441,857	257,750	535,584
In the second to fifth years inclusive	257,750	–	312,424
	699,607	277,750	848,008

21. RELATED PARTY TRANSACTIONS

a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the company had the following material related party transactions during the year:

	30 June 2005	**30 June 2006**	**30 June 2007**
	HK$	*HK$*	*HK$*
Purchases from a fellow subsidiary, Donnguan United Arts Plastic Products Limited	58,624,612	76,558,482	70,881,289

Remuneration for key management personnel is set out in note 8 to the financial statements.

b) Guarantee and indemnity for an unlimited amount were executed by intermediate parent enterprise and ultimate parent enterprise of the company guaranteeing banking facilities granted to the company.

22. ULTIMATE PARENT ENTERPRISE

The directors regard Solartech International Holdings Limited, a company incorporated in Bermuda and listed on the Stock Exchange of Hong Kong Limited as the ultimate parent enterprise.

23. FINANCIAL RISK MANAGEMENT

The company is exposed to various kinds of risks in its operation and financial instruments. The company's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the company by closely monitoring the individual exposure as follows:

a) Market risk

i) Currency risk

The company purchases and sells, in various-foreign currencies, mainly US dollars, Renminbi, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The company closely and continuously monitors the exposure as follows:

– Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

– Even HK dollars is not pegged to Renminbi, the historical exchange rate fluction on Renminbi is insignificant. Thus, there is no significant exposure expected on Renminbi transactions and balances. In case of any significant fluctuation expected, the Renminbi transactions and balances would also be monitored and controlled in the same manner as other foreign currencies.

– In respect of purchases and payables, the company controls its volume of purchase orders to a tolerable level and avoids concentrating the purchases in a single foreign currency by diversifying such foreign currency risk exposure.

– In respect of sales and receivables, the company sets a prudent credit limit to individual customers who transact with it in other foreign currencies. The directors' approval is required on the exposure to an individual customer or transaction that exceeds the limited.

ii) Fair value interest rate risk

The company's exposure on fair value interest rate risk mainly arises from its fixed deposits with banks which is classified as cash and cash equivalents.

– Since the fixed deposits with banks usually mature within 3 months, the exposure is considered not significant.

b) Credit risk

The company has no significant concentration of credit risk. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. In addition, the overseas customers would normally be required to transact with the company by letter of credit in order to minimise the company's crdit risk exposure.

c) Liquidity risk

The company manages its funds conservatively by maintaining a comfortable level of cash and cash equivalent in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements.

24. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2007 and which have not been adopted in these financial statements.

The company 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 company's results of operations and financial position.

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

HKAS 23 (Revised)	Borrowing Costs [1]
HK (IFRIC) – Int 12	Service Concession Arrangements [2]
HK (IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK (IFRIC) – Int 14	HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

[1] Effect for annual periods beginning on or after 1 January 2009
[2] Effect for annual periods beginning on or after 1 January 2008
[3] Effect for annual periods beginning on or after 1 July 2008

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by FT Far East in respect of any period subsequent to 30 June 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

(B) ACCOUNTANTS' REPORT ON FT CHINA

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the following accountants' report is available for inspection.

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to FT China Limited ("FT China") and its subsidiaries (collectively, the "FT China Group") including the consolidated income statement, consolidated statements of changes in equity and consolidated cash flow statement for years ended 30 June 2005, 2006 and 2007 and the consolidated balance sheets of the FT China Group and the balance sheet of FT China Group as at 30 June 2005, 2006 and 2007 and the notes thereto (the "Financial Information") for inclusion in the circular dated 31 December 2007 (the "Circular") in connection with the proposed acquisition of FT China Group by the Company (the "Acquisition") as described more fully in the section headed "Letter from the Board" contained in the Circular.

FT China Group was incorporated in the Hong Kong on 9 August 1984 as a company with limited liability. FT China owns 90% equity interest of Dongguan United Arts Plastic Products Limited ("DUAPP") and Guangdong Province Dongguan Light Industrial Goods Import and Export Co., Ltd. ("GDPLIG") owns 10% equity interest of DUAPP, GDPLIG has given to FT China pursuant to a joint venture contract between the two shareholders and its supplemental agreement.

FT China is an investment holding company, and its subsidiaries principally engaged in manufacture of life-like decorative plants.

Name of company	Date of establishment	Registered/ paid-up capital	Attributable equity interest FT China effective interest	Attributable equity interest Held directly by FT China	Principal activities
Dongguan United Arts Plastic Products Limited # ("DUAPP") 東莞聯藝塑膠製品有限公司	24 November 1993	HK$49,00,000	100% *(note a)*	100% *(note a)*	Manufacture of life-like decorative plants
Weihai FT Plastic Products Co., Ltd. * ("Weihai FT")	22 May 1997	RMB13,000,000	100% *(note b)*	100% *(note b)*	Dormant

The company is limited liability company established in the PRC.

* *The company is in the process of deregistration.*

Notes:

(a) Pursuant to a joint venture agreement dated 8 September 1993 (the "Joint Venture Agreement") entered into between FT China and a party in Mainland China, FT China held a 75% equity interest in DUAPP.

On 28 March 1996, the relevant PRC authorities approved the increase of the equity interest held by the company in DUAPP from 75% to 90%, pursuant to an agreement signed between FT China and the PRC joint venture partner on 22 March 1996. Following the approval of this agreement, the PRC joint venture partner is entitled to a 10% share of the assets and liabilities of DUAPP.

Pursuant to the Joint Venture Agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of DUAPP in return for an annual management fee of HK$55,556 (2006: HK$55,556). Pursuant to a supplemental agreement to the Joint Venture Agreement, all of the assets of DUAPP will be assigned to FT China upon the expiry of the Joint Venture Agreement. Accordingly, all assets, liabilities and the operating results of DUAPP are consolidated into these financial statements as if it is a wholly-owned subsidiary of FT China.

(b) Pursuant to a joint venture agreement dated 25 April 1997 entered into between FT China and a PRC party, FT China invested RMB19,000,000 in Weihai FT, representing a 95% interest in Weihai FT, and the PRC joint venture partner invested RMB1,000,000 in Weihai FT, representing a 5% interest. The registered capital of Weihai FT is RMB13,000,000. The difference between the amount invested and the registered capital represents loans to Weihai FT.

Pursuant to this agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of Weihai FT in return for an annual management fee of RMB78,000 (2006: RMB78,000), with the PRC joint venture partner being entitled to the return of its capital invested upon the expiry of the joint venture agreement without the sharing of any undistributed profits. Accordingly, all of the assets, liabilities and the operating results of Weihai FT are consolidated into these financial statements as if it is a wholly-owned subsidiary of the company and the capital invested by the PRC joint venture partner is treated as a long term loan payable.

On 19 June 1998, the capital invested by the PRC joint venture partner was decreased from RMB1,000,000 to RMB650,000 following the approval of the relevant PRC authority. As at the balance sheet date, the loan payable to the PRC joint venture partner therefore amounted to RMB230,000 which was equivalent to HK$213,556 (2006: RMB230,000 which was equivalent to HK$213,556).

The business licence of Weihai FT was revoked by the State Administrative of Industry and Commerce during the year and the directors considered that FT China Group's interest in Weihai FT had ceased. Accordingly, FT China Group's interest in Weihai FT was written off and the amount due from fellow subsidiary approximately HK$1,313,000 was written off in the results for the current year.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with HKFRSs. The financial statements are prepared under the historical cost convention except certain financial instructments are stated at fair values.

The statutory financial statements of FT China Group, which were prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, 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, were audited during the relevant period by the statutory auditors as indicated below:

Name of company	**Financial period**	**Auditors**
FT China	Period from 1 January 2004 to 30 June 2005 Years ended 30 June 2006 and 2007	CCIF CPA Limited

For DUAPP, the statutory auditors are 東莞市眾泰會計師事務所 which audited the financial statements of DUAPP for the years ended 31 December 2004, 2005 and 2006. Weihai FT was dormant and no statutory audit was performed. In preparing the accountants' report and financial information, the financial statements of DUAPP and Weihai FT for the period from 1 January 2004 to 30 June 2005 and the years ended 30 June 2006 and 2007 were audited by CCIF CPA Limited.

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the FT China Group's Financial Information for the relevant period presented in this report in accordance with the basis of presentation set out in Section A below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the companies comprising the FT China Group (as reflected in Section A of this report) for the relevant period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

We have not audited any financial statements of the companies comprising the FT China Group in respect of any period subsequent to 30 June 2007.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the FT China Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out in Section B below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the consolidated results, consolidated changes in equity and consolidated cash flows of the FT China Group for each of the relevant period and of the state of the affairs of the FT China Group and of FT China as at 30 June 2007, 2006 and 2005.

A. FINANCIAL INFORMATION

1. CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Note	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
		HK$	*HK$*	*HK$*
TURNOVER	*6 & 10*	58,624,612	76,558,452	70,881,290
COST OF INVENTORIES SOLD		(48,563,323)	(71,814,808)	(65,279,979)
GROSS PROFIT		10,061,289	4,743,644	5,601,311
Other revenue	*6*	1,483,421	646,096	423,436
Selling expenses		(911,268)	(1,932,736)	(1,153,980)
Administrative expenses		(5,020,900)	(2,919,097)	(3,307,093)
Other operating expenses		(1,903,679)	(200,993)	(1,671,226)
PROFIT/(LOSS) FROM OPERATION		3,708,863	336,914	(107,552)
Finance costs		(35,897)	(8,524)	–
PROFIT/(LOSS) BEFORE TAXATION	*7*	3,672,966	328,390	(107,552)
TAXATION	*9*	376,759	(989,229)	(126,927)
PROFIT/(LOSS) FOR THE YEAR		4,049,725	(660,839)	(234,479)

The accompanying notes form part of the financial statements.

2. CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

	Note	30/6/2005	30/6/2006	30/6/2007
		HK$	*HK$*	*HK$*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	36,373,202	35,000,463	33,413,591
Prepaid lease payment	*14*	3,016,680	2,932,883	2,849,086
		39,389,882	37,933,346	36,262,677
CURRENT ASSETS				
Inventories	*15*	36,553,397	30,154,276	42,095,632
Current portion of prepaid lease payment	*14*	83,797	83,797	83,797
Prepayments, deposits and other receivable		1,967,600	229,191	695,793
Cash and bank balances		1,229,324	735,683	1,128,569
		39,834,118	31,202,947	44,003,791
CURRENT LIABILITIES				
Accounts payable	*16*	16,206,039	8,135,452	12,208,722
Finance lease payables		136,418	–	–
Taxation		203,928	1,193,157	203,928
Due to a fellow subsidiary	*17*	32,077,056	30,267,964	38,548,577
Non interest-bearing other loans	*18*	213,556	213,556	213,556
		(48,836,997)	(39,810,129)	(51,174,783)
NET CURRENT LIABILITIES		(9,002,879)	(8,607,182)	(7,170,992)
NET ASSETS		30,387,003	29,326,164	29,091,685

	Note	30/6/2005	30/6/2006	30/6/2007
		HK$	*HK$*	*HK$*
CAPITAL AND RESERVES				
Share capital	*19*	2	2	2
Reserves		30,387,001	29,326,162	29,091,683
TOTAL EQUITY		30,387,003	29,326,164	29,091,685

The accompanying notes form part of the financial statements.

3. BALANCE SHEET

(Expressed in Hong Kong dollars)

	Note	30/6/2005 HK$	30/6/2006 HK$	30/6/2007 HK$
NON-CURRENT ASSETS				
Property, plant and equipment	11	2,233	–	–
Interests in subsidiaries	12	45,500,000	49,534,992	50,734,992
Investment property	13	53,334,992	44,400,000	44,000,000
		98,837,225	93,934,992	94,734,992
CURRENT ASSETS				
Cash and bank balances		21,289	19,242	18,456
CURRENT LIABILITIES				
Finance lease payables		136,418	–	–
Taxation		–	989,229	–
Due to a fellow subsidiary	17	58,515,204	58,661,151	59,652,980
Non interest-bearing other loans	18	213,556	213,556	213,556
		58,865,178	(59,863,936)	(59,866,536)
NET CURRENT LIABILITIES		(58,843,889)	(59,844,694)	(59,848,080)
NET ASSETS		39,993,336	34,090,298	34,886,912
CAPITAL AND RESERVES				
Share capital	19	2	2	2
Reserves		39,993,334	34,090,296	34,886,910
TOTAL EQUITY		39,993,336	34,090,298	34,886,912

The accompanying notes form part of the financial statements.

4. STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Share capital	Revaluation reserve	Retained profits/ (accumulated loss)	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2004	2	23,737,366	1,756,430	25,493,798
Surplus on revaluation	–	843,480	–	843,480
Prior year adjustments in respect of:				
– HKAS 16	–	–	(83,797)	(83,797)
Profit for the period	–	–	4,133,522	4,133,522
At 30 June 2005	2	24,580,846	5,806,155	30,387,003
At 1 July 2005, as originally stated	2	38,095,897	6,690,627	44,786,526
Prior year adjustments in respect of:				
– HKAS 16	–	(13,515,051)	(884,472)	(14,399,523)
At 1 July 2005	2	24,580,846	5,806,155	30,387,003
Deficit on revaluation	–	(400,000)	–	(400,000)
Loss for the year	–	–	(660,839)	(660,839)
At 30 June 2006 and 1 July 2007	2	24,180,846	5,145,316	29,326,164
Loss for the year	–	–	(234,479)	(234,479)
At 30 June 2007	2	24,180,846	4,910,837	29,091,685

The accompanying notes form part of the financial statements.

5. CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	HK$	*HK$*	*HK$*
NET CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	3,672,966	328,390	(107,552)
Adjustments for:			
Depreciation	4,268,049	1,227,367	2,004,561
Amortisation of prepaid lease payment	83,797	83,797	83,797
Impairment loss of property, plant and equipment	83,040	–	–
Loss on disposal of property, plant and equipment	1,903,679	–	–
Interest income	(3,979)	(1,310)	(879)
Interest expenses	35,897	8,524	–
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	10,043,449	1,646,768	1,979,927
(Increase)/decrease prepayment, deposit and other receivables	(1,174,955)	1,738,409	(466,602)
(Increase)/decrease in inventories	(31,049,916)	6,399,121	(11,941,356)
Increase/(decrease) in accounts payables	15,442,417	(8,070,587)	4,073,270
Decrease in other payables and accruals	(258,542)	–	–
Increase/(decrease) in amount due to fellow subsidiaries	32,077,056	(1,809,092)	8,280,613
Decrease in amount due to ultimate parent enterprise	(22,897,255)	–	–

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	HK$	*HK$*	*HK$*
CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	2,182,254	(95,381)	1,925,852
Hong Kong profits tax paid	–	–	(1,116,156)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	2,182,254	(95,381)	809,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(693,220)	(254,628)	(417,689)
Sales proceeds of property, plant and equipment	400,961	–	–
Interest received	3,979	1,310	879
NET CASH USED IN INVESTING ACTIVITIES	(288,280)	(253,318)	(416,810)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of non-interest bearing loan repaid	(197,820)	–	–
Capital element of finance leases repaid	(716,850)	(136,418)	–
Interest paid for finance lease	(35,897)	(8,524)	–
NET CASH USED IN FINANCING ACTIVITIES	(950,567)	(144,942)	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	943,407	(493,641)	392,886
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	285,917	1,229,324	735,683
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and bank balances	1,229,324	735,683	1,128,569

The accompanying notes form part of the financial statements.

B. NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

The company is a limited liability company domiciled and incorporated in Hong Kong. The address of its registered office and principal place of business is Unit B, 13/F, Park Sun Building, 97-107 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong. Its principal activities are the manufacturing and sale of decorative products and investment holding. The principal activities of the subsidiaries are design, manufacture and sale of Life-Like plants.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies is set out in note 4.

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are effective for accounting periods either beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current and prior accounting years are prepared and presented.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The Group anticipates that the application of new standards, amendment and interpretations will have no material impact on the financial information of the Group.

3. BASIS OF PREPARATION

The measurement basis used in preparing the financial statements is historical cost, except for financial instruments which are measured at fair value.

The report to prepared using the accounting policies materially consistent with those of Kong Sun Holdings Limited as required in Listing Rule 14.67(4)(a)(i).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

The results of subsidiaries acquired or disposal of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

b) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

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

Leasehold land	Over the term of the lease
Buildings	Over the shorters of the term of the lease or 50 years
Furniture, fixtures and equipment	3 – 6 years
Motor vehicles	4 – 5 years
Plant and machinery	$6\,^2/_3$%

The residual value and the useful life of an asset are reviewed at each financial year-end.

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

c) INVESTMENT PROPERTY

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

d) LEASES

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the Group. All other leases are classified as operating leases.

i) Finance leases

Assets held under finance leases are recognised in the consolidated balance sheet at amounts equal to the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liabilities, net of finance charges, on the finance leases are recorded as obligations under finance leases. All assets held under finance leases are classified as fixed assets, except for those properties held to earn rental income which are classified as investment property, in the balance sheet.

Depreciation and impairment loss are calculated and recognised in the same manner as the depreciation and impairment loss on fixed assets except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liabilities. The finance charge is recognised in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii) Operating leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as lease premium for land.

Contingent rents are charged as an expense in the periods in which they are incurred.

e) RELATED PARTIES

Parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party's financial and operating decisions, or vice versa, or where the company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are to the benefit of employees of the company or of any entity that is a related party of the company.

f) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

g) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are charged to income statement in the period in which they are incurred.

h) 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 consolidated 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 credit. Apart from differences which arise on initial recognition of assets and liabilities, 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation 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.

i) REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

i) From the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer;

ii) Operating lease rental income is recognised on a straight-line basis over the respective leases; and

iii) Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

j) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. At each balance sheet date, monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated at the foreign exchange rates ruling at the transaction dates. Exchange gains and losses are recognised in income statement.

k) SUBSIDIARIES

A subsidiary is a company in which the company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. A subsidiary is considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

l) EMPLOYEE BENEFITS

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.

m) IMPAIRMENT OF 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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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. 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. 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management makes assumptions, estimates and judgements in the process of applying the Group's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRSs. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

In the process of applying the entity's accounting policies which are described in note 4 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates that useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the asset. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

6. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns.

Turnover and other revenue consisted of:

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	HK$	HK$	HK$
Turnover			
Sale of goods	58,624,612	76,558,452	70,881,290
Other revenue			
Interest income	3,979	1,310	879
Exchange gain	177,780	89	–
Others	1,301,662	644,697	422,557
	1,483,421	646,096	423,436
Total revenue	60,108,033	77,204,548	71,304,726

7. (LOSS)/PROFIT BEFORE TAXATION

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

	1/1/2004 to 30/6/2005	Year ended 30/6/2006	Year ended 30/6/2007
	HK$	HK$	HK$
Cost of inventories sold	48,563,323	71,814,808	65,279,979
Depreciation	4,268,049	1,227,367	2,004,561
Staff costs			
Wages and salaries	6,601,120	6,175,109	6,949,493
Retirement benefit scheme contributions	1,761	30,445	33,535
	6,602,881	6,205,554	6,983,028
Auditor's remuneration#	–	–	–
Amortisation of prepaid lease payment	83,797	83,797	83,797
Loss on disposal of property, plant and equipment	1,903,679	–	–
Impairment of property, plant and equipment	83,040	–	–
Interest on finance leases	35,897	8,524	–

Auditor's remuneration for the year ended 30 June 2007 and 30 June 2006 are borne by a fellow subsidiary.

8. DIRECTORS' REMUNERATION

Remuneration of the Company's directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is HK$ Nil (2006: HK$ Nil), (2005: HK$ Nil).

9. TAXATION

a) Income tax

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the year (2006: Nil).

	1/1/2004 to 30/6/2005	**Year ended 30/6/2006**	**Year ended 30/6/2007**
	HK$	*HK$*	*HK$*
Hong Kong Profits Tax:			
Provision for the year	–	–	–
(Over)/underprovision in respect of previous years	(156,759)	989,229	–
Deferred taxation	(220,000)	–	126,927
Tax (credit)/charge for the year	(376,759)	989,229	126,927

b) Deferred taxation

The following are the deferred tax liabilities arising in connection with accelerated tax depreciation recognised by the company and movements thereon during the period.

	30/6/2005	**31/12/2003**
	HK$	*HK$*
At 1 January	220,000	220,000
Tax credit for the period/year	(220,000)	–
At 30 June	–	220,000

The reconciliation between the Group's (loss)/profit for the year and the amount which is calculated based on the domestic income tax rate of 17.5% (2006: 17.5%) is as follows:

	1/1/2004 to 30/6/2005	**Year ended 30/6/2006**	**30/6/2007**
	HK$	*HK$*	*HK$*
Profit/(loss) before taxation for the year	328,390	328,390	(107,552)
Tax calculated at the domestic income tax rate of 17.5% (2006: 17.5%)	642,769	57,468	(18,822)
Tax effect of tax exemptions granted to PRC subsidiaries	(1,018,832)	(917,385)	285,156
Tax effect of income exempted from taxation purpose	(696)	(210,000)	(210,000)
Tax effect of expenses not deductible from taxation purpose	–	875,000	70,000
Tax effect of temporary differences on depreciable assets	220,000	85,055	–
Tax loss not recognised	–	109,862	593
(Over)/Underprovision in respect of previous years	(156,759)	989,229	–
Tax (credit)/charge	(376,759)	989,229	126,927

10. SEGMENT REPORTING

The Company and its subsidiary operate in PRC and are principally in one business segment, namely, manufacture of life-like decorative plant. Accordingly, no business and geographical segment information is presented.

11. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings *HK$*	Plant and machinery *HK$*	Furniture fixtures and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Cost or valuation					
At 1 January 2004, as restated	28,900,000	25,038,443	5,216,559	1,943,113	61,098,115
Change in fair value	(900,000)	–	–	–	(900,000)
Disposal	–	(5,804,757)	–	(333,680)	(6,138,437)
At 30 June 2005 and 1 July 2005	28,000,000	19,233,686	5,216,559	1,609,433	54,059,678
Additions	–	198,322	56,306	–	254,628
Written off	–	(141,131)	(575,504)	–	(716,635)
Revaluation	(400,000)	–	–	–	(400,000)
At 30 June 2006 and 1 July 2006	27,600,000	19,290,877	4,697,361	1,609,433	53,197,671
Additions	–	379,106	38,583	–	417,689
At 30 June 2007	27,600,000	19,669,983	4,735,944	1,609,433	53,615,360
Accumulated depreciation and impairment					
At 1 January 2004	–	13,689,801	3,597,490	1,625,373	18,912,664
Charge for the period	1,743,480	1,645,158	563,905	315,506	4,268,049
Impairment	–	83,040	–	–	83,040
Disposal	–	(3,500,117)	–	(333,680)	(3,833,797)
Revaluation	(1,743,480)	–	–	–	(1,743,480)
At 30 June 2005 and 1 July 2005	–	11,917,882	4,161,395	1,607,199	17,686,476
Charge for the year	–	895,111	330,022	2,234	1,227,367
Written off	–	(141,131)	(575,504)	–	(716,635)
At 30 June 2006 and 1 July 2006	–	12,671,862	3,915,913	1,609,433	18,197,208
Charge for the year	766,667	909,397	328,497	–	2,004,561
At 30 June 2007	766,667	13,581,259	4,244,410	1,609,433	20,201,769
Net book value					
At 30 June 2007	26,833,333	6,088,724	491,534	–	33,413,591
At 30 June 2006	27,600,000	6,619,015	781,448	–	35,000,463
At 30 June 2005	28,000,000	7,315,804	1,055,164	2,234	36,373,202

The buildings of the Group were valued on 30 June 2007 by Messrs. Chung, Chan & Associates, Chartered Surveyors, on an open market value basis. Messrs. Chung, Chan & Associates are not connected with the Group.

If buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of HK$39,391,015 (2006: HK$40,453,033).

The Company

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost or valuation				
At 1 January 2005	5,881,821	575,504	1,582,309	8,039,634
Disposal during the period	(5,740,690)	–	(333,680)	(6,074,370)
At 30 June 2005	141,131	575,504	1,248,629	1,965,264
Written off	(141,131)	(575,504)	–	(716,635)
At 30 June 2006, 1 July 2006 and 30 June 2007	–	–	1,248,629	1,248,629
Accumulated depreciation and impairment loss				
At 1 January 2005	3,115,087	575,504	1,264,569	4,955,160
Charge for the period	157,649	–	315,507	473,156
Disposal during the period	(3,214,645)	–	(333,680)	(3,548,325)
Impairment loss	83,040	–	–	83,040
	(2,973,956)	–	(18,173)	(2,992,129)
At 30 June 2005 and 1 July 2005	141,131	575,504	1,246,396	1,963,031
Charge for the year	–	–	2,233	2,233
Written off	(141,131)	(575,504)	–	(716,635)
At 30 June 2006, 1 July 2006 and 30 June 2007	–	–	1,248,629	1,248,629
Net book value				
At 30 June 2007	–	–	–	–
At 30 June 2006	–	–	–	–
At 30 June 2005	–	–	2,233	2,233

12. INTERESTS IN SUBSIDIARIES

	2005	2006	2007
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	61,037,037	61,037,037	61,037,037
Due from subsidiaries	4,334,992	5,534,992	6,734,992
	65,372,029	66,572,029	67,772,029
Provision for impairment of investment cost	(12,037,037)	(17,037,037)	(17,037,037)
	53,334,992	49,534,992	50,734,992

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered share capital	Percentage of equity attributable to the company	Principal activities
Dongguan United Art Plastic Products Limited	Mainland China	HK$49,000,000	100 *(note (a))*	Manufacture of life-like Christmas trees
Weihai FT Plastic Products Co., Ltd.	Mainland China	RMB13,000,000	100 *(note (b))*	Dormant

Notes:

a) Pursuant to a joint venture agreement dated 8 September 1993 (the "Joint Venture Agreement") entered into between the company and a party in Mainland China, the company held a 75% equity interest in Dongguan United Art Plastic Products Limited ("DUAPP").

On 28 March 1996, the relevant PRC authorities approved the increase of the equity interest held by the company in DUAPP from 75% to 90%, pursuant to an agreement signed between the company and the PRC joint venture partner on 22 March 1996. Following the approval of this agreement, the PRC joint venture partner is entitled to a 10% share of the assets and liabilities of DUAPP.

Pursuant to the Joint Venture Agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of DUAPP in return for an annual management fee of HK$55,556 (2006: HK$55,556). Pursuant to a supplemental agreement to the Joint Venture Agreement, all of the assets of DUAPP will be assigned to the company upon the expiry of the Joint Venture Agreement. Accordingly, all assets, liabilities and the operating results of DUAPP are consolidated into these financial statements as if it is a wholly-owned subsidiary of the company.

b) Pursuant to a joint venture agreement dated 25 April 1997 entered into between the company and a PRC party, the company invested RMB19,000,000 in Weihai FT Plastic Products Co., Ltd.("Weihai FT"), representing a 95% interest in Weihai FT, and the PRC joint venture partner invested RMB1,000,000 in Weihai FT, representing a 5% interest. The registered capital of Weihai FT is RMB13,000,000. The difference between the amount invested and the registered capital represents loans to Weihai FT.

Pursuant to this agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of Weihai FT in return for an annual management fee of RMB78,000 (2006: RMB78,000), with the PRC joint venture partner being entitled to the return of its capital invested upon the expiry of the joint venture agreement without the sharing of any undistributed profits. Accordingly, all of the assets, liabilities and the operating results of Weihai FT are consolidated into these financial statements as if it is a wholly-owned subsidiary of the company and the capital invested by the PRC joint venture partner is treated as a long term loan payable.

On 19 June 1998, the capital invested by the PRC joint venture partner was decreased from RMB1,000,000 to RMB650,000 following the approval of the relevant PRC authority. As at the balance sheet date, the loan payable to the PRC joint venture partner therefore amounted to RMB230,000 which was equivalent to HK$213,556 (2006: RMB230,000 which was equivalent to HK$213,556).

The business licence of Weihai FT was revoked by the State Administrative of Industry and Commerce during the year and the directors considered that the Group's interest in Weihai FT had ceased. Accordingly, the Group's interest in Weihai FT was written off and the amount due from fellow subsidiary approximately HK$1,313,000 was written off in the results for the current year.

Statement pursuant to paragraphs 18(4)(b) and 18(4)(c) of the Tenth Schedule of the Companies Ordinance in respect of the net aggregate amount of the post acquisition profits less losses of the subsidiaries attributable to the company is as follows:

	Profits/(losses)			
	2006		**2007**	
	Current period	**Prior periods since acquisition**	**Current period**	**Prior periods since acquisition**
	HK$	*HK$*	*HK$*	*HK$*
Dealt with in the financial statements	(5,000,000)	(23,924,074)	–	(28,924,074)
Not dealt with in the financial statements	(774,004)	(7,243,851)	951,767	(8,017,855)

13. INVESTMENT PROPERTY

The Company

	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
At valuation			
At 1 July, as originally stated	–	–	44,400,000
Effect of adopting HKAS 40	45,500,000	45,500,000	–
As restated	45,500,000	45,500,000	44,400,000
Change in fair value	–	(1,100,000)	(400,000)
At 30 June	45,500,000	44,400,000	44,000,000

Note:

1) At the balance date, the fair value of the investment property was HK$44,000,000 (2006: HK$44,400,000), which was determined by the directors based on independent valuations based on the market value of the property valued by independent professional qualified valuers, Chung, Chan & Associates.

2) The company leases out investment property to a subsidiary, no written agreement was signed between two parties.

14. PREPAID LEASE PAYMENT

	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Cost			
Beginning of year, as previously stated	–	–	3,984,949
Effect of adopting HKAS 17	3,984,949	3,984,949	–
End of year	3,984,949	3,984,949	3,984,949
Accumulated depreciation			
Beginning of year, as previously stated	–	–	968,269
Effect of adopting HKAS 17	800,675	884,472	–
Charge for the year	83,797	83,797	83,797
End of year	884,472	968,269	1,052,066
Net book value			
At 30 June	3,100,477	3,016,680	2,932,883
Representing:			
Current portion – within one year	83,797	83,797	83,797
Non-current portion – over one year	3,016,680	2,932,883	2,849,086
	3,100,477	3,016,680	2,932,883
The Group's land is held outside Hong Kong under the following lease term:			
Medium – term leases	3,100,477	3,016,680	2,932,883

15. INVENTORIES

	2005	2006	2007
	HK$	*HK$*	*HK$*
Raw material	20,879,406	14,069,192	28,856,086
Work in progress	10,216,432	8,917,797	4,515,911
Finished goods	5,457,559	7,167,287	8,723,635
	36,553,397	30,154,276	42,095,632

None of the inventories are stated at the net realisable value (2006: Nil).

16. TRADE AND BILLS PAYABLES

Group

	2005	2006	2007
	HK$	*HK$*	*HK$*
Trade payables	16,206,039	8,135,452	12,208,722

The carrying amounts of trade payable approximate their fair value.

The credit period granted by the creditors generally ranged from 30 to 180 days.

Ageing analysis of trade and bills payables at respective balance sheet dates are as follows:

	2005	2006	2007
	HK$	*HK$*	*HK$*
Within 30 days	10,574,672	3,682,872	6,157,300
31 to 60 days	5,297,482	4,170,336	4,288,827
61 to 90 days	220,872	157,491	1,210,404
Over 90 days	113,013	124,753	552,191
	16,206,039	8,135,452	12,208,722

17. DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, interest free and has no fixed terms of repayment.

The directors of the Company consider that the carrying amount of the amount due to a fellow subsidiary approximately to the corresponding for value.

18. NON INTEREST-BEARING OTHER LOANS

Pursuant to a Joint Venture Agreement dated 25 April 1997 entered into between FT China Limited and a PRC party, FT China Limited invested RMB19,000,000 in Weihai FT Plastic Products Co., Ltd. ("Weihai FT"), representing a 95% interest in Weihai FT, and the PRC joint venture partner invested RMB1,000,000 in Weihai FT, representing a 5% interest. The registered capital of Weihai FT is RMb13,000,000. The difference between the amount invested and the registered capital represents loans to Weihai FT.

The amount is unsecured, interest-free and has no fixed terms of payment.

The directors of the Company consider that the carrying amount of the loans approximate to the corresponding fair values.

19. SHARE CAPITAL

	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Authorised:			
10,000 ordinary shares of HK$1 each	10,000	10,000	10,000
Issued and fully paid:			
2 ordinary shares of HK$1 each	2	2	2

20. FINANCIAL RISK MANAGEMENT

The Group is exposed to various kinds of risks in its operation and financial instruments. The Group's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

a) Market risk

i) Currency risk

The Group purchases and sells in various foreign currencies, mainly US dollars and Renminbi, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The Group closely and continuously monitors the exposure as follows:

– Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

– Even HK dollars is not pegged to Renminbi, the historical exchange rate fluctuation on Renminbi is insignificant. Thus, there is no significant exposure expected on Renminbi transactions and balances. In case of any significant fluctuation expected, the Renminbi transactions and balances would also be monitored and controlled in the same manner as other foreign currencies.

– In respect of purchases and payables, the Group controls its volume of purchase orders to a tolerable level and avoids concentrating the purchases in a single foreign currency by diversifying such foreign currency risk exposure.

– In respect of sales and receivables, the Group sets a prudent credit limit to individual customers who transact with it in other foreign currencies. The directors' approval is required on the exposure to an individual customer or transaction that exceeds the limit.

ii) Fair value interest rate risk

The Group's exposure on fair value interest rate risk mainly arises from its fixed deposits with banks which is classified as cash and cash equivalents.

– Since the fixed deposits with banks usually mature within 3 months, the exposure is considered not significant.

b) Credit risk

The Group has no concentrations of credit risk. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. In addition, the overseas customers would normally be required to transact with the Group by letter of credit in order to minimise the Group's credit risk exposure.

c) Liquidity risk

The Group manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements.

21. ULTIMATE HOLDING COMPANY

The directors regard Solartech International Holdings Limited, a company incorporated in Bermuda with limited liability and listed on the Stock Exchange of Hong Kong as the ultimate holding company.

22. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2007 and which have not been adopted in these financial statements.

The company 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 company's results of operations and financial position.

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

HKAS 23 (Revised)	Borrowing Costs [1]
HK (IFRIC) – Int 12	Service Concession Arrangements [2]
HK (IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK (IFRIC) – Int 14	HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

[1] Effect for annual periods beginning on or after 1 January 2009
[2] Effect for annual periods beginning on or after 1 January 2008
[3] Effect for annual periods beginning on or after 1 July 2008

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by FT China in respect of any period subsequent to 30 June 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong,

Kwok Check Yuen
Practising Certificate Number P02412

(C) MANAGEMENT DISCUSSION AND ANALYSIS OF THE TREE SALES COMPANIES

For the periods under review, FTFE recorded a steady growth by approximately 19% from HK$68,098,677 for the 18 months ended 30 June 2005 to the year ended 30 June 2007 which was a result of the rigorous effects of the Company for improving operation and production efficiency. The results of FTFE also improved from a net loss of approximately HK$5,694,000 for the 18 months ended 30 June 2005 to a net profit of approximately HK$392,000. For FT China Group, both revenue and net results showed an improvement during the periods under review.

Looking forward, the Tree Sales Companies would focus on further improving the operational efficiency and enhance sales to the existing customers as well to explore in the new customers to achieve further growth in both revenue and net profit.

For the year ended 30 June 2007, the Tree Sales Companies have approximately 800 employees. The majority of the employees are located in the PRC.

There are no contingent liabilities nor external bank borrowings (other than the bill payable).

(A) ACCOUNTANTS' REPORT ON COAST

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the following accountants' report is available for inspection.

CCIF

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Coast Holding Limited. ("Coast") including the income statement and statements of changes in equity for each of the years ended 31 March 2005, 31 March 2006 and 31 March 2007 and the three months ended 30 June 2007 (the "relevant period") and the balance sheet of Coast as at 31 March 2005, 31 March 2006, 31 March 2007 and 30 June 2007 and the notes thereto (the "Financial Information") for inclusion in the circular of Kong Sun Holdings Limited dated 31 December 2007 (the "Circular") in connection with the proposed acquisition of Coast (the "Acquisition") as described more fully in the section headed "Letter from the Board" contained in the Circular.

Coast was established in Hong Kong on 25 June 1997 as a company with limited liability under the Company Ordinance, and it was principally engaged in the property investment.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRSs"). The financial statements are prepared under the historical cost convention except that, as set out in note Section B below, investment properties are stated at fair values.

The statutory financial statements of Coast, which were prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, 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.

Name of company	Financial period	Auditors
Coast Holding Limited	Year ended 31 March 2007	Chui, Fok & Company
	Years ended 31 March 2005 and 2006	Santo CPA Limited

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the Coast's Financial Information for the relevant period presented in this report in accordance with the basis of presentation set out in Section B.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of Coast (as reflected in Section A of this report) for the relevant period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of Coast in respect of any period subsequent to 30 June 2007.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Coast, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out in Section B below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the results, changes in equity and cash flows of the Coast for each of the relevant period and of the state of the affairs of Coast as at 31 March 2005, 31 March 2006, 31 March 2007 and 30 June 2007.

For the purpose of this report, we have performed a review of the combined income statement, cash flow statement and statement of changes in equity of Coast for the three months ended 30 June 2006 ("30 June 2006 Financial Information"), for which the directors of Coast are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquires of management and applying analytical procedures to the 30 June 2006 Financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

A. FINANCIAL INFORMATION

1. INCOME STATEMENT

(Expressed in Hong Kong dollars)

		Year ended 31 March			Three months ended 30 June	
		2005	2006	2007	2006	2007
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Turnover	*2 & 7*	344,000	357,500	390,000	97,500	97,500
Other revenue	*3*	8	499	1,296	537	641
Reversal of impairment loss on investment properties		2,439,032	867,832	–	–	–
Operating expenses		(317,986)	(265,753)	(265,813)	(67,582)	(66,982)
Impairment loss recognised on investment properties		–	–	–	–	–
Profit before tax	*4*	2,465,054	960,078	125,483	30,455	31,159
Taxation	*5*	(33,424)	(44,928)	(50,605)	–	–
Profit for the year/period		2,431,630	915,150	74,878	30,455	31,159

The accompanying notes form part of the financial statements.

2. BALANCE SHEET

(Expressed in Hong Kong dollars)

		As at 31 March			As at 30 June
		2005	2006	2007	2007
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets					
Investment property	8	8,882,169	9,492,893	9,235,784	9,171,507
Current assets					
Tax prepaid		3,781	–	–	–
Cash at banks		24,437	35,004	31,540	47,743
		28,218	35,004	31,540	47,743
Current liabilities					
Accrued expenses		5,000	5,000	5,000	–
Rental received in advance		–	32,500	–	–
Tenants' deposit		73,118	73,118	73,118	–
Amounts due to related companies	9	20,085,854	19,735,854	19,435,854	–
Amounts due to a shareholder	10	–	–	–	19,401,043
Taxation		–	19,860	16,909	50,605
		(20,163,972)	(19,866,332)	(19,530,881)	(19,451,648)
Net current liabilities		(20,135,754)	(19,831,328)	(19,499,341)	(19,403,905)
Total assets less current liabilities		(11,253,585)	(10,338,435)	(10,263,557)	(10,232,398)
NET LIABILITIES		(11,253,585)	(10,338,435)	(10,263,557)	(10,232,398)
CAPITAL AND RESERVES					
Share capital	12	100,000	100,000	100,000	100,000
Accumulated losses		(11,353,585)	(10,438,435)	(10,363,557)	(10,332,398)
		(11,253,585)	(10,338,435)	(10,263,557)	(10,232,398)

The accompanying notes form part of the financial statements.

3. STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Share capital	Accumulated losses	Total
	HK$	*HK$*	*HK$*
Balance as at 1 April 2004	100,000	(11,985,459)	(11,885,459)
Prior period adjustment:			
Adoption of HKAS 16	–	(1,799,754)	(1,799,754)
Restated balance	100,000	(13,785,213)	(13,685,213)
Profit for the year	–	2,431,628	2,431,628
Balance as at 31 March 2005	100,000	(11,353,585)	(11,253,585)
Profit for the year	–	915,150	915,150
Balance as at 31 March 2006	100,000	(10,438,435)	(10,338,435)
Profit for the year	–	74,878	74,878
Balance as at 31 March 2007	100,000	(10,363,557)	(10,263,557)
Profit for the period	–	31,159	31,159
Balance as at 30 June 2007	100,000	(10,332,398)	(10,232,398)

The accompanying notes form part of the financial statements.

4. CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Profit before tax	2,465,054	960,078	125,483	30,455	31,159
Adjustment for:					
Written back on impairment loss on investment properties	(2,439,032)	(867,832)	–	–	–
Depreciation	257,108	257,108	257,108	64,277	64,277
Bank interest income	(8)	(499)	(1,296)	(537)	(641)
Operating profit before change in working capital	283,122	348,855	381,295	94,195	94,795
Decrease in tenant's deposit	(46,882)	–	–	(73,118)	(73,118)
Decrease in receipt in advance	–	32,500	(32,500)	(32,500)	–
Decrease in accrued expenses	–	–	–	(5,000)	(5,000)
Cash used in operation	236,240	381,355	348,795	(16,423)	16,677
Tax paid	(26,206)	(21,287)	(53,555)	(8,357)	33,696
Net cash generated from/ (used in) operating activities	210,034	360,068	295,240	(24,780)	50,373
Investing activities					
Bank interest income	8	499	1,296	537	641
Net cash generated from investing activities	8	499	1,296	537	641
Financing activities					
(Repayment to)/advance from a related company	(219,500)	(350,000)	(300,000)	18,118	(19,435,854)
Advance from a shareholder	–	–	–	–	19,401,043
Net cash (used in)/generated from financing activities	(219,500)	(350,000)	(300,000)	18,118	(34,811)
Change in cash	(9,458)	10,567	(3,464)	(6,125)	16,203
Opening cash balance	33,895	24,437	35,004	35,004	31,540
Ending cash balance	24,437	35,004	31,540	28,879	47,743

The accompanying notes form part of the financial statements.

B. NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with 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 disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of 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 Company has not applied any new and revised standard or interpretation that are not yet effective for the current accounting year (see note 14).

(b) Basis of preparation of financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments are stated at their fair value explained in the accounting polices set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements 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 period are discussed in note 13.

The report is prepared using the accounting policies materially consistent with those of Kong Sun Holdings Limited as required in Listing Rule 14.67(4)(a)(i).

(c) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(g)(i).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(d) 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.

(e) 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.

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 realisation 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 dividends is recognised.

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 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 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.

(f) Related parties

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

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

ii) the Company and the party are subject to common control;

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

iv) the party is a member of key management personnel of the Company or the Company'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 Company or of any entity that is a related party of the Company.

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.

(g) Revenue Recognition

i) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss 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 profit or loss 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) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

2. TURNOVER

The principal activity of the company is property investment.

Turnover represents gross rental income.

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Gross rental income from investment properties	344,000	357,500	390,000	97,500	97,500

3. OTHER REVENUE

	Year ended 31 March			Three months ended 30 June	
	2005	2006	2007	2006	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Interest income from bank deposit	8	499	1,296	537	641
Reversal of impairment loss made on investment properties	2,439,032	867,832	–	–	–
	2,439,040	868,331	1,296	537	641

4. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 March			Three months ended 30 June	
	2005	2006	2007	2006	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Depreciation of investment property	257,108	257,108	257,108	64,277	64,277
Auditors' remuneration	5,000	5,000	5,000	–	–

5. TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the period from 1 April 2004 to 30 June 2007.

(b) Reconciliation between taxation and accounting profit at applicable tax rates:

	Year ended 31 March			Three months ended 30 June	
	2005	2006	2007	2006	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Profit before tax	2,465,054	960,078	125,483	30,455	31,159
Notional tax on profit before tax, calculated at the applicable rate	431,384	168,014	21,960	5,330	5,453
Tax effect of non-deductible expenses	28,873	44,993	44,993	11,248	11,248
Tax effect of tax allowances and non-assessable income	(426,832)	(168,079)	(16,348)	(16,578)	(16,701)
Taxation for the year	33,425	44,928	50,605	–	–

6. DIRECTORS' EMOLUMENTS

No fees or other emoluments have been paid to the directors during the period from 1 April 2004 to 30 June 2007 as required to be disclosed pursuant to section 161 of the Companies Ordinance.

7. SEGMENT REPORTING

The Company operates in Hong Kong and is principally in one business segment, namely, properties investment. Accordingly, no business and geographical segment information is presented.

8. INVESTMENT PROPERTY

	HK$
At cost	24,276,040
Accumulated impairment losses at year ended 2004	(15,776,039)
Book value at year ended 2004	8,500,001
Written back of impairment losses for 2005	2,439,032
Book value at year ended 2005	10,939,033
Written back of impairment losses at 2006	867,832
Book value at year ended 2006 and 2007	11,806,865
Aggregate Depreciation	
At 31 March 2004	1,799,756
Charge for the year	257,108
At 31 March 2005	2,056,864
Charge for the year	257,108
At 31 March 2006	2,313,972
Charges for the year	257,108
At 31 March 2007	2,571,081
Charges for the period	64,277
At 30 June 2007	2,635,358
Net book value as at 30 June 2007	9,171,507
Net book value as at year ended 2007	9,235,784
Net book value as at year ended 2006	9,492,893
Net book value as at year ended 2005	8,882,169

(a) All investment properties of the Company were revalued as at 31 March 2007 on an open market basis. The valuation were carried out by Chung, Chan & Associate, an independent qualified professional valuers not connected with the Company with recent experience in the location and category of property being valued. The fair value of investment properties are HK$11,900,000, HK$12,800,000, HK$15,000,000 and HK$16,000,000 as at 31 March 2005,2006 and 2007 and 30 June 2007 respectively.

(b) The Company's investment property located in Hong Kong and was under long lease term.

(c) Depreciation is provided on leasehold land and buildings on a systematic basis over its estimated useful life using the straight-line method.

(d) In the opinion of the directors, the lease payments of the Company cannot be allocated reliably between the land and building elements, therefore, the entire lease payments are included in the cost of investment property and are amortised over its estimated useful life using the straight-line method.

9. AMOUNT DUE TO A RELATED COMPANY

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Coast Finance Limited	20,085,854	19,735,854	19,435,854	–

The amount is unsecured, interest-free and have no fixed term of repayment.

10. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, interest-free and has no fixed term of repayment.

11. OPERATING LEASE ARRANGEMENT

Property rental income earned during the year was HK$390,000 (2006: HK$357,500) (2005: HK$8,344,000). At the balance sheet date, the company had contracted with tenants for the following future minimum lease payments:

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	390,000	390,000	390,000	390,000
In the second to fifth years	487,500	97,500	455,000	357,500
	877,500	487,500	845,000	747,500

12. SHARE CAPITAL

	2005	2006	2007
	HK$	*HK$*	*HK$*
Authorised:			
100 ordinary shares of HK$1 each	100,000	100,000	100,000
Issued and fully paid:			
100,000 ordinary shares of HK$1 each	100,000	100,000	100,000

13. FINANCIAL RISK MANAGEMENT

The Company is exposed to various kinds of risks in its operation and financial instruments. The Company's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Company by closely monitoring the individual exposure as follows:

a) Market risk

Fair value interest rate risk

The Company's exposure on fair value interest rate risk mainly arises from its fixed deposits with banks which is classified as cash and cash equivalents.

– Since the fixed deposits with banks usually mature within 3 months, the exposure is considered not significant.

b) Credit risk

The Company has no concentrations of credit risk. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. In addition, the overseas customers would normally be required to transact with the Company by letter of credit in order to minimise the Company's credit risk exposure.

c) Liquidity risk

The Company manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

14. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 30 APRIL 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 April 2007 and which have not been adopted in these financial statements.

The Company 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:

HKAS 23 (Revised)	Borrowing Costs [1]
HK(IFRIC)-Int 12	Service Concession Arrangements [2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 14	HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Coast in respect of any period subsequent to 31 March 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

(B) ACCOUNTANTS' REPORT ON KINGSTON

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the following accountants' report is available for inspection.

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Kingston Property Investment Limited ("Kingston") including the income statement and statements of changes in equity for each of the years ended 31 March 2005, 31 March 2006 and 31 March 2007 and the three months ended 30 June 2007 (the "relevant period") and the balance sheet of Kingston as at 31 March 2005, 31 March 2006, 31 March 2007 and 30 June 2007 and the notes thereto (the "Financial Information") for inclusion in the circular of Kong Sun Holdings Limited dated 31 December 2007 (the "Circular") in connection with the proposed acquisition of Kingston (the "Acquisition") as described more fully in the section headed "Letter from the Board" contained in the Circular.

Kingston was in Hong Kong on 9 February 1993 as a company with limited liability under the Company Ordinance, and it was principally engaged in the property investment.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRSs"). The financial statements are prepared under the historical cost convention except that, as set out in significant accounting public in section B.

The statutory financial statements of Kingston, which were prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, 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, were audited during the relevant period by the statutory auditors as indicated below:

Name of company	Financial period	Auditors
Kingston Property Investment Limited	Year ended 31 March 2007	Chui, Fok & Company
	Years ended 31 March 2005 and 2006	Santo CPA Limited

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the Kingston's Financial Information for the relevant period presented in this report in accordance with the basis of presentation set out in Section B below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited accounts of Kingston (as reflected in Section A of this report) for the relevant period in accordance with Hong Kong Standards on Auditing issued by HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the Kingston in respect of any period subsequent to 30 June 2007.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Kingston, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out in Section B below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the results, changes in equity and cash flows of the Kingston for each of the relevant period and of the state of the affairs of the Kingston as at 31 March 2005, 31 March 2006, 31 March 2007 and 30 June 2007.

For the purpose of this report, we have performed a review of the combined income statement, cash flow statement and statement of changes in equity of Kingston for the three months ended 30 June 2006 ("30 June 2006 Financial Information"), for which the directors of Kingston are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquires of management and applying analytical procedures to the 30 June 2006 Financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

A. FINANCIAL INFORMATION

1. INCOME STATEMENT

(Expressed in Hong Kong dollars)

		Year ended 31 March			Three months ended 30 June	
		2005	2006	2007	2006	2007
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
					(unaudited)	
Turnover	*2 & 7*	897,650	920,000	1,171,000	246,000	350,000
Other revenue	*3*	25	542	2,625	1,162	8,579
Gain on disposal of investment properties		–	–	–	–	1,536,176
Written back on impairment loss on investment properties		3,739,032	6,434,597	–	–	–
Operating expenses		(632,523)	(616,259)	(628,920)	(149,633)	(184,540)
Impairment loss recognised on investment properties		(6,303,980)	–	–	–	–
(Loss)/profit from operation		(2,299,796)	6,738,880	544,705	97,529	1,710,215
Finance cost	*4*	(40,935)	–	–	–	–
(Loss)/profit before taxation	*5*	(2,340,731)	6,738,880	544,705	97,529	1,710,215
Taxation	*6*	(91,692)	(105,619)	(147,332)	–	–
(Loss)/profit after taxation		(2,432,423)	6,633,261	397,373	97,529	1,710,215

The accompanying notes form part of the financial statements.

2. BALANCE SHEET

(Expressed in Hong Kong dollars)

		As at 31 March			As at 30 June
		2005	**2006**	**2007**	**2007**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets					
Investment properties	9	14,815,402	20,664,871	20,079,742	10,015,035
Current assets					
Sundry deposits		33,708	33,708	33,708	–
Cash and cash equivalents	10	30,247	41,289	116,059	101,539
		63,955	74,997	149,767	101,539
Current liabilities					
Accrued expenses		7,000	7,000	7,000	–
Rental received in advance		–	32,000	35,000	–
Tenants' deposit		192,000	192,000	140,000	–
Amount due to a related company	11	35,527,635	34,697,636	33,807,636	–
Amount due to a shareholder	12	–	–	–	22,087,272
Taxation		11,601	36,850	68,118	147,332
		(35,738,236)	(34,965,486)	(34,057,754)	(22,234,604)
Net current liabilities		(35,674,281)	(34,890,489)	(33,907,987)	(22,133,065)
Total assets less current liabilities		(20,858,879)	(14,225,618)	(13,828,245)	(12,118,030)
NET LIABILITIES		(20,858,879)	(14,225,618)	(13,828,245)	(12,118,030)
CAPITAL AND RESERVES					
Share capital	15	20,000	20,000	20,000	20,000
Accumulated losses		(20,878,879)	(14,245,618)	(13,848,245)	(12,138,030)
		(20,858,879)	(14,225,618)	(13,828,245)	(12,118,030)

The accompanying notes form part of the financial statements.

3. STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Share capital *HK$*	Accumulated losses *HK$*	Total *HK$*
Balance as at 1 April 2004	20,000	(12,977,955)	(12,957,955)
Prior period adjustments:			
Adoption of HKAS 16	–	(5,468,501)	(5,468,501)
Balance at 1 April 2004, restated	20,000	(18,446,456)	(18,426,456)
Loss for the year	–	(2,432,423)	(2,432,423)
Balance as at 31 March 2005	20,000	(20,878,879)	(20,858,879)
Profit for the year	–	6,633,261	6,633,261
Balance as at 31 March 2006	20,000	(14,245,618)	(14,225,618)
Profit for the year	–	397,373	397,373
Balance as at 31 March 2007	20,000	(13,848,245)	(13,828,245)
Profit for the period	–	1,710,215	1,710,215
Balance as at 30 June 2007	20,000	(12,138,030)	(12,118,030)

The accompanying notes form part of the financial statements.

4. CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

		Year ended 31 March			Three months ended 30 June	
		2005	2006	2007	2006	2007
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
					(unaudited)	
Profit/(loss) before tax		(2,340,731)	6,738,880	544,705	97,529	1,710,215
Adjustment for:						
Written back on impairment loss on investment properties		(3,739,032)	(6,434,597)	–	–	–
Depreciation		585,129	585,128	585,129	146,282	146,282
Bank interest income		(25)	(542)	(2,625)	(1,162)	(6,679)
Finance costs		40,935	–	–	–	–
Impairment loss on investment properties		6,303,980	–	–	–	–
Gain on disposal of investment properties		–	–	–	–	(1,536,176)
Operating loss before change in working capital		850,256	888,869	1,127,209	242,649	313,642
Decrease/(increase) in sundry deposits		1,000	–	–	33,708	33,708
(Decrease)/increase in accrued expenses		–	–	–	(7,000)	(7,000)
(Decrease)/increase in rental received in advance		–	32,000	3,000	(32,000)	(35,000)
(Decrease)/increase in tenant's deposits		74,372	–	(52,000)	(192,000)	(140,000)
Cash used in operation		925,628	920,869	1,078,209	45,357	165,350
Tax refund/(paid)		(70,215)	(80,370)	(116,064)	(22,923)	79,214

		Year ended 31 March			Three months ended 30 June	
		2005	**2006**	**2007**	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
					(unaudited)	
Net cash generated from operating activities		855,413	840,499	962,145	22,434	244,564
Investing activities						
Bank interest income		25	542	2,625	1,162	6,679
Proceeds from sale of investment properties		–	–	–	–	11,454,600
Net cash generated from investing activities		25	542	2,625	1,162	11,461,279
Financing activities						
Advance from/(repayment to) a related company		1,333,999	(829,999)	(890,000)	1,292	(33,807,635)
Finance costs paid		(40,935)	–	–	–	–
Repayment of mortgage loan		(2,173,520)	–	–	–	–
Advance from as shareholder		–	–	–	–	22,087,272
Net cash (used in)/generated from financing activities		(880,456)	(829,999)	(890,000)	1,292	(11,720,363)
Net (decrease) increase in cash and cash equivalents		(25,018)	11,042	74,770	24,888	(14,520)
Opening cash balance	*9*	55,265	30,247	41,289	41,289	116,059
Ending cash balance	*9*	30,247	41,289	116,059	66,177	101,539

The accompanying notes form part of the financial statements.

B. NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with 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 disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. The adoption of these new and revised HKFRSs did not result in significant change to the Company's accounting policies applied on these financial statements for the current and prior year presented. The Company has not applied any new and revised standard or interpretation that are not yet effective for the current accounting year (see note 17).

(b) Basis of preparation of financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments are stated at their fair value explained in the accounting polices set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements 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 period are discussed in note 16.

The report is prepared using the accounting policies materially consistent with those of Kong Sun Holdings Limited as required in Listing Rule 14.67(4)(a)(i).

(c) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(g)(i).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(d) 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 Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(e) 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.

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 Company 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 realisation 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 dividends is recognised.

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 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 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.

(f) Related parties

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

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

ii) the Company and the party are subject to common control;

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

iv) the party is a member of key management personnel of the Company or the Company'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 Company or of any entity that is a related party of the Company.

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.

(g) Revenue Recognition

i) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss 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 profit or loss 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) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

2. TURNOVER

The principal activities of the company is property investment.

Turnover represents gross rental income.

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Gross rental income from investment properties	897,650	920,000	1,171,000	246,000	350,000

3. OTHER REVENUE

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Interest income from bank deposit	25	542	2,625	1,162	6,679
Sundry income	–	–	–	–	1,900
	25	542	2,625	1,162	8,579

4. FINANCE COST

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Interest on bank borrowings wholly repayable within five years	40,935	–	–	–	–

5. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Depreciation of investment properties	585,129	585,128	585,129	146,282	146,282
Auditors' remuneration	7,000	7,000	7,000	–	–

6. TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the period from 1 April 2004 to 30 June 2007.

(b) Reconciliation between taxation and accounting profit at applicable tax rates:

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
(Loss)/profit before tax	(2,340,731)	6,738,880	544,705	243,811	1,710,215
Notional tax on (loss)/profit before tax, calculated at the applicable rate	(409,628)	1,179,304	95,323	42,667	299,288
Tax effect of non-deductible expenses	1,205,595	102,398	102,398	51,199	25,599
Tax effect of tax allowances and non-assessable income	(704,275)	(1,176,083)	(50,389)	(93,866)	(324,887)
Taxation for the year	91,692	105,619	147,332	–	–

7. SEGMENT REPORTING

The Company operate in Hong Kong and are principally in one business segment, namely, properties investment. Accordingly, no business and geographical segment information is presented.

8. DIRECTOR'S EMOLUMENT

No fees or other emoluments have been paid to the directors during the period from 1 April 2004 to 30 June 2007 (2006: HK$ Nil) as required to be disclosed pursuant to section 161 of the Companies Ordinance.

9. INVESTMENT PROPERTIES

	HK$
At cost	44,251,402
Accumulated impairment losses at year ended 2004	(20,817,422)
Book value at year ended 2004	23,433,980
Provision of impairment losses	(6,303,980)
Written back of impairment losses	3,739,032
Book value at year ended 2005	20,869,032
Written back of impairment losses	6,434,597
Book value at year ended 2006 and 2007	27,303,629
Written back of impairment losses on disposal	(13,247,257)
Book value at 30 June 2007	14,056,372
Aggregate Depreciation	
At 31 March 2004	5,468,501
Charge for the year	585,129
At 31 March 2005	6,053,630
Charge for the year	585,128
At 31 March 2006	6,638,758
Charges for the year	585,129
At 31 March 2007	7,223,887
Charges for the period	146,282
Written back of accumulated depreciation on disposal	(3,328,832)
At 30 June 2007	4,041,337
Net book value as at 30 June 2007	10,015,035
Net book value as at year ended 2007	20,079,742
Net book value as at year ended 2006	20,664,871
Net book value as at year ended 2005	14,815,402

(a) All investment properties of the Company were revalued on an open market basis. The valuation were carried out by Chung, Chan & Associate, an independent qualified professional valuers not connected with the Company, with recent experience in the location and category of property being valued. The fair value of investment properties are HK$19,910,000, HK$24,764,000, HK$16,500,000 and HK$17,800,000 as at 31 March 2005, 2006 and 2007 and 30 June 2007 respectively.

(b) The analysis of net book value of the Company's investment properties:

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
In Hong Kong				
– long leases	11,024,971	13,345,828	12,981,656	10,015,035
– medium-term leases	3,790,431	7,319,043	7,098,086	–
	14,815,402	20,664,871	20,079,742	10,015,035

(c) Depreciation is provided on leasehold land and buildings on a systematic basis over its estimated useful life using the straight-line method.

(d) At 31 March 2005, certain investment properties of the Company with a carrying amount of HK$14,815,402 were pledged to banks to secure banking facilities granted to the Company.

(e) In the opinion of the directors, the lease payments of the Company cannot be allocated reliably between the land and building elements, therefore, the entire lease payments are included in the cost of land and building and are amortised over its estimated useful life using the straight-line method.

10. CASH AND CASH EQUIVALENTS

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Cash at bank and on hand	30,247	41,289	116,059	101,539
Cash and cash equivalents	30,247	41,289	116,059	101,539

Included in cash at bank and on hand are denominated in the functional currency.

11. AMOUNT DUE TO A RELATED COMPANY

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Kingston Finance Limited	35,527,635	34,697,636	33,807,636	–

The amount is unsecured, interest-free and have no fixed terms of repayment.

12. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, interest-free and has no fixed terms of repayment.

13. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Company's business are as follows:

	Year ended 31 March			Three months ended 30 June	
	2005	**2006**	**2007**	**2006**	**2007**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Rental income	600,000	600,000	600,000	150,000	140,000

14. OPERATING LEASE ARRANGEMENT

Property rental income earned during the year was HK$1,171,000 (2006: HK$920,000 and 2005: HK$897,650). At the balance sheet date, the company had contracted with tenants for the following future minimum lease payments:

	As at 31 March			As at 30 June
	2005	**2006**	**2007**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	384,000	224,000	490,000	72,000
In the second to fifth years	224,000	–	–	144,000
	608,000	224,000	490,000	216,000

15. SHARE CAPITAL

	2005	2006	2007
	HK$	*HK$*	*HK$*
Authorised:			
20,000 ordinary shares of HK$1 each	20,000	20,000	20,000
Issued and fully paid:			
20,000 ordinary shares of HK$1 each	20,000	20,000	20,000

16. FINANCIAL RISK MANAGEMENT

The Company is exposed to various kinds of risks in its operation and financial instruments. The Company's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Company by closely monitoring the individual exposure as follows:

a) Market risk

Currency risk

The Company purchases and sells in various foreign currencies, mainly US dollars and Renminbi, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The Company closely and continuously monitors the exposure as follows:

– Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

– Even HK dollars is not pegged to Renminbi, the historical exchange rate fluctuation on Renminbi is insignificant. Thus, there is no significant exposure expected on Renminbi transactions and balances. In case of any significant fluctuation expected, the Renminbi transactions and balances would also be monitored and controlled in the same manner as other foreign currencies.

– In respect of purchases and payables, the Company controls its volume of purchase orders to a tolerable level and avoids concentrating the purchases in a single foreign currency by diversifying such foreign currency risk exposure.

– In respect of sales and receivables, the Company sets a prudent credit limit to individual customers who transact with it in other foreign currencies. The directors' approval is required on the exposure to an individual customer or transaction that exceeds the limit.

b) Credit risk

The Company has no concentrations of credit risk. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. In addition, the overseas customers would normally be required to transact with the Company by letter of credit in order to minimise the Company's credit risk exposure.

c) Liquidity risk

The Company manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

17. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 30 JUNE 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2007 and which have not been adopted in these financial statements.

The Company 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 Company's results of operations and financial position.

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

HKAS 23 (Revised)	Borrowing Costs [1]
HK(IFRIC)-Int 12	Service Concession Arrangements [2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 14	HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Kingston in respect of any period subsequent to 31 March 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

(C) MANAGEMENT DISCUSSION AND ANALYSIS OF THE PROPERTIES SALE COMPANIES

For the periods under review, the Properties Sales Companies generated stable rental income from the properties held. The fluctuation in the net result was mainly due to the written back on the impairment loss on the properties for the year ended 31 March 2005 and 2006.

The Properties Sales Companies would continued to lease out the existing properties held in order to generate rental income in the future.

SCENARIO (A)

COMPLETION OF THE ACQUISITION OF TREE SALE COMPANIES

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the Acquisition of FT China Group and FT Far East Limited. The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Tree Acquisition (the "Unaudited Pro Forma Financial Information").

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I to this Circular and the audited consolidated income statement and audited consolidated cash flow statement of FT Far East Limited and FT China and its subsidiaries for the year ended 30 June 2007 as set out in Appendix II, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on the consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I to this Circular and the audited consolidated balance sheet of FT China and its subsidiaries and FT Far East Limited as at 30 June 2007 as set out in Appendix II to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Tree Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the latest published audited consolidated financial information of the Group as set out in Appendix I to this circular, the audited consolidated financial information of the FT Far East Limited and FT China and its subsidiaries as set out in Appendix II(A) and Appendix II(B) respectively to this Circular and other financial information included elsewhere in this circular.

SCENARIO (A)

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to present the actual financial position of the Enlarged Group that would have been attained had the Tree Acquisition been completed on 31 December 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Tree Acquisition been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

1. Unaudited pro forma combined income statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006 (Audited) *(Note 1a)* *HK$'000*	FT China Group 1/7/2006– 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	FT Far East Limited 1/7/2006– 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Turnover	–	70,881	81,013	151,894	(70,881)	*2*	81,013
Cost of sales	–	(65,280)	(72,562)	(137,842)	70,881	*2*	(66,961)
Gross profit	–	5,601	8,451	14,052			14,052
Other revenue	40	423	1,546	2,009	607	*3(a)*	2,616
Staff costs	(598)	(606)	(3,228)	(4,432)			(4,432)
Depreciation and amortisation	–	(850)	(244)	(1,094)	(387)	*4(a)*	(1,481)
Loss on disposal of a subsidiary	–	(1,313)	–	(1,313)			(1,313)
Selling expenses	–	(1,154)	(1,705)	(2,859)			(2,859)
Administrative expenses	–	(1,851)	(3,198)	(5,049)			(5,049)
Other operating expenses	(3,917)	(358)	(1,172)	(5,447)			(5,447)
(Loss)/profit from operations	(4,475)	(108)	450	(4,133)			(3,913)
Finance costs	(4,549)	–	(58)	(4,607)	(2,061)	*5*	(6,668)
Share of results of associates	(3,640)	–	–	(3,640)			(3,640)
(Loss)/profit before taxation	(12,664)	(108)	392	(12,380)			(14,221)
Taxation	–	(126)	–	(126)			(126)
(Loss)/profit for the year	(12,664)	(234)	392	(12,506)			(14,347)
Attributable to:							
Equity holders of the company	(12,663)	(234)	392	(12,505)			(14,346)
Minority interests	(1)	–	–	(1)			(1)
(Loss)/profit for the year	(12,664)	(234)	392	(12,506)			(14,347)

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

SCENARIO (A)

2. Unaudited pro forma combined balance sheet

	The Group 30/6/2007 (Unaudited) *(Note 1a)* *HK$'000*	FT China Group 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	FT Far East Limited 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	Pro forma combined *HK$'000*	Pro forma Adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Non-current assets							
Property, plant and equipment	–	33,414	659	34,073	(462)	*4(b)*	33,611
Land lease prepayments	–	2,849	–	2,849	13,217	*4(c)*	16,066
Goodwill	–	–	–	–	36,837	*6*	36,837
Interest in associates	91,494	–	–	91,494			91,494
Available-for-sale securities	6,537	–	–	6,537			6,537
	98,031	36,263	659	134,953			184,545
Current assets							
Financial derivatives	–	–	–	–	–	*3(b)*	–
Inventories	–	42,096	–	42,096	(296)	*6*	41,800
Land lease prepayments	–	84	–	84	373	*6*	457
Trade and other receivables	396	696	4,535	5,627			5,627
Loan and interest receivables	39,510	–	–	39,510			39,510
Pledged deposits	40	–	5,388	5,428			5,428
Fixed deposit	–	–	1,000	1,000			1,000
Cash and cash equivalents	3,893	1,128	2,597	7,618			7,618
	43,839	44,004	13,520	101,363			101,440

SCENARIO (A)

	The Group 1/1/2006– 30/6/2007 (Unaudited) *(Note 1a)* *HK$'000*	FT China Group 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	FT Far East Limited 31/3/2007 (Audited) *(Note 1b)* *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Current liabilities							
Trade and other payables	30,947	12,209	1,596	44,752	800	*10*	45,552
Bills payable, secured	–	–	6,313	6,313			6,313
Bank and other borrowings	39,940	214	–	40,154			40,154
Obligations under finance leases	1	–	–	1			1
Tax payable	48	204	–	252			252
Amount due to a related company	–	38,549	–	38,549	(38,549)	*8*	–
Due to fellow subsidiaries	–	–	22,418	22,418	(22,418)	*7*	–
Due to immediate parent enterprise	–	–	23,644	23,644	(23,644)	*7*	–
Due to intermediate parent enterprises	–	–	57,142	57,142	(57,142)	*7*	–
	70,936	51,176	111,113	233,225			92,272
Net current (liabilities)/assets	(27,097)	(7,172)	(97,593)	(131,862)			9,168
Total assets less current liabilities	70,934	29,091	(96,934)	3,091			193,713
Non-current liabilities							
Convertible note	–	–	–	–	–	*3(c)*	–
Promissory note	–	–	–	–	20,000	*6*	20,000
Bank and other borrowings	1,800	–	–	1,800			1,800
	1,800	–	–	1,800			21,800
NET ASSETS/(LIABILITIES)	69,134	29,091	(96,934)	1,291			171,913
CAPITAL AND RESERVES							
Share capital	256,116	1	1	256,118	39,998	*3(d)*	296,116
Reserves	(186,995)	29,090	(96,935)	(254,840)	130,624	*11*	(124,216)
Total equity attributable to equity holders of the company	69,121	29,091	(96,934)	1,278			171,900
Minority interests	13	–	–	13			13
TOTAL EQUITY	69,134	29,091	(96,934)	1,291			171,913

SCENARIO (A)

3. Unaudited pro forma combined cash flow statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006	FT China Group 1/7/2006– 30/6/2007	FT Far East Limited 1/7/2006– 30/6/2007	Pro forma combined	Pro forma adjustments	*Note*	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES							
(Loss)/profit before taxation	(12,664)	(108)	392	(12,380)	(1,841)	*3(a), 4(a), 5*	(14,221)
Adjustments for:							
Depreciation	–	2,005	244	2,249	10	*4(a)*	2,259
Amortisation of land lease prepayments	–	84	–	84	377	*4(a)*	461
Finance costs	4,549	–	58	4,607	2,061	*5*	6,668
Share of results of associates	3,640	–	–	3,640			3,640
Bank interest income	(1)	(1)	(704)	(706)			(706)
Fair value gain of financial derivative	–	–	–	–	(607)	*3(b)*	(607)
Impairment loss of trade receivables	–	–	1,173	1,173			1,173
Impairment loss of other receivables	179	–	–	179			179
Operating (loss)/profit before changes in working capital	(4,297)	1,980	1,163	(1,154)			(1,154)

SCENARIO (A)

	The Group 1/1/2006– 31/12/2006 *HK$'000*	FT China Group 1/7/2006– 30/6/2007 *HK$'000*	FT Far East Limited 1/7/2006– 30/6/2007 *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Operating (loss)/profit before changes in working capital	(4,297)	1,980	1,163	(1,154)			(1,154)
(Increase)/decrease in inventories	–	(11,941)	–	(11,941)			(11,941)
(Increase)/decrease in trade and other receivables	(144)	(467)	(1,809)	(2,420)			(2,420)
Decrease in consideration receivables	2,771	–	–	2,771			2,771
Increase in amounts due from fellow subsidiaries	–	8,281	(992)	7,289			7,289
Decrease in amount due to fellow subsidiaries	–	–	(5,975)	(5,975)			(5,975)
Increase in amount due to intermediate holding enterprise	–	–	23,623	23,623			23,623
Decrease in amount due to intermediate holding enterprise	–	–	(23,644)	(23,644)			(23,644)
Increase/(decrease) in trade and other payables	899	4,073	1,994	6,966	(800)	*10*	6,166
Cash generated (used in)/ generated from operations	(771)	1,926	(5,640)	(4,485)			(5,285)
Tax paid							
Hong Kong profits tax (paid)	–	(1,116)	–	(1,116)			(1,116)
Net cash (used in)/generated from operating activities	(771)	810	(5,640)	(5,601)			(6,401)

SCENARIO (A)

	The Group 1/1/2006– 31/12/2006 *HK$'000*	FT China Group 1/7/2006– 30/6/2007 *HK$'000*	FT Far East Limited 1/7/2006– 30/6/2007 *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Investing activities							
Proceeds from purchase for property, plant and equipment	–	(418)	(85)	(503)			(503)
Repayment from associates	11	–	–	11			11
Increase in pledged fixed deposits	–	–	(189)	(189)			(189)
Bank interest received	1	1	704	706			706
Net cash generated from/(used in) investing activities	12	(417)	430	25			25
Financing activities							
Proceeds from new bank and other borrowings	3,935	–	–	3,935			3,935
Repayment of bank and other borrowings	(1,170)	–	–	(1,170)			(1,170)
Capital element of finance lease rental payments	(7)	–	–	(7)			(7)
Other borrowing costs paid	(2,051)	–	(58)	(2,109)			(2,109)
Net cash generated from/(used in) financing activities	707	–	(58)	649			649
Net (decrease)/increase in cash and cash equivalents	(52)	393	(5,268)	(4,927)			(5,727)
Cash and cash equivalents at 1 January	82	736	8,865	9,683			9,683
Effect of foreign exchange rate changes	4	–	–	4			4
Cash and cash equivalents at 31 December	34	1,129	3,597	4,760			3,960

SCENARIO (A)

4. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) (a) The balances are extracted from the unaudited financial information of the Group for the six months ended 30 June 2007 as set out in appendix I to this circular.

The income statements extracted from the audited financial information of the Group for the year ended 31 December 2006 as set out in Appendix I to this circular.

(b) FT China Group and FT Far East Limited are companies engaged in the manufacturing and trading of life-like decorative plant. The figures are extracted from the audited financial information of FT China Group and FT Far East Limited for the year ended 30 June 2007 as set out in Appendix II of this circular.

(2) Being adjustment for inter-company transactions between the purchase of approximately HK$70,881,000 of FT Far East Limited and the sales of approximately HK$70,881,000 of FT China Group when FT Far East Limited and FT China Group become the subsidiaries of Kong Sun Holdings Limited.

(3) (a) Being adjustment for the fair value gain of approximately HK$607,000 on put option held by the Group arising from the issuance of HK$40,000,000 Tree Convertible Bonds as if the Tree Convertible Bonds had been issued.

The fair value gains represents the increase in the fair value of the mandatory right to request the holders of the Tree Convertible Bonds to convert to ordinary shares of the Company between the issue date and the year end date.

(b) Since the Tree Convertible Bonds embeded the put option held by the Company, the financial derivatives are arised as follows:

	HK$'000
Issurance of $40,000,000 Tree Convertible Bonds	25,252
Fair value gain of $40,000,000 Tree Convertible Bonds as at balance sheet date	607
Convertible to ordinary share after exercise of the Mandatory right by the company (note 9)	(25,859)
	–

(c) The liability components of Tree Convertible Bonds are as follows:

	HK$'000
Issurance of $40,000,000 Tree Convertible Bonds (net of the issuance cost of HK$3,000,000)	29,018
Finance cost of $40,000,000 Tree Convertible Bonds	1,261
Convertible to ordinary share after exercise of the Mandatory right by the company (note 9)	(30,279)
	–

(d) The effect of mandatory conversion to ordinary shares with HK$40,000,000 and elimination of investment in FT China Group and FT Far East Limited.

SCENARIO (A)

(4) (a) Depreciation and amortisation

The additional annual depreciation and amortisation charge of totally HK$387,000 on the revalued portion of the property, plant and equipment and land lease prepayments on business combination, calculated in accordance with the Group's accounting policies and over each individual item's remaining estimated useful lives, will be approximately HK$10,000 and HK$377,000 respectively. The total additional depreciation and amortisation charge amount to HK$387,000. The unaudited pro forma financial information adjustment reflects the additional depreciation and amortisation charges as if the Enlarged Group had taken place on 1 January 2006. This unaudited pro forma financial information adjustment will have continuing effect on the income statement but no cash flow effect on the Enlarged Group.

(b) Carrying amount of property, plant and equipment

	Cross reference	
Proforma combined	–	34,073
Fair value adjustment		
Buildings	*6*	267
Other fixed assets	*6*	(719)
Further depreciation	*4(a)*	(10)
		33,611

(c) Carrying amount of land lease pre-payment for non current position

	Cross reference	
Proforma combined	–	2,849
Fair value adjustment	*6*	13,594
Further depreciation	*4(a)*	(377)
		16,066

(5) Being adjustment for the finance cost of totally HK$2,061,000 approximately HK$1,261,000 and HK$800,000, arising from the issuance of HK$40,000,000 Tree Convertible Bonds and the issuance of Tree Promissory Note respectively.

(6) Being adjustment for recognition of goodwill of approximately of HK$36,837,000 arising on the Acquisition. Under Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Enlarged Group will apply the purchase method to account for the acquisition of FT China Group and FT Far East Limited in the

consolidated financial statements of the Enlarged Group. The amount of HK$36,837,000 represents the excess of the purchase consideration of HK$63,000,000 over the FT China Group and FT Far East Limited's 100% equity interests in the net fair value of the identifiable assets and liabilities of the FT China Group and FT Far East Limited acquired as at 30 June 2007.

The net assets acquired in the transaction and the goodwill arising are as follows:

	FT China Group			FT Far East				
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Total fair value adjustments	Total fair value
	HK$'000	*HK$'000*	*HK$'000* *(note #)*	*HK$'000*	*HK$'000*	*HK$'000* *(note #)*	*HK$'000*	*HK$'000*
Net assets acquired:								
Buildings	26,833	267	27,100	–	–	–	267	27,100
Other fixed assets	6,580	(300)	6,280	659	(419)	240	(719)	6,520
Non-current portion of prepaid lease payment	2,849	13,594	16,443	–	–	–	13,594	16,443
Inventories	42,096	(296)	41,800	–	–	–	(296)	41,800
Trade receivables	–	–	–	4,343	–	4,343		4,343
Current portion of prepaid lease payment	84	373	457	–	–	–	373	457
Prepayment, deposits and OR	697	–	697	191	–	191	–	888
Pledged fixed deposit	–	–	–	5,388	–	5,388	–	5,388
Fixed deposit	–	–	–	1,000	–	1,000	–	1,000
Cash and bank	1,129	–	1,129	2,597	–	2,597	–	3,726
Accounts payable	(12,209)	–	(12,209)	(705)	–	(705)	–	(12,914)
Bills payable, secured	–	–	–	(6,313)	–	(6,313)	–	(6,313)
Accruals and other payable	–	–	–	(891)	–	(891)	–	(891)
Taxation	(204)	–	(204)	–	–	–	–	(204)
Due to a fellow subsidiary	(38,549)	–	(38,549)	(22,417)	–	(22,417)	–	(60,966)
Non-interest bearing other loan	(214)	–	(214)	–	–	–	–	(214)
	29,092	13,638	42,730	(16,148)	(419)	(16,567)	13,219	26,163
Goodwill								36,837
								63,000
Total consideration satisfied by:								
Issue of promissory notes								20,000
Issue of convertible bonds								40,000
Issue costs of convertible bonds								3,000
								63,000

\# *The fair value adjustments represent the fair value at FT China Group and FT Far East's identifiable assets, liabilities (if any) and contingent liabilities (if any) at the acquisition date.*

SCENARIO (A)

(7) Assignment of shareholder's loan to the Company

The unaudited pro forma combined balance sheet adjustment reflects the assignment of a shareholders' loan of HK$22,418,000, HK$23,644,000 and HK$57,142,000 for due to subsidiaries, due to immediate parent enterprise and due to intermediate parent enterprise respectively, to the Company according to the sales and purchase agreement.

(8) Being adjustment for the elimination of the due to fellow subsidiaries of FT Far East Limited of approximately of HK$38,549,000 against the due from fellow subsidiaries of FT China Group after the proposed acquisition. As the balances were fully impaired in the prior years, the elimination was adjusted against the reserve.

(9) Being adjustment of the Company exercise right for mandatory convert all outstanding amount of HK$30,279,000 of the Tree Convertible Bonds to ordinary shares of the Company. The financial derivatives of HK$25,859,000 of the Tree Convertible Bonds are realised and the liability component of the Tree Convertible Bonds are released accordinary.

(10) Being adjustment for accrual of the interest expense for promissory note of approximately HK$800,000.

(11) Analysis of movement of reserve are as follows:

	Cross reference to Note	*HK$'000*
$40,000,000 Tree Convertible Bonds equity reserve	*N/A*	36,234
Share premium for cost of issuance of HK$40,000,000 Tree Convertible Bonds	*3(c)*	3,000
Finance costs	*(5)*	(2,061)
Gain on financial derivatives	*3(b)*	607
Elimination of pre-acquisition retained profits for FT China Group and FT Far East	*6*	67,842
Depreciation and amortisation expense during the year	*4*	(387)
Intercompany balances elimination	*11*	60,969
Mandatory conversion of HK$40,000,000 Tree Convertible Bonds		(35,580)
		130,624

SCENARIO (A)

The following is the text of a comfort letter, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VII, a copy of the following comfort letter is available for inspection.

(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group under Scenario (A) set out in Section A of Appendix IV to the circular of Kong Sun Holdings Limited (the "Company", together with its subsidiaries are referred to as the "Group") dated 31 December 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of 100% equity interest in FT China Limited ("FT China") together with its subsidiaries are referred to as the ("Group"), might have affected the financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information under Scenario (A) as set out in Section A of this Appendix.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issues.

SCENARIO (A)

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results of operations and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods; or
- the financial position of the Enlarged Group as at 30 June 2007 or any future date.

OPINION

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

SCENARIO (B)

COMPLETION OF THE ACQUISITION OF PROPERTIES SALE COMPANIES

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the Acquisition of Coast Holdings Limited and Kingston Property Investment Limited. The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Properties Acquisition (the "Unaudited Pro Forma Financial Information").

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I to this Circular and the audited income statement and audited cash flow statement of for the year ended 30 June 2007 as set out in Appendix II and Coast Holdings Limited and Kingston Property Investment Limited for the year ended 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on the consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I to this Circular and the audited balance sheet of Coast Holdings Limited and Kingston Property Investment Limited as at 30 June 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Properties Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the latest published audited consolidated financial information of the Group as set out in Appendix I to this circular, the audited consolidated financial information of the Coast Holdings Limited and Kingston Property Investment Limited as set out in Appendix III(A), Appendix III(B) respectively to this Circular and other financial information included elsewhere in this circular.

SCENARIO (B)

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to present the actual financial position of the Enlarged Group that would have been attained had the Properties Acquisition been completed on 31 December 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Properties Acquisition been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

1. Unaudited pro forma combined income statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006 (Audited) *(Note 1a)*	**Coast Holdings Limited 1/4/2006– 31/3/2007 (Audited)** *(Note 1b)*	**Kingston Property Investment Limited 1/4/2006– 31/3/2007 (Audited)** *(Note 1b)*	**Pro forma combined**	**Pro forma adjustments**	*Note*	**Pro forma the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Turnover	–	390	1,171	1,561			1,561
Cost of sales	–	–	–	–			–
Gross profit	–	390	1,171	1,561			1,561
Other revenue	40	1	3	44			44
Staff costs	(598)	–	–	(598)			(598)
Depreciation and amortisation	–	(257)	(585)	(842)	(487)	*2*	(1,329)
Other operating expenses	(3,917)	(9)	(44)	(3,970)			(3,970)
(Loss)/profit from operations	(4,475)	125	545	(3,805)			(4,292)
Finance costs	(4,549)	–	–	(4,549)	(2,789)	*3*	(7,338)
Share of results of associates	(3,640)	–	–	(3,640)			(3,640)
(Loss)/profit before taxation	(12,664)	125	545	(11,994)			(15,270)
Taxation	–	(50)	(147)	(197)			(197)
(Loss)/profit for the year	(12,664)	75	398	(12,191)			(15,467)
Attributable to:							
Equity holders of the company	(12,663)	75	398	(12,190)			(15,466)
Minority interests	(1)	–	–	(1)			(1)
(Loss)/profit for the year	(12,664)	75	398	(12,191)			(15,467)

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

SCENARIO (B)

2. Unaudited pro forma combined balance sheet

	The Group 30/6/2007 (Unaudited) *(Note 1a)*	Coast Holdings Limited 30/6/2007 (Audited) *(Note 1b)*	Kingston Property Investment Limited 30/6/2007 (Audited) *(Note 1b)*	Pro forma combined	Pro forma adjustment	*Note*	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets							
Investment properties	–	9,172	10,015	19,187	14,125	*2, 4*	33,312
Property, plant and equipment	–	–	–	–			–
Goodwill	–	–	–	–	49	*4*	49
Interest in associates	91,494	–	–	91,494			91,494
Available-for-sale securities	6,537	–	–	6,537			6,537
	98,031	9,172	10,015	117,218			131,392
Current assets							
Trade and other receivables	396	–	–	396			396
Loan and interest receivables	39,510	–	–	39,510			39,510
Pledged deposits	40	–	–	40			40
Cash and cash equivalents	3,893	48	101	4,042			4,042
	43,839	48	101	43,988			43,988
Current liabilities							
Trade and other payables	30,947	–	–	30,947	2,789	*3*	33,736
Bank and other borrowings	39,940	–	–	39,940			39,940
Obligations under finance leases	1	–	–	1			1
Tax payable	48	51	147	246			246
Due to shareholders	–	19,401	22,087	41,488	(41,488)	*5*	–
	70,936	19,452	22,234	112,622			73,923
Net current (liabilities)/assets	(27,097)	(19,404)	(22,133)	(68,634)			(29,935)
Total assets less current liabilities	70,934	(10,232)	(12,118)	48,584			101,457
Non-current liabilities							
Promissory note	–	–	–	–	33,800	*4*	33,800
Bank and other borrowings	1,800	–	–	1,800			1,800
	1,800	–	–	1,800			35,600
NET ASSETS/(LIABILITIES)	69,134	(10,232)	(12,118)	46,784			65,857
CAPITAL AND RESERVES							
Share capital	256,116	100	20	256,236	(120)	*7*	256,116
Reserves	(186,995)	(10,332)	(12,138)	(209,465)	19,193	*6*	(190,272)
Total equity attributable to equity holders of the company	69,121	(10,232)	(12,118)	46,771			65,844
Minority interests	13	–	–	13			13
TOTAL EQUITY	69,134	(10,232)	(12,118)	46,784			65,857

SCENARIO (B)

3. Unaudited pro forma combined cash flow statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006 *HK$'000*	Coast Holdings Limited 1/4/2006– 31/3/2007 *HK$'000*	Kingston Property Investment Limited 1/4/2006– 31/3/2007 *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
OPERATING ACTIVITIES							
(Loss)/profit before taxation	(12,664)	125	545	(11,994)	(3,276)	*2, 3*	(15,270)
Adjustments for:							
Depreciation	–	257	585	842	487	*2*	1,329
Finance costs	4,549	–	–	4,549	2,789	*3*	7,338
Share of results of associates	3,640	–	–	3,640			3,640
Bank interest income	(1)	(1)	(3)	(5)			(5)
Impairment loss of other receivables	179	–	–	179			179
Operating (loss)/profit before changes in working capital	(4,297)	381	1,127	(2,789)			(2,789)

SCENARIO (B)

	The Group 1/1/2006– 31/12/2006 *HK$'000*	Coast Holdings Limited 1/4/2006– 31/3/2007 *HK$'000*	Kingston Property Investment Limited 1/4/2006– 31/3/2007 *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Operating (loss)/profit before changes in working capital	(4,297)	381	1,127	(2,789)			(2,789)
(Increase)/decrease in trade and other receivables	(144)	–	–	(144)			(144)
Decrease in consideration receivables	2,771	–	–	2,771			2,771
Increase/(decrease) in trade and other payables	899	(33)	(49)	817	(2,789)	*3*	(1,972)
Cash generated (used in)/ generated from operations	(771)	348	1,078	(655)			(2,134)
Tax paid							
Hong Kong profits tax (paid)	–	(53)	(116)	(169)			(169)
Net cash (used in)/generated from operating activities	(771)	295	962	486			(2,303)

SCENARIO (B)

	The Group 1/1/2006– 31/12/2006 *HK$'000*	Coast Holdings Limited 1/4/2006– 31/3/2007 *HK$'000*	Kingston Property Investment Limited 1/4/2006– 31/3/2007 *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Investing activities							
Repayment from associates	11	–	–	11			11
Bank interest received	1	1	3	5			5
Net cash generated from/(used in) investing activities	12	1	3	16			16
Financing activities							
Proceeds from new bank and other borrowings	3,935	–	–	3,935			3,935
Repayment of bank and other borrowings	(1,170)	–	–	(1,170)			(1,170)
Capital element of finance lease rental payments	(7)	–	–	(7)			(7)
Decrease in due to related companies	–	(300)	(890)	(1,190)			(1,190)
Other borrowing costs paid	(2,051)	–	–	(2,051)			(2,051)
Net cash generated from/(used in) financing activities	707	(300)	(890)	(483)			(483)
Net (decrease)/increase in cash and cash equivalents	(52)	(4)	75	19			(2,770)
Cash and cash equivalents at 1 January	82	35	41	158			158
Effect of foreign exchange rate changes	4	–	–	4			4
Cash and cash equivalents at 31 December	34	31	116	181			(2,608)

SCENARIO (B)

4. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) (a) The balances are extracted from the unaudited financial information of the Group for the six months ended 30 June 2007 as set out in appendix I to this circular.

The income statement is extracted from the audited financial information of the Group for the year ended 31 December 2006 as set out in Appendix I to this circular.

(b) Coast Holdings Limited and Kingston Property Investment Limited are companies engaged in holding of investment properties. The figures are extracted from the audited financial information of Coast Holdings Limited and Kingston Property Investment Limited for the year ended 31 March 2007 as set out in Appendix IV of this circular.

(2) Depreciation and amortisation

The additional annual depreciation and amortisation charge on the revalued portion of the investment properties on business combination, calculated in accordance with the Group's accounting policies and over each individual item's remaining estimated useful lives, will be approximately HK$487,000. The unaudited pro forma financial information adjustment reflects the additional depreciation and amortisation charges as if the Enlarged Group had taken place on 1 January 2006. This unaudited pro forma financial information adjustment will have continuing effect on the income statement but no cash flow effect on the Enlarged Group.

(3) Being adjustment for the finance cost of approximately HK$2,789,000 arising from the issuance of Properties Promissory Note.

(4) Being adjustment for recognition of goodwill of approximately of HK$49,000 arising on the Properties Acquisition. Under Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Group will apply the purchase method to account for the acquisition of Kingston Properties Investment Limited and Coast Holding Limited in the consolidated financial statements of the Enlarged Group. The amount of HK$49,000 represents the excess of the purchase consideration of HK$33,800,000 over the Enlarged Group's 100% equity interests in the net fair value of the identifiable assets and liabilities of the Kngston Properties and Coast acquires as at 30 June 2006.

On 31 December 2006, the Company acquired 100% of the issued share capital of Kingston Properties Investment Limited and Coast Holding Limited for considerations of HK$17,800,000 and HK$16,000,000 respectively. The amount of goodwill arising as a result of the acquisition was HK$49,000 in aggregate.

SCENARIO (B)

The net assets acquired in the transaction and the goodwill arising are as follows:

	Kingston Properties Investment Limited			Coast Holdings Limited		
	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**	**Acquiree's carrying amount before combination**	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:						
Investment properties	10,015	7,784	17,799	9,172	6,828	16,000
Cash and bank	102	–	102	48	–	48
Taxation	(147)	–	(147)	(51)	–	(51)
	9,970	7,784	17,754	9,169	6,828	15,997
Goodwill			46			3
Total consideration satisfied by:						
Issue of promissory notes			17,800			16,000

The total fair value adjustment of HK$14,612,000 will be made into the financial information of the enlarged group accordingly as the result of the above acquisition.

(5) Assignment of shareholder's loan to the Company.

The unaudited pro forma combined balance sheet adjustment reflects the assignment of a shareholders' loan of HK$19,401,000 and HK$22,087,000 to the Company according to the sales and purchase agreement.

SCENARIO (B)

(6) Analysis of movement of reserve are as follows:

	Cross reference to Note	*HK$'000*
Elimination of pre-acquisition retained profits for Kingston		(12,137)
Elimination of pre-acquisition retained profits for Coast		(10,332)
Depreciation and amortisation expense during the year	*2*	487
Finance cost for Tree Promissory Note	*3*	2,789
		(19,193)

(7) Being elimination of investment in subsidiaries.

SCENARIO (B)

The following is the text of a comfort letter, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VII, a copy of the following comfort letter is available for inspection.

(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group under Scenario (B) as set out in Section A of Appendix IV to the circular of Kong Sun Holdings Limited (the "Company", together with its subsidiaries are referred to as the "Group") dated 31 December 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of 100% equity interest in Coast Holdings Limited and Kingston Property Investment Limited, might have affected the financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information under Scenario (B) as set out in Section A of this Appendix.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issues.

SCENARIO (B)

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results of operations and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods; or
- the financial position of the Enlarged Group as at 30 June 2007 or any future date.

OPINION

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

SCENARIO (C)

COMPLETION OF THE ACQUISITION OF TREE SALE COMPANIES AND PROPERTIES SALE COMPANIES AND PLACING OF THE CONVERTIBLE BONDS

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the Acquisition of FT China Group, FT Far East Limited, Coast Holdings Limited and Kingston Property Investment Limited. The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Tree Acquisition, the Properties Acquisition and the placing of the Convertible Bonds (the "Unaudited Pro Forma Financial Information").

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I to this Circular and the audited consolidated income statement and audited consolidated cash flow statement of FT Far East Limited and FT China Group for the year ended 30 June 2007 as set out in Appendix II and Coast Holdings Limited and Kingston Property Investment Limited for the year ended 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on the consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I to this Circular and the audited consolidated balance sheet of FT China Group and FT Far East Limited as at 30 June 2007 as set out in Appendix II and Coast Holdings Limited and Kingston Property Investment Limited as at 30 June 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Tree Acquisition, the Properties Acquisition and the placing of the Convertible Bonds that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the latest published audited consolidated financial information of the Group as set out in Appendix I to this circular, the audited consolidated financial information of the FT Far East Limited, FT China Group, Coast Holdings Limited and Kingston Property Investment Limited as set out in Appendix II(A), Appendix II(B), Appendix III(A) and Appendix III(B) respectively to this Circular and other financial information included elsewhere in this circular.

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The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to present the actual financial position of the Enlarged Group that would have been attained had the Tree Acquisition, the Properties Acquisition and the placing of the Convertible Bonds been completed on 31 December 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Tree Acquisition, the Properties Acquisition and the placing of the Convertible Bonds been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

1. Unaudited pro forma combined income statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006 (Audited) *(Note 1a)*	FT China Group 1/7/2006– 30/6/2007 (Audited) *(Note 1b)*	FT Far East Limited 1/7/2006– 30/6/2007 (Audited) *(Note 1b)*	Coast Holdings Limited 1/4/2006– 31/3/2007 (Audited) *(Note 1c)*	Kingston Property Investment Limited 1/4/2006– 31/3/2007 (Audited) *(Note 1c)*	Pro forma combined	Pro forma adjustments: Convertible Bonds adjustments	Pro forma adjustments: Other adjustments	*Note*	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Turnover	–	70,881	81,013	390	1,171	153,455		(70,881)	2	82,574
Cost of sales	–	(65,280)	(72,562)	–	–	(137,842)		70,881	2	(66,961)
Gross profit	–	5,601	8,451	390	1,171	15,613				15,613
Other revenue	40	423	1,546	1	3	2,013		1,214	*3(a)*	3,227
Staff costs	(598)	(606)	(3,228)	–	–	(4,432)				(4,432)
Depreciation and amortisation	–	(850)	(244)	(257)	(585)	(1,936)		(874)	*4*	(2,810)
Loss on disposal of a subsidiary	–	(1,313)	–	–	–	(1,313)				(1,313)
Selling expenses	–	(1,154)	(1,705)	–	–	(2,859)				(2,859)
Administrative expenses	–	(1,851)	(3,198)	–	–	(5,049)		(3,000)	5	(8,049)
Other operating expenses	(3,917)	(358)	(1,172)	(9)	(44)	(5,500)				(5,500)
(Loss)/profit from operations	(4,475)	(108)	450	125	545	(3,463)				(6,123)
Finance costs	(4,549)	–	(58)	–	–	(4,607)	(3,456)	(4,850)	*6(a)*	(12,913)
Share of results of associates	(3,640)	–	–	–	–	(3,640)				(3,640)
(Loss)/profit before taxation	(12,664)	(108)	392	125	545	(11,710)				(22,676)
Taxation	–	(126)	–	(50)	(147)	(323)				(323)
(Loss)/profit for the year	(12,664)	(234)	392	75	398	(12,033)				(22,999)
Attributable to:										
Equity holders of the company	(12,663)	(234)	392	75	398	(12,032)				(22,998)
Minority interests	(1)	–	–	–	–	(1)				(1)
(Loss)/profit for the year	(12,664)	(234)	392	75	398	(12,033)				(22,999)

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

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2. Unaudited pro forma combined balance sheet

	The Group 30/6/2007 (Unaudited) *(Note 1a)* *HK$'000*	FT China Group 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	FT Far East Limited 30/6/2007 (Audited) *(Note 1b)* *HK$'000*	Coast Holdings Limited 30/6/2007 (Audited) *(Note 1c)* *HK$'000*	Kingston Property Investment Limited 31/3/2007 (Audited) *(Note 1c)* *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustment: Convertible Bonds adjustments *HK$'000*	Pro forma adjustment: Other adjustments *HK$'000*	*Note*	Pro forma the Enlarged Group *HK$'000*
Non-current assets										
Investment properties	–	–	–	9,172	10,015	19,187		13,738	*4, 7*	32,925
Property, plant and equipment	–	33,414	659	–	–	34,073		(452)	*8*	33,621
Land lease prepayments	–	2,849	–	–	–	2,849		13,594	*8*	16,443
Goodwill	–	–	–	–	–	–		36,887	*7, 8*	36,887
Interest in associates	91,494	–	–	–	–	91,494				91,494
Available-for-sale securities	6,537	–	–	–	–	6,537				6,537
	98,031	36,263	659	9,172	10,015	154,140				217,907
Current assets										
Financial derivatives	–	–	–	–	–	–	–	–	*3(b)*	–
Inventories	–	42,096	–	–	–	42,096		(296)	*8*	41,800
Land lease prepayments	–	84	–	–	–	84		373	*8*	457
Trade and other receivables	396	696	4,535	–	–	5,627				5,627
Loan and interest receivables	39,510	–	–	–	–	39,510				39,510
Pledged deposits	40	–	5,388	–	–	5,428				5,428
Fixed deposit	–	–	1,000	–	–	1,000				1,000
Cash and cash equivalents	3,893	1,128	2,597	48	101	7,767	25,000		*11*	32,767
	43,839	44,004	13,520	48	101	101,512				126,589

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	The Group 1/1/2006– 30/6/2007 (Unaudited) (Note 1a)	FT China Group 30/6/2007 (Audited) (Note 1b)	FT Far East Limited 30/6/2007 (Audited) (Note 1b)	Coast Holdings Limited 30/6/2007 (Audited) (Note 1c)	Kingston Property Investment Limited 30/6/2007 (Audited) (Note 1c)	Pro forma combined	Pro forma adjustment Convertible Bonds adjustments	Other adjustments	Note	Pro forma the Enlarged Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000		HK$'000
Current liabilities										
Trade and other payables	30,947	12,209	1,596	–	–	44,752	(10,046)	3,589	11, 6(b)	38,295
Bills payable, secured	–	–	6,313	–	–	6,313				6,313
Bank and other borrowings	39,940	214	–	–	–	40,154	(40,154)		11	–
Obligations under finance leases	1	–	–	–	–	1				1
Tax payable	48	204	–	51	147	450				450
Amount due to a related company	–	38,549	–	–	–	38,549		(38,549)	13	–
Due to shareholders	–	–	–	19,401	22,087	41,488		(41,488)	14	–
Due to fellow subsidiaries	–	–	22,418	–	–	22,418		(22,418)	15	–
Due to immediate parent enterprise	–	–	23,644	–	–	23,644		(23,644)	15	–
Due to intermediate parent enterprises	–	–	57,142	–	–	57,142		(57,142)	15	–
	70,936	51,176	111,113	19,452	22,234	274,911				45,059
Net current (liabilities)/assets	(27,097)	(7,172)	(97,593)	(19,404)	(22,133)	(173,399)				81,530
Total assets less current liabilities	70,934	29,091	(96,934)	(10,232)	(12,118)	(19,259)				299,437
Non-current liabilities										
Convertible note	–	–	–	–	–	–	–	–	3(c)	–
Promissory note	–	–	–	–	–	–	(20,000)	53,800	7, 8, 11	33,800
Bank and other borrowings	1,800	–	–	–	–	1,800	(1,800)		11	–
	1,800	–	–	–	–	1,800				33,800
NET ASSETS/(LIABILITIES)	69,134	29,091	(96,934)	(10,232)	(12,118)	(21,059)				265,637
CAPITAL AND RESERVES										
Share capital	256,116	1	1	100	20	256,238	400,000	39,878	3(d), 12	696,116
Reserves	(186,995)	29,090	(96,935)	(10,332)	(12,138)	(277,310)	(313,000)	159,818	10	(430,492)
Total equity attributable to equity holders of the company	69,121	29,091	(96,934)	(10,232)	(12,118)	(21,072)				265,624
Minority interests	13	–	–	–	–	13				13
TOTAL EQUITY	69,134	29,091	(96,934)	(10,232)	(12,118)	(21,059)				265,637

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3. Unaudited pro forma combined cash flow statement for the year ended 31 December 2006

	The Group 1/1/2006– 31/12/2006	FT China Group 1/7/2006– 30/6/2007	FT Far East Limited 1/7/2006– 30/6/2007	Coast Holdings Limited 1/4/2006– 31/3/2007	Kingston Property Investment Limited 1/4/2006– 31/3/2007	Pro forma combined	Pro forma adjustments	*Note*	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES									
(Loss)/profit before taxation	(12,664)	(108)	392	125	545	(11,710)	(10,966)	*3(a), 4, 5, 6(a)*	(22,676)
Adjustments for:									
Depreciation	–	2,005	244	257	585	3,091	497	*4*	3,588
Amortisation of land lease prepayments	–	84	–	–	–	84	377	*4*	461
Finance costs	4,549	–	58	–	–	4,607	8,306	*6(a)*	12,913
Share of results of associates	3,640	–	–	–	–	3,640			3,640
Bank interest income	(1)	(1)	(704)	(1)	(3)	(710)			(710)
Fair value gain of financial derivative	–	–	–	–	–	–	(1,214)	*3(a)*	(1,214)
Impairment loss of trade receivables	–	–	1,173	–	–	1,173			1,173
Impairment loss of other receivables	179	–	–	–	–	179			179
Operating (loss)/profit before changes in working capital	(4,297)	1,980	1,163	381	1,127	354			(2,646)

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	The Group 1/1/2006–31/12/2006	FT China Group 1/7/2006–30/6/2007	FT Far East Limited 1/7/2006–30/6/2007	Coast Holdings Limited 1/4/2006–31/3/2007	Kingston Property Investment Limited 1/4/2006–31/3/2007	Pro forma combined	Pro forma adjustments	*Note*	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Operating (loss)/profit before changes in working capital	(4,297)	1,980	1,163	381	1,127	354			(2,646)
(Increase)/decrease in inventories	–	(11,941)	–	–	–	(11,941)			(11,941)
(Increase)/decrease in trade and other receivables	(144)	(467)	(1,809)	–	–	(2,420)			(2,420)
Decrease in consideration receivables	2,771	–	–	–	–	2,771			2,771
Increase in amounts due from fellow subsidiaries	–	8,281	(992)	–	–	7,289			7,289
Decrease in amount due to fellow subsidiaries	–	–	(5,975)	–	–	(5,975)			(5,975)
Increase in amount due to intermediate holding enterprise	–	–	23,623	–	–	23,623			23,623
Decrease in amount due to intermediate holding enterprise	–	–	(23,644)	–	–	(23,644)			(23,644)
Increase/(decrease) in trade and other payables	899	4,073	1,994	(33)	(49)	6,884	(10,046)	*11*	(6,751)
Cash generated (used in)/ generated from operations	(771)	1,926	(5,640)	348	1,078	(3,059)			(19,694)
Tax paid									
Hong Kong profits tax (paid)	–	(1,116)	–	(53)	(116)	(1,285)			(1,285)
Net cash (used in)/generated from operating activities	(771)	810	(5,640)	295	962	(4,344)			(20,979)

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	The Group 1/1/2006– 31/12/2006	FT China Group 1/7/2006– 30/6/2007	FT Far East Limited 1/7/2006– 30/6/2007	Coast Holdings Limited 1/4/2006– 31/3/2007	Kingston Property Investment Limited 1/4/2006– 31/3/2007	Pro forma combined	Pro forma adjustments	Note	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Investing activities									
Proceeds from purchase for property, plant and equipment	–	(418)	(85)	–	–	(503)			(503)
Repayment from associates	11	–	–	–	–	11			11
Increase in pledged fixed deposits	–	–	(189)	–	–	(189)			(189)
Bank interest received	1	1	704	1	3	710			710
Net cash generated from/(used in) investing activities	12	(417)	430	1	3	29			29
Financing activities									
Proceeds from new bank and other borrowings	3,935	–	–	–	–	3,935			3,935
Repayment of bank and other borrowings	(1,170)	–	–	–	–	(1,170)	(41,954)	*11*	(43,124)
Repayment of promissory notes	–	–	–	–	–	–	(20,000)	*11*	(20,000)
Capital element of finance lease rental payments	(7)	–	–	–	–	(7)			(7)
Net proceed from issuance of share capital	–	–	–	–	–	–	100,000	*3(d)*	100,000
Decrease in due to related companies	–	–	–	(300)	(890)	(1,190)			(1,190)
Other borrowing costs paid	(2,051)	–	(58)	–	–	(2,109)			(2,109)
Net cash generated from/(used in) financing activities	707	–	(58)	(300)	(890)	(541)			37,505
Net (decrease)/increase in cash and cash equivalents	(52)	393	(5,268)	(4)	75	(4,856)			16,555
Cash and cash equivalents at 1 January	82	736	8,865	35	41	9,759			9,759
Effect of foreign exchange rate changes	4	–	–	–	–	4			4
Cash and cash equivalents at 31 December	34	1,129	3,597	31	116	4,907			26,318

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4. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) (a) The balances are extracted from the unaudited financial information of the Group for the six months ended 30 June 2007 as set out in appendix I to this circular.

The income statement is extracted from the audited financial information of the Group for the year ended 31 December 2006 as set out in Appendix I to this circular.

(b) FT China Group and FT Far East Limited are companies engaged in the manufacturing and trading of life-like decorative plant. The figures are extracted from the audited financial information of FT China Group and FT Far East Limited for the year ended 30 June 2007 as set out in Appendix II of this circular.

(c) Coast Holdings Limited and Kingston Property Investment Limited are companies engaged in holding of investment properties. The figures are extracted from the audited financial information of Coast Holdings Limited and Kingston Property Investment Limited for the year ended 31 March 2007 as set out in Appendix IV of this circular. The balances of balance sheet are extracted from the audited financial information of Coast Holdings Limited and Kingston Property Investment Limited for the three months ended 30 June 2007 as set out in Appendix III of this circular.

(2) Being adjustment for inter-company transactions between the purchase of approximately HK$70,881,000 of FT Far East Limited and the sales of approximately HK$70,881,000 FT China Group when FT Far East Limited and FT China Group become the subsidiaries of Kong Sun Holdings Limited.

(3) (a) Being adjustment for the fair value gain of approximately HK$607,000 and HK$607,000 on put option held by the Group arising from the issuance of HK$100,000,000 Convertible Bonds and HK$40,000,000 Tree Convertible Bonds as if the Convertible Bonds and the Tree Convertible Bonds had been issued respectively.

The fair value gains represents the increase in the fair value of the mandatory right to request the holders of the convertible notes to convert to ordinary shares of the Company between the issue date and the year end date.

(b) Since the Convertible Bonds and the Tree Convertible Bonds embeded the put option held by the Company, the financial derivatives are arised as follows:

	HK$'000
Issurance of $40,000,000 Tree Convertible Bonds	25,252
Fair value gain of the financial derivative embeded in $40,000,000 Tree Convertible Bonds as at balance sheet date	607
Issurance of $100,000,000 Convertible Bonds	52,494
Fair value gain of $100,000,000 Convertible Bonds as at balance sheet date	607
Mandatory conversion of $40,000,000 Tree Convertible Bonds and $100,000,000 Convertible Bonds	(78,960)
	–

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(c) The liability components of Convertible Bonds and the Tree Convertible Bonds are as follows:

	HK$'000
Issurance of $40,000,000 Tree Convertible Bonds (net of the issurance cost of HK$3,000,000)	29,018
Finance cost of $40,000,000 Tree Convertible Bonds	1,261
Issurance of $100,000,000 Convertible Bonds	81,718
Fair value adjustment of $100,000,000 Convertible Bonds	3,456
Mandatory conversion of Convertible Bonds and the Tree Convertible Bonds	(115,453)
	–

(d) Mandatory conversion of Convertible Bonds and the Tree Convertible Bonds to shares:

	HK$'000
Conversion of $100,000,000 Convertible Bonds to shares	100,000
Conversion of $40,000,000 Tree Convertible Bonds to shares	40,000
Bonus shares (cross reference to note 13)	300,000
Elimation adjustments of investment in subsidiaries	(122)
	439,878

(4) Depreciation and amortisation

The additional annual depreciation and amortisation charge on the revalued portion of the investment properties and property, plant and equipment and land lease prepayments on business combination, calculated in accordance with the Group's accounting policies and over each individual item's remaining estimated useful lives, will be approximately HK$487,000, approximately HK$10,000 and HK$377,000 respectively. The total additional depreciation and amortisation charge amount to HK$874,000. The unaudited pro forma financial information adjustment reflects the additional depreciation and amortisation charges as if the Enlarged Group had taken place on 1 January 2006. This unaudited pro forma financial information adjustment will have continuing effect on the income statement but no cash flow effect on the Enlarged Group.

(5) Being for accrual of the cost of legal and professional services HK$3,000,000 against the share premium incurred in the issuance of the Convertible Notes.

(6) (a) Being adjustment for the finance cost of approximately HK$1,261,000, HK$3,589,000 and HK$3,456,000 arising from the issuance of HK$40,000,000 Convertible Notes, the issuance of Tree Promissory Note and Properties Promissory Note and the issuance of HK$100,000,000 Convertible Notes respectively.

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(b) Being adjustment for the accrual of finance cost of approximately HK$3,589,000 arising from the issurance of tree Promissory Note and Properties Promissory Note.

(7) Being adjustment for recognition of goodwill of approximately of HK$49,000 arising on the Acquisition. Under Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Group will apply the purchase method to account for the acquisition of Kingston Properties Investment Limited and Coast Holding Limited in the consolidated financial statements of the Enlarged Group. The amount of HK$49,000 represents the excess of the purchase consideration of HK$33,800,000 over the Enlarged Group's 100% equity interests in the net fair value of the identifiable assets and liabilities of the Kngston Properties and Coast acquires as at 30 June 2006.

On 31 December 2006, the Company acquired 100% of the issued share capital of Kingston Properties Investment Limited and Coast Holding Limited for considerations of HK$17,800,000 and HK$16,000,000 respectively. The amount of goodwill arising as a result of the acquisition was HK$49,000 in aggregate.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Kingston Properties Investment Limited			Coast Holdings Limited		
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:						
Investment properties	10,015	7,784	17,799	9,172	6,828	16,000
Cash and bank	102	–	102	48	–	48
Taxation	(148)	–	(148)	(51)	–	(51)
	9,969	7,784	17,753	9,169	6,828	15,997
Goodwill			47			3
Total consideration satisfied by:						
Issue of promissory notes			17,800			16,000

The total fair value adjustment of HK$14,612,000 will be made into the financial information of the enlarged group accordingly as the result of the above acquisition.

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(8) Being adjustment for recognition of goodwill of approximately of HK$36,837,000 arising on the Acquisition. Under Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Enlarged Group will apply the purchase method to account for the acquisition of FT China Group and FT Far East Limited in the consolidated financial statements of the Enlarged Group. The amount of HK$36,838,000 represents the excess of the purchase consideration of HK$63,000,000 over the FT China Group and FT Far East Limited's 100% equity interests in the net fair value of the identifiable assets and liabilities of the FT China Group and FT Far East Limited acquired as at 30 June 2007.

The net assets acquired in the transaction and the goodwill arising are as follows:

	FT China Group			FT Far East				
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Total fair value adjustment	Total fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:								
Buildings	26,833	267	27,100	–	–	–	267	27,100
Other fixed assets	6,580	(300)	6,280	659	(419)	240	(719)	6,520
Non-current portion of prepaid lease payment	2,849	13,594	16,443	–	–	–	13,594	16,443
Inventories	42,096	(296)	41,800	–	–	–	(296)	41,800
Trade receivables	–	–	–	4,343	–	4,343		4,343
Current portion of prepaid lease payment	84	373	457	–	–	–	373	457
Prepayment, deposits and OR	697	–	697	191	–	191	–	888
Pledged fixed deposit	–	–	–	5,388	–	5,388	–	5,388
Fixed deposit	–	–	–	1,000	–	1,000	–	1,000
Cash and bank	1,129	–	1,129	2,597	–	2,597	–	3,726
Accounts payable	(12,209)	–	(12,209)	(705)	–	(705)	–	(12,914)
Bills payable, secured	–	–	–	(6,313)	–	(6,313)	–	(6,313)
Accruals and other payable	–	–	–	(891)	–	(891)	–	(891)
Taxation	(204)	–	(204)	–	–	–	–	(204)
Due to a fellow subsidiary	(38,549)	–	(38,549)	(22,417)	–	(22,417)	–	(60,966)
Non-interest bearing other loan	(214)	–	(214)	–	–	–	–	(214)
	29,092	13,638	42,730	(16,148)	(419)	(16,567)	13,219	26,163
Goodwill								36,837
								63,000
Total consideration satisfied by:								
Issue of promissory notes								20,000
Issue of convertible bonds								40,000
Issue costs of convertible bonds								3,000
								63,000

SCENARIO (C)

The fair value adjustments represent the fair value at FT China Group and FT Far East's identifiable assets, liabilities (if any) and contingent liabilities (if any) at the acquisition date.

(9) Being adjustment of the Company exercise right for mandatory convert all outstanding amount of the convertible bonds to ordinary shares. The financial derivatives of the convertible notes are realised and the liability component of the convertible notes are released accordingly. Besides 3,000 million bonus shares capitalization of the amount of not less than HK$300 million in the share premium account of the Company. (Refer to note 10)

(10) Analysis of movement of reserve are as follows:

	Cross reference to Note	*HK$'000*
$40,000,000 Tree Convertible Bonds equity reserve	*16*	(36,234)
Share premium for cost of issuance of HK$40,000,000 Tree Convertible Bonds	*3(c)*	(3,000)
Finance costs	*6(a)*	8,306
Gain on financial derivatives	*3(a)*	(1,214)
Elimination of pre-acquisition retained profits for FT China Group and FT Far East	*8*	(67,843)
Elimination of pre-acquisition retained profits for Kingston	*7*	(12,137)
Elimination of pre-acquisition retained profits for Coast	*7*	(10,332)
Depreciation and amortisation expense during the year	*4*	874
$100,000,000 Convertible Bonds equity reserve	*16*	(70,776)
Legal and professional fee expense	*12*	3,000
Conversion of $40,000,000 Tree Convertible Bonds and $100,000,000 Convertible Bonds to shares	*9*	403,507
Inter Company balances elimination	*13*	(60,969)
		153,182

SCENARIO (C)

(11) Being the effect of the use of the proceeds from issuance of Convertible Note of HK$100,000,000 for settlement of indebtedness of approximately HK$52,000,000 promissory note of approximately HK$20,000,000 professional services fee of HK$3,000,000 and the remaining of approximately HK$25,000,000 as the working capital of the enlarged group.

(12) Being the adjustment of legal and professional fee of HK$3,000,000 for the issuance of Convertible Note of HK$100,000,000.

(13) Being adjustment for the elimination of the due to fellow subsidiaries of FT Far East Limited of approximately of HK$38,549,000 against the due from fellow subsidiaries of FT China Group of approximately of HK$38,549,000 after the proposed acquisition. As the balances were fully impaired in the prior years, the elimination was adjusted against the reserve.

(14) Assignment of shareholder's loan to the Company.

The unaudited pro forma combined balance sheet adjustment reflects the assignment of a shareholders' loan of HK$19,401,000 and HK$22,087,000 to the Company according to the sales and purchase agreement.

(15) Assignment of shareholder's loan to the Company.

The unaudited pro forma combined balance sheet adjustment reflects the assignment of a shareholders' loan of HK$22,418,000, HK$23,644,000 and HK$57,142,000 corresponding with due fellow subsidiaries, due to immediate parent enterprise and due to intermediate parent enterprise respectively to the Company according to the sales and purchase agreement.

(16) It represents the equity component of the convertible note at the issuance date.

SCENARIO (C)

The following is the text of a comfort letter, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, CCIF, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VII, a copy of the following comfort letter is available for inspection.

(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

The Directors
Kong Sun Holdings Limited

31 December 2007

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group under Scenario (C) as set out in Section A of Appendix IV to the circular of Kong Sun Holdings Limited (the "Company", together with its subsidiaries are referred to as the "Group") dated 31 December 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of 100% equity interest in FT China Limited ("FT China", together with its subsidiaries are referred to as the "FT China Group") FT Far East Limited, Coast Holdings Limited and Kingston Property Investment Limited, might have affected the financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information under Scenario (C) as set out in Section A of this Appendix.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issues.

SCENARIO (C)

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results of operations and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods; or
- the financial position of the Enlarged Group as at 30 June 2007 or any future date.

OPINION

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Kwok Cheuk Yuen
Practising Certificate Number P02412

The following is the text of the letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular received from the Property Valuer in connection with its valuations as at 15 June 2007 and 30 September 2007 of the Properties.

AA Property Services Ltd.
環亞物業顧問有限公司

Valuation . Agency . Auction . Investment Consultancy . Project & Building Management
Estate Agent's License No. C-003730

31 December 2007

Room 602 Mirror Tower,
No.61 Mody Road,
Tsimshatsui East,
Kowlooon

Kong Sun Holdings Limited
Unit A on 1st Floor
Lippo Leighton Tower
No.103 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with your instruction to value the property interests located in Hong Kong, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 15th June, 2007.

Our valuation of the property interests is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the property interests are to be sold on the open market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to increase the value of such property interests.

We have valued the property interests on open market basis assuming sale with the benefit of vacant possession with reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income receivable with due allowance for reversionary income potential.

We have relied to a very considerable extent on the information provided by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, rentals, site and floor areas and all other relevant matters. All measurements and dimensions are based on the information provided and are approximate. We have no reason to doubt the truth and accuracy of the information provided to us which is material to the valuation. We have been advised that no material facts have been omitted from the information provided.

We have caused searches to be made at the relevant Land Registry in respect of the property interests under consideration. However, we have not scrutinised the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents and leases have been used as reference only and all dimensions, measurements and areas are approximate. No on-site measurements have been taken.

We have inspected the properties included in the valuation certificate attached, in respect of which we have been provided with such information as we have required for the purpose of valuation. No structural survey has been made. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests have been carried out on any of the building services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In this valuation, we have complied with all the requirements contained in Chapter 5 of the rules governing the listing of securities issued by the Stock Exchange of Hong Kong Limited; and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors and effective from 1st January, 2005.

Our summary of valuation and the valuation certificate are attached.

Yours faithfully,
For and on behalf of
A A PROPERTY SERVICES LIMITED
PATRICK W.C. LAI
MRICS, MHKIS, MCIArb., RPS
Executive Director

Note:

Patrick W C Lai, Chartered Valuation Surveyor, has been a qualified valuer with A A Property Services Ltd. since 1991 and has over 15 years of experience in the valuation of property located in Hong Kong and the People's Republic of China. Mr. Lai is on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers under the listing rules of the Hong Kong Stock Exchange.

SUMMARY OF VALUATION

	Property	Capital value in existing state as at 15th June, 2007
1.	Whole of 9th Floor Wings Building Nos.110-116 Queen's Road Central Nos.53-61 Stanley Street Central Hong Kong	HK$16,600,000
2.	Whole of 10th Floor Wings Building Nos.110-116 Queen's Road Central Nos.53-61 Stanley Street Central Hong Kong	HK$16,800,000
3.	Workshop No.5 on 4th Floor Fullagar Industrial Building No.234 Aberdeen Main Road Aberdeen Hong Kong	HK$1,200,000

VALUATION CERTIFICATE

	Property	Description	Particulars of Occupancy	Capital value in existing state as at 15 June 2007
1.	Whole of 9th Floor, Wings Building, Nos.110-116 Queen's Road Central, Nos.53-61 Stanley Street, Central Hong Kong 21/908th shares of Inland Lot Nos. 6159, 6160, 6161 R.P., 6162 R.P., 6165, 6166, 6168 and 43 s.A ss.2	The property comprises the whole office floor on 9th floor of a 21-storeyed commercial building. The building was completed in about 1981. The property has a gross floor area of approximately 3,393 square feet (or approximately 315.22 square metres.) The property has a saleable area of approximately 2,530 square feet (or approximately 235.04 square metres.) The property is held under government leases for a term of 999 years from 26th June, 1843. The total annual government rent for the whole lots is HK$80.30.	The property was, as at 15th June, 2007, subject to a tenancy for a term of three years from 30th June, 2004 to 29th June, 2007 at a monthly rent of HK$32,500 exclusive of rates and management fee. The property is occupied for office use.	HK$16,600,000

Notes:

1. The registered owner of the property is Coast Holdings Limited, an independent third party.

2. The property is subject to a lease for 3 years from 30th June, 2004 to 29th June, 2007 in favour of Udomain Web Hosting Company Limited vide memorial no. UB9270267 dated 30th June, 2004.

3. We have been instructed to assess the market value of the property as at 30th September, 2007. Based on the information provided, the conditions of the property as at 30th September, 2007 were the same as described above except that the property was owner-occupied. We are of the opinion that the market value of the property, as at 30th September, 2007, was HK$16,800,000.

	Property	Description	Particulars of Occupancy	Capital value in existing state as at 15 June 2007
2.	Whole of 10th Floor, Wings Building, Nos.110-116 Queen's Road Central, Nos.53-61 Stanley Street, Central, Hong Kong 21/908th shares of Inland Nos. 6159, 6160, 6161 R.P., 6162 R.P., 6165, 6166, 6168 and 43 s.A ss.2	The property comprises the whole office floor on 10th floor of a 21-storeyed commercial building. The building was completed in about 1981. The property has a gross floor area of approximately 3,393 square feet (or approximately 315.22 square metres). The property has a saleable area of approximately 2,530 square feet (or approximately 235.04 square metres) The property is held under government leases for a term of 999 years from 26th June, 1843. The total annual government rent for the whole lots is HK$80.30.	The property was, as at 15th June, 2007, subject to a tenancy for a term of fourteen months from 1st November, 2006 to 31st December, 2007 at a monthly rent of HK$70,000 exclusive of rates and management fee. The aforesaid tenancy consists of a rent free period of 15 days from 1st November, 2006 to 15th November, 2006. The property is occupied for office use.	HK$16,800,000

Notes:

1. The registered owner of the property is Kingston Property Investment Limited, an independent third party.

2. We have been instructed to assess the market value of the property as at 30th September, 2007. Based on the information provided, the conditions of the property as at 30th September, 2007 were the same as described above. We are of the opinion that the market value of the property, as at 30th September, 2007, was HK$17,000,000.

	Property	Description	Particulars of Occupancy	Capital value in existing state as at 15 June 2007
3.	Workshop No.5 on 4th Floor, Fullagar Industrial Building, No.234 Aberdeen Main Road, Aberdeen, Hong Kong 15/3243rd shares of Aberdeen Inland Lot No.305	The property comprises an industrial unit on 4th floor of a 26-storeyed industrial building. The building was completed in about 1986. The property has a gross floor area of approximately 1,402 square feet (or approximately 130.25 square metres.) The property has a saleable area of approximately 1,050 square feet (or approximately 97.55 square metres.) The property is held under government lease for a term of 999 years from 26th December, 1860. The annual government rent for the whole lot is HK$230.	The property was, as at 15th June, 2007, owner occupied. The property is occupied for industrial purpose.	HK$1,200,000

Note:

1. The registered owner of the property is Kingston Property Investment Limited, an independent third party.

2. We have been instructed to assess the market value of the property as at 30th September, 2007. Based on the information provided, the conditions of the property as at 30th September, 2007 were the same as described above. We are of the opinion that the market value of the property, as at 30th September, 2007, was HK$1,200,000.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorized and issued share capital of the Company were, and immediately following increase in the authorised share capital of the Company and issue of the Tree Conversion Shares, the Conversion Shares and the Bonus Shares will be as follows:

Authorised share capital		*HK$*
4,000,000,000	Shares as at the Latest Practicable Date	400,000,000
40,000,000,000	Shares upon the increase in the authorised share capital becoming effective	4,000,000,000
Issued, fully paid or credited as fully paid		
2,561,166,921	Shares in issue as at the Latest Practicable Date	256,116,692.10
400,000,000	new Shares to be allotted and issued as Tree Conversion Shares upon full conversion of the Tree Convertible Bonds	40,000,000.00
4,000,000,000	new Shares to be allotted and issued as Conversion Shares upon full conversion of the Convertible Bonds and the issue of the Bonus Shares	400,000,000.00
1,428,970,000	total number of Shares immediately following full conversion of the Tree Convertible Bonds and the Convertible Bonds	696,116,692.10

All the Shares in issue rank pari passu with each other in all respects including all rights as to dividends, voting and interest in capital among themselves and with all other Shares in issue on the date of issue.

The Tree Conversion Shares, the Consideration Shares and Conversion Shares to be allotted and issued will, when issued and fully paid or credited as fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of their allotment.

Save as disclosed above, neither the Company nor any member of the Group has any options, warrants and conversion rights convertible into Shares granted or agreed conditionally or unconditionally to be granted.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

		Number of shares held and nature of interest			Percentage of issued
Name of director	*Notes*	**Personal**	**Corporate**	**Total**	**share capital**
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.

Save as disclosed above, as at the Latest Practicable Date, none of the directors or the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders in other members of the Group

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) or corporation had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long positions in the Shares

	Number of shares			
Name	**Corporate interest**	**Security interest**	**Beneficial owner**	**Percentage of holding**
Kong Fa*	1,053,850,042	–	–	41.15
KSE	403,375,794	–	–	15.75
Ng Leung Ho*	–	596,052,085	–	23.27
Brightpower	–	–	400,000,000	–
Placing Agent	–	–	4,000,000,000	–

* *Included in the shares held by Kong Fa, 596,052,085 shares were pledged to Ng Leung Ho for a loan facility granted to the Group.*

(ii) Long positions in the shares of other member of the Group

Name of Subsidiary	Name of substantial shareholder	No. of shares held	Approximate percentage %
Xswim (Holding) Limited	Easternet Limited	511	46.8

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (not being Directors or chief executive of the Company) or corporation who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates was considered to have any interests in a business, which competed or was likely to compete, either directly or indirectly with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

5. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date, the Directors confirm that there was no contract or arrangement subsisting at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group.

6. INTERESTS IN ASSETS

The Directors confirm that none of the Directors or CCIFCPA Limited or Properties Valuer has any interest, direct or indirect, in any assets which had been, since 31 December 2006, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service agreement with any member of the Group, which will expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The followings are the qualifications of the experts who have given their reports, opinions or advice which are contained in this circular:

Name	Qualifications
CCIF CPA Limited	Certified Public Accountants
Properties Valuer	Independent professional valuer

(b) Each of CCIF CPA Limited and Properties Valuer does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of CCIF CPA Limited and Properties Valuer has given and has not withdrawn its written consent to the issue of this circular, with its reports, opinions or advice included in the form and context in which it is included.

9. LITIGATION

(a) 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) Limited ("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 Latest Practicable Date, this action is still in progress and no hearing date has been fixed.

In the opinion of the directors, in 2002, Xswim Holding, 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.

(b) 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 Limited ("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. A full provision of the unsettled amount of approximately HK$486,000 has been made in the financial statements of the Group. Up to the Latest Practical Date, no action has been taken by the Ex-landlord in respect of the default in repayments of the unsettled amount.

(c) Koffman Securities Limited ("Koffman Securities")

On 13 May 2004, an action was commenced by Koffman Securities against Kong Sun Resources Limited ("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 report, this action is still in progress and no hearing date has been fixed.

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.

As at the Latest Practicable Date, save for the above and so far as is known to the Directors, no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

10. MATERIAL CONTRACTS

The following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group after the date falling two years prior to the date of the Announcement and up to the Latest Practicable Date and which are or may be material:

(i) the CB Placing Agreement;

(ii) the CB Supplemental Agreement;

(iii) the Properties Acquisition Agreement;

(iv) the Properties Supplemental Agreement;

(v) the Tree Acquisition Agreement;

(vi) the Term Sheet;

(vii) the Tree Supplemental Agreement;

(viii) the Second CB Supplemental Agreement;

(ix) the Second Properties Supplemental Agreement;

(x) the Tree Extension Letter.

11. MISCELLANEOUS

(i) The company secretary and the qualified accountant of the Company is Mr. Brandon Mak. He is an associate member of Hong Kong Institute of Certified Public Accountants.

(ii) The principal share registrar of the Company is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iii) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

12. DOCUMENETS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Unit A, 1/F, Lippo Leighton Tower, 103 Leighton Road Causeway Bay, Hong Kong between 10:00 a.m. to 5:00 p.m. on any weekday other than public holiday from the date of this circular up to and including the date of the EGM:

(i) the Memorandum and Articles of Association;

(ii) the annual reports of the Company for the two financial years ended 31 December 2005 and 2006;

(iii) the interim report of the Company for the six months ended 30 June 2007;

(iv) the accountants report issued by CCIF CPA Limited in respect of the Tree Sale Companies as set out in Appendix II to this circular;

(v) the accountants report issued by CCIF CPA Limited in respect of the Properties Sale Companies as set out in Appendix III to this circular;

(vi) the accountants report issued by CCIF CPA Limited in connection with the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular;

(vii) the material contracts referred to under "Material contracts" in Appendix VI to this circular;

(viii) the letters of consent from CCIF CPA Limited and Properties Valuer referred to under "Qualifications and consents of experts" in Appendix VI to this circular;

(ix) this circular.

KONG SUN HOLDINGS LIMITED
江山控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 295)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Kong Sun Holdings Limited (the "**Company**") will be held at Unit A, 1/F, Lippo Leighton Tower, 103 Leighton Road Causeway Bay, Hong Kong on 17 January 2008 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement (the "**Tree Acquisition Agreement**") dated 19 May 2007 and entered into among Brightpower Assets Management Limited ("**Brightpower**") as vendor, Eternal Gain Investments Limited ("**Eternal Gain**"), a wholly owned subsidiary of the Company, as purchaser and the Company in relation to the sale and purchase (the "**Tree Acquisition**") of all equity interests in FT Far East Limited ("**FTFE**") and FT China Limited ("**FTC**") and the indebtedness in the amount of HK$80,786,000 owed to Brightpower by FTFE at a total consideration of HK$60 million (the "**Tree Aggregate Consideration**"), as amended and supplemented by the supplemental agreement (the "**Tree Supplemental Agreement**") and the extension letter (the "**Tree Extension Letter**") dated 19 September 2007 and 17 December 2007 and entered into among Brightpower, Eternal Gain and the Company (a copy of each of the Tree Acquisition Agreement and the Tree Supplemental Agreement having been produced to the EGM marked "**A**", "**B**" and "**B1**" and initialed by the chairman of the EGM for the purpose of identification) and the transactions contemplated respectively thereunder be and are hereby approved, confirmed and ratified;

(b) the issue of the 5% unsecured convertible bonds due three years from the date of issue in the principal amount of HK$40 million (the "**Tree Convertible Bonds**") by the Company to Brightpower or its nominee(s) to satisfy part of the Tree Aggregate Consideration pursuant to the terms of the Tree Acquisition Agreement be and are hereby approved;

(c) the allotment and issue of such number of new shares of the Company (the "**Tree Conversion Shares**") of HK$0.10 each in the share capital of the Company at the initial conversion price of HK$0.10 per Tree Conversion Share (subject to adjustments pursuant to the terms and conditions of the Tree Convertible Bonds) upon exercise of the conversion rights attached to the Tree Convertible Bonds be and are hereby approved; and

(d) the directors of the Company (the "**Directors**") be and are hereby authorised to execute all such documents and do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Tree Acquisition Agreement as amended and supplemented by the Tree Supplemental Agreement and the transactions contemplated respectively thereunder including but not limited to the issue of the Tree Convertible Bonds and the allotment and issue of the Tree Conversion Shares."

2. "**THAT**

(a) the sale and purchase agreement (the "**Properties Acquisition Agreement**") dated 28 June 2007 and entered into among Ms. Chu Yuet Wah ("**Ms. Chu**") and Ms. Ma Siu Fong ("**Ms. Ma**" together with Ms. Chu as the "**Properties Vendors**") as vendors and Lead Power Investments Limited ("**Lead Power**"), a wholly owned subsidiary of the Company, as purchaser in relation to the sale and purchase (the "**Properties Acquisition**") of all equity interests in Coast Holdings Limited ("**Coast**") and Kingston Property Investment Limited ("**KPI**") and the aggregate indebtedness in the amount of HK$19,348,836 owed to Ms. Chu by Coast and HK$22,055,412 owed to Ms. Chu by KPI at a total consideration of HK$33.8 million (the "**Properties Aggregate Consideration**"), as amended and supplemented by the supplemental agreement (the "**Properties Supplemental Agreement**") and the second supplemental agreement (the "**Second Properties Supplemental Agreement**") dated 19 September 2007 and 17 December 2007 and entered into among the Properties Vendors and Lead Power (a copy of each of the Properties Acquisition Agreement and the Properties Supplemental Agreement having been produced to the EGM marked "**C**", "**D**" and "**D1**" and initialed by the chairman of the EGM for the purpose of identification) and the transactions contemplated respectively thereunder be and are hereby approved, confirmed and ratified; and

(b) the Directors be and are hereby authorised to execute all such documents and do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Properties Acquisition Agreement as amended and supplemented by the Properties Supplemental Agreement and the transactions contemplated respectively thereunder."

3. “**THAT**

(a) the placing agreement (the “**CB Placing Agreement**”) dated 24 April 2007 and entered into between Kingston Securities Limited (the “**Placing Agent**”) and the Company in relation to the placing, on a fully unwritten basis, of the 8% unsecured convertible bonds due three years from the date of issue in the principal amount of HK$100 million (the “**Convertible Bonds**”) by the Company as amended and supplemented by the supplemental agreement (the “**CB Supplemental Agreement**”) and the second supplemental agreement (the “**Second CB Supplemental Agreement**”) dated 19 September 2007 and 17 December 2007 and entered into between the Placing Agent and the Company (a copy of each of the CB Placing Agreement and the CB Supplemental Agreement having been produced to the EGM marked “**E**”, “**F**” and “**F1**” and initialed by the chairman of the EGM for the purpose of identification) and the transactions contemplated respectively thereunder be and are hereby approved, confirmed and ratified;

(b) the allotment and issue of such number of new shares of the Company (the “**Conversion Shares**”) of HK$0.10 each in the share capital of the Company at the initial conversion price of HK$0.10 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the Convertible Bonds) upon exercise of the conversion rights attached to the Convertible Bonds be and are hereby approved;

(c) the allotment and issue of such number of new shares of the Company (the “**Bonus Shares**”) of HK$0.10 each in the share capital of the Company credited as fully paid to the holders of the Convertible Bonds upon their valid exercise of the conversion rights attached to the Convertible Bonds in the ratio of three Bonus Shares per Conversion Share be and are hereby approved; and

(d) the Directors be and are hereby authorised to execute all such documents and do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the CB Placing Agreement as amended and supplemented by the CB Supplemental Agreement and the transactions contemplated respectively thereunder including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares and the Bonus Shares.”

4. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$400,000,000 divided into 4,000,000,000 shares of the Company (the "**Shares**") of HK$0.10 each to HK$4,000,000,000 divided into 40,000,000,000 Shares by the creation of an additional 3,600,000,000 unissued Shares and the Directors be and are hereby authorised for and on behalf of the Company to execute all such documents and to do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to such increase in the authorised share capital of the Company."

By order of the Board
Kong Sun Holdings Limited
Tse On Kin
Chairman

Hong Kong, 31 December 2007

Registered office and
principal place of business:
Unit A, 1st Floor,
Lippo Leighton Tower
103, Leighton Road
Causeway Bay, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed with the circular of the Company dated 31 December 2007. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude members from attending and voting in person at the annual general meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

5. As at the date of this announcement, the Board comprises three executive directors, Mr. Tse On Kin, Mr. Chan Chi Yuen and Mr. Kong Li Szu; and three independent non-executive directors, Dr.Wong Yuen Kuen, Ms. Lo Miu Sheung, Betty and Mr. Chan Chiu Hung, Alex.s